

The Auditor-General
Audit Report No.45 2002-03
Business Support Process Audit

Reporting of Financial Statements and Audit Reports in Annual Reports

Australian National Audit Office

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of Australia 2003

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Canberra ACT
4 June 2003

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a business support process audit across agencies in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *Reporting of Financial Statements and Audit Reports in Annual Reports*.

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

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

P.J. Barrett
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

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

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Abbreviations/Glossary

AASB	Australian Accounting Standards Board
Accounting standards	Standards for the reporting of financial information as issued by the AASB.
AGS	Auditing Guidance Statements
ANAO	Australian National Audit Office
Annual report	The annual report is a report on the operations of a reporting entity for a particular year. Most annual reports in Australia are prepared for the year ending 30 June. The annual report may be in one of two forms, that is a printed hardcopy or an electronic copy. Either copy may be placed on a reporting entity's website.
Audit report	Refers to the audit report on financial statements. It is an independent certified opinion on whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework.
AUS	Australian Auditing Standards
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CPA Australia	CPA Australia is one of the professional bodies representing the accounting and auditing profession in Australia. Prior to 2001, CPA Australia was known as the Australian Society of Certified Practising Accountants.
Finance Minister's Orders	In the context of this audit, Orders issued by the Minister for Finance and Administration outlining the requirements and guidance for the preparation of financial statements of Commonwealth agencies and authorities. A new set of Orders is usually issued for each reporting year. Finance Minister's Orders may also be issued for other purposes.
Financial statements	Financial statements disclose information relevant to the assessment of performance, financial position, and financing and investing of a reporting entity, and include information about compliance. In Australia, they are prepared in accordance with Accounting Standards, as issued by the AASB. In the Commonwealth context, the term 'financial statements' includes the certified statement by the Chief Executive Officer (FMA Act

agencies) or Directors (CAC Act bodies), the primary financial statements and schedules, and the 'notes to the financial statements'. The equivalent private sector terminology for the summation of these items is normally 'financial report'.

FMA Act	<i>Financial Management and Accountability Act 1997</i>
<i>Government Online Strategy</i>	The <i>Government Online Strategy</i> provides a framework for fulfilling the Prime Minister's December 1997 Statement, <i>Investing for Growth</i> , which committed the Commonwealth to bringing all appropriate services online via the Internet by 2001.
ICAA	The Institute of Chartered Accountants in Australia. The Institute is one of the professional bodies representing the accounting and auditing profession in Australia.
Material	'Information is material if its omission, misstatement or non-disclosure has the potential to adversely affect: (a) decisions about the allocation of scarce resources made by users of the financial report; or (b) the discharge of accountability by the management or governing body of the entity'. (Australian Accounting Standard, AAS 5 <i>Materiality</i> , paragraph 4.1)
NIA	National Institute of Accountants. The Institute is one of the professional bodies representing the accounting profession in Australia.
NOIE	National Office for the Information Economy
OISOs	Online Information Service Obligations. These obligations are an integral part of the <i>Government Online Strategy</i> .
Reporting entity	A reporting entity may be a legal, administrative or economic entity.
Website	Any site on the World Wide Web. A <i>website</i> is a collection of web files on a particular subject that includes a beginning file called a <u>home page</u> or the address for accessing the site. From the home page, you can access all the other pages on the site, such as the annual report. For example, the website for the ANAO has the home page address of www.anao.gov.au .

Summary and Recommendations

Summary

Background

1. Business and non-business reporting entities¹ in both the public and private sectors produce annual reports of their operations, which contain, among other things, the reporting entity's financial statements and the auditor's report on those statements.
2. Financial statements are the principal means of communicating financial information about a reporting entity to users. They provide information that is useful for making and evaluating decisions about the allocation of scarce resources and assist management in discharging its accountability obligations. The chief executive, or governing body of each reporting entity, is responsible for the preparation and certification of the financial statements in accordance with standards set by the Australian Accounting Standards Board.
3. An audit report on the financial statements of an entity provides an independent certified opinion on whether the financial statements are prepared and presented fairly, in all material respects, in accordance with an identified financial reporting framework. Audit procedures and reporting are conducted in accordance with standards and guidance set by the accounting and auditing profession in Australia. In accordance with section 24 of the *Auditor-General Act 1997*, the Auditor-General sets ANAO Auditing Standards, which express the minimum standard of audit work expected of auditors conducting audits on behalf of the Auditor-General.

Commonwealth public sector reporting requirements

4. Commonwealth public sector reporting entities are required to produce annual reports under various legislative requirements. These reports are the principal vehicle by which the Parliament and the public are able to hold a reporting entity accountable for its performance. Most Commonwealth reporting entities report for the year ended 30 June.
5. Commonwealth reporting entities are required to prepare financial statements under the *Financial Management and Accountability Act 1997* (FMA Act), the *Commonwealth Authorities and Companies Act 1997* (CAC Act) or the *Corporations Act 2001*, as applicable. These Acts, together with the Finance Minister's Orders², set the financial reporting framework for the Commonwealth.

¹ A reporting entity may be a legal, administrative or economic entity.

² The Minister for Finance and Administration issues requirements and guidance for the reporting of financial statements of Commonwealth agencies and authorities. These are issued annually as Finance Minister's Orders.

6. The Chief Executive (FMA Act agencies) or responsible directors (CAC Act entities, including those reporting under the Corporations Act) certify whether the financial statements of the reporting entity give a true and fair view of the matters required by the Finance Minister's Orders (or Corporations Act, where applicable).
7. The Auditor-General conducts a financial statement audit of all Commonwealth reporting entities. The ANAO issued 242 certified audit reports on FMA and CAC Act reporting entities during 2002.³
8. The FMA and CAC Acts require each reporting entity to include a copy of the financial statements and the audit report in its annual report.
9. In general, Ministers are required to table annual reports with a reporting year ending 30 June in the Parliament by 31 October, or as soon as is practicable thereafter. Reporting entities are then to make annual reports publicly available in hardcopy and on their Internet websites. The management of each reporting entity is responsible for the publication of the annual report and for ensuring that the published financial statements and audit report are the same as those that were certified.

Audit objective and coverage

10. The objective of the audit was to determine whether the financial statements and audit reports published in the annual reports of Commonwealth reporting entities agreed in all respects with their certified financial statements and audit reports.
11. The audit covered 117 reporting entities, or 48 per cent of the total number of entities reporting under the FMA and CAC Acts.
12. For the purposes of the audit, each selected reporting entity was expected to have:
 - published its annual report for the year ended 30 June 2002 (or earlier reporting period, where applicable) in hardcopy and on the Internet website by 24 December 2002;⁴ and
 - replicated the certified financial statements and audit report in the annual report for the year ended 30 June 2002 (or earlier reporting period, where applicable) without any changes being made.

³ ANAO, Audit Report No.25, 2002–03, *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2002—Summary of Results*, 23 December 2002.

⁴ The ANAO selected 24 December 2002, as an appropriate cut-off date for the publication of both forms of the annual report. This date allowed the selected reporting entities a minimum of almost two months from the date of the latest issued audit report (28 October 2002) to arrange for the printing, publication, tabling and online loading of the annual report.

13. The audit involved a line-by-line check of the hardcopy and website annual reports against the certified financial statements and audit reports. Variations observed were categorised as either 'corrections' or 'errors' with errors being classified according to their significance. Errors were classified by type, as numerical, text, omission of page or pages, and presentation/format; and were considered significant where information was incorrect or had the potential to confuse the reader.

Audit conclusion

14. The ANAO concluded that the majority (71 per cent) of the reporting entities examined had successfully replicated their financial statements and audit report into their annual report with nil or only insignificant errors. However, the remainder (29 per cent) of the reporting entities scored at least one significant error as a result of the replication process. Although most of the significant errors would be unlikely to adversely affect decisions by users, or the discharge of accountability by management, most of the errors resulted in the publication of incorrect or confusing information.

15. The ANAO concluded that there is room for significant improvement in the replication process. There is a strong need for the reporting entities with at least one significant error, and for entities, in general, to implement more stringent checking procedures to ensure complete and accurate public reporting of their audited financial statements and audit reports.

16. The ANAO was unable to reach a conclusion on the replication of the financial statements and audit reports on the Internet website of nine of the reporting entities, as they had not placed their annual reports (or their financial statements and audit report) on the Internet by 24 December 2002, or did not operate a website at that date. In addition, the annual reports of two of these entities had not been tabled by 24 December 2002.

17. All the reporting entities, for which the ANAO reported errors, acknowledged the errors and many advised of remedial action, where it was possible. In the main, such action related to the correction of information on the website copy of the annual report and the implementation of new checking procedures for future years.

18. The ANAO will work with reporting entities to improve performance in the replication of the financial statements and audit reports in annual reports in future years.

Key audit findings

19. The key audit findings were as follows:

- One hundred and fifteen of the 117 reporting entities' annual reports had been tabled by 24 December 2002. The other two reporting entities were intergovernmental entities with their own enabling legislation—the annual reports for these entities have subsequently been tabled.
- Nine entities, including the two whose annual reports had not been tabled, had not published their annual reports on their Internet websites by 24 December 2002. However, one of the nine entities had placed its financial statements and audit report online by that date. One other entity did not operate a website at 24 December 2002.
- Fifty-one reporting entities had errors in at least one form of their annual report. There were 122 errors in total, of which 115 occurred in the published financial statements and seven in the published audit reports. Thirty two per cent of the errors were numerical (mostly dollar amounts).
- Thirty-three reporting entities had significant errors in at least one form of their annual report. There were 51 significant errors in total, of which 53 per cent were numerical (mostly dollar amounts). The most significant errors were the omission of financial statement and audit report pages on websites.
- Several reporting entities had changed the financial statements after the issue of the audit report. While all of these changes were intended as corrections and most were properly agreed with the ANAO prior to publication of the annual report, some of the changes were made without the ANAO's knowledge and/or agreement.

Sound and better practices

20. While the audit did not examine the practices used by reporting entities to replicate their financial statements and audit reports in the annual report, the ANAO became aware of certain practices used by some entities to ensure the quality of the published information. The ANAO considers that these practices represent sound and better practices for consideration by all entities. They include:

- financial statements being prepared for audit in the same format as they are to be published;
- printer's proofs of hardcopy reports being reviewed by an independent person or by more than one person;

- preparation of the website form of the annual report not being commenced until after the hardcopy form is finalised; and
- responsible officers certifying that required checks of the published information have been conducted.

Recommendations

The recommendations are based on the findings made in the selected reporting entities but should have relevance to all Commonwealth reporting entities, and have been framed accordingly.

Recommendation No. 1
Para 2.20 The ANAO *recommends* that reporting entities implement procedures to ensure that the annual report is placed on the website as soon as is practicable after the annual report is tabled in the Parliament. As a general rule, entities should aim to place the annual report on their website within five working days of tabling.

Recommendation No. 2
Para 2.54 The ANAO *recommends* that, where a reporting entity detects errors in the certified financial statements after receiving the audit report, and considers corrective action is necessary, the entity should:

- obtain agreement from the ANAO officer responsible for signing the audit report, or his/her representative, before making changes to the financial statements; and
- issue replacement pages for the financial statements, as required, prior to publication.

Recommendation No. 3
Para 2.76 The ANAO *recommends* that reporting entities, where appropriate, establish procedures to ensure that their certified financial statements and audit report are properly replicated in the published annual report.

Recommendation No. 4
Para 2.78 The ANAO *recommends* that, where a reporting entity detects errors in the financial statements and audit report in its published annual report, the entity should consider taking corrective action, including advising the responsible Minister, as appropriate. Any decision on corrective action required would need to be made in relation to the significance of the error.

Summary of responses

21. The ANAO sought comments on the recommendations from all those reporting entities for which errors or other findings were reported.

22. The reporting entities agreed, or agreed in principle, with the recommendations, although some entities considered that, in relation to Recommendation No.1, it would be difficult for them to place their annual report on the website within five working days of the annual report being tabled.

Audit Findings and Conclusions

1. Introduction

Background

1.1 Business and non-business reporting entities⁵ in both the private and public sectors produce annual reports of their operations, which contain, among other things, the reporting entity's financial statements and the auditor's report on those statements. Such reporting is required by the *Corporations Act 2001* and specific legislation relating to public sector entities.

1.2 The Australian Accounting Standards Board (AASB)⁶ sets the financial reporting standards for both the private and public sectors in Australia. The accounting profession in Australia,⁷ carried out this task prior to the establishment of the AASB and its predecessor body, the Accounting Standards Review Board,⁸ and in conjunction with the AASB from 1991 until 31 December 1999.⁹

1.3 The accounting and auditing profession continues to work closely with the AASB in relation to financial reporting and sets auditing standards and guidance in its own right. The Auditor-General sets ANAO Auditing Standards in accordance with section 24 of the *Auditor-General Act 1997*, which express the minimum standard of audit work expected of auditors conducting audits on behalf of the Auditor-General.

Financial statements

1.4 Financial statements are the principal means of communicating financial information about a reporting entity to users.

1.5 The objective of financial statements as set out in Statement of Accounting Concepts SAC 2 *Objective of General Purpose Financial Reporting*¹⁰ is to '...provide

⁵ A reporting entity may be a legal, administrative or economic entity.

⁶ The Australian Accounting Standards Board, a Commonwealth statutory authority that has operated since 1991, was established in its current form as a result of the *Corporate Law Economic Reform Program Act 1999* and has had sole responsibility for standard setting since 1 January 2000. It is over-sighted by a Financial Reporting Council, comprising members of the business, accounting and investment communities, and government.

⁷ The Australian accounting and auditing profession comprises The Institute of Chartered Accountants in Australia (ICAA), CPA Australia (formerly the Australian Society of Certified Practising Accountants), and the National Institute of Accountants.

⁸ The Accounting Standards Review Board operated from 1983 to 1991.

⁹ The accounting profession's Public Sector Accounting Standards Board set financial reporting standards of relevance to public sector reporting entities, in conjunction with the AASB until 31 December 1999.

¹⁰ Issued by the Australian Accounting Research Foundation on behalf of the accounting profession and the Accounting Standards Review Board in August 1990. It is now under the domain of the Australian Accounting Standards Board.

information to users that is useful for making and evaluating decisions about the allocation of scarce resources.’ Financial statements are also the means by which management or the governing body of a reporting entity discharges its accountability to the users of the reported financial information.

1.6 The information to be disclosed in the financial statements must be relevant to the assessment of performance, financial position, and financing and investing, including information about compliance.¹¹ Such disclosures are made in accordance with accounting standards.¹²

1.7 The management, or governing body, of each reporting entity is responsible for the preparation and presentation of the financial statements and the information they contain.

Commonwealth public sector requirements

1.8 Commonwealth public sector reporting entities are required to prepare financial statements under the *Financial Management and Accountability Act 1997* (FMA Act), the *Commonwealth Authorities and Companies Act 1997* (CAC Act) or the Corporations Act, as applicable. These Acts, together with the Finance Minister’s Orders,¹³ set the financial reporting framework for the Commonwealth. FMA Act agencies, and CAC Act entities, which include those reporting under the Corporations Act, make up the bulk of the reporting entities in the Commonwealth.¹⁴ Most of the reporting entities report for the year ended 30 June.

1.9 The Chief Executive (FMA Act agencies) or responsible directors (CAC Act entities) certify whether the financial statements of the reporting entity give a true and fair view of the matters required by the Finance Minister’s Orders (or Corporations Act, where applicable). This certification is an integral part of the financial statements.

¹¹ Australian Accounting Standards Board, *SAC 2 Objective of General Purpose Financial Reporting*, paragraph 45.

¹² The Australian Accounting Standards Board sets and modifies the accounting standards on an ongoing basis. The standards comprise *AASB Accounting Standards* (AASBs) and *Australian Accounting Standards* (AASs). Prior to 1 January 2000, the AASBs applied to entities regulated under companies legislation and the AASs applied to all other types of entities. AASBs issued from 2000 onwards apply to all reporting entities, unless the scope of a particular standard is specifically narrowed or broadened. The AAS series continue to apply to non-company entities but will be phased out over time.

¹³ The Minister for Finance and Administration issues requirements for the reporting of financial statements of Commonwealth agencies and authorities. These are issued annually as Finance Minister’s Orders and are referred to as such throughout this report. The Orders incorporate Accounting Standards and other pronouncements of the AASB and the former Public Sector Accounting Standards Board, together with financial reporting guidance and policies designed specifically for Commonwealth reporting entities. Finance Minister’s Orders are also issued for other purposes that are not discussed in this report.

¹⁴ There are some additional reporting entities, eg. agency business operations, such as the Royal Australian Mint; ‘entities’ of this kind also report their financial statements in accordance with the Finance Minister’s Orders.

Audit reports

1.10 An audit report on the financial statements of an entity is the end product of a range of audit procedures, which examine evidence supporting the amounts and other disclosures in the financial statements, and evaluate accounting policies and estimates. The audit report and procedures are guided by the *Australian Auditing Standards* (AUS) and *Auditing Guidance Statements* (AGS).¹⁵

1.11 The objective of the audit report is to enable the auditor to express an opinion on whether the financial statements are prepared in all material respects, in accordance with an identified financial framework.¹⁶

1.12 Although the auditor's opinion enhances the credibility of the financial statements, the user cannot assume that the opinion is an assurance as to the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity.¹⁷

Commonwealth public sector audits

1.13 The Auditor-General audits the financial statements of all Commonwealth reporting entities. The Auditor-General, or an authorised delegate, provides an audit opinion in the audit report on the certified financial statements of the reporting entity. The report is normally addressed to the Minister responsible for the reporting entity concerned.

1.14 The results of the audits of financial statements are published annually in one ANAO audit report. The relevant report on the 2001–02 financial statements was presented to the Parliament on 23 December 2002, and covered the audits of 251 of the 257 reporting entities, including subsidiary entities, which are audited by the ANAO.¹⁸ Two hundred and forty two of the 257 entities are reporting entities under the FMA and CAC Acts.¹⁹

¹⁵ ICAA and CPA Australia. The standards are applied by the ANAO through the *ANAO Auditing Standards*, which are issued by the Auditor-General under section 24 of the *Auditor-General Act 1997*. *Auditing Guidance Statements* provide guidance concerning the application of Auditing Standards. Auditing Standards are mandatory for members of the profession and ANAO audit staff, whereas the *Auditing Guidance Statements* are not.

¹⁶ ICAA and CPA Australia, *AUS 202 Objective and General Principles Governing an Audit of a Financial Report*, July 2002, paragraph 2.

¹⁷ *ibid.*, AUS 202, paragraph 3.

¹⁸ Audit Report No.25, 2002–03, *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2002 — Summary of Results* Table 3, p. 34. The report covers all financial statement audits conducted during the year, including for those entities reporting for periods ending other than at 30 June. Six entities had not presented their financial statements for audit at the time of preparation of the report.

¹⁹ *ibid.* Fifteen entities are covered by other audit arrangements.

Annual reports

1.15 Annual reports are the principal vehicle by which the Parliament and the public are able to hold a reporting entity accountable for its performance. All Commonwealth agencies and entities are required to present annual reports to Ministers and Parliament in accordance with various legislative requirements.

1.16 Traditionally, annual reports have been tabled in Parliament in hardcopy form. However, as a result of the *Government Online Strategy* released in April 2000,²⁰ annual reports also have to be published on each reporting entity's Internet website. In general, Ministers are required to table annual reports for years ending 30 June, by 31 October, or as soon as is practicable, thereafter.²¹

1.17 The FMA and CAC Acts require each reporting entity to include a copy of the financial statements and the audit report in its annual report.²² Users of the financial statements and audit report, as well as the Chief Executive and/or directors of the reporting entity and the officer signing the audit report, would expect the published annual report to contain a replica of the certified financial statements and audit report.

Audit objective, coverage, scope and focus

1.18 The objective of the audit was to determine whether the financial statements and audit reports published in the annual reports of Commonwealth reporting entities agreed in all respects with their certified financial statements and audit reports.

1.19 The audit covered 117 reporting entities, including most FMA Act reporting entities (72),²³ and a selection of Commonwealth authorities (38) and Commonwealth companies (seven). This represents approximately 48 per cent

²⁰ The *Government Online Strategy* provided a framework for fulfilling the Prime Minister's December 1997 Statement, *Investing for Growth*, which committed the Commonwealth to bringing all appropriate services online via the Internet by 2001. A whole-of-government report, *Advancing Australia—The Information Economy Progress Report 2002*, issued by the Minister for Communications, Information Technology and the Arts on 22 November 2002, indicated that all Commonwealth departments and agencies had met the commitment by 31 December 2001. The Government implemented a new framework, *Better Services, Better Government*, from November 2002, for the ongoing development of electronic government and maintaining the momentum of the achievements under the *Government Online Strategy*.

²¹ Details of the specific requirements are set out in Chapter 2.

²² The audit report is normally placed at the front of the financial statements.

²³ There were 82 reporting entities under the FMA Act for the year ended 30 June 2002 (refer Audit Report No.25, 2002–03, Table 1, p. 12). The figure of 72 entities covered by the audit, excludes the Australian Secret Intelligence Service; the Office of National Assessments and the eight business operations reported separately by FMA Act agencies as well as the ANAO, but includes Crimtrac, which technically did not become an FMA Act agency until 1 July 2002 (an executive agency for 2001–02).

of the 242 reporting entities under the FMA and CAC Acts that are audited by the ANAO. The reporting entities examined are named in Appendix 1.

1.20 The reporting period covered was the year ended 30 June 2002, except in two instances.²⁴

1.21 The audit focused on the accuracy and completeness of the relevant information presented in the hardcopy and Internet website forms of the annual reports when compared to the certified financial statements and audit reports. It did not cover a review of the controls and procedures for printing hardcopy annual reports and for loading (and protecting) information on websites.

Audit evaluation criteria

1.22 The audit was based on two evaluation criteria, namely, that each reporting entity would be expected to have:

- published its annual report for the year ended 30 June 2002 (or earlier reporting period, where applicable) in hardcopy and on the Internet website by 24 December 2002;²⁵ and
- replicated the certified financial statements and audit report in the annual report for the year ended 30 June 2002 (or earlier reporting period, where applicable) without any changes being made.

Audit methodology

1.23 The audit methodology involved a line-by-line check of the hardcopy and website annual reports against the certified financial statements and audit reports. Variations observed were categorised as either 'corrections' or 'errors', with errors being classified according to their significance. The audit findings were then collated and reported to the relevant auditors of each reporting entity for confirmation prior to representation to the management of the reporting entity.

1.24 The ANAO provided each reporting entity with a report of the audit findings and, where errors were detected, or where the annual report had not been published in either form, sought confirmation of the findings and advice of remedial action taken or proposed.

²⁴ The Australian Maritime College and the Australian National University report on a calendar year basis. Both entities were examined for the year ending 31 December 2001.

²⁵ The ANAO selected 24 December 2002, as an appropriate cut-off date for the publication of both forms of the annual report. This date allowed the selected reporting entities a minimum of almost two months from the date of the latest issued audit report (28 October 2002) to arrange for the printing, publication, tabling and online loading of the annual report. Further explanation is provided in Chapter 2.

1.25 The audit was undertaken in accordance with ANAO Auditing Standards during the period November 2002 to March 2003 at a cost of \$205 000.

Audit findings

1.26 Chapter Two outlines the results of the audit. Appendix 1 summarises the findings for each reporting entity examined during the audit.

2. Results of the Audit

Publication of annual reports

The requirements

2.1 The specific requirements relating to the publication of annual reports of Commonwealth agencies and entities are outlined below.

FMA Act agencies

2.2 Annual reports for FMA Act agencies are required by subsections 63(1) (Departments of State) and 70(1) (Executive Agencies) of the *Public Service Act 1999*, and by Government policy for other agencies. Under the *Requirements for Annual Reports*,²⁶ Ministers are required to table the annual reports of FMA Act agencies in the Parliament by 31 October each year.²⁷

CAC Act authorities and companies

2.3 Under subsection 9(1) of the CAC Act, Directors of CAC authorities are required to provide Ministers with the annual report by 15 October each year where the reporting year is 30 June. In turn, under subsection 9(3) of the Act, Ministers are to table the annual report in Parliament as soon as is practicable.

2.4 In the case of Commonwealth companies, the Minister must table the annual report in Parliament as soon as is practicable after receiving it (wholly-owned companies) or after the annual general meeting (partly owned companies) (subsection 36(4) of the CAC Act refers).

Enabling legislation

2.5 Requirements for annual reports may also be set down in the enabling legislation of particular reporting entities. Such entities need to prepare their annual reports in accordance with the requirements in their enabling legislation.

Online reporting

2.6 The *Government Online Strategy* includes a number of Online Information Service Obligations (OISOs), which are designed to ensure that information on Commonwealth organisations and services is available online, thereby enabling

²⁶ The *Requirements for Annual Reports* are issued by the Department of the Prime Minister and Cabinet in accordance with subsections 63(2) and 70(2) of the *Public Service Act 1999* and approved each year by the Joint Committee of Public Accounts and Audit (JCPAA). The requirements for the year ending 30 June 2002 were approved by the JCPAA on 27 June 2002.

²⁷ *Requirements for Annual Reports* (for the year ended 30 June 2002), section 4.

public access to a minimum level of information across all Commonwealth organisations.²⁸ The Strategy states that all publications required under the OISOs must be made available online concurrently with other forms of distribution.²⁹ The National Office for the Information Economy (NOIE) is responsible for OISOs and their ongoing development.

2.7 As a result of the OISOs, all FMA Act agencies³⁰ are required to display their annual reports online.³¹ In the case of statutory authorities reporting under the CAC Act, section 28 of the CAC Act states that:

the responsible Minister may notify the directors of a Commonwealth authority in writing of general policies of the Commonwealth Government that are to apply to the authority. The responsible Minister must consult the directors before notifying them of the policies.

2.8 The implication of section 28 of the CAC Act is that if the Minister has not notified an authority of a general policy, that authority is not required to comply with the policy. However, an authority may adopt the policy if it so wishes. In addition, NOIE considered that the *Government Online Strategy* was intended to apply to both FMA Act agencies and CAC Act entities, except for public trading enterprises and where an exemption had been granted.

2.9 NOIE advised that it had previously surveyed entities operating under both Acts about their progress in complying with the OISOs, and, as at the end of October 2001, the survey results showed that compliance had been high. However, NOIE no longer monitors reporting entities' performance against the requirement of OISOs.

2.10 As a result, the ANAO expected that both FMA Act agencies and CAC Act entities would have acted in accordance with the OISOs, including publishing the annual report online.

Audit evaluation criterion

2.11 The selected reporting entities needed to have had their annual report tabled in Parliament and to have placed it online for the ANAO to complete the audit objective. As there is no single date for meeting these actions, the ANAO set 24 December 2002 as the cut-off date for their completion. This date was considered appropriate because the audit reports for some of the selected

²⁸ The OISOs consist of 12 categories of information. These include directory information, annual reports, information about services, media releases, and forms for public use.

²⁹ *Government Online Strategy*, in the section under *Strategic Priority One, Specific Action Item (iii) Online Information Service Obligations*.

³⁰ Unless otherwise exempted.

³¹ Annual reports are included in the second category of information outlined in the OISOs, which is 'Annual reports, agency strategic plans and other public accountability-type publications'.

reporting entities were not issued until late October 2002.³² The cut-off date allowed, from the date of issue of the audit report, a minimum of almost two months for each of the selected reporting entities to arrange for the production and printing of the annual report, tabling of the report in Parliament and placing it onto the website.

2.12 In setting the criterion, the ANAO recognised that it would not be able to audit the annual reports of those entities that had not reported in hardcopy, or on the website, by 24 December 2002.

Audit findings

Hardcopy reports

2.13 The ANAO found that the 2001–02 annual reports of 95 (83 per cent) of the 115 selected reporting entities with a reporting year ending 30 June had been tabled in Parliament by 31 October 2002.³³ Eleven FMA Act reporting entities missed the 31 October 2002 tabling date.

2.14 The annual reports of a further 13 (11 per cent) of the selected reported entities had been tabled in Parliament by 30 November 2002 with five more (four per cent) being tabled before 24 December 2002.

2.15 The annual reports for the remaining reporting entities with a reporting year ending 30 June, namely, the former National Crime Authority (which was replaced by the Australian Crime Commission from 1 January 2003) and the Australia-Japan Foundation, both FMA Act agencies, but also inter-government organisations under enabling legislation, had not been tabled by 24 December 2002. As a result, the ANAO did not examine the hardcopy or website copy of these entities' annual reports. Both entities advised reasons for not tabling their annual reports by 24 December 2002:

- The Australian Crime Commission advised that the legislation relating to the former National Crime Authority required that the report be tabled together with any comments on the report by Ministers on the Inter-Governmental Committee on the National Crime Authority. The report cannot be tabled until all Ministers have either provided a comment or have indicated that they have no comments. The Commonwealth Minister

³² *op. cit.*, Audit Report No.25, 2002–03, tables for each portfolio. The first of the audit reports on the selected reporting entities was issued on 31 July 2002 (Department of the Parliamentary Library and National Capital Authority, refer pp. 148 and 153 respectively) and the last on 28 October 2002 (Tiwi Land Council, refer p. 136).

³³ The Australian Maritime College and the Australian National University report under the CAC Act on a calendar year basis. The annual reports of these entities for the year ended 31 December 2001 were tabled on 18 June 2002 and 25 June 2002 respectively.

tabled the report on 27 May 2003 following the receipt of earlier comments from the other Ministers on the Inter-Governmental Committee.

- The Australia-Japan Foundation advised that there is no specific deadline for tabling the annual report under its enabling legislation, the *Australia-Japan Foundation Act 1976*. The Act requires publication of the annual report 'as soon as practicable' after the completion of the relevant financial year. The annual report was tabled in the Parliament on 5 February 2003.

Website reports

2.16 One hundred and seven (91 per cent) of the 117 selected reporting entities had placed their 2001–02 (or 2001³⁴) annual reports on their websites by 24 December 2002. One other reporting entity, the Australian Maritime College, had placed its financial statements and audit report on its website at that date. As a result, there were 108 (92 per cent) reporting entities that had placed their financial statements and audit reports on their websites.

2.17 Nine reporting entities, including the two entities that had not tabled their annual reports and the Australian Maritime College, had not placed their annual reports on their websites by 24 December 2002. One other entity did not operate a website at that date. Each of these reporting entities is listed at Table 1.

2.18 At the date of preparation of this report, nine of the ten reporting entities (as indicated in Table 1) had subsequently placed their annual reports on their websites. The ANAO did not check the website copies of the annual reports of these reporting entities. The Australian Crime Commission advised that the National Crime Authority annual report would be placed on the Commission's website as soon as possible.

³⁴ Where reporting at 31 December.

Table 1

Reporting entities that had not placed their 2001–02 (or 2001 where applicable) annual report on their website as at 24 December 2002

Reporting entity	Reporting Act	Annual report tabling date	Subsequently placed onto website*
Australian Institute of Family Studies	CAC	23 October 2002	yes
Australia-Japan Foundation**	FMA	5 February 2003	yes
Australian Maritime College	CAC	18 June 2002	yes ***
Australian Sports Drug Agency	CAC	7 November 2002	yes
Indigenous Business Australia	CAC	28 October 2002	yes
Migration Review Tribunal	FMA	23 October 2002	yes
National Crime Authority**	FMA	27 May 2003	no
NetAlert Limited	CAC	23 October 2002	yes
Tiwi Land Council #	CAC	10 December 2002	yes
Torres Strait Regional Authority	CAC	15 October 2002	yes
<p>* At date of preparation of this report.</p> <p>** Annual report was not tabled at 24 December 2002.</p> <p>*** The financial statements and audit report were on the website at 24 December 2002; however, the full annual report was not on the website as at that date.</p> <p># The Council did not operate a website at 24 December 2002. The Council subsequently advised that it had implemented a website on 28 April 2003 and placed its 2001–02 annual report on the site from that date.</p>			

Source: Hansard (annual report tabling dates) and ANAO analysis.

Conclusion

2.19 While the annual reports of the majority of the selected reporting entities had been tabled in the Parliament in accordance with legislative requirements and placed on websites by 24 December 2002, the ANAO considers that, for the purposes of increased accountability, there needs to be a greater emphasis on placing annual reports on websites as soon as practicable after they are tabled.

Recommendation No.1

2.20 The ANAO *recommends* that reporting entities implement procedures to ensure that the annual report is placed on the website as soon as is practicable after the annual report is tabled in the Parliament. As a general rule, entities should aim to place the annual report on their website within five working days of tabling.

Responses from reporting entities

2.21 The reporting entities requested to comment on the report agreed, or agreed in principle, with the recommendation. However, a few entities

considered that it would be difficult for them to place the annual report on their website within five working days of tabling. One entity suggested that 10 working days would be a more suitable timeframe.

Completeness and accuracy of the financial statements and audit reports in the annual reports

Users of Commonwealth financial statements and audit reports

2.22 Information in financial statements and audit reports may be used for many purposes but principally for making and evaluating decisions about the allocation of scarce resources. Users of information in Commonwealth financial statements and audit reports include:

- Ministers, Government and other Parliamentarians;
- taxpayers and other contributors;
- employees;
- external providers of goods and services;
- beneficiaries and other recipients of goods and services;
- industry and community groups; and
- the media.

Certification of the financial statements and audit report

Financial statements

2.23 For 2001–02, the Chief Executive of an FMA Act agency and directors of a CAC entity were required to certify the financial statements in accordance with the Finance Minister’s Orders (or Corporations Act, as applicable).³⁵ For 2002–03, the Department of Finance and Administration has recommended that the Chief Financial Officer co-signs the financial statements, along with the chief executive.³⁶ The certification is normally completed after the ANAO has agreed the reporting entity’s final draft of the financial statements.

³⁵ This certificate is required for FMA Act agencies under subsection 49(4) of the FMA Act and for CAC Act bodies under clause 2(3) of Schedule 1 of the CAC Act and for both sets of reporting entities by the Finance Minister’s Orders. The certificate is required for companies under section 295 of the Corporations Act.

³⁶ Department of Finance and Administration, *The Role of the CFO—Guidance for Commonwealth Agencies*, April 2003.

2.24 A typical certification provided by the Chief Executive of an FMA Act agency in 2001–02 was as follows:

In my opinion, the attached financial statements for the year ended 30 June 2002 give a true and fair view of the matters required by the Finance Minister’s Orders made under the *Financial Management and Accountability Act 1997*.³⁷

2.25 Responsible directors of CAC Act entities provided a similar certification in 2001–02.³⁸

Audit report

2.26 The Auditor-General, or a delegate appointed by the Auditor-General, certifies the audit report for each Commonwealth reporting entity, after the certified financial statements have been received and accepted by the officer signing the audit report.

2.27 The standard unqualified ‘audit opinion’ paragraph of an audit report for an FMA Act agency in 2001–02 was as follows:

In my opinion the financial statements:

- (i) have been prepared in accordance with Finance Minister’s Orders made under the *Financial Management and Accountability Act 1997*; and
- (ii) give a true and fair view, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Finance Minister’s Orders, of the financial position of [*name of reporting entity (as appropriate)*] as at 30 June 2002, and its financial performance and cash flows for the year then ended.³⁹

2.28 A similar audit opinion was provided in unqualified audit reports for CAC Act reporting entities in 2001–02.⁴⁰

³⁷ A certification of this type is required by the FMA Act, subsection 49(4); and Finance Minister’s Orders (2001–02), Schedule 1, Clause 3.1(b).

³⁸ CAC Act Schedule 1, clauses 2(3) and (4); and Finance Minister’s Orders (2001–02) Schedule 1, clauses 3.1(b) and (c). If the Commonwealth authority was a Public Trading Enterprise or a Statutory Marketing Authority, the certification by the directors also required a statement as to ‘whether, in their opinion, there are (when the statement is made), reasonable grounds to believe that the Authority will be able to pay its debts as and when they fall due’ Finance Minister’s Orders (2001–02) Schedule 1, clauses 3.1(c). This requirement is to apply to all authorities from 2002–03. There are similar certification requirements for companies under subsection 295 (4) of the Corporations Act.

³⁹ Although the audit report is required by section 57 of the FMA Act, the report is prepared in accordance with Australian Auditing Standard AUS 702 *The Audit Report on a General Purpose Financial Report*.

⁴⁰ The content of the audit report is detailed in Schedule 1, Part 2, clauses 3 to 7 of the CAC Act (authorities) and section 308 of the Corporations Act (companies). The audit report is prepared in accordance with Australian Auditing Standard AUS 702 *The Audit Report on a General Purpose Financial Report*.

Replication of the financial statements and audit reports

Management responsibilities

2.29 The management or governing body of each reporting entity is responsible for the replication of the certified financial statements and audit report in the annual report, and for ensuring the accuracy and completeness of the information presented therein. The audit of the financial statements does not relieve management or the governing body of these responsibilities.⁴¹

Electronic reporting

2.30 The auditing profession has recognised the growing use of the Internet for the publication and distribution of information and in 1999 issued an Auditing Guidance Statement, AGS 1050 *Audit Issues Relating to the Electronic Presentation of Financial Reports*,⁴² on this matter.

2.31 AGS 1050 advises the auditor to make it clear in the audit engagement terms that website responsibility rests with management and that the audit does not extend to the examination of controls relating to website presentation.⁴³ The guidance statement does, however, provide for the auditor to accept a separate engagement from the financial statement audit to examine website controls. The ANAO has not entered into any such engagements.

2.32 AGS 1050 also allows for a revised audit report to be provided in conjunction with financial statements that are published in an electronic medium. This is because electronic reporting occurs in a 'dynamic' environment, which allows all or part of a published report to be updated or replaced, without it becoming apparent that a revision has occurred, or because other information might be hyper-linked to/from the electronic financial statements. Consequently, some private sector auditing firms have issued revised audit reports for electronic financial statements published on certain major private sector corporations' websites.

2.33 The ANAO did not issue any audit reports specifically for an electronic medium for the 2001–02 reporting year. However, Commonwealth reporting entities, through management representation letters to the ANAO, advise, amongst other things, that:

- electronic presentation of the financial statements is their responsibility; and

⁴¹ op. cit., AUS202. Paragraph 14 of AUS202 states that 'The auditor should not accept responsibility for the preparation and presentation of the financial report'.

⁴² Institute of Chartered Accountants in Australia and CPA Australia, December 1999.

⁴³ AGS 1050, paragraph 19.

- they will assess security controls over audited financial information and the audit report to ensure procedures are in place to ensure the integrity of information on websites.

The assessment process

2.34 This audit involved proof reading of the certified, printed hardcopy and website forms of financial statements and audit reports.

2.35 As a small number of reporting entities had not published their annual reports in hardcopy and/or on the website by 24 December 2002 (refer findings in Table 1 above), there were only 115 reporting entities' hardcopy reports and 108 reporting entities' website reports available for audit (rather than the total of 117 reporting entities selected).

Audit evaluation criterion

2.36 Each reporting entity would be expected to have replicated the certified financial statements and audit report in the annual report for the year ended 30 June 2002 (or earlier reporting period, where applicable) without any changes being made.

Variations

2.37 All variations from the certified copies of the financial statements and audit reports would be categorised as either corrections or errors according to pre-determined criteria. Furthermore, the errors would be classified according to their significance.

Corrections

2.38 The ANAO accepted that some variations from the certified copies of the financial statements and audit reports were corrections made after the audit report was signed. These included:

- *Rounding adjustments*—where dollar amounts were incorrectly added or subtracted by one unit of measurement (normally \$'000); and
- *Presentation/format corrections*, for example, full citation of an Act should be in italics, and spelling corrections.

2.39 The ANAO expected that any more significant corrections should be cleared through appropriate representatives of the reporting entity and the audit team, including with the Chief Executive and/or directors and auditor responsible for signing the audit report, where appropriate.

Errors

2.40 Other variations from the certified financial statements and audit reports, whether intended or otherwise, were considered errors and were classified according to the following error types:

- *Numerical*—any change in dollar amounts or other relevant numbers;
- *Text*—any change in wording that altered the meaning of the text (including deletions, additions and amendments);
- *Omission of a page or pages*; and
- *Presentation/format*—any other changes that affected the readability of the information, such as incomplete scanning or incorrect alignment of information, including pages, sections, headings, text, rows and columns.

2.41 In general, multiple ‘errors’ relating to the same item (for example, several incorrect dollar amounts in a tabular note or the omission of a page) would only count as one error. This ‘rule’ was adopted because such multiple errors would normally result from a common error, for example, the inclusion of an incorrect version of a table or the omission of a page. In addition, where the same error occurred in both the hardcopy and website copy it would only count as one error. As a result, the number of errors reported would be lower than the actual information in error.

Significance of the errors

2.42 In assessing the significance of errors, the ANAO did not consider whether an error was ‘material’, as it does when assessing errors during an audit of an entity’s financial statements. Australian Accounting Standard, *AAS 5 Materiality* (and its AASB equivalent AASB 1031),⁴⁴ provides a definition of ‘material’ for the purposes of financial reporting. It states that:

Information is material if its omission, misstatement or non-disclosure has the potential to adversely affect: (a) decisions about the allocation of scarce resources made by users of the financial report; or (b) the discharge of accountability by the management or governing body of the entity.⁴⁵

2.43 Financial statement auditors use this same definition of ‘material’ when determining audit procedures, and when evaluating the effect of ‘any omissions,

⁴⁴ Prior to 1 January 2000, the AASBs applied to entities regulated under companies legislation and the AASs applied to all other types of entities. AASBs issued from 2000 onwards apply to all reporting entities, unless the scope of a particular standard is specifically narrowed or broadened. The AAS series continue to apply to non-company entities but will be phased out over time.

⁴⁵ ICAA and CPA Australia, *AAS 5 Materiality*, and Australian Accounting Standards Board, *AASB 1031 Materiality*, paragraph 4.1, September 1995.

misstatements and non-disclosures' on the fairness of the presentation of financial statements.⁴⁶

2.44 The concept of 'materiality' was not considered appropriate in the context of this audit, as the information published in the annual reports should be exactly the same as the information in the certified financial statements and audit reports. Accordingly, the ANAO classified the errors as significant, or insignificant, according to their impact on the completeness and accuracy of the published financial statements and audit reports.

2.45 Errors were considered significant where information was incorrect or had the potential to mislead, or confuse, the reader. Consequently, significant errors comprised any:

- *numerical error* where the correct (or very near correct) dollar amount or other number could not be easily identified from other information on the same page;
- *text error* where important information had been omitted or where the text had a different meaning (eg misstatement of an accounting policy);
- *omission of a page or pages* where important financial statement or audit report information had been omitted; and
- *presentation/format errors* where information (dollar amounts, other numbers or text) may be unclear.

2.46 All other errors were considered insignificant, as they were unlikely to mislead, or confuse, the reader. These included very minor numerical errors, minor text variations, errors in cross-referencing, duplicated information, minor formatting and alignment errors, and other obvious printing errors.

Audit findings

Changes to the financial statements after the audit report was signed

2.47 In a number of instances, the ANAO found that the reporting entities had made changes to the financial statements after the signing of the audit report.

2.48 In the majority of cases, the changes were in the form of 'corrections', in that the reporting entity had sought agreement from the audit team and had provided replacement pages for the changes made, or they were appropriate corrections, such as format changes, that did not require the auditor's clearance. Accordingly, the ANAO did not report any of these cases as errors.

⁴⁶ ICAA and CPA Australia, Australian Auditing Standard, AUS 306 *Materiality and Audit Adjustments*, June 2001.

2.49 In some cases, however, the financial statement audit teams had not been advised of changes and/or provided with the appropriate replacement pages for changes that required the auditor's clearance. While the ANAO had no reason to doubt the validity of any of these changes, and, in fact, confirmed that several of them were genuine corrections to the certified financial statements, they were all classified as 'errors' as they had been made without the knowledge and/or agreement of the financial statement audit team. They were classified as significant or insignificant in the same manner as for any other errors.

2.50 In one case, a reporting entity had changed the method of accounting for particular information resulting in significant differences to certain dollar amounts in the notes to the financial statements. The change represented a reversion to a method of accounting, which had been accepted by the ANAO in the audits of the entity's 1999–2000 and previous years' financial statements.

2.51 Although the ANAO was advised of the change, the ANAO officer responsible for signing the audit report was not given an opportunity to agree the change before the annual report was printed. While the ANAO officer retrospectively agreed to the change, it would have been desirable for the change to have been explained in the relevant note to the financial statements.

2.52 The entity subsequently acknowledged that it should have obtained formal clearance of the change prior to publication and advised of remedial action to ensure proper processes are followed in future.

2.53 As a matter of principle, reporting entities should not change any information in the financial statements after receiving the audit report. In the circumstances where errors have been detected in the financial statements after the audit report has been issued, the errors should be corrected following the approval of an appropriate official within the reporting entity and endorsement from the ANAO. In addition, replacement pages should be provided for any certified copy of the financial statements, including the copy held by the ANAO.

Recommendation No.2

2.54 The ANAO *recommends* that, where a reporting entity detects errors in the certified financial statements after receiving the audit report, and considers corrective action is necessary, the entity should:

- obtain agreement from the ANAO officer responsible for signing the audit report, or his/her representative, before making changes to the financial statements; and
- issue replacement pages for the financial statements, as required, prior to publication.

Responses from reporting entities

2.55 All the reporting entities requested to comment on the report agreed, or agreed in principle, with the recommendation.

Summary of errors

2.56 The ANAO found a total of 122 errors in the replication process across all of the 115 reporting entities examined. One hundred and fifteen of the errors (94 per cent) were in the replication of the financial statements and seven of the errors were in the replication of the audit reports (six per cent). The errors occurring in the financial statements of the hardcopy annual reports were also generally present in the website annual reports. Fifty-one of the errors (42 per cent) were considered significant.

2.57 A breakdown of the number and proportion of errors by type and significance is shown at Table 2. As mentioned at paragraph 2.41, the actual information in error is higher than the total number of reported errors due to the classification of certain multiple and connected errors as one common error.

Table 2

Number and proportion of errors by error type and significance

Error type	Significant errors		Insignificant errors		Total errors	
	Number	Per cent	Number	Per cent	Number	Per cent
Numerical	27	53	12	17	39	32
Text	6	12	39	55	45	37
Presentation/format	6	12	19	27	25	20
Omission of page(s)	12	23	1	1	13	11
Total	51	100	71	100	122	100

Source: ANAO analysis

2.58 Table 8, at Appendix 1, provides a summary of the number of errors by error type and significance, for each of the selected reporting entities that had errors in either or both forms of their annual report. All error information has been agreed by the relevant reporting entities.

Errors by entity type and report type

2.59 The ANAO found that 51 (44 per cent) of the 115 reporting entities had errors in one or both forms of the annual report. The errors were spread proportionally across both FMA and CAC Act reporting entities approximately equally (see Table 3). Although most of the entities with errors only had one or two errors, there were five entities that had five or more errors, and nine entities that had two or more significant errors.

Table 3**Number and proportion of reporting entities with and without errors by entity type**

Entity type	Entities with errors		Entities without errors		Total number of entities
	Number	Per cent	Number	Per cent	
FMA Act	32	46	38	54	70
CAC Act	19	42	26	58	45
Either type (by entity)	51	44	64	56	115

Source: ANAO analysis

2.60 Of the 51 reporting entities that had errors in one or both forms of the annual report, 32 had errors in both forms, eight had errors in the hardcopy only, and 11 had errors in the website copy only. As a result, there were 40 entities with hardcopy report errors and 43 entities with website report errors (see Table 4).

Table 4**Number and proportion of reporting entities with and without errors by report type**

Annual report type	Number of entities with errors			Number of entities without errors	Total number of entities examined
	In both report types	In one report type	Total		
Hardcopy	32	8	40	75	115
Website copy	32	11	43	65	108

Source: ANAO analysis

2.61 The 64 reporting entities that had no errors in either form of their published annual reports are listed at Table 7 in Appendix 1.

Significant errors

2.62 Numerical errors and the omission of a page or pages made up the majority of the significant errors (76 per cent).

2.63 Most of the significant numerical errors would not be judged 'material'⁴⁷ in terms of misstatement of amount, but were nonetheless incorrect, and could lead to incorrect amounts being quoted in other reports. In one case, the reporting entity had placed a draft version of the financial statements on its website rather than the certified version, resulting in multiple numerical misstatements as well as other errors.

⁴⁷ *ibid*, ICAA and CPA Australia, AAS 5 *Materiality* and Australian Accounting Standards Board, AASB 1031 *Materiality*.

2.64 The omission of a page or pages errors were all in the website annual reports, and affected both financial statements and audit reports. The most significant omissions included a Cash Flow Statement from the financial statements and, in seven instances, the entire audit report or the second page of the audit report, which was the page that contained the 'audit opinion' paragraph. None of the audit reports concerned included a qualified audit opinion.

2.65 The number and proportion of reporting entities with and without significant errors by report type and entity type are shown in Tables 5 and 6 respectively.

Table 5

Number and proportion of reporting entities with and without significant errors by report type

Annual report type	Entities with significant errors		Entities without significant errors		Total number of entities
	Number	Per cent	Number	Per cent	
Hardcopy	23	20	92	80	115
Website copy	28	26	80	74	108

Source: ANAO analysis

Table 6

Number and proportion of reporting entities with and without significant errors by entity type

Entity type	Entities with significant errors		Entities without significant errors		Total number of entities
	Number	Per cent	Number	Per cent	
FMA Act	23	33	47	67	70
CAC Act	10	22	35	78	45
Either type (by entity)	33	29	82	71	115

Source: ANAO analysis

Common errors

2.66 Numerical and text errors were the most common types of error accounting for 32 and 37 per cent respectively, of all errors identified. However, numerical errors were of higher significance, as they comprised 53 per cent of the significant errors, whereas most text errors were insignificant.

2.67 The majority of errors were in the notes to the financial statements with only a small number occurring in the primary statements. Many of the errors were in the more complicated notes, where presentation involved tables with multiple rows and columns, or sub-totals and other complexities, thereby creating a higher risk for errors when replicating the information.

2.68 Overall, the ANAO considered that the majority of errors arose from breakdowns in checking of the printer's proofs (hardcopy reports) and of the electronic presentation (website reports). However, some entities commented that errors had occurred in the printed version even when the printer's proof copy had been correct.

Responses from reporting entities

2.69 All of the reporting entities, for which the ANAO reported errors, acknowledged the errors, and many advised of remedial action for the annual reports already published and the implementation of new checking procedures for future years.

2001–02 annual reports

2.70 Remedial action proposed by entities to correct the 2001–02 annual reports was generally confined to the website copy. While the ANAO supports the approach taken by entities to amend their website copy of the annual report so that the correct information is available, entities should consider indicating on the website that changes have been made since the hardcopy was tabled in Parliament.

2.71 In relation to hardcopy reports, one entity issued a corrigendum; another entity was correcting the undistributed hardcopy reports; and four entities advised that they would disclose the corrections in the next year's annual report. The remainder of the entities did not advise the ANAO of any specific remedial action in relation to hardcopy reports.

Future annual reports

2.72 The majority of the reporting entities, which had errors in the replicated financial statements and/or audit report in 2001–02, advised that appropriate checks would be implemented for future reporting periods. These checks include:

- each version of the financial statements from draft to certified being stamped with the date and time;
- financial statements being reviewed for style and format before being provided for audit;
- printer's proofs of hardcopy reports being reviewed by an independent person or by more than one person;
- preparation of the website form of the report not being commenced until after the hardcopy form is finalised; and

- responsible officers certifying that required checks of the published information have been conducted.

2.73 The ANAO also ascertained the views of some of the reporting entities covered in the audit that had no errors in their published reports. Some of the practices employed by these reporting entities that are not mentioned above, included:

- financial statements are prepared for audit in the same format as they are to be published; and
- Chief Executive's/directors' certification and audit report are scanned from original documents into the hard and website copies of the annual report.

Audit conclusion

2.74 The ANAO concluded that, while the majority of reporting entities had nil or few errors in their financial statements and audit reports, the number of entities with at least one significant 'error' was relatively high (29 per cent). As a result, there is a need for entities generally to be more stringent in the checking of the relevant information in the printer's proof copies and in the electronic copies placed onto websites.

2.75 The ANAO considers that, where errors have occurred in the published annual report, the entity should correct both the hardcopy and website copy of the annual report, as appropriate. The ANAO considers that where an error results in a material misstatement, omission or non-disclosure of information,⁴⁸ or is considered by the reporting entity to require correction for other reasons, the entity should advise the responsible Minister so that a corrigendum may be tabled in the Parliament, if necessary.

Recommendation No.3

2.76 The ANAO *recommends* that reporting entities, where appropriate, establish procedures to ensure that their certified financial statements and audit report are properly replicated in the published annual report.

Responses from reporting entities

2.77 All the reporting entities requested to comment on the report agreed, or agreed in principle, with the recommendation.

⁴⁸ op. cit., AAS 5 *Materiality* and AASB 1031 *Materiality*.

Recommendation No.4

2.78 The ANAO *recommends* that, where a reporting entity detects errors in the financial statements and audit report in its published annual report, the entity should consider taking corrective action, including advising the responsible Minister, as appropriate. Any decision on corrective action required would need to be made in relation to the significance of the error.

Responses from reporting entities

2.79 All the reporting entities requested to comment on the report agreed, or agreed in principle, with the recommendation.

Canberra ACT
4 June 2003



P. J. Barrett
Auditor-General

Appendices

Appendix 1

Individual results for each of the selected reporting entities

The individual results for each of the selected reporting entities, for which annual reports had been tabled by 24 December 2002, are shown below.⁴⁹

Table 7 shows the selected reporting entities that had no errors in either copy of their annual report.

Table 8 shows the number of errors by error type and by significance for each of the selected reporting entities that had errors in either or both copies of their annual report. A description of the error types and of significant and insignificant errors is provided at paragraphs 2.40 to 2.46 of Chapter 2. The table does not distinguish between hardcopy and website copy errors.

⁴⁹ Two of the selected reporting entities, namely, the Australia-Japan Foundation and the former National Crime Authority, are not included in the Appendix, as they did not have their annual reports tabled by 24 December 2002 (refer paragraph 2.15 of Chapter 2). In addition, seven other entities had not published their annual reports on their websites at 24 December 2002, and one other entity did not operate a website at that date; each of these entities is indicated in Tables 7 and 8, as appropriate.

Table 7**Selected reporting entities with no errors in the hardcopy and website copy of their annual reports**

Reporting entity	Reporting entity
Administrative Appeals Tribunal	Department of Immigration and Multicultural and Indigenous Affairs
Australia and New Zealand Food Authority	Department of the Environment and Heritage
Australian Agency for International Development (AusAID)	Department of the House of Representatives
Australian Bureau of Statistics	Department of the Parliamentary Library
Australian Competition and Consumer Commission	Department of the Prime Minister and Cabinet
Australian Customs Service	Department of the Treasury
Australian Electoral Commission	Department of Veterans' Affairs
Australian Film, Television and Radio School	Equal Opportunity for Women in the Workplace
Australian Government Solicitor	Family Court of Australia
Australian Greenhouse Office	Federal Magistrates Service
Australian Industrial Registry	Film Finance Corporation Australia
Australian Maritime College *	Fisheries Research and Development Corporation
Australian Maritime Safety Authority	Grains Research and Development Corporation
Australian National University	Great Barrier Reef Marine Park Authority
Australian Radiation Protection and Nuclear Safety Agency	Hoxton Park Airport Limited
Australian Security Intelligence Organisation	Human Rights and Equal Opportunity Commission
Australian Sports Drug Agency **	Indigenous Business Australia **
Australian Taxation Office	Military Superannuation and Benefits Scheme
Australian Trade Commission	National Museum of Australia
Australian Wine and Brandy Corporation	National Oceans Office
Camden Airport Ltd	National Registration Authority for Agricultural and Veterinary Chemicals
Centrelink	National Standards Commission
Comcare Australia	Office of Film and Literature Classification
Commonwealth Grants Commission	Office of Parliamentary Counsel
Commonwealth Superannuation Administration (Comsuper)	Office of the Commonwealth Ombudsman
Commonwealth Superannuation Scheme (CSS)	Office of the Director of Public Prosecutions
Department of Communications, Information Technology and the Arts	Office of the Official Secretary to the Governor-General
Department of Defence	Productivity Commission
Department of Education, Science and Training	Professional Services Review
Department of Foreign Affairs and Trade	Public Sector Superannuation Scheme (PSS)

Reporting entity

Refugee Review Tribunal

Sugar Research and Development Corporation

The Aged Care Standards and Accreditation Agency

Tiwi Land Council ***

KEY

* Financial statements and audit report were on website at 24 December 2002, although the full annual report had not been placed on the website as at that date.

** Only the hardcopy was assessed, as the annual report had not been placed on the website as at 24 December 2002.

*** Only the hardcopy was assessed, as the entity did not operate a website at 24 December 2002.

Table 8

Number of errors by error type and significance for each of the selected reporting entities with errors in the hardcopy and/or website copy of their annual reports

Reporting entity	Number of errors			Type of error											
	Significant	Insignificant	Total	Presentation/Format			Omission of page(s)			Numerical			Text		
				Significant	Insignificant	Significant	Significant	Insignificant	Significant	Insignificant	Significant	Insignificant	Significant	Insignificant	
Aboriginal and Torres Strait Islander Land Fund Account (a)	1	0	1	0	0	1	0	0	0	0	0	0	0	0	0
Aboriginal and Torres Strait Islander Commission	1	1	2	0	1	1	0	0	0	0	0	0	0	0	0
Army & Airforce Canteen Services (Frontline Defence Services)	0	1	1	0	0	0	0	0	0	0	0	0	0	0	1
Attorney - General's Department	1	0	1	0	0	0	0	0	0	1	0	0	0	0	0
Australian Accounting Standards Board (d)	1	1	2	1	0	0	0	0	0	0	0	0	0	0	1
Australian Broadcasting Corporation	0	1	1	0	0	0	0	0	0	0	0	0	0	0	1
Australian Centre for International Agricultural Research	1	2	3	0	1	1	0	0	0	0	0	0	0	0	1
Australian Dairy Corporation	0	2	2	0	0	0	0	0	0	0	0	0	0	0	2
Australian Federal Police	1	0	1	0	0	1	0	0	0	0	0	0	0	0	0
Australian Institute of Aboriginal and Torres Strait Islander Studies	9	13	22	1	1	0	0	0	6	2	2	0	2	0	10

Australian Institute of Family Studies (c)	2	1	3	0	0	0	0	0	0	2	1	0	0
Australian Institute of Marine Science	0	1	1	0	0	0	0	0	0	0	0	0	1
Australian National Maritime Museum	4	2	6	0	0	2	0	0	0	2	1	0	1
Australian Office of Financial Management (f)	1	0	1	0	0	0	0	0	0	1	0	0	0
Australian Postal Corporation	0	1	1	0	0	0	0	0	0	0	1	0	0
Australian Public Service Commission	0	1	1	0	1	0	0	0	0	0	0	0	0
Australian Research Council	0	1	1	0	0	0	0	0	0	0	0	0	1
Australian Securities and Investments Commission (g)	2	2	4	0	0	0	0	0	0	2	0	0	2
Australian Strategic Policy Institute (ASPI) Ltd	0	1	1	0	0	0	0	0	0	0	0	0	1
Australian Transaction Reports and Analysis Centre	2	6	8	1	2	0	0	0	0	1	0	0	4
Cotton Research and Development Corporation	1	3	4	0	1	0	0	0	0	1	2	0	0
Crim Trac (e)	1	2	3	0	1	0	0	0	0	1	0	0	1
Dairy Adjustment Authority	1	0	1	0	0	0	0	0	0	1	0	0	0
Dairy Research and Development Corporation	0	1	1	0	1	0	0	0	0	0	0	0	0
Department of Agriculture, Fisheries and Forestry	1	0	1	0	0	0	0	0	0	1	0	0	0
Department of Employment and Workplace Relations	0	2	2	0	1	0	0	0	0	0	0	0	1

Reporting entity	Number of errors			Type of error								
	Significant	Insignificant	Total	Presentation/Format		Omission of page(s)		Numerical		Text		
				Significant	Insignificant	Significant	Insignificant	Significant	Insignificant	Significant	Insignificant	
Department of Family and Community Services	0	1	1	0	1	0	0	0	0	0	0	0
Department of Finance and Administration	0	1	1	0	0	0	0	0	0	0	0	1
Department of Health and Ageing	0	2	2	0	2	0	0	0	0	0	0	0
Department of Industry, Tourism and Resources	1	1	2	0	0	0	0	0	0	0	1	1
Department of the Parliamentary Reporting Staff	0	2	2	0	0	0	1	0	0	1	0	0
Department of the Senate	0	1	1	0	1	0	0	0	0	0	0	0
Department of Transport and Regional Services	2	2	4	0	1	2	0	0	0	1	0	0
Enterprise and Career Education Foundation Limited	0	1	1	0	0	0	0	0	0	0	0	1
Federal Court of Australia	1	0	1	1	0	0	0	0	0	0	0	0
Geoscience Australia (b)	2	3	5	1	1	1	0	0	0	1	0	1
Insolvency and Trustee Service Australia	0	1	1	0	1	0	0	0	0	0	0	0
IP Australia (b)	1	0	1	1	0	0	0	0	0	0	0	0
Joint House Department	1	2	3	0	0	0	0	0	0	0	1	2
Land and Water Australia	0	1	1	0	0	0	0	0	0	0	0	1
Migration Review Tribunal (c)	1	0	1	0	0	0	0	0	0	0	1	0
National Archives of Australia	1	1	2	0	0	0	0	0	1	1	0	0
National Capital Authority	2	7	9	0	2	0	0	0	2	1	0	4

National Competition Council (h)	2	0	2	0	0	0	0	0	0	0	2	0	0	0	0
National Gallery of Australia	1	0	1	0	0	0	0	0	0	0	0	0	0	1	0
National Native Title Tribunal	1	0	1	0	0	0	0	0	0	0	1	0	0	0	0
National Office of the Information Economy	1	0	1	0	0	0	1	0	0	0	0	0	0	0	0
NetAlert Ltd (c)	1	0	1	0	0	0	0	0	0	0	1	0	0	0	0
Office of the Federal Privacy Commissioner	1	0	1	0	0	0	1	0	0	0	0	0	0	0	0
Office of the Inspector-General of Intelligence and Security	1	0	1	0	0	0	1	0	0	0	0	0	0	0	0
Torres Strait Regional Authority (c)	1	0	1	0	0	0	0	0	0	0	1	0	0	0	0
TOTAL	51	71	122	6	19	12	1	27	12	1	27	12	6	39	

Key

- (a) Included in the annual report of the Aboriginal and Torres Strait Islander Commission.
- (b) Included in the annual report of the Department of Industry, Tourism and Resources.
- (c) Hardcopy only assessed, as annual report had not been placed on the website as at 24 December 2002.
- (d) For the financial year 2001-2002, the secretariat of the Financial Reporting Council (FRC) was responsible for printing the annual reports of the FRC and the Australian Accounting Standards Board (AASB) in one document. As a result of the audit, procedures are being put in place to ensure that the AASB signs off on the printer's proof of its financial report prior to printing.
- (e) Errors corrected by corrigenda tabled in Parliament on 4 March 2003.
- (f) The assessed error relates to a late change made by the reporting entity without the formal agreement of the ANAO officer responsible for signing the audit report prior to the publication of the annual report. Although the ANAO officer retrospectively agreed to the change, it would have been desirable for the change to have been explained in the relevant note to the financial statements.
- (g) One of the two assessed significant errors is in fact a correction but is listed as an error because the change was made without the knowledge and agreement of the ANAO auditors.
- (h) Assessed errors are in fact corrections but are listed as errors because the changes were made without the knowledge and agreement of the ANAO auditors.

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