The Auditor-General
Audit Report No.22 2003–04
Financial Statement Audit

Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2003

Summary of Results

Australian National Audit Office

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Canberra ACT
9 January 2004

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken audits of the financial statements of Australian Government 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 and the accompanying brochure. The report is titled *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2003.*

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

The ANAO has dual aims in reporting on the financial management and overall performance of the public sector. Our first aim is to provide independent assurance about financial controls and results and our second is to suggest improvements to public administration for better performance. This report and my earlier report, Audit Report No.61 of 2002–2003, summarise the results of financial statement audit activities undertaken by the ANAO in 2002–2003. These activities provide both independent assurance and recommendations to strengthen current processes within the governance arrangements of the public sector.

The role of my office in the provision of independent assurance and accountability in the public sector has evolved to take account of, and respond positively to, the ongoing public sector reform agenda. This includes, in particular, the major financial reform activities of recent years. To meet current reporting deadlines many agencies are moving towards best practice with observed improvements in their accounting systems and processes, including their monthly reporting practices.

The achievement of tighter timeframes for financial reporting by entities has also required some shift in audit practices. The ANAO has had to mirror the activities of its client entities to respond to the requirement for earlier production of financial statements, in particular by undertaking more audit procedures prior to financial year-end. Whilst it is important to acknowledge the achievements to date, there are still challenges, for many entities, in bringing forward their reporting periods in 2004 and 2005. The most pressing challenge is the adoption of international accounting standards, with the requirement for the comparative figures for entities reporting in the periods beginning on or after 1 January 2005 to comply with these standards.

The reform process continues to create greater convergence between the public and private sectors. The Commonwealth's business environment has become inherently riskier as the concerns surrounding public accountability heighten, emphasising the independent role of the Auditor-General. The latter is not new particularly with the number of reviews in several forums as a result of recent corporate collapses, for example, in the United States and Australia.

The independence of the Commonwealth Auditor-General is a key feature of our democratic system of government. While the Auditor- General has statutory and functional independence, there is the prospect of an operational conflict with the ANAO outsourcing a significant proportion of its audit work to private sector accounting firms. The management of these outsourcing arrangements by the ANAO incorporates strict independence criteria.

The Commonwealth continues to work towards the imminent harmonisation of the Australian Accounting Standards and the Government Finance Statistics. Discussion of the harmonisation processes is included in this report. The major determinant of progress continues to be the resolution of the different purposes served by the two frameworks.

I would like to acknowledge the professionalism and commitment of my staff, entity Chief Finance Officers and other relevant entity staff. These individuals, working in partnership, have successfully focused on the achievement of the many and varied public sector reform requirements.

P.J. Barrett
Auditor-General

Summary

Executive Summary

This report summarises the final results of the audits of the financial statements of Australian Government entities, forming our second report on these audits for the financial year ended 30 June 2003. It complements Audit Report No.61 2002–2003[1]. The report also outlines the results of a verification of the Department of Family and Community Services' triple bottom line report, a first for the Australian Public Service.

The earlier report summarised audit findings relating to major entity control structures, including governance arrangements, information systems and control procedures through to March 2003. That report raised significant issues warranting attention in order to improve the quality of the underlying control structures, which support the reporting of public sector financial performance and accountability.

Since the compilation of Audit Report No.61 2002–2003, the Australian National Audit Office (ANAO) has updated its understanding of entity 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 Australian Government entities (see Table 1).

The total number of entities remains consistent with that of the prior year and reflects the net result of the:

- creation of a small number of prescribed agencies;
- the corporatisation of a Commonwealth authority;
- the wind-up of a Commonwealth authority; and
- the addition of two Commonwealth subsidiary companies.

[1] ANAO *Control Structures as part of the Audits of the Financial Statements of Major Commonwealth Entities for the Year Ended 30 June 2003*, Audit Report No.61 2002–2003, Canberra 2003.

Table 1

Type and number of entities audited

Reporting Entity	2002–2003	2001–2002
Australian Government's Consolidated Financial Statements (CFS)	1	1
Agencies:		
—Departments of State	17	17
—Parliamentary Departments	5	5
—Prescribed Agencies	55	52
—Business Operations	9	8
Australian Government authorities and their subsidiaries	115	117
Australian Government companies and their subsidiaries	39	42
Other	16	15
Total	**257**	**257**

The material portion of the Australian Government's revenues, expenses, assets and liabilities in the 2002–2003 financial year are accounted for by a relatively small number of Australian Government entities. Notably, the Departments of Defence, Family and Community Services, Health and Ageing, and the Australian Taxation Office. The focus of this report is on the final results of the financial statement audits for the 2002–2003 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.

Audit Opinions

The ANAO issued 236 unmodified audit opinions (clear opinions); 4 'qualified' audit opinions; 8 audit opinions containing an 'emphasis of matter'; and 10 unqualified opinions containing an 'other statutory matter'. At the date of this report, one set of financial statements was not presented for audit.

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 Consolidated Financial Statements of the Australian Government—provides details of the audit of the Consolidated Financial Statements for 2002–2003.

- 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 Verification of Triple Bottom Line Reporting—provides details of the results of audit procedures undertaken to provide a verification statement on the Triple Bottom Line Report of the Department of Family and Community Services.
- Part Six—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.61 2002–2003. It is structured in accordance with the Portfolio arrangements established in the Administrative Arrangements Order of 8 August 2002. For reporting purposes, this reflects the portfolio arrangements which existed at 30 June 2003.

Financial Statement Issues

1. Financial Reporting Framework

The Consolidated Financial Statements of the Australian Government and the Final Budget Outcome Report

Introduction

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

1.2 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 presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements.

1.3 In addition, at the close of each financial year, the Government prepares two key financial reports:

- the Consolidated Financial Statements of the Australian Government (CFS) which are prepared and audited pursuant to section 55 and 56 of the *Financial Management and Accountability Act 1997* (FMA Act) to present the financial results and 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 Act 1998* (the Charter) to present Commonwealth budget sector and Commonwealth general government sector fiscal outcomes for a financial year.

1.4 The CFS is prepared on an accrual accounting basis in accordance with applicable Australian Accounting Standards (AAS), including AAS 31 *Financial Reporting by Governments*, and other mandatory professional reporting requirements in Australia and statutory requirements.

1.5 Consistent with the requirements of the Charter, 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. In this regard, the major differences between the GFS and AAS treatments of transactions are reconciled and included in the Budget Papers.

Harmonisation of Australian GAAP and Government Finance Statistics

1.6 The 'Budget Estimates and Framework Review—Recommendations'[2] required the Department of Finance and Administration (Finance) to continue to work towards harmonisation of GAAP and GFS frameworks. The review proposed that this would be achieved via the development of an Australian accounting standard for government to harmonise the two frameworks. This was reinforced in April 2003, when the Financial Reporting Council (FRC) set the broad strategic direction for the Australian Accounting Standards Board (AASB) to harmonise Australian GAAP with Government Financial Statistics.

1.7 We support this initiative from the viewpoint of overcoming the confusion that results from having two frameworks.

1.8 While the CFS are audited, the FBO Report is not currently subject to audit. In this context, and in addressing a 2001 JCPAA Review[3], the ANAO confirmed its willingness to audit the FBO Report[4] if requested to do so but this was a matter for the Government and the Parliament to decide. This has not occurred.

1.9 If there were such a request, the issue of relevant standards to be used would be central to an audit of the FBO Report. Such an audit would include a review of the CFS to determine adherence with the relevant GFS framework.

Adoption of International Financial Reporting Standards

1.10 In July 2002, the Financial Reporting Council gave the AASB a strategic direction to adopt International Financial Reporting Standards (IFRSs) in Australia for reporting periods starting on, or after, 1 January 2005.

1.11 The reasons for adoption of IFRSs are explained in CLERP 9 *Corporate Disclosure* (2002)[5], the ninth paper in a series of Government proposals to amend corporate law. For the private sector, entities will be able to list on more than one stock exchange around the world and only prepare one set of financial statements. In addition, the cost of capital will be positively influenced due to the need to only prepare one set of accounts. Australia will be more open to the world

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[2] Estimates Memorandum–2002/13, Department of Finance and Administration, which details the recommendations of the Budget Estimates and Framework Review approved by the Government.

[3] Australia, Parliament 2001 Joint Committee of Public Accounts and Audit: Review of Accrual Budget Documentation, Official Committee Hansard, Canberra.

[4] ANAO response dated 6 September 2002 to Report 388 *Review of the Accrual Budget Documentation*.

[5] Corporate Law Economic Reform Program (Audit reform and corporate disclosure) Bill 2003.

investment markets. Other benefits envisaged by the AASB include facilitating more meaningful comparisons of the financial performance and financial position of Australian and foreign public sector reporting entities; and improving the quality of financial reporting in Australia to meet best international practice.

1.12 Harmonisation with IFRSs will impact upon all public sector entities. The extent of the changes will differ from entity to entity depending on the specifics of their business. Each entity will need to review the changes that will arise from harmonisation and assess how those changes will impact upon it.

1.13 Some important issues to be aware of are:

- changes in relation to the recognition or de-recognition of assets or liabilities;
- new recognition criteria for revenues and expenses;
- comparative data to be collected in 2004–2005;
- changes to systems to capture new reporting requirements; and
- changes in the information to be disclosed.

1.14 The International Accounting Standards Board issued IFRS 1 *First-time Adoption of International Financial Reporting Standards* in June 2003. This standard outlines the arrangements for transitioning to international accounting standards. A key aspect to this standard is the requirement for international standards to be applied in a retrospective manner. For the balance date before the first internationally compliant statements are published, entities will need to prepare two sets of financial statements. One set is to be compliant with current AAS for publication as normal. The second set, to be compliant with harmonised AASB standards, will not be published immediately and will instead form the comparative data for the following year's financial statements. This message is of particular importance to those entities with a balance date of 31 December, which will be amongst the first to apply the new standards.

1.15 Following issuance of IFRS 1, the timetable for implementation of the new standards currently stands as follows:

Balance Dates	Key Dates and Events				
				Full reporting under harmonised standards	
	Prepare Opening Balance Sheet	Start collecting comparative data	Full year comparative data figures	Half year reporting period ending	Annual reporting period ending
30 Jun	30/6/2004	1/7/2004	30/6/2005	31/12/2005	30/6/2006
31 Dec	31/12/2003	1/01/2004	31/12/2004	30/06/2005	31/12/2005
31 Mar	31/03/2004	1/04/2004	31/03/2005	30/09/2005	31/03/2006
30 Sep	30/09/2004	1/10/2004	30/09/2005	31/03/2006	30/09/2006

Timing for Financial Statements Preparation

1.16 For Australian Government entities, under Section 57 of the FMA Act, and under clause 3, part 2 of Schedule 1 of the *Commonwealth Authorities and Companies Act 1997* (CAC Act), 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 Ministers Orders (FMOs) and whether they give a true and fair view of the matters required by those orders. Both Acts outline the responsibilities of Australian Government entities regarding the maintenance of adequate accounting records and reporting obligations.

1.17 The Budget Estimates and Framework Review, accepted by Government in September 2002, made twenty recommendations. A number of the recommendations relate to the progressive improvement in the timeliness of reporting accrual budget outcomes. For the financial year ending 30 June 2005, the delivery targets for material entity financial statements will be:

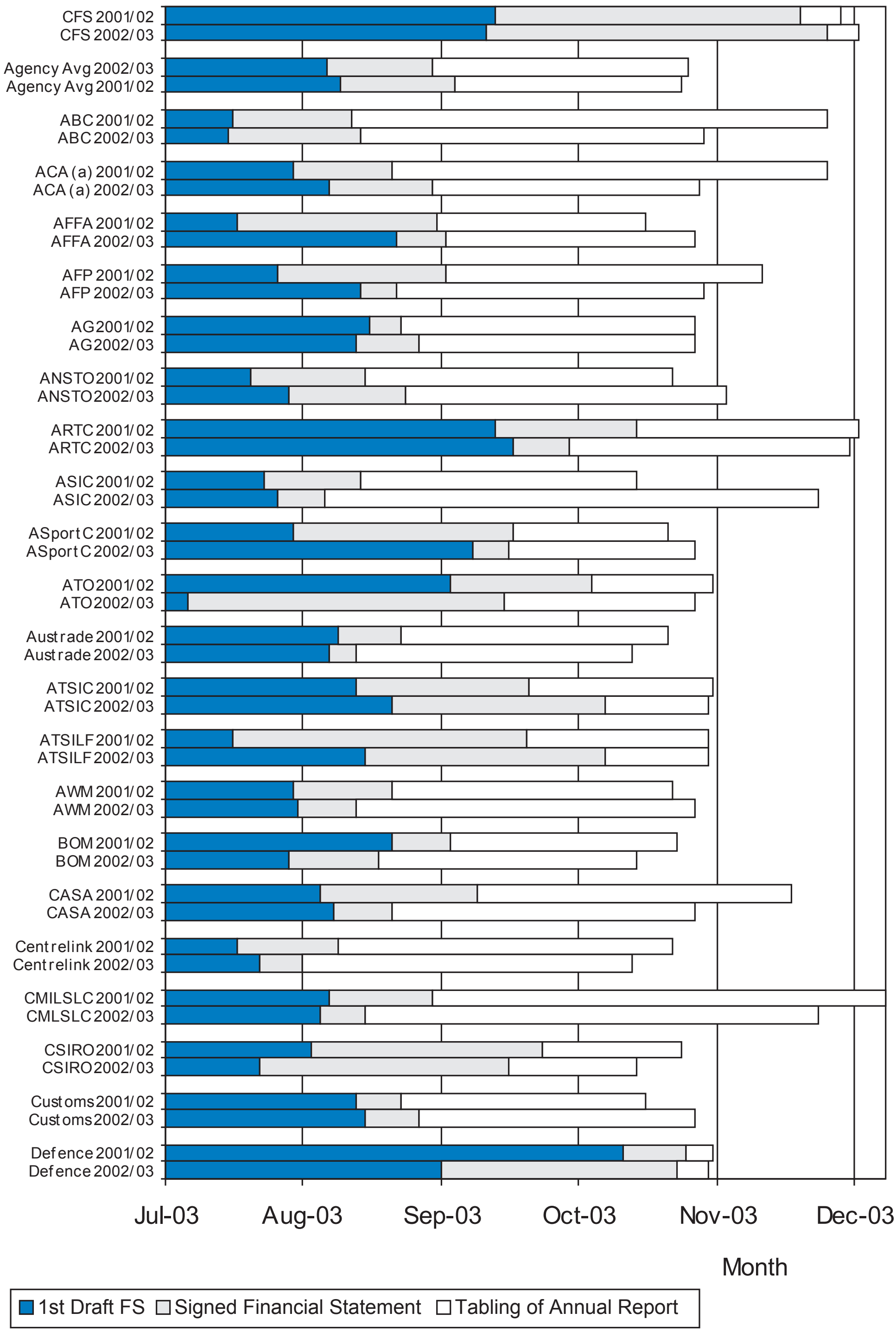
- 20 days from the end of the financial year for financial statements submissions to Government;
- 25 days from the end of the financial year for providing a preliminary accrual budget outcome to Government; and
- 45 days from the end of the financial year for the final budget outcome report to Government.

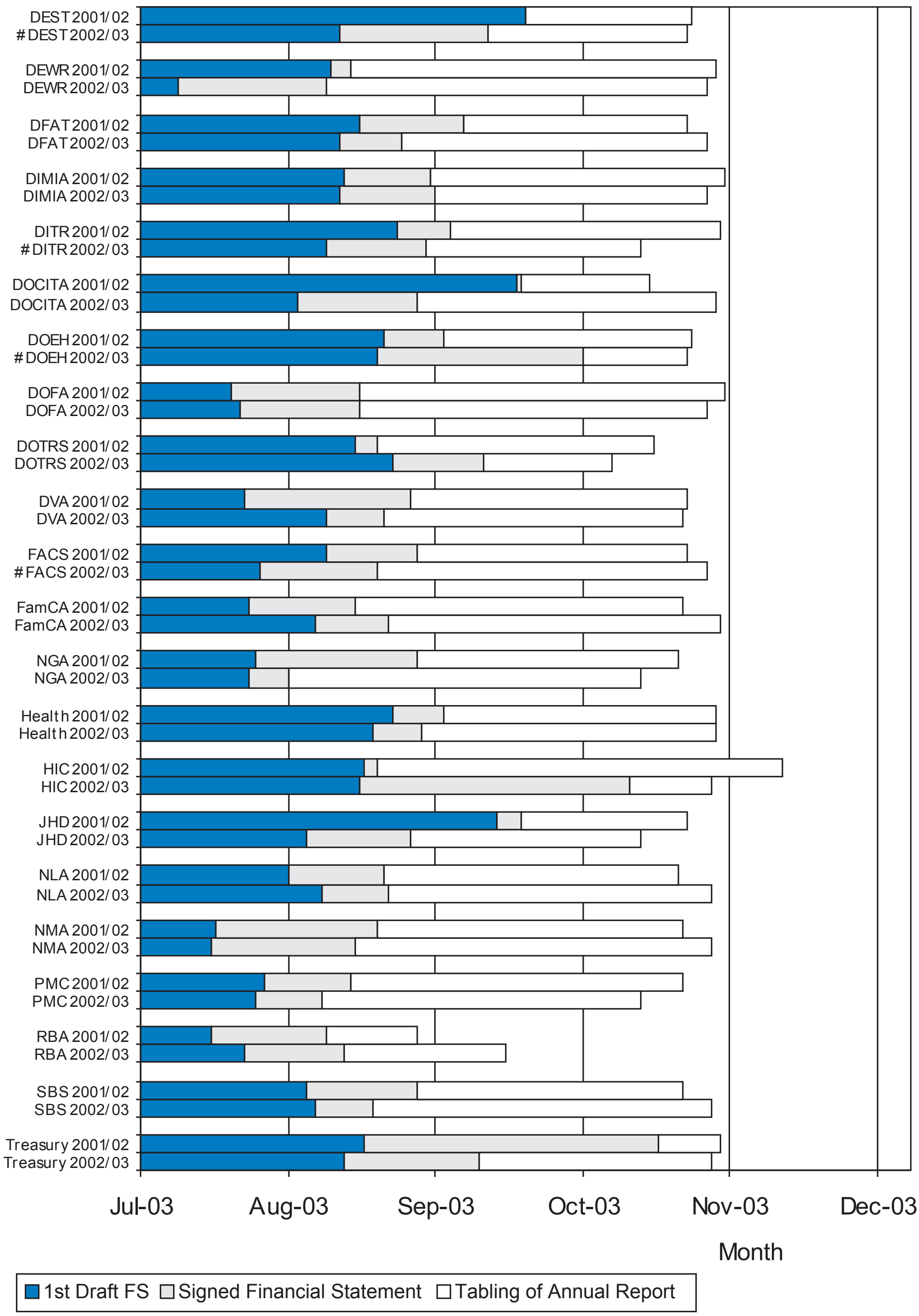
The submission of financial statements within 20 calendar days will be phased in over the 2003–2004 and 2004–2005 financial years. All material entities forming part of the CFS will be required to produce audit cleared material financial statements by 31 July 2004 and by 20 July in 2005.

Figure 1.1 graphs the timing of the financial statement preparation, audit and tabling process for 43 significant (material to the Commonwealth Financial Statements) Australian Government entities over the past two financial years.

Figure 1.1

Cycle times to tabling financial statements in the Parliament





delays in signing these financial statements were attributed to the resolution of special account issues. Refer to Part 3 for details.

1.18 The graph shows that, on average, Australian Government entities needed:

- 37 days to prepare first draft financial statements for presentation to the ANAO, a small improvement compared with 39 days in the 2001–2002 financial year;
- 60 days to produce signed financial statements, an improvement on the prior year's achievement of 65 days after balance date; and
- 118 days to table their financial statements in the Parliament, a similar result to the prior year.

1.19 The following entities obtained signed audit reports before 31 July 2003:

- Centrelink;
- Department of Employment and Workplace Relations; and
- National Gallery of Australia.

1.20 Entities which obtained a signed audit report before 15 August were as follows:

- Aboriginal and Torres Strait Islander Commission;
- Australian Broadcasting Commission;
- Australian Trade Commission;
- Australian War Memorial;
- Coal Mining Industry (Long Service Leave Funding) Commission;
- Department of Finance and Administration;
- Department of the Prime Minister and Cabinet;
- National Museum of Australia; and
- Reserve Bank of Australia.

1.21 The above information indicates that, in the past year, there has been a small improvement in the timeliness of the financial statement preparation process and, following on from this, the audit process itself. Although many of the material entities in the Commonwealth demonstrated improvements in financial statement preparation processes, they will need to continue the refinement of their processes. On average, entities and the ANAO will need to bring forward current processes by 40 days to meet the 2005 deadline of July 20.

1.22 ANAO Audit Report No.25 2002–2003 advised that, to achieve improvement in year end financial reporting, 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.

1.23 The ANAO's Better Practice Guide Building Better Financial and Management Support[6] notes that world's best practice private sector 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.

1.24 Entities are progressively implementing better practices to achieve the shorter year-end reporting requirements and the requirement for material entities within the Commonwealth to submit key monthly financial data to the Department of Finance by the 10th day of each month. It is pleasing to note that a majority of material entities have moved to full accrual monthly reporting (also referred to as closing the books) as indicated in Figure 1.2.

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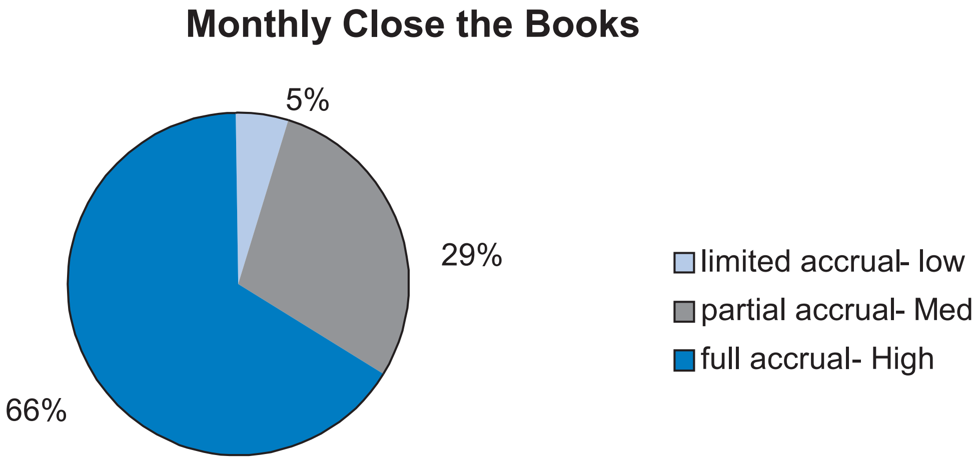
[6] ANAO 1999, *Building Better Financial Management Support,* Functions Systems and activities for producing financial information–guide to effective control.

Figure 1.2



1.25 ANAO Audit Report No.61 2002–2003[7] concluded that closing the books is a standard financial process that should be routine and performed well. The audit found that the six entities, examined as part of a closing the books review, had implemented adequate control frameworks and processes to mitigate the risks associated with closing their books. However, there was a need to improve the quality of basic activities such as month-end reconciliations in half of the entities examined.

1.26 Whilst some entities have achieved, or are moving quickly to achieve, this enhanced level of financial reporting, some entities are producing periodic financial reports which are still largely cash. This is as opposed to those that are accrual based and do not necessarily include all relevant year end information. In practical terms, this approach may be reasonable for a limited number of smaller agencies.

1.27 In addition, most entities continue to experience changes in the reporting environment. As previously mentioned, in 2003-2004, entities will be required to deal with compressed timeframes and the adoption of International Financial Reporting Standards. Discussions between the ANAO and material entities indicate that 80 per cent of these agencies have considered the implications of the tighter reporting deadlines and almost 60 per cent are aware of the impact of the adoption of international accounting standards.

1.28 To meet these tighter deadlines, some agencies could improve their current financial statement preparation processes by:

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[7] ANAO, *Closing the Books*, Audit Report No.60 2002–2003.

- ensuring that the executive and audit committees are continually fully appraised on key financial issues and contentious accounting treatments and their financial impacts;
- ensuring that key decisions on significant financial and accounting issues 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;
- negotiating and monitoring service level agreements with external services providers to insure quality and timeliness of data provided;
- 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.

1.29 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 affected 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.

The presentation of public sector financial statements

1.30 The accounting policies used in preparation of public sector financial statements reflect public sector funding and financial arrangements. Thus they may be unlike the accounting policies adopted within the private sector and are, in many ways, more complex. This can make the interpretation of those financial statements difficult and, if users do not understand the differences in the models and policies adopted, can lead to false expectations and erroneous conclusions in relation to the financial results.

1.31 One of the temptations is to assume that, like private sector financial statements, the financial statements prepared by Australian Government agencies reflect agency performance with the operating result being a key performance measure. This interpretation is often supported by a misconception that revenues from appropriations are aligned with the delivery of outputs and outcomes. Mostly it is not, particularly for outcomes which may take some or many years to deliver fully.

1.32 However, there is no overall purchaser/provider model in place within the Commonwealth where agencies are provided with a level of appropriation funding which is automatically adjusted for changes in either the cost, or quantity, of outputs delivered. The appropriation funding is thus not a payment for services delivered, rather it is a payment in the nature of grant funding, which is not dependent upon the delivery of services. In that respect, agency management has a fiduciary responsibility to meet the expected performance standards. There is no 'matching' of revenue and expenses to reflect performance. The operating result reflects no more than the difference between the funding provided to an agency during the year and the amounts expensed.

1.33 This may be a difficult principle to explain to many readers of the financial statements, a number of whom would be familiar with the traditional forms of private sector reporting where the operating result is a measure of performance and comes about as a result of the matching of revenues and expenses.

1.34 At least partly, this difficulty is caused by the application of an accounting framework, designed primarily for private sector financial relationships, to the public sector. The accounting framework reflects a model whereby the vast majority of transfers are reciprocal. That is, when an entity transfers its assets, it will generally receive assets of approximately equal value in return. Or put another way, payments will generally result in the return of goods and services of equal value to the entity. Therefore, if any entity incurs a liability for future expenditure, it will most often be entitled to record the right to receive the ordered goods and services as an asset. To the extent that mutual obligations are equally unperformed, no asset or liability is required to be recognised on the statement of financial position. This facilitates the matching of revenues and expenses.

Changes to the reporting framework applying to Commonwealth Entities

1.35 The most significant changes to reporting requirements for the financial year ended 30 June 2003 are set out below.

- Changes in the Finance Minister's Orders for 2002–2003 were as follows:

– Activities of agencies designated as Business Operations are required by law to report separately as well as continuing to be included in the agency's financial statements.

– All Australian Government Authorities are now required to make a statement of solvency and/or state the existence of an explicit guarantee by the Commonwealth in relation to the payment of their debts.

– An explicit requirement now exists that current year departmental appropriations must be reduced by the amount of savings formally offered up in Portfolio Additional Estimates Statements.

– Departmental appropriations permanently relinquished by an agency (other than by way of savings in Portfolio Additional Estimates Statements) must be accounted for as a return of capital unless in the nature of a dividend or of a settlement of a liability to the Government (e.g. a loan appropriation being repaid or a deferred output appropriation being repaid for non-performance).

– Departmental equity injections are now recognised in full as at the effective date of appropriation.

– The balance of appropriations legally available at year end must be reconciled to the reported balances of departmental and administered assets as at 30 June.

– Debits against an appropriation which are credited to a special account must be identified separately.

– Greater detail is required of revenues contributing to the net cost of outcome delivery, including certain cost recoveries.

– Departmental revenues and expenses must be reported by output, not just output group.

– All attributions used to allocate revenues and expenses between outcomes or between outputs must be reliable; the basis of attribution must also be stated.

– All revaluations of specified classes of non-current assets from 1 July 2002 onwards must be at fair value. 'Formal' valuations must be done once every 5 years.

– All intangibles must be reported at cost.

– A new test for impairment has been introduced for non-current assets which are carried at cost (these assets include specialist military equipment and computer software).

– Major assets to be sold must be revalued prior to transfer for sale by another Australian Government entity (usually Finance).

– New dividend recognition rules, consistent with a new Accounting Standard, are likely to change the time at which dividends are recognised.

– Accounting rules are specified for returns of Departmental funds to the Official Public Account, according to the nature of the transaction.

– Administered reporting has been enhanced, including an up-front Schedule with supporting notes, an explicit requirement to comply with Accounting Standards, Urgent Issues Group (UIG) consensus views and Schedule 1 of the FMOs and a table explaining movement in administered net assets over the year.

- Accounting Standards and UIG Consensus Views.

  – New or revised Accounting Standards, issued in 2002–2003, deal with the deferral of the operative date for the revised Standard on Income Taxes, and the extension of the transitional provisions for the recognition of land under roads in the Standards dealing specifically with reporting by governments and government departments.

  – Accounting Standards that applied for the first time for the year ended 30 June 2003 are listed below.

•	AASB 1041	Revaluation of Non-Current Assets	Transitional provisions
•	AASB 1012	Foreign Currency Translation	1 Jan 2002
•	AASB 1028	Employee Benefits	1 July 2002
•	AASB 1044	Provisions, Contingent Liabilities and Contingent Assets	1 July 2002

2. Results of the Audit of the Consolidated Financial Statements of the Australian Government

Background

2.1 The Consolidated Financial Statements (CFS) of the Australian Government 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 is required under sections 55 and 56 of the FMA Act to prepare and 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 the 27 November 2003 and tabled in Parliament on 4 December 2003.

Audit Report

2.4 The audit report on the CFS for the year ended 30 June 2003 was issued on 27 November 2003.

2.5 The audit report expressed an opinion containing six qualifications under four broad headings and two 'emphases of matter'. These are explained in detail below. Two qualifications were the result of differences in accounting policies and the associated disclosures in the CFS. The other qualifications covered limitations of scope. The 'emphases of matter' were due to inherent uncertainty regarding two components of the Australian Government's liability position.

Qualifications

Taxation Revenue

2.6 As in past years, the CFS for 2002–2003 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 including reliability of measurement. 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 $1.8 billion (2002: $2.8 billion); and
- there are understatements as at 30 June 2003 in accrued revenues of $31.3 billion (2002: $25.7 billion) and liabilities of $21.9 billion (2002: $18.1 billion). Reported net liabilities are overstated by $9.4 billion (2002: $7.6 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 reduced the size of the surplus reported in the Statements of Financial Performance. A qualified audit opinion was issued on the 2002–2003 CFS due to the material understatement of taxation revenue associated with 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 2002–2003 Budget. 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. However, 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 2002–2003 have been prepared without recognising the GST as a revenue of the Australian Government.

2.13 The Australian Government's reason for excluding GST and associated grant payments to the States is based on the view that the GST is a State tax collected by the Australian Government 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 revenue of the Australian Government. It is imposed under Australian Government legislation and the Australian 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 Australian 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 Australian Government Treasurer based on advice given by the Commonwealth Grants Commission and following consultation with the States and Territories. Thus, the actual distribution could only ever coincidentally reflect the amount of tax collected within the jurisdictions of the beneficiary governments, as 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 revenue of the Australian Government 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 2002–2003 year involves an understatement of revenues by $31.8 billion (2002: $27.6 billion), expenses by $30.8 billion (2002: $26.9 billion) and hence the net result by $1.0 billion (2002: $0.7 billion);
- the consolidated statement of financial position as at 30 June 2003 involves an understatement of accrued revenues by $5.7 billion (2002: $4.7 billion) and liabilities by $0.4 billion (2002: $0.3 billion), and hence an overstatement of net liabilities by $5.3 billion (2002: $4.4 billion); and
- the consolidated statement of cash flows, total operating cash inflows and outflows are each understated by $25.4 billion (2002: $23.1 billion) (that

is a difference which takes account of GST-related cash flows within the Australian 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 an Australian Government 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 Australian Government for statistical purposes.

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

Department of Defence Inventory and Repairable Items

2.19 Three qualifications under the heading, *Assets*, were reported in the audit on the 2002–2003 financial statements of the Department of Defence. They have been carried forward to the CFS audit opinion under the broad heading, *Limitation of Scope-General Stores, Explosive Ordnance and 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.

Department of Defence Employee Leave Provisions

2.20 One further qualification under the heading, *Liabilities* was reported in the audit report on the 2002–2003 financial statements of the Department of Defence. This has been carried forward to the CFS audit opinion under the fourth broad heading, *Limitation of Scope—Employee Leave Provisions*.

Emphases of Matter—Inherent Uncertainty Regarding Certain Liabilities

HIH Claims Support Scheme and Medical Defence Organisation Assistance Package

2.21 Two emphases of matter, which are not qualifications, under the headings, Inherent uncertainty regarding the liability for HIH Claims Support Scheme and Inherent uncertainty regarding the liabilities for the IBNR Scheme were reported in the audit reports of the 2002–2003 financial statements of the Department of Treasury and the Department of Health and Ageing respectively. They have been carried forward to the CFS audit opinion under the broad heading, Emphases of Matter-Inherent Uncertainty Regarding Certain Liabilities.

Audit and Accounting Issues

Executive Remuneration

2.22 As with previous CFS, these financial statements do not include disclosure of the remuneration of Ministers or Executive Officers of Australian Government entities. While 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.

2.23 Debate has continued during 2002–2003 over the proposed disclosures of remuneration and benefits at the whole of government level, including for Ministers. Events over the past two years within the private sector corporate arena, and the ensuing demands for increased disclosure, continue to highlight the importance of transparency and accountability. It would be seen as better practice for the Australian Government to provide such disclosure in the CFS for future financial years.

Controlled Entities

2.24 For a number of years the ANAO has held the view that the Australian Government has control over the Australian National University (ANU). The ANU has not been consolidated in the 2002–2003 CFS. The effect of not consolidating the ANU is not material for the CFS statement to the extent that it warrants mention in the audit opinion. Discussions are currently being held with the Department of Finance and Administration in order to resolve this issue.

Asbestos Liability

2.25 The CFS for fiscal 2003 includes a $945 million provision and expense for asbestos related legal claims. This number is primarily based on a recently completed actuarial review of the Australian Government's financial exposure.

2.26 A significant portion of this provision has been or will be reported within the Department of Defence and the Stevedoring Industry Finance Committee's 2002–2003 financial statements. A residual amount has been booked as an unquantifiable contingency in the financial statements of a number of other agencies including those of the Departments of Finance and Administration and of Transport and Regional Services, while the allocation of the liability to individual affected departments is being resolved.

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 Australian Government entity. The opinion included in the audit report is 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. In addition, unqualified audit reports may also contain 'other statutory matters'. A summary of the audit opinions and 'other statutory matters' included in audit reports issued by the ANAO for the past two years is provided below.

Summary of audit conclusions in audit reports issued

Financial Statement Audit Reports	2002–2003	2001–2002
Qualified (includes CFS audit report)	4	4
Containing an emphasis of matter	8	10
Unqualified and containing an other statutory matter	10*	0
Not modified	236	237
Total Issued	256	251
Signed financial statements not presented for audit at the time of report	1	6
Total reports	**257**	**257**

*The Department of Defence is also included in the qualified report numbers. The Department of Treasury is also included in the audit report containing an *emphasis of matter*.

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[8].
- 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.[9]
- 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.[10]

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[11]**.** 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

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8 AUS702 'Consideration of Laws and Regulations in an Audit of a Financial Report'.

9 Ibid.

10 Ibid.

11 Ibid.

- 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.

Unqualified Audit Report containing 'Other Statutory Matters'

3.6 Section 57 of the FMA Act requires that, in reporting to Ministers on the financial statements of Agencies, the Auditor-General must not only report on whether the statements have been prepared in accordance with the FMOs and give a true and fair view of matters required by the FMOs, but must also state particulars of any contravention by a Chief Executive of section 48 of the FMA Act.

3.7 Section 48 of the FMA Act and the FMOs are intended to give effect to section 83 of the Commonwealth Constitution, which provides that 'No money shall be drawn from the Treasury of the Commonwealth except under appropriation made by law'.

3.8 A contravention of section 48 of the FMA Act will necessarily occur whenever expenditure is:

- incurred without a supporting appropriation or beyond the limit of an appropriation contrary to section 83 of the Constitution; because it will be apparent that the accounts and records of the Agency have not been kept in a way that 'ensures' that moneys are only expended for the purpose and within the limit of an appropriation;
- incurred in the mistaken belief or in reliance on incorrect advice, that there is an available appropriation, or an appropriation with an adequate limit, even though the formation of that belief or reliance on that advice may be reasonable; because it will be apparent that the accounts and records of the Agency have not been kept in a way that 'ensures' that moneys are only expended for the purpose and within the limit of an appropriation; and
- recorded in an Agency's accounts and records against an incorrect appropriation, even though there may have been another available appropriation against which that expenditure could properly have been recorded; because the Agency's accounts and records will not have 'properly' recorded and explained the Agency's transactions and financial position.

3.9 A summary of the qualifications, unqualified reports with an emphasis of matter, and unqualified reports with an 'other' statutory matter issued by the ANAO during the 2002–2003 financial year is contained below.

Audit Reports Containing a Qualification

Consolidated Financial Statements of the Australian Government

3.10 The audit report for the CFS for the 2002–2003 financial year contained six *qualifications* and two *emphases of matter*. Two qualifications were the result of differences in accounting policies and the associated disclosures in the CFS. The remaining qualifications covered limitations of scope over inventory, specialist military equipment and employee leave provisions. A limitation of scope on the auditor's work arises when sufficient appropriate audit evidence does not exist to support a reported balance. The *emphases of matter* were due to inherent uncertainties regarding two components of the Commonwealth Government's liability position. Further details in regard to the qualifications and emphases 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

3.11 The audit report for the ATO's financial statements for the 2002–2003 financial year was *qualified* due to a disagreement with management on the accounting treatment for the lease of computer equipment.

3.12 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 $76.37 million and liabilities by $77.80 million on the Statement of Financial Position, and operating result by $0.14 million in the Statement of Financial Performance.

This issue resulted in a similar qualification to the statements for the three prior years.

Department of Defence

Inventory, Repairable Items and Employee Leave Provisions

3.13 The audit report for Defence's financial statements for the 2002–2003 financial year was *qualified* on the basis of five limitations of scope. The first two limitations relate to the inventory balance in the Statement of Financial Position and its potential impact on the Statement of Financial Performance. It has not been possible to validate the value of $610 million (2001–2002: $1.88 billion) and $1.2 billion (2001–2002: $1.74 billion) respectively, of the $3.83 billion (2001–2002: $3.62 billion) inventory balance due to inadequacies in the Department's inventory procedures for general stores and explosive ordnance.

3.14 The third 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, shortcomings in key processes employed, and significant gaps in the collective evidentiary support for the final balance at 30 June 2003. An amount of $550 million (2001–2002: $2.77 billion) included in the repairable items amount of $2.54 billion is uncertain.

3.15 The audit opinion on the financial report relating to the previous year was qualified in respect of the above matters, namely, inventory, including explosive ordnance, and repairable items.

3.16 The fourth limitation relates to inadequacies in the Department's military employee personnel recording systems, primarily relating to the lack of integrity associated with the capture and recording of data within those systems. An amount of $732 million for the Australian Defence Force employee leave provisions of the $1.07 billion is uncertain. In addition, the ANAO was unable to form an opinion on the amounts reported for Executive Remuneration to the extent that they include accrued leave for Military personnel.

National Gallery of Australia Foundation

Completeness of revenue

3.17 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 2002–2003 financial year was *qualified* because the nature of the collection of public donations is such that the completeness of revenue is not assured.

This issue resulted in a similar qualification to the statements for the three prior years.

Audit Reports Containing an Emphasis of Matter

Adelaide Symphony Orchestra Pty Limited

Inherent uncertainty regarding going concern

3.18 The audit report for the Adelaide Symphony Orchestra Pty Limited's (the Orchestra) financial statements for the year ended 31 December 2002 contained an *emphasis of matter* outlining an uncertainty surrounding the ability of the Orchestra 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 Orchestra in its 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.

Australian River Co. Limited

Inherent uncertainty regarding future operations

3.19 The audit report for the Australian River Co. Limited for the year ended 30 November 2002 contained an *emphasis of matter* outlining an inherent uncertainty regarding the future of its operations.

3.20 On 3 May 2002, the Parliamentary Secretary to the Minister for Finance and Administration wrote to Australian River Co. Limited and stated that the company should manage the remaining operations of the company with a view to winding down the company at the earliest opportunity on a commercially supportable basis, including the pursuit of any sale opportunities. At the date of this report the Board and the Shareholder are considering a wide variety of options, including both sale opportunities and running the vessel leases out to finality, and have not finalised their deliberations on these matters.

3.21 Accordingly, no adjustments or reclassifications have been made in the financial statements to reflect any changes that may arise as a result of the Board and the Shareholder finalising their deliberations on the above matter.

Australian Submarine Corporation Pty Limited

Inherent uncertainty regarding the financial effect of the resolution of outstanding issues with regard to the submarine build contract.

3.22 The audit report for the Australian Submarine Corporation Pty Limited's financial statements for the year 2002–2003 contained an *emphasis of matter* for the inherent uncertainty arising from technical and commercial issues outstanding, in relation to the submarine build contract, that give rise to potential contingent liabilities and contingent assets. Due to the complexity of the unresolved issues, it is not possible to estimate the financial effect of these contingent liabilities and contingent assets. While the financial impact of the individual issues may be significant, negotiations are continuing on the basis that any overall settlement will not have a significant adverse financial impact upon the company. The company ceased recognising profit on the submarine build contract from 1 July 2001.

Department of Health and Ageing

Inherent uncertainty regarding the liabilities for the IBNR Scheme

3.23 The audit report for the Department of Health and Ageing's financial statements for the 2002–2003 financial year contained an *emphasis of matter* reflecting the inherent uncertainty regarding the measurement of the liabilities for the Incurred But Not Reported (IBNR) Scheme.

3.24 The Department of Health and Ageing had recorded an estimate of $498.5 million in respect of the Commonwealth's liabilities for the Medical Indemnity IBNR Scheme for Medical Defence Organisations (MDO). This estimate is based on an independent actuarial assessment.

3.25 During 2001–2002, in response to Australia's largest MDO, the United Medical Protection Group (UMP), being placed into provisional liquidation, the Commonwealth committed to providing an indemnity to the provisional liquidator. The amount of the indemnity was included as a liability in the financial statements of the Department of Treasury for the year ended 30 June 2002. This issue resulted in an emphasis of matter in the Department of Treasury's financial statements in that year. In the year ended 30 June 2003 this liability was transferred to the Department of Health and Ageing.

3.26 Funds appropriated to the Department of Health and Ageing are transferred to the Health Insurance Commission (HIC) to offset the total expenses and liability. This impacts on the audit opinion issued on the HIC as detailed below.

Health Insurance Commission

Inherent uncertainty regarding the liabilities for the IBNR Scheme

3.27 The audit report for the HIC financial statements for the 2002–2003 financial year contained an *emphasis of matter* reflecting the inherent uncertainty regarding the measurement of the liabilities for the IBNR Scheme.

3.28 The Australian Government implemented legislation (the *Medical Indemnity Act 2002*) to establish a framework to make the medical indemnity market more sustainable and to give medical practitioners the certainty needed to continue practising. The legislation provides for medical indemnity payments to be made to MDOs. The HIC administers this legislation and has recorded an estimate of $498.5 million in respect of the Commonwealth's liabilities for the Medical Indemnity IBNR Scheme for MDOs. This estimate is based on an independent actuarial assessment.

3.29 Funds have been appropriated to the Department of Health and Ageing to offset the total expenses and liability. This revenue is transferred through to the HIC. Appropriation revenue, and a receivable from the Commonwealth equal to the amount of the administered expenses and liability, are shown in the HIC's financial statements.

Queensland Orchestra Pty Ltd

Inherent uncertainty regarding going concern

3.30 The audit report for the Queensland Orchestra Pty Ltd's (the Orchestra) financial statements for the year ended 31 December 2002 contained an *emphasis of matter* because of an uncertainty surrounding the ability of the Orchestra to continue as a going concern, and therefore whether it could 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 Orchestra in its 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.

3.31 This issue resulted in a similar *emphasis of matter* in the statements for the prior year.

West Australian Symphony Orchestra Pty Limited

Inherent uncertainty regarding going concern

3.32 The audit report for the West Australian Symphony Orchestra Pty Limited's (the Orchestra) financial statements for the year ended 31 December 2002 contained an *emphasis of matter* outlining an uncertainty surrounding the ability of the Orchestra 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 Orchestra in its 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.

Department of the Treasury

Inherent uncertainty regarding the liabilities for the HIH Claims Support

3.33 The audit report for the Department of the Treasury's financial statements for the 2002–2003 financial year contained an *emphasis of matter* reflecting the inherent uncertainty regarding the measurement of the liabilities for the HIH Claims Support Scheme.

3.34 The Department of the Treasury had recorded an estimate of $457.83 million in respect of the Commonwealth's liability for the HIH Claims Support Scheme at 30 June 2003. This estimate is based on an independent actuarial assessment. There is inherent uncertainty regarding this estimate as the actuary has indicated to the Treasury that the estimates are uncertain due to their timeframe and nature.

3.35 The issue regarding the HIH Claims Support Scheme liability resulted in a similar *emphasis of matter* in the statements for the two prior years.

Audit Reports Containing an 'Other Statutory Matter'

3.36 As part of a ANAO performance audit in progress, '*Agency Management of Special Accounts*'[12], a number of agencies were found to have recorded and/or reported the existence of a Special Account when no Special Account had been legally established. From a whole of government perspective, there has been some uncertainty since the introduction of the FMA Act about the number and identity of Special Accounts that exist.

3.37 The fact that Special Accounts are regarded as a component of the CRF means that debiting from them may only take place in conjunction with an appropriation made by law. Where Special Accounts are properly established either by a Determination of the Minister for Finance and Administration or in separate legislation, there exists an appropriation made by law for the purposes of the Special Account.

3.38 Monies were recorded as debited from these Special Accounts which did not have a valid appropriation made by law. Further investigation revealed that the agencies had debited from an alternate valid appropriation. However, each agencies' accounts and records were inadequate as they had incorrectly recorded transactions against the incorrect appropriation.

3.39 Maintaining proper accounts and records for the credits and debits to a Special Account is essential to the proper management of appropriations. This,

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[12] Australian National Audit Office Agency Management of Special Accounts, Report to be tabled in 2004.

in turn, enables agencies to meet the requirements that moneys will only be expended for the purposes for which they are appropriated and that the limit on any appropriation will not be exceeded.

3.40 As part of the financial statement audits, the effect of each instance was considered, including whether agencies had met their responsibilities under section 48 of the FMA Act to keep accounts and records in such a manner that ensures the limit on any appropriation is not exceeded.

3.41 The following table lists the agencies and Special Accounts where section 48 of the FMA Act had been contravened and disclosure made in the respective financial statements and audit reports. The particulars of the section 48 breach incurred by the Department of Environment and Heritage (DoEH) differ from those of the other agencies, as outlined in Part 6 under the DoEH portfolio reference. In addition, breaches were detected in the Department of Communications, Information Technology and the Arts (DCITA). However, as these did not impact on the 2002–2003 or comparative financial years, the audit opinion on DCITA's financial statements did not contain a reference to 'other statutory matters'. Further details are provided in Part 6 under the DCITA portfolio reference.

Agency	Special Account	Payments/Net Adjustments made in 2002-2003	Payments/Net Adjustments 1997-1998 to 2002-2003
Australian Customs Service	Air Express Courier Deposits Account	$241,524	$30,106,889
Department of Defence	Projects for Other Governments and International Bodies	$90,343,346	$378,628,618
Department of Education, Science and Training	Superannuation Productivity Benefits ATAS Tutors	$2,000	$20,000
Department of Family and Community Services	Capital Replacement and Upgrade Account	$419,524	$1,386,524
	Victorian Outside School Hours Care Official Trust Account	-	Nil, but $4,410,000 has been credited
Department of the Treasury	Ministerial Council on Consumer Affairs	$102,168	$917,589
	Advisory Panel for Marketing in Australia of Infant Formula	-	$71,231
	Commonwealth Consumer Affairs Advisory Council	-	$26,845
Department of the House of Representatives	Commonwealth Parliamentary Association–Training Head of Trust	$68,578	$295,168
	Commonwealth Parliamentary Association–Commonwealth of Australia Branch	-	$315
Geoscience Australia	AGSO Departmental Joint Geology and Geophysics Research Station (JGGRS) Receipts and Payments Account	$212,848	$906,161
Department of Agriculture, Fisheries and Forestry	Strategic Ballast Water Research and Development Account	$84,583	$485,583
Department of the Environment and Heritage and the Natural Heritage Trust	Natural Heritage Trust	$25,693,897[A]	$25,693,897[A]

[A] As a result of misinterpretation of the nature of standing appropriations under the Natural Heritage Trust Act, correcting net adjustments were made to the NHT Special Account for the 2002-2003 financial year. Refer paragraphs 6.261 to 6.266.

4. Results of Final Audit Testing

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 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 administered and departmental expenses and increases to administered revenues and administered assets. 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 $480.43 million and $249.73 million respectively;
- increases to administered revenues of $2.66 billion;
- decreases to departmental revenues of $144.6 million;
- decreases to departmental assets of $76.6 million;
- increases to administered assets of $2.8 billion; and
- increases to departmental and administered liabilities of $373.76 million and $374 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

4.3 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.

4.4 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 Australian Government 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.

4.5 A number of Australian Government entities have in the past accounted for these type of leases as operating leases, contrary to AAS 17 requirements in the ANAO's view.

4.6 ANAO Report No.25 2002–2003[13] listed six entities which accounted for their IT leases as operating leases. The Department of Finance and Administration's IT Lease expired during 2002–2003. Entities which continue to account for their IT leases as operating leases, contrary to AAS 17 requirements in the ANAO's view, are the:

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

4.7 In addition, during 2002–2003 the Department of Defence accounted for a small number of leases as operating leases, contrary to the ANAO's opinion that they should be classified as finance leases.

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:

- net cost/contribution of outcomes delivery;
- major classes of departmental revenues and expenses by output groups and outputs; and
- major classes of administered revenues and expenses by outcomes.

4.10 To meet this requirement, Australian Government entities need to have in place direct and indirect cost allocation systems by outcome and output types. The attribution method used to apportion shared items to outcomes and outputs needed to be reliable and, in 2002–2003, entities were required to disclose the attribution method used in the notes to the financial statements. Entities used a combination of system and estimation processes, and, in some cases, manual

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[13] ANAO *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2002*, Audit Report No.25 2002–2003, Canberra 2003.

estimation processes that are both time consuming and unreliable. Entities that utilise manual estimation processes include the following:

- Aboriginal and Torres Strait Islander Commission;
- AusAid;
- Australian Customs Service;
- Australian Securities and Investment Commission;
- Australian Trade Commission;
- Australian War Memorial;
- Civil Aviation Safety Authority;
- ComCare Australia;
- Department of Education, Science and Training;
- Department of Health and Ageing;
- Department of Agriculture, Fisheries and Forestry—Australia;
- Department of Transport and Regional Services;
- Joint House Department; and
- National Museum of 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.

New Internal Control Issues

4.11 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'.

4.12 Overall, the results of the final audit phase indicate that many of the control issues raised in Audit Report No.61 2002–2003 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:

- 16 of the 67 material entities reporting an improvement in the number of 'A' and 'B' category audit issues and only 8 entities showing a deterioration of their position, with 8 entities remaining at the same position; and
- 35 of the 67 material entities had no category 'A' or 'B' audit issues.

4.13 A summary table of the movement in the number of audit issues from the time of the interim audit (up to March 2003) to completion of the audits in September 2003 is provided for each material entity by portfolio in Part 6. Appendix 1 provides a summary of significant issues by major entity (up to April 2003), and a table of 'A' and 'B' ratings by entity for 2003 and 2002 as reported in Audit Report No.61 2002–2003.

4.14 Individual portfolio results included in Part 6 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 those of 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;
- formalise existing business arrangements with external service providers;
- segregate incompatible duties to assist in preventing errors and/or fraud;
- improve business continuity and/or disaster recovery planning and testing;
- improve reconciliation processes over key accounts to reduce the possibility of errors or fraud;
- improve key information security controls, in particular user access privileges;
- update fraud control plans;
- review and refine asset management processes;
- improve the processes for the capture and reporting of employee benefits; and
- assess current management practices for special accounts.

In addition, it was noted that a number of agencies still need to 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

4.15 In respect of interim audit issues, Audit Report No.61 of 2002–2003 noted that there had been marginal 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. That Report also noted that some entities continue to experience difficulty with a number of control processes specific to their operations covering, for example, timely completion and review of reconciliations, segregation of duties, inappropriate delegations, incorrect classification of general ledger expenses, monitoring of grant and funding agreements, reconciliation of program payments, poor documentation relating to asset acquisitions and disposals, and the timely recording of those asset movements.

4.16 Reconciliation of the asset register to the financial management information system (FMIS) is an ongoing issue. In addition, a persistent reconciliation issue, which was noted in last year's corresponding report, continues to occur in a number of entities. This relates to the need to reconcile payroll and leave costs recorded in human resources management information systems (HRMIS) with balances recorded in the general ledger of the FMIS. The ANAO continues to reinforce the importance of this reconciliation process given the significance of personnel costs to entities and the potential likelihood of errors in financial reporting.

4.17 The ANAO also notes the increasing incidence of entities undertaking significant in-house software developments and the consequential issues surrounding the proper distinction between the capitalised and operating expenditures. As well, there are issues related to the treatment of intellectual property.

4.18 The ANAO will continue to review the above issues in order to assess improvements over the coming year.

Controls related to information systems

4.19 Audit Report No.61 2002–2003 provided a summary of the major issues relating to the audit of information systems, focusing on the control issues associated with planning the IT environment, developing and delivering IT solutions, operating the IT environment, and organising and monitoring IT processes.

4.20 Since that report, the ANAO has completed its final IT audit updates of the major entities for the 2002–2003 year end. Follow-up issues were also identified in the areas of IT security at some of the smaller agencies once testing was complete. This still highlights the need to continue to focus attention on appropriate security and control measures. The monitoring of security operations is an area that has been highlighted during the final testing phase of our work as requiring further improvement.

4.21 The maturity ratings over security and business continuity for the larger agencies remained the same at year end. These areas will require a sustained effort over time by agencies to address the shortcomings identified.

4.22 Further emphasis on IT Governance and the development of more robust IT Processes, as detailed in the COBIT (Control Objectives for Information and Related Technology) control framework, is important given the schedule of large IT projects either in progress, or under consideration, over the next 3 years.

4.23 The ANAO will continue to review the above issues in order to assess improvements in the coming year.

Internal Control Environment

4.24 Audit Report No.61 of 2002–2003 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.

4.25 In addition, the Report noted that further progress had been achieved in improving the internal control environment across all entities reviewed in this report. However, ongoing refinement is necessary, particularly in respect of:

- increased executive committee analysis of organisational effectiveness and efficiency, particularly in any review of validating service delivery standards;
- the expansion of the monthly reporting process to encompass increasingly non-financial measures of performance, leading ultimately to a meaningful and comprehensive analysis of each entity’s operations and performance;
- increased formalisation of audit committee analysis of the effectiveness and efficiency of entity internal audit review processes; and
- a more concerted response to the increasing focus on corporate governance issues by:

- ensuring that the audit committee comprises at least one independent member who has relevant subject matter expertise and financial acumen;
- ensuring entity financial capability is aligned with, and complements, both its strategic goals and long-term organisational requirements;
- continuing risk evaluation across strategic and operational processes to integrate more fully a risk management culture within the entity. A particular emphasis arising from this year's review is the need for instigation of arrangements for the ongoing identification and analysis of risks within the operation i.e. not just as part of an annual review; and
- continuing emphasis on enhancing the components of sound business practices.

4.26 These are areas that most Australian Government entities would benefit from in terms of reviewing their existing internal control framework and other corporate governance arrangements. The ANAO will examine the issues in these areas and monitor developments over the coming year.

5. Department of Family and Community Services—Triple Bottom Line Report

5.1 Triple Bottom Line, or TBL, reporting is a relatively new topic in the governance debate, but one that is rapidly growing in acceptance. However, TBL reporting has been part of international private sector reporting for well over a decade, particularly in the resources segments. Over this time, there have been considerable advances in the preparation of such reports. The progress in the area of TBL reporting is evident through the creation of the Global Reporting Initiative (GRI) which, is an independent, international foundation that develops voluntary guidelines for Sustainability Reporting. The GRI plans to prepare a sectorial supplement on TBL reporting for the public sector. In the public sector, considerable efforts have been made to address the environmental area, particularly by national and international auditing bodies.

5.2 While there is no agreed definition of precisely what TBL reporting comprises and covers, it is fairly widely accepted that, at its narrowest, the term TBL is used to describe the framework for measuring and reporting organisational performance against economic, social and environmental indicators. At its broadest, the term is used to capture the full set of values, issues and processes that organisations must address in order to create economic, social and environmental value and to minimise any harm resulting from their activities. This necessitates organisations being clear about their purpose and taking into consideration the needs of all their stakeholders. The emphasis is on organisational sustainability which also provides a framework for more effective risk management as part of good corporate governance.

5.3 In 2002–2003, the Department of Family and Community Services (FaCS) produced its first TBL Report. The Department is commended for taking the initiative to produce this report, the first-ever verified TBL report for a Australian Government agency. From the outset of the TBL Report production process, FaCS staff and management operated in a fully open and transparent manner, including a request to the ANAO to perform an independent verification of its TBL Report.

5.4 The ANAO initially had some reservations around providing a verification statement over FaCS' first attempt to produce a TBL report, as we were concerned that, if a large number of qualifications resulted, it may detract from the importance of the progress in public sector reporting for TBL. However, FaCS' commitment to being open and transparent and hence their enthusiasm for, and commitment to, the verification process, encouraged the ANAO to undertake the verification of their TBL Report. FaCS never approached their TBL report as merely a 'tick the box' process. Indeed, TBL reporting should be regarded as part of a comprehensive management reporting framework to all stakeholders. We were therefore pleased to be involved in this project with FaCS.

5.5 Currently, no approved standards exist in relation to preparing or verifying TBL reports. Standards Australia recently issued a draft standard *General Guidelines on the Verification, Validation and Assurance of Environmental and Sustainability Reports (DR 03422),* which the ANAO verification exercise complied with. Due to the lack of approved standards, at the commencement of the TBL verification process, the ANAO and FaCS agreed on the procedures that would be performed and the 'error coefficient' which data would be assessed against. This was a pragmatic but justifiable approach in the circumstances and the results should be judged on that basis.

5.6 Following wide-ranging investigation, the ANAO was able to prepare a verification statement which is included in the published TBL Report. The objective of our verification work was to provide an independent opinion on the completeness, accuracy and reliability of the selected data parameters and the representation and discussion of such data in the report. The scope of our verification involved:

- selection of a sample of data parameters, from the total of data to be reported upon;
- definition of the scope of activities within FaCS to be covered by verification; and
- undertaking the necessary tasks to verify or otherwise the data parameters selected.

5.7 Based on the results of our verification procedures we concluded that, in all material respects, the data pertaining to the following parameters was complete, accurate and reliable:

- Employee numbers at 30 June 2003.
- Total number of vehicles leased by FaCS for the year ended 30 June 2003.
- Total fuel consumed by the FaCS fleet for the year ended 30 June 2003.
- Total energy use by the FaCS fleet for the year ended 30 June 2003.
- Total greenhouse gas emissions by the FaCS fleet for the year ended 30 June 2003.
- Total water consumption for Juliana House for the year ended 30 June 2003.

- Total payroll benefits (including wages, other benefits and redundancy payments) broken down by State or Territory for the year ended 30 June 2003.
- Cost of all goods, materials and services purchased, broken down by major category, for the year ended 30 June 2003.
- Percentage of payments that were made in accordance with agreed terms, for the year ended 30 June 2003.
- Number and amount of Competitive Tendering and Contracting contracts in excess of $100,000 for the year ended 30 June 2003.
- Number and amount of consultancies in excess of $10,000 for the year ended 30 June 2003.
- Amount of efficiency dividend returned to Government for the year ended 30 June 2003.
- Current ratio at 30 June 2003.
- Net asset position at 30 June 2003.
- Ratio of departmental funding to administered service delivery for the year ended 30 June 2003.

All other data parameters tested could not be verified for completeness, accuracy and reliability in all material terms. This is due to a combination of factors including:

- the absence of mature data collection systems for many of the data parameters reported;
- access to source data on electrical usage could not be provided in time to allow us to complete our verification activities within the reporting deadline; and
- access to source employee data for staff within the Child Support Agency (CSA) could not be provided in time to allow us to complete our verification activities within the reporting deadline.

5.8 The verification process was a beneficial learning experience for both the ANAO and FaCS. The ANAO intends to build on its knowledge and experience in this area. In this respect, we would like to acknowledge PricewaterhouseCoopers (PwC) for their assistance in the performance of the TBL verification and their guidance to the ANAO on the approach to TBL verification and preparation generally.

5.9 The combination of producing the TBL Report and going through the verification process has already resulted in FaCS making some changes to their work practices. In addition, a number of areas have been identified where future cost savings and efficiencies could be gained by FaCS. For example, FaCS has already started to reset their printers so that double sided printing is the default setting. This has already resulted in a reduction in FaCS' paper usage.

5.10 Going forward, FaCS plans to incorporate a number of the TBL indicators into their reports for management during the year, in addition to producing an annually verified TBL report. The production of this additional information is intended to assist FaCS in achieving the improvements and efficiencies identified, and that the values, issues and processes behind the TBL concept are integrated into every day practice within FaCS. The ANAO is highly supportive of this management approach and commitment. It reflects the value that can be added through innovatory practices and is an example for all of us.

5.11 The initiative to undertake TBL reporting within the Australian Government is commendable and in line with the contemporary principles of transparency and accountability for both financial and non-financial organisational performance. It has the support of the accounting profession, clearly indicated by the higher profile being given by the accounting bodies to the concept in recent years. The program of external verification of TBL disclosures by FaCS will only strengthen the application of the above principles.

6. Results of the Audits of Financial Statements—By Portfolio

Introduction

6.1 This part of the report summarises the results of the audits of the financial statements of individual Australian Government entities.

6.2 Also included are any additional significant internal control matters arising from finalising these audits since Audit Report No.61 of 2002–2003.

6.3 This part of the report is structured in accordance with the portfolio arrangements established in the Administrative Arrangements Order of 8 August 2002, as amended. For reporting purposes, the structure of this part reflects the portfolio arrangements which existed at 30 June 2003.

6.4 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.61 of 2002–2003.

6.5 Details of modified (qualified or containing an emphasis of matter) audit opinions are provided following the respective tables. Details are also provided for audit reports which contain an additional paragraph on other statutory matters.

6.6 For each material entity a brief commentary covering both departmental and administered activities is provided on:

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

6.7 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.

6.8 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:

The current ratio Ratio of current assets to current liabilities	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.
The debt ratio Ratio of total liabilities to total assets	Shows whether the entity could cover all liabilities, either short or long term, with the value of its assets. A ratio of greater than one (1) 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.

6.9 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.

6.10 In addition, a brief commentary on significant issues for non-material entities is provided.

6.11 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.

6.12 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 2003	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Agriculture, Fisheries and Forestry–Australia	**Yes**	A	9-Sep-03	◆
–Australian Quarantine and Inspection Service	No	✓	9-Sep-03	
–National Residue Survey	No	✓	9-Sep-03	
Australian Dairy Corporation	**Yes**	✓	12-Sep-03	
Australian Fisheries Management Authority	No	✓	4-Sep-03	
Australian Wine and Brandy Corporation	No	✓	18-Sep-03	
Commission for the Conservation of Southern Bluefin Tuna ☞ (31-Dec-02)	No	✓	2-Jul-03	
Cotton Research and Development Corporation	No	✓	10-Sep-03	
Dairy Adjustment Authority	No	✓	26-Aug-03	
Dairy Research and Development Corporation	No	✓	2-Sep-03	
Fisheries Research and Development Corporation	No	✓	18-Aug-03	
Forest and Wood Product Research and Development Corporation	No	✓	3-Sep-03	
Grains Research and Development Corporation	**Yes**	✓	15-Aug-03	
Grape and Wine Research and Development Corporation	No	✓	23-Sep-03	
Land and Water Research and Development Corporation	No	✓	11-Sep-03	◆
Murray-Darling Basin Commission	**Yes**	✓	10-Sep-03	
Australian Pesticides and Veterinary Medicines Authority	No	✓	15-Sep-03	
Rural Industries Research and Development Corporation	No	✓	11-Sep-03	
Sugar Research and Development Corporation	No	✓	5-Sep-03	
Tobacco Research and Development Corporation	No	✓	1-Oct-03	
Wheat Export Authority ☞ (30-Sep-02)	No	✓	19-Nov-02	
Wheat Export Authority ☞ (30-Sep-03)	No	✓	18-Dec-03	

✓ audit report not modified
E audit report contains an emphasis of matter
Q audit report contains a qualification
A audit report contains additional statutory disclosure

➡signed financial statements not presented for audit at this time
☞financial year end date other than 30 June 2003
◆significant internal control issues noted (since Audit Report No.61 of 2002–2003) and/or other signficant audit issues noted

Portfolio overview

6.13 The Agriculture, Fisheries and Forestry Portfolio consists of:

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

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

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

Department of Agriculture, Fisheries and Forestry—Australia (AFFA)

Financial Results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) from ordinary activities	14.97	4.73
Commonwealth's equity investment	28.48	9.87
Ratio of current assets to current liabilities	1.38:1	1.18:1
Ratio of total assets to total liabilities	1.17:1	1.07:1

6.16 The improved net surplus was the result of:

- lower than expected take-up rates on Exceptional Circumstances and Sugar Reform delivery measures;
- lower locust plague activity for the year;
- certified agreement negotiations not completed by 30 June 2003; and
- achievement of targeted surplus necessary to rebuild the Department's cash reserves and reduce previous accumulated losses.

6.17 The Commonwealth's equity investment has increased as a result of the 2002–2003 surplus of $14.97 million and an un-drawn equity appropriation of $13 million. This increase was somewhat offset by a net revaluation decrement of $1.7 million, return of capital of $4.21 million, asset adjustments to equity of $2.35 million, and a capital use charge of $1.11 million.

Items administered on behalf of the Commonwealth

Key financial measures for the year	2003 $m	2002 $m
Total revenues	668.04	564.61
Total expenses	1,174.52	1,119.44
Total assets	608.03	539.18
Total liabilities	40.55	52.15

6.18 The increase in total revenues and total assets was principally due to AFFA equity accounting for the Murray Darling Basin Commission as a joint venture entity. Also contributing to the increase in revenues was the ongoing growth of levies revenue, despite drought conditions. The increase in total expenses was essentially due to the drought relief package, which provided personal benefits to farmers in drought stricken parts of Australia. The decrease in total liabilities is the result of a decrease in grants payable as at 30 June 2003.

Audit results

Financial statements

6.19 An unqualified audit report on the financial statements was issued. The report contained a paragraph on 'Other Statutory Matters' advising readers that AFFA had breached section 48 of the FMA Act.

6.20 The Strategic Ballast Water Research and Development special account was identified as not having the appropriate determination as required by section 20 of the FMA Act. AFFA was in breach of section 48 of the FMA Act as the accounts and records for payments in this special account were not kept in a way that ensured that monies were only expended for the purpose and within the limit of an appropriation.

Summary of significant agency and administered audit findings

6.21 Four audit issues of moderate risk were noted during the interim audit, relating to special appropriations, personal benefits, classification of suppliers' expenses, and business continuity planning. The Department is in the process of resolving these issues. There were no new significant audit issues arising from the final audit.

6.22 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 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
A	0	0	0	0
B	4	0	0	4
Total	**4**	**0**	**0**	**4**

Australian Dairy Corporation (ADC)

Financial Results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) from ordinary activities	2.08	4.37
Commonwealth's equity investment	13.99	11.58
Ratio of current assets to current liabilities	1.89:1	1.19:1
Ratio of total assets to total liabilities	1.97:1	1.20:1

6.23 The decrease in the net surplus from ordinary activities is mainly due to a deficit in the Dairy Produce Promotion Fund of $1.74 million, which was a result of decreased revenues. The Commonwealth's equity investment increased in line with the operating surplus.

Items administered on behalf of the Commonwealth

Key financial measures for the year	2003 $m	2002 $m
Total revenues	225.68	217.21
Total expenses	247.21	342.77
Total assets	40.36	13.40
Total liabilities	251.96	203.47

6.24 The movement in revenues is attributable to variations in levy payments made to the ADC. Expenses have decreased due to initial payments to program recipients being paid in 2001–2002. These payments did not occur in 2002–2003. The movement in liabilities is due to increased borrowings to fund program payments.

6.25 The ADC was merged with the Dairy Research and Development Corporation at 30 June 2003, to create a private company—Dairy Australia Ltd. As such, the ADC is no longer a Commonwealth controlled body.

Audit results

Financial statements

6.26 An unqualified audit report on ADC's financial statements was issued.

Summary of significant agency and administered audit findings

6.27 There were no significant departmental or administered audit issues arising from the audit.

Grains Research and Development Corporation (GRDC)

Financial Results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	4.22	0.43
Commonwealth's equity investment	104.19	99.97
Ratio of current assets to current liabilities	3.32:1	3.52:1
Ratio of total assets to total liabilities	3.19:1	2.99:1

6.28 The GRDC's surplus for the year is a result of an increase in gross value of production in the grains industry. This has resulted in the industry contributions for wheat and course grains increasing. Interest revenue also increased in line with an increase in investments. The Commonwealth's equity investment increased in line with the surplus for the year.

Audit results

Financial statements

6.29 An unqualified audit report on the GRDC's financial statements was issued.

Summary of significant agency and administered audit findings

6.30 There were no significant audit issues arising from the audit.

Murray-Darling Basin Commission (MDBC)

Financial Results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	42.76	1,571.37
Commonwealth's equity investment	1,627.14	1,583.80
Ratio of current assets to current liabilities	1.23:1	1.26:1
Ratio of total assets to total liabilities	45.73:1	45.26:1

6.31 The decrease in the MDBC's surplus for the year is a result of the recognition of infrastructure assets that occurred last financial year which increased the 2001–2002 surplus. There has also been an increase in the amount of infrastructure assets during this financial year that accounts for the increase in the Commonwealth's equity investment.

Audit results

Financial statements

6.32 An unqualified audit report on the MDBC's financial statements was issued.

Summary of significant audit findings

6.33 There were no significant audit issues arising from the audit.

Comments on non-material entities with significant audit findings

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

Land and Water Research and Development Corporation (LWA)

6.35 Review of the general IT environment and controls at LWA noted that a number of security controls were not in place to protect the confidentiality, integrity and availability of the information.

6.36 The major audit issues raised highlighted the need for LWA to implement the following key information security controls to improve the overall information security:

- Physical Security and Environment Controls—review the physical and equipment security controls to ensure that there is physical protection from security threats and environmental hazards.
- Information Security Policy—set a clear policy direction and demonstrate support for, and commitment to, information security through the issue and maintenance of an information security policy across the organisation.
- Change Management—implement procedures to ensure satisfactory control of all changes to equipment, software or procedures.
- Access Controls and User Management—conduct a formal process at regular intervals to review users' access to information systems to prevent unauthorised access.
- Audit and Accountability—system audit logs should be monitored and maintained to detect breach of access control policy and provide evidence in case of security incidents.

6.37 LWA has advised of appropriate action taken to address these issues. Action includes a review of LWA's IT security arrangements undertaken by an external advisor in October 2003.

Attorney-General's Portfolio

Reporting Entity as at 30 June 2003	Material Entity	Audit Report	Opinion Issued	Audit Issues
Attorney-General's Department	**Yes**	✓	27-Aug-03	◆
Administrative Appeals Tribunal	No	✓	19-Aug-03	◆
Australasian Centre for Policing Research	No	✓	18-Sep-03	
Australian Bureau of Criminal Intelligence ☞ (31-Dec-2002)	No	✓	22-Apr-03	
Australian Crime Commission	No	✓	13-Oct-03	
Australian Customs Service	**Yes**	A	28-Aug-03	◆
Australian Federal Police (AFP)	**Yes**	✓	22-Aug-03	◆
AFP–ACT Community Policing	No	✓	15-Sep-03	
Australian Government Solicitor	No	✓	17-Sep-03	◆
Australian Institute of Criminology	No	✓	17-Sep-03	
Australian Institute of Police Management	No	✓	19-Sep-03	
Australian Law Reform Commission	No	✓	10-Sep-03	
Australian Protective Service	No	✓	22-Aug-03	◆
Australian Security Intelligence Organisation	No	✓	16-Sep-03	
Australian Transaction Reports and Analysis Centre	No	✓	11-Sep-03	
Criminology Research Council	No	✓	17-Sep-03	
CrimTrac	No	✓	22-Sep-03	◆
Family Court of Australia	**Yes**	✓	22-Aug-03	
Federal Court of Australia	No	✓	10-Sep-03	
Federal Magistrate Service	No	✓	07-Oct-03	
High Court of Australia	**Yes**	✓	19-Sep-03	◆
Human Rights and Equal Opportunity Commission	No	✓	24-Sep-03	
Insolvency and Trustee Service Australia	No	✓	11-Sep-03	
National Crime Authority ☞ (31-Dec-2002)	No	✓	08-Apr-03	
National Native Title Tribunal	No	✓	15-Sep-03	
Office of Film and Literature Classification	No	✓	03-Sep-03	
Office of Parliamentary Counsel	No	✓	23-Sep-03	
Office of the Director of Public Prosecutions	No	✓	16-Sep-03	
Office of the Federal Privacy Commissioner	No	✓	26-Sep-03	

✓ audit report not modified
E audit report contains an emphasis of matter
Q audit report contains a qualification
A audit report contains additional statutory disclosure

➾ signed financial statements not presented for audit at this time
☞ financial year end date other than 30 June 2003
◆ significant internal control issues noted (since Audit Report No.61 of 2002–2003) and/or other signficant audit issues noted

Portfolio overview

6.38 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; criminal law and law enforcement; national security; emergency management; and some aspects of customs and border control.

6.39 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 Attorney-General's Department is the central policy and coordinating agency within the portfolio.

6.40 As a result of revised administrative arrangements, with effect from 1 July 2002, the Australian Protective Service was transferred from the Attorney-General's Department to the Australian Federal Police and CrimTrac was established as a separate prescribed agency under the FMA Act. The Australian Bureau of Criminal Intelligence and the National Crime Authority were abolished on 31 December 2002, their operations having been absorbed by the newly formed Australian Crime Commission, which commenced operations on 1 January 2003.

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

Attorney-General's Department (AGD)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	(11.76)	67.33
Commonwealth's equity investment	46.15	115.30
Ratio of current assets to current liabilities	2.51:1	3.04:1
Ratio of total assets to total liabilities	2.20:1	3.00:1

6.42 Although not directly comparable to the prior year, the lower results for 2003 are principally due to the administrative rearrangements described above. These changes also impacted on all key financial measures for the year.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	28.21	43.89
Total expenses	346.08	292.46
Total assets	543.08	496.00
Total liabilities	346.30	298.23

6.43 The decrease in revenue is mainly due to a $25 million repayment of working capital by the Australian Government Solicitor (AGS) in 2002 that did not occur in 2003 and an increase of $3.3 million in dividends received from AGS in 2003. This was partially offset by National Counter-Terrorism Committee (NCTC) state and territory contributions ($3.9 million) received in December 2002 and a return of approximately $5 million unused gun buyback compensation money advanced by the Commonwealth to the states and territories in prior years. Administered expenses, assets and liabilities have increased mainly as a result of an actuarial reassessment of the provision for personal benefits (judges pensions receivable and payable).

Audit results

Financial statements

6.44 An unqualified audit report on the AGD's financial statements was issued.

Summary of significant agency and administered audit findings

6.45 The AGD is in the process of satisfactorily addressing a control issue reported previously in relation to its reconciliation process for administered appropriations and special accounts. There were no significant departmental or administered audit issues arising from the final audit phase.

6.46 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2003.

Ratings	Opening position at March 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
A	0	0	0	0
B	1	0	0	1
Total	**1**	**0**	**0**	**1**

Australian Customs Service (ACS)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	12.07m	23.44m
Commonwealth's equity investment	138.40m	118.45m
Ratio of current assets to current liabilities	0.56:1	2.59:1
Ratio of total assets to total liabilities	1.94:1	1.93:1

6.47 ACS' lower operating surplus is primarily due to new initiatives on counter terrorism that have not been fully resourced by appropriations.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	5,946.29	5,562.85
Total expenses	557.68	603.78
Total assets	79.55	90.94
Total liabilities	21.13	26.08

6.48 The total administered revenue collected on behalf of the Commonwealth for 2002–2003 has increased from the prior year. A large proportion of this revenue relates to ACS duty, which amounted to $5,553 million (2001–02: $5,181 million). For this year, ACS has reported separately in the financial statements (comparative figures adjusted) the gross customs duty collected and the expenditure in relation to the Automotive Competitiveness Incentive Scheme (ACIS). This form of reporting is consistent with the Government Finance Statistics reporting guidelines. The amount of expenses associated with ACIS for 2002–2003 was $555.56 million (2001–02: $602 million).

Audit results

Financial statements

6.49 An unqualified audit report on the financial statements was issued. The report contains a paragraph on 'Other Statutory Matters' advising readers that the Department had breached section 48 of the FMA Act.

6.50 During the course of the audit, it was noted that one of Customs' special accounts, 'Australian Customs Service Air Express Courier Deposits Reserve' had not been legally established under section 20 of the FMA Act as initially thought. The ANAO received legal advice that stated ACS had contravened section 48 of the FMA Act. Section 48 requires Chief Executives to ensure that the accounts and records of their agency are kept as required by the Finance Minister's Orders. ACS has rectified this matter with effect from 1 July 2003. ACS has also taken action to review the remaining special accounts to ensure that they are appropriately established, classified and reported.

Summary of significant agency and administered audit findings

6.51 There are no new significant audit findings noted since the last report. The interim audit revealed that there was a need to better manage the debt recovery processes associated with post warrants amendments. This matter is still being addressed by ACS. The other matter relating to formalising security policies or procedures in relation to ACS' financial management information system, and human resources management system has now been resolved.

6.52 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2003.

Ratings	Opening position at March 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
A	0	0	0	0
B	2	1	0	1
Total	**2**	**1**	**0**	**1**

Australian Federal Police (AFP)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	(0.60)	21.28
Commonwealth's equity investment	76.34	66.45
Ratio of current assets to current liabilities	1.40:1	1.91:1
Ratio of total assets to total liabilities	1.54:1	1.62:1

6.53 The deficit for the year is attributable to an increase in employee and suppliers expenses. This result was mainly due to a restructuring of administrative arrangements where the AFP assumed responsibility for the Australian Protective Service (APS) on 1 July 2002 from the Attorney General's Department. Other contributing factors include successful recruitment activity together with increased salary rates. The increase in the Commonwealth's equity investment position was mainly due to the transfer of APS's assets and liabilities.

Audit results

Financial statements

6.54 An unqualified audit report on the AFP's financial statements was issued.

Summary of significant audit findings

6.55 The ANAO's report on the results of the audit referred to internal control issues identified in respect of:

- several areas within the AFP's formal asset policy requiring improvement;
- management of stocktakes;
- access to the HR system; and
- management of the Privilege System Access (a prior year issue which had not been addressed).

6.56 The AFP agreed with the audit findings and has advised that the ANAO recommendations will be implemented.

6.57 The following table provides a summary of the status of audit issues arising from the audit.

Ratings	Opening position at March 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
A	0	0	0	0
B	1	0	3	4
Total	**1**	**0**	**3**	**4**

Family Court of Australia (FCA)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	5.05	3.52
Commonwealth's equity investment	14.98	12.76
Ratio of current assets to current liabilities	1.68:1	1.35:1
Ratio of total assets to total liabilities	1.57:1	1.58:1

6.58 The above table indicates the FCA is in a sound financial position reporting an operating surplus of $5.05 million. The increase is associated with an increase in appropriations and other contributions received from the Federal Court.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	3.49	3.69
Total expenses	0	0
Total assets	0.02	0.04
Total liabilities	0	0

6.59 The current year decrease in administered revenue and assets is associated with a reduction in fees collected by the FCA.

Audit results

Financial statements

6.60 An unqualified audit report on the FCA's financial statements was issued.

Summary of significant agency and administered audit findings

6.61 There were no significant agency or administered issues arising from the audit.

High Court of Australia (HCA)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	15.08	15.46
Commonwealth's equity investment	156.60	156.17
Ratio of current assets to current liabilities	3.77:1	3.10:1
Ratio of total assets to total liabilities	87.87:1	76.24:1

6.62 The HCA is in a stable financial position with current assets well in excess of current liabilities. The results are consistent with the prior year and budget expectations.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	0.91	0.78
Total expenses	0	0
Total assets	0	0
Total liabilities	0	0

6.63 Administered revenues relate to court filing and hearing fees along with some sundry revenues. Revenue is largely dependant on the number of filings received and hearings held during each respective year.

Audit results

Financial statements

6.64 An unqualified audit report on the HCA's financial statements was issued.

Summary of significant agency and administered audit findings

6.65 The HCA has agreed, in the interest of probity, to adopt the Commonwealth fraud control guidelines and has plans in place to revise its out-of-date 2001–02 Fraud Control Plan (FCP). Commonwealth agencies are required to update their FCP at least once every two years.

6.66 The following table provides a summary of the status of audit issues arising from the audit.

Ratings	Opening position at March 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
A	0	0	0	0
B	1	0	0	1
Total	**1**	**0**	**0**	**1**

Comments on non-material entities with significant audit findings

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

Administrative Appeals Tribunal (AAT)

6.68 The major issues noted during the audit related to:

- inadequate segregation of duties between processing and approval of payroll; and
- the absence of periodic testing of the Disaster Recovery Plan.

Australian Government Solicitor (AGS)

6.69 The AGS IT security policies, standards and procedures were out of date and not fully aligned with best practice.

Australian Protective Service (APS)

6.70 The major issues noted during the audit related to:

- inadequate segregation of duties over the processing of external revenue;
- leave balances were not correctly recorded in the SAP HR system;
- IT network security, where several areas were identified that required improvement; and
- competitive neutrality payments and dividends were based on the use of a costing model, which resulted in significant errors in 2001-2002. The model was revised and adjustments processed in 2002–2003.

CrimTrac

6.71 The major issues raised as a result of the audit related to the need for CrimTrac to:

- finalise the development and implementation of detailed IT strategic plans which commenced in prior years; and
- improve controls over approvals to spend public money, which in many instances was noted to be in excess of a delegate's authority.

Communications, Information Technology and the Arts Portfolio

Reporting Entity as at 30 June 2003	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Communications, Information Technology and the Arts	**Yes**	✓	28-Aug-03	◆
Australian Business Arts Foundation Ltd	No	✓	29-Sep-03	
Australia Council	No	✓	12-Sep-03	
Australian Broadcasting Authority	**Yes**	✓	23-Sep-03	
Australian Broadcasting Corporation	**Yes**	✓	29-Sep-03	
–Adelaide Symphony Orchestra Pty Ltd ☞ 31 December 2002	No	E	19-May-03	
–Melbourne Symphony Orchestra Pty Ltd ☞ 31 December 2002	No	✓	2-Apr-03	
–Queensland Orchestras Pty Ltd ☞ 31 December 2002	No	E	22-Apr-03	
–Sydney Symphony Orchestra Holdings Pty Ltd ☞ 31 December 2002	No	✓	27-Mar-03	
–Symphony Australia Holdings Pty Ltd ☞ 31 December 2002	No	✓	6-May-03	
–Tasmanian Symphony Orchestra Pty Ltd ☞ 31 December 2002	No	✓	27-Mar-03	
–West Australian Symphony Orchestra Pty Ltd ☞+ 31 December 2002	No	E	16-Apr-03	
Australian Communications Authority	**Yes**	✓	25-Aug-03	◆
Australian Film Commission	No	✓	11-Sep-03	
Australian Film, Television and Radio School	No	✓	11-Sep-03	
Australian National Maritime Museum	No	✓	19-Sep-03	
Australian Postal Corporation	**Yes**	✓	23-Aug-03	
Australian Sports Commission	**Yes**	✓	10-Sep-03	
Australian Sports Drug Agency	No	✓	26-Sep-03	
Australian Sports Foundation	No	✓	29-Aug-03	
Bundanon Trust	No	✓	1-Sep-03	
Film Australia Limited	No	✓	19-Nov-03	
Film Finance Corporation Australia Limited	No	✓	17-Sep-03	
National Archives of Australia	**Yes**	✓	16-Sep-03	

National Gallery of Australia	**Yes**	✓	20-Aug-03	
–National Gallery of Australia Foundation	No	Q	29-Sep-03	
National Library of Australia	**Yes**	✓	22-Aug-03	
National Museum of Australia	**Yes**	✓	15-Aug-03	◆
National Office of the Information Economy	No	✓	16-Aug-03	
NetAlert Ltd	No	✓	24-Sep-03	
Regional Telecommunications Infrastructure Fund	No	✓	29-Aug-03	
Special Broadcasting Service Corporation	**Yes**	✓	19-Aug-03	
–Multilingual Subscriber Television Limited	No	✓	26-Aug-03	
Telstra Corporation Limited	**Yes**	✓	28-Aug-03	
–Telstra Employee Ownership Plan Trust	No	✓	29-Aug-03	
–Telstra Employee Ownership Plan Trust II	No	✓	29-Jul-03	
–Telstra Finance Limited	No	✓	30-Sep-03	
–Telstra Growthshare Trust	No	✓	29-Jul-03	

✓ audit report not modified
E audit report contains an emphasis of matter
Q audit report contains a qualification
A audit report contains additional statutory disclosure

➻signed financial statements not presented for audit at this time
☞financial year end date other than 30 June 2003
◆significant internal control issues noted (since Audit Report No.61 of 2002–2003) and/or other signficant audit issues noted

Portfolio overview

6.72 The Communications, Information Technology and the Arts portfolio covers 38 reporting entities with responsibility for supporting and implementing related government policies. These agencies play a vital role in assisting the development of communications, information technology, 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.

6.73 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 year	2003 $m	2002 $m
Net surplus/(deficit) for the year	43.51	1.12
Commonwealth's equity investment	319.32	314.25
Ratio of current assets to current liabilities	3.15:1	2.17:1
Ratio of total assets to total liabilities	12.23:1	12.64:1

6.74 DCITA reported an increase in the net surplus. The previous financial year was impacted by a $37.4 million write-down relating to heritage assets. The result for the current financial year is a surplus of $43.5 million (before payment of Capital Use Charge (CUC) of $33.8 million) comprising $11.3 million for DCITA, $3.1 million for Artbank, $3.40 million for Questacon and $25.7 million for Screensound. The remaining surplus of $9.67 million is predominantly related to program commitments for the following year.

6.75 There was an increase in the net equity of $5.1 million. The ratio of current assets to current liabilities has increased mainly as a result of the increase in departmental cash balance.

Items administered on behalf of the Commonwealth

Key financial measures for the year	2003 $m	2002 $m
Total revenues	2,129.59	1,913.16
Total expenses	454.12	526.78
Total assets	7,090.46	7,080.35
Total liabilities	6.77	7.79

6.76 The increase in total revenues is mainly attributable to the increase in dividends from Telstra of $257 million. This was partially offset by a reduced dividend from Australia Post. In the previous year, Australia Post had announced a special dividend.

6.77 There has been a decrease in grant expenditure with a number of significant programs being completed or wound down in the current year and a number of new initiatives being commenced or accelerated.

Audit Results

Financial statements

6.78 An unqualified audit report on DCITA's financial statements was issued.

Summary of significant agency audit findings

6.79 DCITA has resolved a number of the issues previously reported relating to asset management, purchasing, and weaknesses within its asset revaluation regime. A number of issues remain outstanding, which DCITA has initiated action to resolve. No significant additional audit issues arose during the final phase of the audit.

Summary of significant administered audit findings

6.80 The audit identified issues concerning two special accounts, which have given rise to breaches of the FMA Act. The audit found flaws in the preparation and creation of two accounts previously handled by DCITA, namely, 'Multimedia Industry Development Account' and 'Services for the Australian Communications Authority Reserve' (the Reserve).

6.81 Schedule 4 of the Audit (Transitional and Miscellaneous) Amendment Act 1997 (ATMA Act) transferred money in the old Trust fund to components of the Reserved Money Fund (RMF) that was established under subsection 20(2) of the FMA Act. These components later became Special Accounts. Although formerly part of the Trust Fund, the Reserve was not included in the initial determinations to establish components of the RMF. Accordingly it did not become a Special Account. However, the Department reported in its financial statements for 1997-98 and 1998-99 that the Reserve had been established under section 20 of the FMA as a Special Account. Payments reported out of the Reserve for the years totalled approximately $69 million. As the Reserve did not legally exist under section 20 of the FMA, the appropriation under subsection 20(6) was not available. There was, however, a legal right for payment of the expenditure, funded under appropriation.

6.82 The Multimedia Industry Development Account was to be used 'for expenditure relating to multimedia industry development in the following areas, as defined in the management agreement between the Commonwealth and Australian Multimedia Enterprise Limited'. However, this determination was not tabled in Parliament by the Department of Finance and Administration and, accordingly, never became a Special Account at law. There is no record of any funds being paid from this Account. The Account was abolished in 2000.

6.83 The ANAO recognises that if DCITA had been aware of the issues concerning the creation of the accounts they would have acted on this and reported accordingly.

6.84 These breaches have not had an impact on the current financial year, nor have they had an impact on the comparative financial information (2001–2002 financial year).

6.85 The ANAO observed that DCITA has moved to address a number of issues including the management of Special Accounts.

6.86 Other areas of improvement raised with DCITA as a result of the audit included:

- preparation of more thorough month end reconciliations of balance sheet accounts;
- items receipted through the special accounts disclosed in a more descriptive manner; and
- inclusion of Administered disclosures not required under the Finance Minister's Orders or AAS 29 Financial reporting by Government Departments of:
  - Administered Commitments; and
  - Administered Financial Instruments.

6.87 The following table provides a summary of the status of previously reported audit findings as well as new audit issues raised since March 2003.

Ratings	Opening Position at March 2003	Issues Resolved Prior to August 2003	New Issues to August 2003	Closing Position at August 2003
A	0	0	0	0
B	7	4	0	3
Total	**7**	**4**	**0**	**3**

Australian Broadcasting Authority (ABA)

Financial Results

Summary of agency results

Key financial measures for the year	2003 $m	2002 $m
Net surplus/(deficit) for the year	(0.76)	0.14
Commonwealth's equity investment	0.21	1.07
Ratio of current assets to current liabilities	0.92:1	0.91:1
Ratio of total assets to total liabilities	1.04:1	1.23:1

6.88 The 2002–2003 deficit arose from a number of one off projects completed during the year.

6.89 At the end of the financial year, current liabilities exceeded current assets, in approximately the same ratio as the prior year, indicating a continuing tight liquidity position. Total assets currently exceed total liabilities but any ongoing operating deficits would result in negative equity in future years.

6.90 The ABA's appropriation for 2003-2004 has been increased over the 2002–2003 year. The ABA is presently negotiating future funding with the Department of Finance and Administration.

Items administered on behalf of the Commonwealth

Key financial measures for the year	2003 $m	2002 $m
Total revenues	235.38	336.13
Total expenses	21.42	0
Total assets	200.00	225.87
Total liabilities	0	0

6.91 Total administered revenue decreased from the prior year mainly because the auction program for the sale of commercial broadcasting licences was completed.

6.92 The expenditure incurred this year related to the write down of accrued license fee revenues booked in the prior year. License fees are based on industry results for the year, which did not meet expectations.

Audit results

Financial statements

6.93 An unqualified audit report on ABA's financial statements was issued.

Summary of significant agency and administered audit findings

6.94 There were no significant departmental or administered issues arising from the audit.

Australian Broadcasting Corporation (ABC)

Financial Results

Summary of agency results

Key financial measures for the year	2003 $m	2002 $m
Net surplus/(deficit) for the year	57.10	79.35
Commonwealth's equity investment	531.37	492.61
Ratio of current assets to current liabilities	1.01:1	1.03:1
Ratio of total assets to total liabilities	2.15:1	2.17:1

6.95 During the reporting period the net equity position (level of Commonwealth investment in the entity represented by assets less liabilities) of the ABC increased by $38.8 million. This increase was the result of the operating surplus of $57.1 million, an equity contribution of $43.3 million, net reserve decreases of $3 million less a net capital use charge payment of $58.6 million.

Audit Results

Financial statements

6.96 An unqualified audit report on ABC's financial statements was issued.

Summary of significant agency audit findings

6.97 There were no significant departmental or administered audit issues arising from the audit.

Australian Communications Authority (ACA)

Financial Results

Summary of agency results

Key financial measures for the year	2003 $m	2002 $m
Net surplus/(deficit) for the year	5.42	2.43
Commonwealth's equity investment	21.76	19.17
Ratio of current assets to current liabilities	2.58:1	2.04:1
Ratio of total assets to total liabilities	3.17:1	2.93:1

6.98 The increase in the ACA's equity position can be attributed mainly to additional unspent funding, related to new policy proposals. In addition, the Authority undertook a revaluation of land and buildings, resulting in an increase to the asset base.

Items administered on behalf of the Commonwealth

Key financial measures for the year	2003 $m	2002 $m
Total revenues	210.44	210.28
Total expenses	0.07	0.61
Total assets	31.82	28.33
Total liabilities	2.20	1.52

6.99 There are no significant movements in the administered activities of the ACA in 2002–2003. The overall results are consistent with the prior year and budget expectations.

Audit Results

Financial statements

6.100 An unqualified audit report on ACA's financial statements was issued.

Summary of significant agency and administered audit findings

6.101 During the interim audit, the ANAO noted internal control issues related 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; and

- the lack of formal processes to review and monitor audit logs for Finance One and Aurion applications.

6.102 The Authority has commenced appropriate remedial action to resolve these issues.

6.103 The preparation of the financial statements, during the final audit phase, identified deficiencies in the ACA's general ledger structure, making the dissection of the financial statements into Departmental, Administered and Universal Service Obligation and National Relay Service accounts difficult.

6.104 The following table provides a summary of the status of audit issues arising from the audit.

Ratings	Opening Position at March 2003	Issues Resolved Prior to August 2003	New Issues to August 2003	Closing Position at August 2003
A	0	0	0	0
B	2	2	1	1
Total	**2**	**2**	**1**	**1**

Australian Postal Corporation (APC)

Financial Results

Summary of agency results

Key financial measures for the year	2003 $m	2002 $m
Net surplus/(deficit) after income tax for the year	330.80	297.00
Commonwealth's equity investment	1,318.50	1,139.60
Ratio of current assets to current liabilities	1.06:1	1.08:1
Ratio of total assets to total liabilities	1.64:1	1.54:1

6.105 The financial statement audit of APC was completed with an unqualified audit opinion being issued and no significant issues arising from the audit.

Audit Results

Financial statements

6.106 Pursuant to the APC (Performance Standards) Regulations 1998, APC is required to meet a range of measures as part of its Community Service Obligations. In accordance with section 28D of the Australia Postal Corporation Act 1989, as amended, the Auditor-General is required to audit the APC's compliance with the performance standards. The audit has been completed with an unqualified opinion issued on 28 August 2003.

Australian Sports Commission (ASC)

Financial Results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	15.46	18.04
Commonwealth's equity investment	131.64	130.58
Ratio of current assets to current liabilities	2.21:1	1.74:1
Ratio of total assets to total liabilities	8.91:1	7.87:1

6.107 The net surplus for the year has decreased due primarily to an increase in overall expenditure from ordinary activities, in particular grants to non-profit organisations. Grant expenses were higher as this was the first full year of the targeted growth grants program and State grants have increased by $2.7 million. These grants are expected to fluctuate significantly from year to year.

6.108 The increase in net equity position is a result of a decrease in payables. The movement is due to AusAID funds being transferred to revenue as projects have progressed and sponsorships decreasing as less calendar year sponsorships were secured during the year.

6.109 The ratio of current assets to current liabilities has increased mainly as a result of an increase of $1.3 million in GST receivable and sponsorships received on a calendar year basis, and therefore representing unearned income, being lower than in the previous financial year.

Audit Results

Financial statements

6.110 An unqualified audit report on ASC's financial statements was issued.

Summary of significant agency audit findings

6.111 There were no significant audit issues arising from the audit.

National Archives of Australia (NAA)

Financial Results

Summary of agency results

Key financial measures for the year	2003 $m	2002 $m
Net surplus/(deficit) for the year	84.84	76.99
Commonwealth's equity investment	746.44	745.88
Ratio of current assets to current liabilities	6.52:1	5.13:1
Ratio of total assets to total liabilities	74.13:1	71.98:1

6.112 The net surplus has increased as a result of a decrease in total expenses arising from a significant decrease in the write-down of assets. In the 2001–02 financial year, a major write-down of assets of $8.00 million was undertaken due to the relocation of the Adelaide Office.

Audit Results

Financial statements

6.113 An unqualified audit report on NAA's financial statements was issued.

Summary of significant agency audit findings

6.114 There were no significant audit issues arising from the audit.

National Gallery of Australia (NGA)

Financial Results

Summary of agency results

Key financial measures for the year	2003 $m	2002 $m
Net surplus/(deficit) for the year	193.94	129.19
Commonwealth's equity investment	1,721.15	1,709.21
Ratio of current assets to current liabilities	2.71:1	1.47:1
Ratio of total assets to total liabilities	148.1:1	85.39:1

6.115 The increased net surplus in 2003 is mainly a result of the NGA receiving additional funding from appropriations amounting to $62.4 million whilst expenditure from ordinary activities decreased by $1.77 million. The growth in the Commonwealth's equity investment is attributed to a net revaluation increment of $2.2 million, an equity injection by the Commonwealth of $4 million and the combined impact of the net surplus and capital use charge detailed above.

Audit Results

Financial statements

6.116 An unqualified audit report on NGA's financial statements was issued.

Summary of significant agency audit findings

6.117 There were no significant audit issues arising from the audit.

National Library of Australia (NLA)

Financial Results

Summary of agency results

Key financial measures for the year	2003 $m	2002 $m
Net surplus/(deficit) for the year	185.22	163.87
Commonwealth's equity investment	1,672.56	1,669.72
Ratio of current assets to current liabilities	1.99:1	2.42:1
Ratio of total assets to total liabilities	115.69:1	141.75:1

6.118 The increase in surplus for the year was mainly attributable to a $20.89 million appropriation funding increase for the capital use charge and a general decrease in expenditure. This, along with the NLA receiving an equity injection to purchase further library collection, increased the Commonwealth's equity investment position.

6.119 The reduction in asset ratios was mainly due to an increase in liabilities. This was due to the timing of supplier's purchases and the initial delays in the building refurbishment.

Audit Results

Financial statements

6.120 An unqualified audit report on NLA's financial statements was issued.

Summary of significant agency audit findings

6.121 There were no significant agency audit issues arising from the audit.

National Museum of Australia (NMA)

Financial Results

Summary of agency results

Key financial measures for the year	2003 $m	2002 $m
Net surplus/(deficit) for the year	32.17	25.59
Commonwealth's equity investment	269.71	256.61
Ratio of current assets to current liabilities	10.99:1	4.38:1
Ratio of total assets to total liabilities	63.44:1	54.89:1

6.122 The NMA is in a very strong financial position. The increase in surplus for the year was mainly attributable to increase in additional appropriation funding to maintain its current range and level of activities.

6.123 At the end of the financial year, current assets exceeded current liabilities, which indicates a very strong liquidity position. The position was caused by a $10.80 million increase in investments compared to the previous financial year.

Audit Results

Financial statements

6.124 An unqualified audit report on NMA's financial statements was issued.

Summary of significant agency audit findings

6.125 As part of the interim audit, the ANAO noted the need for the NMA to:

- prepare a comprehensive business continuity plan;
- update the fraud control plan to be approved by the Finance and Audit Committee and by the Attorney General's Department;
- review system administrator access rights to the human resource system; and
- revise the calculation of long service leave entitlements within the HR system.

6.126 The final phase of the financial statement audit confirmed that work in all these areas is progressing. These matters will be subject to a follow up review as part of the 2003-2004 financial statement audit.

6.127 The following table provides a summary of the status of previously reported audit findings as well as new audit issues raised since March 2003.

Ratings	Opening Position at March 2003	Issues Resolved Prior to August 2003	New Issues to August 2003	Closing Position at August 2003
A	0	0	0	0
B	4	0	0	4
Total	**4**	**0**	**0**	**4**

Special Broadcasting Service Corporation (SBS)

Financial Results

Summary of agency results

Key financial measures for the year	2003 $m	2002 $m
Net surplus/(deficit) for the year	12.30	9.22
Commonwealth's equity investment	8.58	8.00
Ratio of current assets to current liabilities	2.15:1	1.39:1
Ratio of total assets to total liabilities	2.09:1	2.04:1

6.128 The increase in net surplus for the year is mainly due to an overall increase in appropriations of $10.23 million partially offset by decreases in revenue from other sources of $3.65 million, increases in expenses of $4.73 million and a first time payment of income tax expense of $0.51 million.The latter was due to a new tax ruling that required the controlled entity (a company) to pay income tax for the 2003 year as well as backdated tax for 2002 and 2001.

6.129 The movement in assets to liabilities ratios is due to an increase in total assets as a result of increased activity.

Changes in accounting policies

6.130 During the year SBS changed its accounting policy in respect of amortisation of program stock. SBS' original policy of amortising 90 per cent on first screening and 10 per cent on second screening was changed to a policy based on time i.e. amortisation on a straight line basis over the shorter of 3 years or licence period (for movies) or over the shorter of 2 years or licence period (for documentaries and other overseas purchased programs). Under the new policy, the amortisation expense for 2002–2003 was $5.85 million, whereas under the previous policy the amortisation expense would have been $7.80 million.

Audit Results

Financial statements

6.131 An unqualified audit report on SBS' financial statements was issued.

Summary of significant agency audit findings

6.132 There were no significant audit issues arising from the audit.

Telstra Corporation Limited (Telstra)

Audit Results

Financial statements

6.133 An unqualified audit report on Telstra's financial statements was issued.

Summary of significant agency audit findings

6.134 There were no significant audit issues arising from the audit.

Comments on non-material entities with significant audit findings

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

Adelaide Symphony Orchestra Pty Ltd

6.136 The unqualified audit report included an emphasis of matter due to the inherent uncertainty as to whether the company could maintain or increase revenue streams and the ability of the company to control or decrease costs of operations leading to a return to profits.

National Gallery of Australia Foundation

6.137 A qualified audit report was issued on the Foundation's financial statements. Refer to Part Three of this report for details.

Queensland Orchestra Pty Ltd

6.138 The unqualified audit report included an emphasis of matter due to the inherent uncertainty as to whether the company could maintain or increase revenue streams and the ability of the company to control or decrease costs of operations leading to a return to profits.

West Australian Symphony Orchestra Pty Ltd

6.139 The unqualified audit report included an emphasis of matter due to the inherent uncertainty as to whether the company could maintain or increase revenue streams and the ability of the company to control or decrease costs of operations leading to a return to profits.

Defence Portfolio

Reporting Entity as at 30 June 2003	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Defence	**Yes**	Q, A	24-Oct-03	◆
Department of Veterans' Affairs	**Yes**	✓	22-Aug-03	◆
Army and Air Force Canteen Service	No	✓	23-Sep-03	
Australian Military Forces Relief Trust Fund	No	✓	3-Sep-03	
Australian Strategic Policy Institute Ltd.	No	✓	28-Aug-03	
Australian War Memorial	**Yes**	✓	13-Aug-03	◆
Defence Housing Authority–DHA	**Yes**	✓	4-Sep-03	
DHA–Wattle Grove Development Joint Venture	No	✓	24-Nov-03	
Defence Services Home Insurance Scheme	No	✓	22-Aug-03	◆
Military Superannuation and Benefits Board of Trustees	No	✓	23-Sep-03	
Royal Australian Air Force Veteran's Residences Trust Fund	No	✓	4-Sep-03	
Royal Australian Air Force Welfare Trust Fund No.3	No	✓	3-Sep-03	
Royal Australian Navy Relief Trust Fund	No	✓	9-Sep-03	

✓ audit report not modified
E audit report contains an emphasis of matter
Q audit report contains a qualification
A audit report contains additional statutory disclosure

⊷signed financial statements not presented for audit at this time
☞financial year end date other than 30 June 2003
◆significant internal control issues noted (since Audit Report No.61 of 2002–2003) and/or other signficant audit issues noted

Portfolio overview

6.140 The portfolio has responsibility for developing, implementing and administering policies, programs and services designed to defend Australia and its national interests. In addition, the portfolio is responsible for carrying out government policy and implementing programs to fulfil Australia's obligations to war veterans and their dependants as well as providing a compensation claims management service to serving and former members of the Australian Defence Force.

6.141 The Government has established the following five strategic objectives for the Department of Defence:

- ensuring the defence of Australia and its direct approaches;
- fostering the security of Australia's immediate neighbourhood;
- promoting stability and cooperation in South-East Asia;

- supporting strategic stability in the wider Asia-Pacific region; and
- supporting global security.

6.142 The Department of Veterans' Affairs 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.

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

Department of Defence (Defence)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	4,159.86	4,410.02
Commonwealth's equity investment	46,175.37	45,589.45
Ratio of current assets to current liabilities	0.91:1	1.04:1
Ratio of total assets to total liabilities	9.82:1	11.45:1

6.144 Defence recorded a smaller operating net surplus in 2002–2003, compared to that of the prior year. Principal items contributing were an increase in employee expenses and suppliers expenses of $1,121.74 million, and an increase in depreciation expense of $337.22 million.

6.145 The entire operating net surplus was returned to the Government through a capital use charge of $5,056.09 million. In addition, $971.20 million was added to the Statement of Financial Position mainly as a result of a revaluation process of Land, Buildings and Infrastructure.

6.146 Defence controls $51,410.62 million of assets, of which $50,158.52 million are non-financial assets. Defence non-financial assets contribute 72.4 per cent of the General Government sector non-financial assets. The main elements are Specialist Military Equipment (SME) of $31,383.27 million and Land and Buildings of $9,282.87 million.

6.147 Further issues continued, in 2002–2003, in relation to asset accounting within Defence, resulting in a number of asset-related adjustments. These included $586.48 million in asset write-downs and $866.30 million of assets now recognised.

6.148 In line with Government policy, Defence sold Land and Buildings valued at more than $530 million in 2002–2003, and returned the target of $473.5 million in property sales proceeds to Government.

6.149 Defence entered into a number of sale and lease back arrangements for selected Land and Buildings. These arrangements meant that the associated assets were removed from the Defence and Commonwealth financial statements, as assets. However, they are now leased by Defence from the Lessor.

6.150 Defence is a significant employer in the Commonwealth incurring employee expenses of $6,194.57 million in 2002–2003. This represents an increase of $462.52 million over the prior period. The increase is predominately due to a 4 per cent increase in average staffing levels and the inclusion, in the Military Compensation provision for the first time, of a $131.7 million provision for the administration costs of the outstanding Military Compensation Scheme claims.

Items administered on behalf of the Commonwealth

Key financial measures for the year	2003 $m	2002 $m
Total revenues	1,042.69	850.25
Total expenses	2,594.66	2,289.63
Total assets	1,464.07	1,520.24
Total liabilities	28,100.00	26,900.00

6.151 Administered revenues rose by $192.44 million primarily due to increased dividends from the Defence Housing Authority.

6.152 Administered expense and liability movements primarily relate to movements in the actuarial assessments of the unfunded liabilities in respect of the Military Benefits Superannuation Scheme, and the Defence Force Retirement and Death Benefits Scheme.

Audit results

Financial statements

6.153 The 2002–2003 audit report on Defence's financial statements was qualified on the basis of five limitations of scope, where there was a limit over the auditors ability to conclude on some components of the accounts, due to the inadequacies in Defence's current systems and processes. The Secretary and the CFO had noted these limitations in their statement accompanying the financial statements.

6.154 An opinion was unable to be formed on General Stores and Explosive Ordnance (EO) Inventory ($610 million and $1.2 billion respectively of the total

$3.83 billion) and Repairable Items (RIs) ($550 million of the total $2.54 billion), which is reported within SME. Additionally, Australian Defence Force annual leave and long service leave provisions ($732 million of the total $1.07 billion), and subsequently Executive Remuneration disclosures, were also qualified. There was also an item reported under the heading of 'Other Statutory Matters' in the audit report, where the Department breached section 48 of the FMA Act in relation to Special Accounts.

6.155 In 2002–2003, the controls over the Standard Defence Supply System (SDSS) were not yet found to be adequate to protect the integrity of pricing data. For example, users of the system were found to be able to enter information directly into the price field(s). SDSS contains over 1.7 million inventory line items, making sufficient detective controls difficult to design and implement. Whilst the current detective controls cannot practicably be extended to cover the risks in the entire population, the ANAO and Defence have jointly agreed that the limitation was fairly bounded to a maximum amount of General Stores Inventory, represented by a value of $610 million, net of obsolescence provisions, of the total $3.83 billion.

6.156 The ANAO notes that this is a reduction in the bounds of the qualification from 2001–2002 and relates to the ability of Defence to substantiate the accuracy of prices, related to General Stores Inventory.

6.157 In 2002–2003, significant issues remained with the pricing of EO on the COMSARM system. Due to a lack of supporting documentation and reconciliations in regard to the recorded prices of pre 1999–2000 EO Inventory and Asset Under Construction related items purchased between 1997 and 2000, Defence and the ANAO were unable to obtain sufficient confidence over the reported balance. It was not possible to validate the pricing of $1.2 billion of the $3.83 billion inventory balance.

6.158 Again, the ANAO notes that this is a reduction in the bounds of the qualification from 2001–2002, which relates to the ability of Defence to substantiate the accuracy of prices, of mainly aged EO Inventory. Additionally, the ANAO acknowledges the substantial work carried out on current pricing records in 2001–2002 and 2002–2003 in preparation for the financial statement compilation. We understand that further work will be carried out in 2003–2004.

6.159 The inadequacy of controls within SDSS and key business processes around the SDSS logistics system have again, in 2002–2003, resulted in a significant range of uncertainty around the RIs balance. Although Defence undertook a large 'cleanup' process in 2002–2003 that is continuing into 2003–2004, there remain problems with data integrity over quantities, shortcomings with key business processes, and significant gaps in the collective evidentiary support for the year-end balance. Specifically, issues have been identified within the controls and management of Position Accounts, including accounting for items being repaired and adherence to stocktake procedures. It was not possible to form an opinion on an amount of $550 million of the $2.54 billion RIs balance.

6.160 In 2002–2003, the ANAO's audit report contained a limitation of scope in regard to Australian Defence Force leave provisions as sufficient supporting documentation was unavailable for some provision balances and there existed unacceptable rates of error where documentation existed. It was not possible to form an opinion on an amount of $732 million of the $1.07 billion Australian Defence Force annual leave and long service leave provisions. This was mainly due to inadequate controls and processes within Defences's Military employee personnel recording systems, primarily relating to the lack of integrity associated with the capture and recording of data within those systems. The ANAO notes that there were ongoing remediation programs conducted during 2002–2003, which will need to be reviewed and adequately resourced in future years.

6.161 The requirements of the Executive Remuneration note are deemed 'material by nature' by the Finance Minister's Orders. As a consequence of the inadequacies in Defences's Military employee personnel recording systems, as described above, reliance could not be placed on the data used to compile the Executive Remuneration disclosures. Subsequently, the ANAO's audit report disclosed a limitation of scope over the required Executive Remuneration information within the financial statements.

6.162 Additionally, significant issues and delays within the preparation of these disclosures have occurred over recent years. During examination of the relevant note and associated work papers, the ANAO observed a lack of completeness of the data and a number of issues in respect of the FBT related processes and information in the calculations. The quality assured Executive Remuneration note for the 2002–2003 financial statements was only made available for audit in October 2003. Defence has recently published a plan to address this issue. However, with shortening timeframes for financial reporting in future years, it is imperative that Defence adequately manages the preparation process to ensure qualification does not continue.

6.163 During the year, and for a number of previous years, the Department has operated and consistently reported on a greater number of Special Accounts than have been legally determined by the Minister for Finance. As the accounts were operated during the year on the basis that each was funded by a separate appropriation, it is considered that Defence breached section 48 of the FMA Act. Subsequently, the ANAO determined that this type of breach requires amendment to the audit report under the heading of 'Other Statutory Matters'. The Secretary has advised the Finance Minister of the issue and of corrective action for reporting and disclosure for future years.

Summary of significant agency audit findings

6.164 Defence completed its financial statement processes and signed the accounts on 24 October 2003. This was significantly later than the Government deadline for clearance of financial information to Finance and has adversely impacted on the Whole of Government reporting timetable. The delay was primarily caused by on-going management, system and information deficiencies. With further contraction of the time available for financial reporting anticipated in the short term, there is need for significant improvement in Defence's financial reporting capability.

6.165 The production of reliable financial statements is fundamentally a by-product of good governance arrangements, reliable information systems, an effective internal control environment, and operating and accounting processes supporting the financial reporting process. In Defence, the completion of financial statements well after the reporting deadline, amongst other things, indicates that the production of accurate Defence wide financial reports supported by robust evidentiary standards does not occur on a regular or timely basis. Defence remains in an on-going cycle of finishing remediation processes to coincide with 30 June reporting requirements.

6.166 Due to the scale of problems in Defence financial systems and processes, a considerable 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 to 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 sufficient time for considered assessment before the Government reporting deadline.

6.167 Commitments are intentions to create liabilities, as evidenced by undertaking to make or receive future payments to, or from, other entities and unrecognised liabilities that are Agreements Equally Proportionately Unperformed (AEPUs). As with Executive Remuneration the Finance Minister's Orders require certain disclosures within the Schedule of Commitments and significant issues and despite improvements, delays within the preparation and reporting of this item have continued to occur over recent years. The information reported by Defence is limited by the lack of a complete Defence lease register, GST commitments receivable being reported based on an estimate and no commitments receivable (other than GST) being reported.

6.168 Over the last 12 months, Defence has been unable to compile a complete lease register, and is subsequently unable to effectively report on the extent of its commitments, including commitments receivable or to provide adequate documentation in support of the assessment and classification of all leases in existence.

6.169 Defence does not yet have adequate processes to effectively manage the raising of invoices and the subsequent collection of money owed to Defence and the Commonwealth. In 2002–2003, a number of significant receivables, which had been inappropriately raised in prior years, could not be substantiated and were therefore written off ($79 million administered and $23 million departmental). In a number of instances, cash received was recorded as revenue rather than receipted against receivables, leading to an overstatement of both revenue and receivable balances. Regular reconciliation of a number of accounts receivable balances was not undertaken throughout 2002–2003. A total of approximately $17 million was receivable from employees as at 30 June 2003. $1.3 million remains outstanding from 30 June 2002.

6.170 Internal audit reports indicate that the controls and accounting procedures with respect to identifying and recovering monies owed to Defence also do not operate in a satisfactory manner. The reports highlight a lack of appropriate controls over procedures for recovering monies and that full recovery of costs is not always achieved.

6.171 The year-end provision for inventory obsolescence contained a degree of uncertainty, based on the inconsistency of the application of the process followed and the interpretation of guidance provided on the definition of an 'obsolete' item. In particular, it was noted that the obsolescence provision as a percentage of gross inventory, was relatively constant, regardless of the age of the inventory items, and the turnover rates.

6.172 Better practice conventions require that accurate and reliable measures of inventory utilisation, such as provision for obsolescence, are readily available for the effective management of stock. The lack of consistency in processes to reliably measure the obsolescence provision increases the risk that inventory is materially misstated.

6.173 The business processes and stocktake procedures that are designed to give Defence a high degree of confidence over inventory quantities are deficient and increase the risk of fraudulent activity. Stocktakes are not being conducted in accordance with the approved stocktake policy. Additionally, a number of Defence sites with significant holdings are currently behind in their 2-year stocktake program which increases the risk of non-completion. Contrary to Defence policies, the stocktake results were not presented to the Audit Committee during 2002–2003 for review. Audit testing identified significant stocktake variances across various Defence locations.

6.174 Defence holds $50,158.52 million in non-financial assets. The recognition and completeness of asset recording and reporting continues to be an area of significant risk for Defence. Shortcomings noted by the ANAO in asset management increase the risk of incorrect asset classification and recording and ultimately misstated financial reporting. These include the following.

- In response to previous audit findings, Defence has undertaken a reconciliation of SDSS fixed assets to the ROMAN fixed asset register, resulting in $309 million of 'assets first found' in 2002–2003. This highlights the need for this reconciliation to be prepared, reviewed and actioned in a timely manner.
- It has previously been reported that SDSS generates large asset adjustments for which adequate supporting documentation is not available. At year-end, $61 million (net) for stock adjustments was unable to be adequately substantiated as a result of business process failures and limited controls in place to ensure that items moving through the supply chain are receipted appropriately.
- Continual recognition of assets now recognised and write downs of assets each year across all asset classes (totals of $866 million and $586 million respectively in 2002–2003).
- The misuse of asset purchase accounts, grouping thresholds and multiple asset registers not directly linked with the General Ledger.
- Defence did not revalue the relevant classes of assets to fair value as at 1 July 2002 in accordance with the transitional provisions of AASB 1041 *'Revaluation of non-current assets'*.

6.175 PMKEYS is Defence's human resource management information system. It is used to process payroll and leave for civilian employees. The ANAO has noted the lack of controls over PMKEYS, including access to modify data, programs and payment files, lack of segregation of duties and inadequate review of delegations and authorisations. Internal audit work undertaken regarding the management of civilian leave, attendance and overtime has identified high rates of incorrect leave processing and inadequate controls over the transmission of leave forms for processing.

6.176 In addition, the ANAO has noted a number of other less significant audit findings, which have yet to be appropriately documented and discussed by the ANAO and Defence.

Summary of significant administered audit findings

6.177 The significant accounts receivable finding above applies equally to administered accounts receivable. In addition, the ANAO noted other less significant administered audit findings, which have also yet to be appropriately documented and discussed by the ANAO and Defence.

6.178 The following table provides a summary of the status of previously reported audit findings as well as new audit issues raised since March 2003.

Ratings	Opening Position at March 2003	Issues Resolved Prior to August 2003*	New Issues to August 2003*	Closing Position at August 2003
A	10	3	6	13
B	29	2	11	38
Total	**39**	**5**	**17**	**51**

Source: * Issues in these columns also represent the net number of issues that have either been reclassified or merged into another issue.

6.179 Defence has advised that its financial statements were extensively scrutinised in the 2002–2003 financial year to improve the accuracy and quality of financial data and that it is in better shape in these respects, than at any time in the past. Additionally, Defence has responded positively to the findings noted above and advise that over the past 12 months it has implemented a comprehensive financial transformation program including wide ranging improvements and initiatives to strengthen the quality of their financial systems, processes and data. This is part of an ongoing program which Defence recognises will take two to three years to fully address the major financial reporting issues.

Department of Veterans' Affairs (DVA)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	2.43	21.24
Commonwealth's equity investment	88.89	84.67
Ratio of current assets to current liabilities	1.60:1	1.74:1
Ratio of total assets to total liabilities	1.99:1	1.99:1

6.180 The agency's financial result has decreased significantly due to:

- an increase in employee expenses of 6 per cent due to a combination of increased staff numbers and an increase in salaries in accordance with the Department's Enterprise Agreement; and
- an increase in suppliers' expenses associated with the outsourced provision of computer services.

Items administered on behalf of the Commonwealth

Key financial measures for the year	2003 $m	2002 $m
Total revenues	3.59	2.26
Total expenses	9,152.96	8,674.11
Total assets	102.72	84.65
Total liabilities	353.12	352.71

6.181 The increase in administered expenses is mainly attributable to an increase in residential care subsidy as a cross-portfolio measure between the Department of Health and Ageing and the Department of Veterans' Affairs. In addition, consistent with the Department's expectations, personal benefits expense increased following rises in pension rates during the year.

Audit results

Financial statements

6.182 An unqualified audit report on DVA's financial statements was issued.

Summary of significant agency audit findings

6.183 Two of the four moderate risk audit issues noted during the interim audit related to asset management practices and reconciliations of the HR accounts, which have subsequently been resolved. The Department is currently addressing the two remaining issues involving IT application security plans and the update of the Department's Disaster Recovery Plans for key business systems.

6.184 There were no additional significant departmental or administered audit issues arising from the audit.

6.185 The following table provides a summary of the status of audit issues arising from the audit.

Ratings	Opening Position at March 2003	Issues Resolved Prior to August 2003	New Issues to August 2003	Closing Position at August 2003
A	0	0	0	0
B	4	2	0	2
Total	**4**	**2**	**0**	**2**

Australian War Memorial (AWM)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	63.78	64.79
Commonwealth's equity investment	584.09	574.73
Ratio of current assets to current liabilities	6.1:1	5.75:1
Ratio of total assets to total liabilities	86.34:1	95.78:1

6.186 The AWM's equity increased mainly as a result of:

- land, buildings and exhibitions were revalued for the first time under the 'fair value' method, which resulted in significant increase in the revaluation reserve; and
- an increase in the cash held for current and future projects such as gallery redevelopment, conservation works and asset replacement.

6.187 The decline in the net surplus is attributable to higher costs related to employing contract staff, an increase in insurance premiums for the AWM's collection and an increase in publication costs.

Audit results

Financial statements

6.188 An unqualified audit report on AWM's financial statements was issued.

Summary of significant agency audit findings

6.189 The AWM has made reasonable progress in resolving system inaccuracies related to employee entitlements. It is anticipated that the issue will be cleared over the coming year.

6.190 The following table provides a summary of audit issues arising from the audit.

Ratings	Opening Position at March 2003	Issues Resolved Prior to August 2003	New Issues to August 2003	Closing Position at August 2003
A	0	0	0	0
B	1	0	0	1
Total	**1**	**0**	**0**	**1**

Comments on non-material entities with significant audit findings

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

Defence Service Homes Insurance Scheme

6.192 The Defence Service Homes Insurance Scheme (DSHIS) is a business operation of the Department of Veterans' Affairs. DSHIS prepares financial statements in its own right and is also consolidated into the DVA's financial statements

6.193 There were four issues of moderate significance raised during the interim audit. They were:

- instigating clearance of suspense accounts as a formal procedure with documentation and formal sign-off at a State Manager level;
- enhancing the process of identifying and reporting of insurance policies with expired due dates;
- compliance with management's instructions to allow discounts on insurance premiums. In addition, assessment of the implications such discounting has on the underwriting result; and
- developing a policy direction relating to the retention of documentation in State Offices.

6.194 DSHIS is making satisfactory progress in resolving the above issues.

Education, Science and Training Portfolio

Reporting Entity as at 30 June 2003	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Education, Science and Training	**Yes**	A	12-Sep-03	◆
Anglo-Australian Telescope Board	No	✓	10-Oct-03	
ANUTECH Pty Ltd ☞ (31-12-02)	No	✓	28-Mar-03	
Australian Institute of Marine Science	No	✓	9-Sep-03	
Australian National Training Authority	**Yes**	✓	17-Sep-03	
Australian National University ☞ (31-12-02)	No	✓	4-Apr-03	
Australian Nuclear Science and Technology Organisation	**Yes**	✓	15-Aug-03	◆
Australian Research Council	**Yes**	✓	3-Sep-03	◆
Commonwealth Scientific and Industrial Research Organisation	**Yes**	✓	16-Sep-03	◆
Australian Marine Science and Technology	No	✓	20-Oct-03	
Enterprise and Career Education Foundation Limited	No	✓	22-Sep-03	◆

✓ audit report not modified
E audit report contains an emphasis of matter
Q audit report contains a qualification
A audit report contains additional statutory disclosure

➾signed financial statements not presented for audit at this time
☞financial year end date other than 30 June 2003
◆significant internal control issues noted (since Audit Report No.61 of 2002–2003) and/or other signficant audit issues noted

Portfolio overview

6.195 The Commonwealth takes a national leadership role in education, science and training. 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 high quality policy, advice and services for the benefit of Australia. The objectives of the portfolio are to:

- advance education and training systems;
- provide leadership in identifying national standards and priorities to achieve the agreed national goals for schooling. The Commonwealth also provides State, Territory and non-government school authorities with substantial additional funding to improve student outcomes;

- work with the States and Territories, to ensure that the vocational education and training sector promotes: high quality outcomes for students; national consistency and coherence; and a system that is responsive to industry needs; and
- provide funding for and policy-making in the higher education sector.

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

Department of Education, Science and Training (DEST)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	(2.05)	1.81
Commonwealth's equity investment	26.90	32.39
Ratio of current assets to current liabilities	1.67:1	2.00:1
Ratio of total assets to total liabilities	1.53:1	1.72:1

6.197 The current year deficit is attributable to the change in the method of calculating employee provisions that resulted in an additional non-cash expense of $1.4 million and a number of variations from budget for several other expense categories. The Department remains in a sound financial position with current assets in excess of current liabilities, even though an operating deficit was incurred during the 2003 financial year.

6.198 The Commonwealth's equity investment reduced in 2003 due to the payment of the capital use charge of $3.44 million and the 2003 net deficit of $2.05 million.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	292.69	303.43
Total expenses	13,364.84	12,474.34
Total assets	9,590.82	8,574.72
Total liabilities	8,773.69	6,137.05

6.199 Administered revenues are received from indexation applied to the Higher Education Contributions Scheme (HECS) and the Student Financial Supplement Scheme (SFSS). The indexation revenue is dependent upon the annual consumer price index rate applied to each scheme for the year. A decrease of 0.5 per cent in the consumer price index rate applied to the HECS scheme in 2003. This is the main factor contributing to the $11 million decrease in administered revenue between the financial periods.

6.200 Administered expenditure increased in 2003 due to:

- the initial recognition of the unfunded superannuation liability for universities, of $350 million;
- an increase in the HECS provision for doubtful debts, as a result of an actuarial assessment, of $275 million;
- the payment of additional monies to the States and Territories in grant funding of approximately $219 million; and
- the payment of additional monies to the New Apprenticeship Scheme of approximately $67 million.

6.201 The value of administered assets increased due to:

- a net increase of approximately $585 million in the value of the HECS receivable, as more students participated in the scheme;
- an increase in the States and Territories receivable by $350 million, as a result of the recognition of the unfunded superannuation liability (refer below);
- a further investment of $104 million in the Australian Nuclear Science and Technology Organisation; and
- a net decrease in the value of other receivables, including debts owed from Centrelink and the ATO for GST of approximately $33 million.

6.202 The value of administered liabilities increased due to the initial recognition of the unfunded superannuation liability for universities of $2.6 billion.

Changes in accounting policies

6.203 As a result of the release of UIG 51: *Recovery of Unfunded Superannuation of Universities*, DEST recognised for the first time in 2002–2003:

- a provision for unfunded superannuation of universities of $2.6 billion; and
- a net receivable of $350 million.

Audit results

Financial statements

6.204 An unqualified audit report on the financial statements was issued. The report contains a paragraph on 'Other Statutory Matters' advising readers that DEST had breached section 48 of the FMA Act.

6.205 During 2002–2003, one special account, the Superannuation Productivity Benefits ATAS Tutors Account was identified as not having the appropriate determination as required by section 20 of the FMA Act. While the payments made in previous years have now been correctly recorded and disclosed against another appropriation, DEST was in breach of section 48 of the FMA Act as the accounts and records for those payments were not kept in a way that ensured that monies were only expended for the purpose and within the limit of an appropriation. The total value of payments made from these accounts from 1 July 1999 to 30 June 2002 was $18,000. Payments made in 2002–2003 totalled $2,000.

Summary of significant agency and administered audit findings

6.206 DEST was unable to reconcile its human resources system generated balances, for recreation leave and long service leave, to the balances recorded in its general ledger.

6.207 The total unreconciled amount of $1.7million is a potential overstatement of the provision. The ANAO will re-examine this issue in the 2003-2004 financial year.

6.208 In March 2003, the ANAO reported the absence of a service level agreement between the ATO and DEST for the HECS debt management services provided by the ATO to DEST. DEST has commenced negotiations with the ATO in order to resolve this issue. ANAO will examine the progress made by DEST on this issue during the 2003–04 audit.

6.209 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2003.

Ratings	Opening position at March 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
A	0	0	0	0
B	2	1	1	2
Total	**2**	**1**	**1**	**2**

Australian National Training Authority (ANTA)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	(1.09)	(3.48)
Commonwealth's equity investment	5.21	6.30
Ratio of current assets to current liabilities	3.33:1	5.07:1
Ratio of total assets to total liabilities	2.51:1	3.37:1

6.210 The reduced operating loss for the current financial year reflects ANTA's efforts to reduce supplier expenses and a decrease in National Project Activity.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	1,125.93	1,069.18
Total expenses	1,136.77	1,077.84
Total assets	478.37	495.18
Total liabilities	425.76	431.74

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

Audit results

Financial statements

6.212 An unqualified audit report on ANTA's financial statements was issued.

Summary of significant agency and administered audit findings

6.213 There were no significant agency or administered audit issues arising from the audit.

Australian Nuclear Science and Technology Organisation (ANSTO)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	69.06	58.50
Commonwealth's equity investment	651.80	489.24
Ratio of current assets to current liabilities	2.92:1	2.06:1
Ratio of total assets to total liabilities	11.74:1	12.73:1

6.214 The operating surplus increased due to further appropriations from Government for the capital use charge, as a consequence of the increase in the asset base. The Commonwealth's equity in ANSTO increased due to funding provided for capital works in relation to the replacement reactor project.

Audit results

Financial statements

6.215 An unqualified audit report on ANSTO's financial statements was issued.

Summary of significant agency audit findings

6.216 The issue relating to an unfinalised contract arrangement noted by the ANAO during the 2001–02 audit has not been fully resolved. This was again referred to management who advised the ANAO that formalisation of the existing business arrangement will take place in August 2003.

6.217 Other issues relating to the measurement of employee benefit liabilities, in particular, verification of service data on personnel files, were referred to management who advised that follow-up action was continuing.

6.218 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2003.

Ratings	Opening position at March 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
A	0	0	0	0
B	4	3	1	2
Total	**4**	**3**	**1**	**2**

Australian Research Council (ARC)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	0.94	2.25
Commonwealth's equity investment	6.34	6.17
Ratio of current assets to current liabilities	7.68:1	5.72:1
Ratio of total assets to total liabilities	4.99:1	4.34:1

6.219 The ARC is in a sound financial position with current assets well in excess of current liabilities. The small net surplus is consistent with budget expectations and contributed to the increase in the Commonwealth's equity investment.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	0	0
Total expenses	371.84	265.24
Total assets	0.61	0.04
Total liabilities	194.82	120.74

6.220 Administered expenses consist of a number of competitive funding schemes for research and training in the ARC's National Competitive Grants Programme. The increase in administered expenses flowed from a 32 per cent increase in budget funding of the National Competitive Grants Programme.

Audit results

Financial statements

6.221 An unqualified audit report on ARC's financial statements was issued.

Summary of significant agency and administered audit findings

6.222 During the interim audit, the ANAO noted that the ARC:

- did not have a Business Continuity Plan and a Disaster Recovery Plan in place; and
- did not have procedures in place to monitor and review IT security reports.

6.223 The ARC has advised that these issues are currently being addressed.

6.224 No significant issues were noted during the final audit phase.

6.225 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2003.

Ratings	Opening position at March 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
A	0	0	0	0
B	2	0	0	2
Total	**2**	**0**	**0**	**2**

Commonwealth Scientific and Industrial Research Organisation (CSIRO)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	85.19	149.89
Commonwealth's equity investment	950.26	972.28
Ratio of current assets to current liabilities	1.36:1	1.41:1
Ratio of total assets to total liabilities	3.37:1	3.36:1

6.226 The reduction in the surplus in the current year was primarily due to a loss on sale of non-current assets of $2.03 million, (2002 gain on sale $21.61 million) lower contributions of capital assets $0.04 million (2002 $13.65 million) as well as an increase in other operating items (employees and suppliers).

Audit results

Financial statements

6.227 An unqualified audit report on CSIRO's financial statements was issued.

Summary of significant agency audit findings

6.228 CSIRO did not fully meet the requirements of the Finance Minister's Orders in relation to output reporting. CSIRO's output/outcome framework is in a state of transition and will not be fully operational until 2003-2004. The output model operating at 30 June 2003 requires further refinement to reduce the amount of management judgement and estimation. Furthermore, there needs to be a closer alignment in the planning processes for the outcome/output framework and the associated system and financial reporting requirements.

6.229 CSIRO needs to update policies and procedures supporting its non-major bank accounts and to perform more regular reconciliations and review of a number of accounts. In addition, CSIRO needs to develop a comprehensive central registry of bank accounts that facilitates central monitoring of activity.

6.230 The dealings between CSIRO and its subsidiary company Ascentia were not formalised in a timely manner. Company records needed to be improved. In addition, there was a need for improvement and development of general policy and guidance relating to subsidiary companies. CSIRO has actioned this area as a matter of priority including completing an internal audit review.

6.231 The following table provides a summary of the status of audit findings arising from the audit.

Ratings	Opening position at March 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
A	0	0	0	0
B	0	0	3	3
Total	**0**	**0**	**3**	**3**

Comments on non-material entities with significant audit findings

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

Enterprise and Career Education Foundation Limited

6.233 The ANAO noted that the Foundation was not including GST, as appropriate, when recording grant liabilities in its general ledger. This issue has been subsequently resolved.

Employment and Workplace Relations Portfolio

Reporting Entity as at 30 June 2003	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Employment and Workplace Relations	**Yes**	✓	31-Jul-03	
Australian Industrial Registry	No	✓	18-Sep-03	
Coal Mining Industry (Long Service Leave Funding) Corporation	**Yes**	✓	15-Aug-03	
Comcare Australia	**Yes**	✓	29-Aug-03	
- QWL Corporation Pty Limited	No	✓	29-Aug-03	
Equal Opportunity for Women in the Work Place Agency	No	✓	18-Sep-03	
National Occupational Health and Safety Commission	No	✓	18-Sep-03	

✓ audit report not modified
E audit report contains an emphasis of matter
Q audit report contains a qualification
A audit report contains additional statutory disclosure

➫ signed financial statements not presented for audit at this time
☞ financial year end date other than 30 June 2003
◆ significant internal control issues noted (since Audit Report No.61 of 2002–2003) and/or other signficant audit issues noted

Portfolio overview

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

- Australian Industrial Relations Commission (AIRC) and the Australian Industrial Registry (AIR);
- Coal Mining Industry (Long Service Leave Funding) Corporation (CMILSLC);
- Comcare, the Safety, Rehabilitation and Compensation Commission (Comcare) and the Quality of Working Life Corporation Pty Limited
- Equal Opportunity for Women in the Work Place Agency (EOWA); and
- National Occupational Health and Safety Commission (NOHSC).

6.235 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.

6.236 The aims of the Portfolio are to:

- maximise the ability of unemployed Australians to find work, particularly those that face the most severe barriers to work;
- support strong employment growth and the improved productive performance of enterprises in Australia;
- give effect to the legislative framework for cooperative workplace relations;
- facilitate the operations of the Australian industrial relations system;
- reduce the human and financial costs of workplace injuries and disease;
- inspire Australian employers to take action to improve equal opportunity outcomes for women in the workplace; and
- develop awareness, policy and strategies relating to occupational health and safety measures.

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

Department of Employment and Workplace Relations (DEWR)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	15.65	11.62
Commonwealth's equity investment	48.09	51.05
Ratio of current assets to current liabilities	1.47:1	1.52:1
Ratio of total assets to total liabilities	1.62:1	1.53:1

6.238 The operating surplus has increased by $4.03 million from the prior year, mainly as a result of continued efforts relating to internal budget management by DEWR.

6.239 The decrease in the Commonwealth's equity investment is mainly attributable to the return of contributed equity during the year.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	73.23	73.23
Total expenses	1,260.89	1,466.92
Total assets	41.05	37.76
Total liabilities	312.72	372.80

6.240 The reduced level of expenses and liabilities for 2002–2003 primarily relates to the higher expenses recognised in 2001–2002 during the peak of the Special Employees Entitlement Scheme for Ansett group employees and the further reduction in the scheme loan liability during 2002–2003.

Audit results

Financial statements

6.241 An unqualified audit report on DEWR's financial statements was issued.

Summary of significant agency and administered audit findings

6.242 There were no significant agency or administered audit issues arising from the audit.

6.243 The following table provides a summary of the status of previously reported audit findings as well as any new audit issues raised since March 2003.

Ratings	Opening position at March 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
A	0	0	0	0
B	5	5	0	0
Total	**5**	**5**	**0**	**0**

Comcare and its Controlled Entity (Comcare)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	0.60	0.74
Commonwealth's equity investment	5.17	5.12
Ratio of current assets to current liabilities	1.02:1	1.01:1
Ratio of total assets to total liabilities	1.00:1	1.00:1

6.244 The financial results for the year are in line with budget expectations and are consistent with the prior year.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	5.68	96.25
Total expenses	1.19	1.33
Total assets	0.00	0.00
Total liabilities	0.00	0.00

6.245 The change to the *Safety, Rehabilitation and Compensation Act 1988* meant that the premiums previously collected by Comcare are no longer paid into the OPA and are now reported as departmental revenue. The administered revenue and expenses represent adjustments to premiums and refunds in respect of prior periods.

Audit results

Financial statements

6.246 An unqualified audit report on Comcare's financial statements was issued.

Summary of significant agency and administered audit findings

6.247 There were no significant agency or administered audit issues arising from the audit.

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

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	(1.24)	(0.77)
Commonwealth's equity investment/(accumulated deficit)	(116.38)	(115.14)
Ratio of current assets to current liabilities	0.72:1	0.77:1
Ratio of total assets to total liabilities	0.70:1	0.69:1

6.248 Major movements were in revenue from Government, up by $3.33 million and investment income, up by $5.14 million, resulting in a net increase of $8.47 million. Expenses increased overall by $8.94 million due to an increase in the long service leave provision of $13.92 million and a reduction in investment losses/write-downs of $5.01 million.

6.249 The original 2003 estimate for full funding of liabilities was revised by a 30 June 2002 actuarial review. This is now expected to be achieved by 31 March 2006.

6.250 CMILSLC representatives stated that the Minister has been informed of the revised estimate.

6.251 The ANAO has reviewed the actuarial reports as at 30 June 2000, 2001 and 2002. There is no concern about the CMILSLC being able to meet its short-term obligations as and when they fall due.

Audit results

Financial statements

6.252 An unqualified audit report was issued on CMILSLC's financial statements.

Summary of significant agency and administered audit findings

6.253 There were no significant agency or administered audit issues arising from the audit.

Environment and Heritage Portfolio

Reporting entity as at 30 June 2003	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of the Environment and Heritage	**Yes**	A	2-Oct-03	◆
Natural Heritage Trust of Australia Reserve	No	A	12-Dec-03	
Australian Greenhouse Office	**Yes**	✓	21-Aug-03	
Australian Heritage Commission	No	✓	12-Sep-03	
Bureau of Meteorology	**Yes**	✓	18-Aug-03	
Director of National Parks	No	✓	17-Sep-03	
Great Barrier Reef Marine Park Authority	No	✓	25 Sep-03	◆
National Environment Protection Council Service Corporation	No	✓	7-Oct-03	
National Oceans Office	No	✓	10-Oct-03	
Office of the Renewable Energy Regulator	No	✓	11-Aug-03	◆
Sydney Harbour Federation Trust Fund	No	✓	29-Sep-03	

✓ audit report not modified
E audit report contains an emphasis of matter
Q audit report contains a qualification
A audit report contains additional statutory disclosure

➾signed financial statements not presented for audit at this time
☞financial year end date other than 30 June 2003
◆significant internal control issues noted (since Audit Report No.61 of 2002–2003) and/or other signficant audit issues noted

Portfolio Overview

6.254 The Environment and Heritage Portfolio's role 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.

6.255 The delivery of these outcomes is provided by:

- the Department of the Environment and Heritage (DoEH) which includes the Environment Outcome (EA) and the Antarctic Outcome or Australian Antarctic Division (AAD). The Department included the Bureau of Metereology (the Bureau) until the Bureau became a prescribed agency under the FMA Act on 12 September 2002;

- five statutory authorities; the Great Barrier Reef Marine Park Authority (GBRMPA), the Director of National Parks, the Australian Heritage Commission, the National Environment Protection Council Service Corporation and the Sydney Harbour Federation Trust;
- the Australian Greenhouse Office (AGO), the Bureau (from 12 September 2002), and the National Oceans Office, which are Executive Agencies under the *Public Service Act 1999* and prescribed agencies under the FMA Act; and
- the National Heritage Trust of Australia Reserve and the Office of the Renewable Energy Regulator (ORER). ORER became a prescribed agency on 1 July 2003.

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

Department of the Environment and Heritage (DoEH)

Financial Results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	29.03	45.75
Commonwealth's equity investment	260.55	442.02
Ratio of current assets to current liabilities	1.47:1	1.74:1
Ratio of total assets to total liabilities	3.85:1	3.70:1

6.257 The Bureau's separation from DoEH is a major contributor to DoEH's reduced operating surplus and the Commonwealth's equity position in 2003. The net equity position of the Bureau on separation was $144.63 million.

Items Administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenue	11.86	24.63
Total expenses	258.52	310.07
Total assets	124.01	121.08
Total liabilities	16.32	1.94

6.258 The separation of the Bureau is also the major contributor to the reduced administered revenues and expenses in 2003. In addition, the reduction in administered expenditure is attributed to the current year delays in the wrap up of the Natural Heritage Trust (NHT) One Grants program, which delayed the progress and payments of NHT Two Grants.

6.259 The minor increase in administered assets relates primarily to an increase in GST Receivable in this financial year.

6.260 The increase in administered liabilities is attributed to milestone requirements for payment of NHT grants occurring in the latter part of the financial year. Payments were processed post 30 June resulting in a larger payables balance at 30 June.

Audit results

Financial statements

6.261 An unqualified audit report on the financial statements was issued. The report contains a paragraph on 'Other Statutory Matters' advising readers that DoEH had breached section 48 of the FMA Act.

6.262 There was a breach of section 48 of the FMA Act as DoEH's accounts and records were not kept in such a way as to ensure all appropriated moneys credited to the special account, 'the National Heritage Trust of Australia Account' were recorded by DoEH.

6.263 It transpired that two principal sources of funds were credited to the Special Account namely, a standing appropriation which corresponds to the Telstra 2 Sale proceeds and annual administered appropriations. The balance of the Special Account, at the end of each financial year, is also augmented with interest pursuant to Sub-section 6(2) of the Act.

6.264 Due to a misinterpretation of the nature of the standing appropriation, the Special Account for the years ending 30 June 2000 to 30 June 2002 only recorded the annual administered appropriations.

6.265 As a result of the above, the Special Account for year ended 30 June 2003 has been adjusted to reflect first, the inclusion of the standing appropriation and related interest amounts totalling $404.22 million. Second, to give effect to the legislative intention of the Act, a correcting adjustment of $378.53 million is also included for the year ended 30 June 2003.

6.266 The net effect of the two accounting adjustments has been to increase the Special Account balance by $25.69 million.

Summary of significant agency and administered audit findings

6.267 The CAMM reconciliation issue raised during the 2002–2003 interim audit was satisfactorily resolved by DoEH.

6.268 During the final audit the ANAO noted that the balances in DoEH's payroll clearing accounts had not been actioned and cleared.

6.269 Due to deficiencies in AAD's asset register and general ledger, it is not possible to ensure that gross asset values reconcile between both systems. Reconciliations can only be achieved for the total written down value. In addition, although not material, the financial statements did not agree to the general ledger balances.

6.270 The interim audit control exposure relating to no independent check of changes to vendor and bank account details in the accounts payable system has now been rectified.

6.271 The following table provides a summary of the status of previously reported audit findings as well as new audit issues raised since March 2003.

Ratings	Opening position at March 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
Environment Outcome				
A	0	0	0	0
B	1	1	1	1
	1	**1**	**1**	**1**
Antarctic Outcome				
A	0	0	0	0
B	1	1	1	1
	1	**1**	**1**	**1**
Department of the Environment and Heritage (combined total)				
A	0	0	0	0
B	2	2	2	2
Total	**2**	**2**	**2**	**2**

Australian Greenhouse Office (AGO)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	(3.00)	2.96
Commonwealth's equity investment	23.54	29.11
Ratio of current assets to current liabilities	5.30:1	5.99:1
Ratio of total assets to total liabilities	3.94:1	4.28:1

6.272 The net deficit of $3 million is attributed to the net result of:

- a decrease in revenue from government of $5.53 million reflecting the progressive wind down of current programs;
- increased employee expenses of $2.45 million resulting from changes to AGO's certified agreement and a number of voluntary redundancy payments; and
- a decrease in suppliers' expenses of $1.43 million.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	0	0
Total expenses	25.56	14.72
Total assets	0	0
Total liabilities	2.01	0

6.273 Administered grant expenses have increased in line with the achievement of milestones in the 2002–2003 financial year which require payment of grant funding to recipients. The achievement of milestones triggering payment requirements in the latter part of the year resulted in the recognition of liabilities which did not occur in the previous financial year.

Audit results

Financial statements

6.274 An unqualified audit report on AGO's financial statements was issued.

Summary of significant agency and administered audit findings

6.275 There were no significant agency or administered audit issues arising from the audit.

Bureau of Meteorology (BOM)

Financial Results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	8.72	0
Commonwealth's equity investment (Contribution by owner restructure)	164.45	0
Ratio of current assets to current liabilities	0.85:1	0
Ratio of total assets to total liabilities	3.39:1	0

6.276 BOM became a prescribed agency on 12 September 2002. Prior to that BOM's transactions and balances were included in DoEH. For this reason there is no comparative information available. The results for the financial year are in accordance with expectations.

Audit results

Financial statements

6.277 An unqualified audit report on BOM's financial statements was issued.

Summary of significant agency and administered audit findings

6.278 There were no significant audit issues arising from the audit.

Comments on non-material entities with significant findings

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

Great Barrier Reef Marine Park Authority (GBRMPA)

6.280 The GBRMPA revalued all non-current assets, including the recently refurbished Reef HQ building, and a number of islands acquired this year using member's valuation. The GBRMPA has been advised to engage an independent qualified valuer to determine the fair value of these assets in the ensuing financial year.

6.281 The GBRMPA's ability to recover critical IT systems in the event of a significant disruption has not been documented in a Disaster Recovery Plan.

Natural Heritage Trust (NHT)

6.282 An unqualified audit report on the financial statements was issued. The report contains a paragraph on 'Other Statutory Matters' advising readers that NHT had breached section 48 of the FMA Act.

6.283 The NHT is maintained by the Department with disclosure of the NHT special account in the notes to the Department's annual financial statements. Refer to paragraphs 6.261–6.266 for details of the breach.

Office of the Renewable Energy Regulator (ORER)

6.284 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 the AGO's financial statements. In 2001–2002 and 2002–2003, it reported separately in DoEH's annual report.

6.285 This issue was also reported in 2001–2002. ORER became a prescribed agency on 1 July 2003 and will report independently from that date.

Family and Community Services Portfolio

Reporting Entity as at 30 June 2003	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Family and Community Services	**Yes**	A	20-Aug-03	◆
Centrelink	**Yes**	✓	01-Aug-03	◆
Australian Institute of Family Studies	No	✓	15-Sep-03	

✓ audit report not modified
E audit report contains an emphasis of matter
Q audit report contains a qualification
A audit report contains additional statutory disclosure

➾signed financial statements not presented for audit at this time
☞financial year end date other than 30 June 2003
◆significant internal control issues noted (since Audit Report No.61 of 2002–2003) and/or other signficant audit issues noted

Portfolio overview

6.286 The Portfolio is responsible for a broad range of social policy issues affecting Australian society and the living standards of Australian families, communities and individuals. These responsibilities include the provision of income support, housing policy and assistance, community support, disability services, childcare services and family issues, including family payments, child support and family relationship support services.

6.287 With these policy tools, the Portfolio aims to achieve these three social policy outcomes:

- families are strong;
- communities are strong; and
- individuals reach their potential.

6.288 There was a significant change to the structure of the Portfolio with CRS Australia transferring out of the Department of Family and Community Services (the Department) to the Department of Health and Ageing on 1 July 2002.

6.289 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	2003 $m	2002 $m
Net surplus/(deficit) for the year	(21.76)	35.14
Commonwealth's equity investment	10.68	58.70
Ratio of current assets to current liabilities	1.13:1	1.64:1
Ratio of total assets to total liabilities	1.07:1	1.41:1

6.290 The transfer of CRS Australia to the Department of Health and Ageing from 1 July 2002 accounts for approximately 59 per cent of the decrease in the Commonwealth's equity investment in FaCS. The remaining decrease in the Commonwealth's equity investment is mainly attributable to the net deficit for the year of $21.76 million and decreases to retained surpluses due to the initial application of accounting standards of $1.1 million, offset by an equity injection of $0.07 million and asset revaluations of $3.09 million.

6.291 The operating deficit for the year is mainly attributable to an increase in expenses due to a combination of:

- higher than budgeted amortisation costs for intangible assets, following a re-assessment of their associated useful lives;
- the write-off of intangible assets under construction after an assessment of their future economic benefits; and
- the implementation of previously deferred projects.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	1,109.29	1,038.24
Total expenses	57,650.52	56,408.69
Total assets	2,278.76	1,881.59
Total liabilities	2,401.68	2,400.64

6.292 Administered revenues remain fairly consistent, with increases in child support trust revenue and penalties due to increased case loads being offset by decreases in revenue under the Reciprocal Agreement with New Zealand, as per the signed agreement between Australia and New Zealand, and a decrease in the level of Consumer Price Index (CPI) indexation for the Student Financial Supplement Scheme (SFSS) receivable.

6.293 Administered expenses increased, primarily in the areas of Age Pension, Disability Support Pension, Parenting Payments, Childcare Benefit and Carer Allowances and Payments, offset by decreases in the Family Tax Benefit (FTB), Newstart Allowance and Wife Pension. This overall increase is in line with general pension rate increases and an ageing Australian population requiring support.

6.294 The increase in administered assets is mainly attributable to increases in the receivables for the SFSS due to CPI indexation, FTB due to a reduction in the level of debt waived and child support due to increased case loads.

6.295 Administered liabilities remained fairly consistent, with increases in personal benefits payable and other payables being offset by a decrease in SFSS loans.

Changes in accounting policies

6.296 There were two significant changes in accounting policies in 2002-2003, in addition to those required under the FMOs and the Australian Accounting Standards. The first of these was the revision of the useful life of the Child Support Business System (CUBA) from ten years to seven years, to more accurately reflect the pattern of consumption or loss of service potential embodied in the system. The financial effect of this was an increase in expenses of $3.53 million in 2002–2003.

The second significant change was the revision of the policy relating to the provision for doubtful debts for administered personal benefits. The new policy provides for 5 per cent of debt raised within the last 24 months and 95 per cent of all debt greater than 24 months. The previous policy provided for a general provision of 5 per cent of all new debt raised in the last twelve months and a specific provision of 100 per cent of all debts with no recovery made over the last twelve months.

Audit results

Financial statements

6.297 An unqualified audit report on the financial statements was issued. The report contains a paragraph on ‘Other Matters’ advising readers that FaCS had breached section 48 of the FMA Act. Two FaCS ‘special accounts’ had no establishing determination under section 20 of the FMA Act. These accounts are the Capital Replacement and Upgrade Program Trust Account and the Victorian Outside School Care Official Trust Account. While there was another appropriation available for payments made from these accounts to be recorded against, there has been a breach of section 48 of the FMA Act. We understand that FaCS is working with the Department of Finance and Administration to obtain determinations for these accounts going forward. FaCS has made adequate disclosure on the circumstances surrounding this breach in their financial statements.

Summary of significant agency audit findings

6.298 As part of the interim audit the ANAO noted that FaCS was still in the process of:

- approving and implementing a sound IT security policy;
- updating the Child Support Agency (CSA) Business Continuity Plan (BCP) and fully testing the CSA IT & Telephony Disaster Recovery Plan;
- ensuring that the Human Resources Management Information System (HRMIS) reflected all leave taken by staff;
- reviewing their current procedures around the management of, and accounting for, assets under construction. A number of issues were highlighted during the audit, including the incorrect capitalisation of expense items and the allocation of costs to the wrong projects; and
- establishing regular monitoring of privileged access to the HRMIS.

6.299 The latter three audit findings have now been completed. Departmental management has confirmed that the remaining matters have now been, or are in the process of being, addressed. The ANAO will fully review progress on resolution of these issues during the 2003-2004 audit.

Summary of significant administered audit findings

6.300 As part of the interim audit the ANAO noted that CSA had identified a number of key transactions in its administered Financial Management Information System (FMIS) (CUBA) that required dual authorisation. However, CUBA currently permits the processing of some transactions with a single authorisation. In addition, CUBA does not enforce delegation limits. Departmental management has confirmed that these matters have been attended to with the implementation of a manual solution. An automated solution is to take effect in February 2004, when an enhancement release to CUBA has been scheduled. The ANAO will fully review progress on resolution of this issue during the 2003-2004 audit.

6.301 The following table provides a summary of the status of previously reported audit findings as well as new audit issues raised since March 2003.

Ratings	Opening position at March 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
A	0	0	0	0
B	6	3	0	3
Total	**6**	**3**	**0**	**3**

Centrelink

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	(47.71)	6.96
Commonwealth's equity investment	75.62	109.34
Ratio of current assets to current liabilities	0.81:1	0.97:1
Ratio of total assets to total liabilities	1.15:1	1.26:1

6.302 The operating deficit for the year is mainly attributable to a $55.90 million increase in employee provisions, primarily due to a combination of increased staff numbers, a pay increase and an actuarial assessment of Centrelink's long service leave liability.

6.303 The decrease in the Commonwealth's equity investment is mainly attributable to the net deficit for the year of $47.71 million, offset by an equity injection of $14.15 million.

Audit results

Financial statements

6.304 An unqualified audit report on Centrelink's financial statements was issued.

Summary of significant agency and departmental audit findings

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

- investigate and resolve exceptions arising from the payment reconciliation process;
- resolve the lack of segregation of duties surrounding the development and implementation into production of changes to the software tool used to verify the integrity of payments;

- verify delegates signatures where they are used as evidence of payment approval;
- ensure consistent application of change control practices relating to key systems; and
- remove access to the FMIS for users who no longer require such access.

6.306 At the time of our final audit, work on resolving the above issues was continuing.

6.307 The following table provides a summary of the status of previously reported audit findings as well as new audit issues raised since March 2003.

Ratings	Opening position at March 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
A	0	0	0	0
B	5	0	0	5
Total	**5**	**0**	**0**	**5**

Finance and Administration Portfolio

Reporting Entity as at 30 June 2003	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Finance and Administration	**Yes**	✓	15-Aug-03	
Australian Electoral Commission	**Yes**	✓	22-Aug -03	
Australian Industry Development Corporation	**Yes**	✓	12-Aug-03	
Australian River Co. Ltd	No	E	13-Mar-03	
Australian Submarine Corporation Pty Ltd	No	E	11-Sep-03	
Bankstown Airport Limited	No	✓	21-Aug-03	
Camden Airport Limited	No	✓	21-Aug-03	
CFM Australian Equities Fund	No	✓	26-Aug-03	
Comland Limited	No	✓	15-Sep-03	
Commonwealth Grants Commission	No	✓	29-Aug-03	
Commonwealth Superannuation Administration (ComSuper)	No	✓	22-Sep-03	
Commonwealth Superannuation Scheme (CSS)	No	✓	17-Sep-03	
CSS/PSS Pty Ltd	No	✓	26-Aug-03	
Employment National (Administration) Pty Ltd	No	✓	19-Aug-03	
Employment National Limited	**Yes**	✓	19-Aug-03	
Hoxton Park Airport Limited	No	✓	21-Aug-03	
Public Sector Superannuation Scheme (PSS)	No	✓	17-Sep-03	

✓ audit report not modified
E audit report contains an emphasis of matter
Q audit report contains a qualification
A audit report contains additional statutory disclosure

➾signed financial statements not presented for audit at this time
☞financial year end date other than 30 June 2003
◆significant internal control issues noted (since Audit Report No.61 of 2002–2003) and/or other signficant audit issues noted

Portfolio overview

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

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

6.309 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 to finality the residual and other obligations of the Corporation; and
- Employment National Limited which provides employment and recruitment services within a commercial environment.

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

Department of Finance and Administration (Finance)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	(20.89)	100.37
Commonwealth's equity investment	1,080.41	995.06
Ratio of current assets to current liabilities	2.13:1	2.72:1
Ratio of total assets to total liabilities	3.17:1	4.32:1

6.311 The operating deficit for the year was mainly attributable to a deficit of ($33.3) million in Comcover, the Government's self-managed fund for insurance and risk management. Comcover's premium revenue and reinsurance recoveries were impacted by a hardening of the insurance market over the past twelve months, and expenses were impacted by claims relating to bushfires in Holsworhy and Canberra and fires within detention centres.

6.312 Excluding Comcover, Finance's budget-funded activities recorded a surplus of $5.5 million and the Property Management Branch a surplus of $6.9 million. The movement from the $100 million surplus in 2002 is explained by a decrease in sales of property portfolio assets and rental revenue due to the transfer of the Overseas Property Group to the Department of Foreign Affairs and Trade.

6.313 Finance's equity has increased despite the operating deficit for the year. Significant contributing factors to this increase were equity injections of $120.2 million along with an increment to the asset revaluation reserve of $98.4 million.

These increases have been partially offset by returns of contributed equity of $91.8 million, dividends of $9.4 million and restructuring between Finance and the Department of Immigration and Multicultural Affairs reducing net assets by $9.3 million.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	1,137.65	5,590.92
Total expenses	10,020.42	6,458.73
Total assets	913.92	(568.48)
Total liabilities	61,237.08	54,725.42

6.314 The comparative decrease in revenue is due to $3.3 billion net sale proceeds being recognised in fiscal 2002 from the sale of Sydney Airport Corporation Limited and National Rail Corporation. The revaluation and subsequent increase in the Australian Government's unfunded public sector superannuation liability is the main cause of the increase in total expenses and liabilities. Assets have increased by $1.48 billion as a result of the increase in cash held within the Official Public Account, this is a result of the change in cash management practices within the Commonwealth. This has been partially offset by write-downs in the investments of the Australian Industry Development Corporation and the Australian River Company.

Audit results

Financial statements

6.315 An unqualified audit report on Finance's financial statements was issued.

Summary of significant agency and administered audit findings

6.316 There were no significant agency or administered audit issues arising from the audit.

Australian Electoral Commission (AEC)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	8.70	(12.37)
Commonwealth's equity investment	27.99	22.59
Ratio of current assets to current liabilities	2.13:1	2.12:1
Ratio of total assets to total liabilities	2.10:1	1.76:1

6.317 The AEC reported an operating surplus of $8.7 million which is mainly attributed to increased revenue from fee-for-service activities. An amount of $3.66 million of the operating surplus relates to funds appropriated and quarantined for use under the Electoral and Referendum Amendment Act (No.1) 1999.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	4.14	4.68
Total expenses	0.11	38.71
Total assets	1.10	0.96
Total liabilities	0.00	0.21

6.318 The decrease in administered revenues and expenses is associated with a reduction in electoral fines and penalties and the payments for election funding for the Federal election of November 2001.

Audit results

Financial statements

6.319 An unqualified audit report on AEC's financial statements was issued.

Summary of significant agency and administered audit findings

6.320 There were no significant departmental or administered audit issues arising from the audit.

Australian Industry Development Corporation (AIDC)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	0.08	0.41
Commonwealth's equity investment	6.00	6.60
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

6.321 The AIDC is in the process of winding down to finality the residual and other obligations of the AIDC.

Audit results

Financial statements

6.322 An unqualified audit report on AIDC's financial statements was issued.

Summary of significant agency and administered audit findings

6.323 There were no significant audit issues arising from the audit.

Employment National (EN)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	14.68	(13.62)
Commonwealth's equity investment	4.60	46.25
Ratio of current assets to current liabilities	0.72:1	0.21:1
Ratio of total assets to total liabilities	0.72:1	0.43:1

6.324 The company effectively ceased core operations (employment placement services) on 1 April 2003. Revenues from core activities for the nine months ended 31 March 2003 were $25.9 million, and were supplemented for the year by revenue from the sale of sections of the business to external entities ($3.4 million) and by other revenue of $3 million. Operating costs for the year decreased as a result of a fall in staff numbers, and the write back of unutilised provisions for loss making contracts of $29.9 million resulting in a surplus of $14.68 million for the year.

Audit results

Financial statements

6.325 An unqualified audit report on EN's financial statements was issued.

Summary of significant agency and administered audit findings

6.326 There were no significant audit issues arising from the Company's audit.

Comments on non-material entities with significant audit findings

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

Australian Submarine Corporation (ASC)

6.328 The financial statement audit of ASC was completed with an unqualified audit report issued, which included an emphasis of matter referring to the significant uncertainty that exists regarding the resolution of the technical and commercial issues on the submarine build contract. This issue has the potential to have a material financial impact on the future financial performance and position of ASC. However, negotiations are continuing on the basis that any overall settlement will not have a significant adverse financial impact upon the company.

Australian River Co. Limited

6.329 The audit report for the Australian River Co. Limited for the year ended 30 November 2002 contains an emphasis of matter outlining an inherent uncertainty regarding the future of its operations.

Foreign Affairs and Trade Portfolio

Reporting Entity as at 30 June 2003	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Foreign Affairs and Trade	**Yes**	✓	25-Aug-03	
Australian Agency for International Development	**Yes**	✓	18-Aug-03	
Export Finance and Insurance Corporation	**Yes**	✓	8-Aug-03	
Australia-Japan Foundation	No	✓	16-Sep-03	
Australian Centre for International Agricultural Research	No	✓	10-Sep-03	
Australian Secret Intelligence Service	No	✓	27-Aug-03	
Australian Trade Commission	**Yes**	✓	13-Aug-03	

✓ audit report not modified
E audit report contains an emphasis of matter
Q audit report contains a qualification
A audit report contains additional statutory disclosure

➾signed financial statements not presented for audit at this time
☞financial year end date other than 30 June 2003
◆significant internal control issues noted (since Audit Report No.61 of 2002–2003) and/or other signficant audit issues noted

Portfolio overview

6.330 Foreign Affairs and Trade portfolio agencies support Ministers in the conduct of Australia's foreign and trade policy. Portfolio agencies develop and promote domestic and international understanding of Australia's foreign and trade policy; support Australian business through market access and export advice and assistance; promote trade and investment; provide consular and passports services to Australians in Australia and overseas; manage the overseas property owned by the Commonwealth Government; and provide sustainable development and relief assistance to the world's developing and least-developed countries.

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

Department of Foreign Affairs and Trade (DFAT)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	135.01	88.97
Commonwealth's equity investment	1,663.84	1,604.63
Ratio of current assets to current liabilities	1.88:1	1.33:1
Ratio of total assets to total liabilities	11.71:1	10.83:1

6.332 The improved performance of the Australian dollar caused significant movements in this year's financial statements. These movements coupled with increased revenue from sale of assets and a reduction in payments to suppliers resulted in the improved financial performance.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	174.99	187.55
Total expenses	309.19	342.46
Total assets	1,064.06	1,184.91
Total liabilities	157.38	184.80

6.333 The decrease in total revenues is mainly attributable to the movement of the Australian dollar reported in the National Interest Account, which resulted in lower reported interest and premiums received. Expenses were less this year as the prior year included the expensing of one off adjustments to the North American Pension Scheme following changed administrative responsibility. This was partially offset by an increase in foreign exchange losses of $29 million due to the impact of a strengthening of the Australian dollar.

Audit results

Financial statements

6.334 An unqualified audit report on DFAT's financial statements was issued.

Summary of significant agency and administered audit findings

6.335 A weakness related to the management of changes to the human resource system and the general ledger system was reported in the Auditor-General Report No 61 2002–2003 *'Control Structures as part of the Audit of Financial statements of*

Major Commonwealth Entities for the Year Ending 30 June 2003. This matter has now been resolved and no additional significant departmental or administrative issues arose during the fiscal audit.

6.336 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2003.

Ratings	Opening position at March 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
A	0	0	0	0
B	1	1	0	0
Total	**1**	**1**	**0**	**0**

Australian Agency for International Development (AusAID)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	(2.54)	0.11
Commonwealth's equity investment	(3.32)	(0.78)
Ratio of current assets to current liabilities	0.88:1	1.14:1
Ratio of total assets to total liabilities	0.80:1	0.94:1

6.337 AusAID's 2002–2003 operating result deficit is mainly attributed to increased employee related expenses encompassing the recognition of superannuation on-costs for the first time, changes in other employee provisions and increased costs associated with conditions of service at overseas posts.

6.338 The decrease in the Commonwealth's equity is attributable to the recorded deficit of $2.54 million.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	0.14	0.20
Total expenses	1,712.93	1,202.91
Total assets	860.16	447.58
Total liabilities	1,173.34	969.48

6.339 The increase in administered expenses was due mainly to timing of multilateral agreement contributions to international institutions such as the International Development Association ($342 million), Global Environment Facility ($68 million) and Heavily Indebted Poor Countries Initiatives ($18 million).

6.340 Administered assets increased due to higher receivables at balance date, resulting from the timing of funding for multilateral agreements.

6.341 The increase in total administered liabilities was mainly attributable to an increase in grants payable as at balance date.

Audit results

Financial statements

6.342 An unqualified audit report on AusAID's financial statements was issued.

Summary of significant agency and administered audit findings

6.343 There were no significant agency or administered audit issues arising from the audit.

Export Finance and Insurance Corporation (EFIC)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	41.90	38.30
Commonwealth's equity investment	253.70	237.90
Ratio of current assets to current liabilities	N/A	N/A
Ratio of total assets to total liabilities	1.08:1	1.07:1

6.344 There was no significant movement in the financial performance of EFIC during 2002–2003.

Audit results

Financial statements

6.345 An unqualified audit report on EFIC's financial statements was issued.

Summary of significant agency audit findings

6.346 There were no significant issues arising from the audit.

Australian Trade Commission (AusTrade)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	10.75	10.20
Commonwealth's equity investment	75.05	84.20
Ratio of current assets to current liabilities	1.80:1	2.65:1
Ratio of total assets to total liabilities	2.86:1	3.29:1

6.347 The decrease in the Commonwealth's equity is primarily attributable to revaluation of Land and Buildings ($7.41 million).

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	0.10	0.67
Total expenses	150.40	151.58
Total assets	6.65	7.67
Total liabilities	1.97	1.71

6.348 The decrease in administered revenue was due to a reduction in sales of goods and services.

Audit results

Financial statements

6.349 An unqualified audit report on AusTrade's financial statements was issued.

Summary of significant agency and administered audit findings

6.350 There were no significant agency or administered audit issues arising from the audit.

Health and Ageing Portfolio

Reporting Entity as at 30 June 2003	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Health and Ageing	**Yes**	E	29-Aug-03	◆
–Therapeutic Goods Administration	No	✓	29-Aug-03	
–CRS Australia	No	✓	29-Aug-03	
Aged Care Standards and Accreditation Agency Ltd	No	✓	23-Sep-03	
Alcohol Education and Rehabilitation Foundation Ltd	No	✓	09-Sep-03	
Australian Hearing Services	No	✓	12-Sep-03	
Australian Institute of Health and Welfare	No	✓	24-Sep-03	
Australian Radiation Protection and Nuclear Safety Authority	No	✓	04-Sep-03	
Food Standards Australia New Zealand	No	✓	21-Jul-03	
General Practice Education and Training Ltd	No	✓	11-Sep-03	
Health Insurance Commission	**Yes**	E	12-Sep-03	◆
Health Services Australia Ltd	No	✓	26-Sep-03	◆
Medibank Private Ltd	**Yes**	✓	15-Aug-03	
National Institute of Clinical Studies Ltd	No	✓	23-Sep-03	
Private Health Insurance Administration Council	No	✓	12-Sep-03	
Private Health Insurance Ombudsman	No	✓	24-Sep-03	
Professional Services Review	No	✓	29-Sep-03	

✓ audit report not modified
E audit report contains an emphasis of matter
Q audit report contains a qualification
A audit report contains additional statutory disclosure

➻signed financial statements not presented for audit at this time
☞financial year end date other than 30 June 2003
◆significant internal control issues noted (since Audit Report No.61 of 2002–2003) and/or other signficant audit issues noted

Portfolio overview

6.351 The Health and Ageing portfolio's vision is better health and healthier ageing for all Australians through a world class system which:

- meets people's needs throughout their life;
- is responsive, affordable and sustainable;
- provides accessible, high quality service including preventative, curative, rehabilitative maintenance and palliative care; and

- seeks to prevent disease and promote health.

6.352 Its mission is to make a difference by:

- looking outwards to listen and respond to consumers, and engage constructively with professionals, providers, government and industry;
- looking forwards to respond effectively to emerging challenges including an ageing population, and improve services and care by strategic planning, benefiting from emerging knowledge and technologies; and
- looking after the health and wellbeing of the community, the funds entrusted to the Department by the Australian people, and the priorities of the Ministerial team and the Government.

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

Department of Health and Ageing (DoHA)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	0.27	2.98
Commonwealth's equity investment	35.87	6.95
Ratio of current assets to current liabilities	1.45:1	1.05:1
Ratio of total assets to total liabilities	1.22:1	1.05:1

6.354 DoHA's results for 2003 are not directly comparable to those of the prior year because the 2003 figures include results for CRS Australia (CRS), which was consolidated into the DoHA's financial statements for the year just completed. As at 1 July 2002, CRS was transferred to DoHA from the Department of Family and Community Services. DoHA as a whole, recorded a small net operating surplus that included the combined effects of operating deficits recorded by DoHA and the Therapeutic Goods Administration (TGA), and a significant operating surplus by CRS. The inclusion of CRS within DoHA also had a positive impact on DoHA's Commonwealth's equity investment position, and has increased the absolute differences between DoHA's current assets and its current liabilities and likewise between its total assets and total liabilities.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	30,270.92	28,496.73
Total expenses	30,209.20	28,008.45
Total assets	255.29	119.03
Total liabilities	2,104.83	1,467.69

6.355 The balances are largely consistent with those of the prior year and the increase in revenues and expenses reflects budget increases. An increase in assets was principally due to a larger cash balance being held by DoHA at 30 June 2003 due to the timing differences of payments to be made on behalf of the Department of Veterans' Affairs and for payments relating to the Health Insurance Commission. The increase in liabilities is due to the recognition of the medical indemnity scheme liability ($498 million) and increases to personal benefits liabilities that relate to the higher than expected usage of the Pharmaceutical Benefits Scheme and Private Health Insurance 30 per cent Rebate Scheme.

Audit results

Financial statements

6.356 An unqualified audit report on DoHA's financial statements was issued, which included an emphasis of matter due to the inherent uncertainty regarding the Commonwealth's liability for the Medical Indemnity IBNR Scheme for the Medical Defence Organisations. Refer to Part 3 of this report for details.

Summary of significant agency and administered audit findings

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

- inability to verify that proper authorisation by a delegate of departmental and administered payments;
- business resumption planning has not been completed by DoHA;
- deficiencies were noted in DoHA's administration of user access to its operating systems, applications and data;
- appropriate reconciliations between a grant payment system and the general ledger were not being performed on a timely basis; and
- grant acquittal documentation was not being reviewed in a timely manner and in some instances was not received.

6.358 Overall, DoHA's responses were positive and the progress in resolving these outstanding audit issues appears to be reasonable. The ANAO has been advised that the audit issue relating to reconciliations between a grant payment system and the general ledger has been addressed. The remaining four audit issues remain outstanding. The ANAO will review the progress on all issues as part of the 2003-2004 financial statements audit.

6.359 During the final audit phase, one new moderate risk audit issue was noted. This issue concerns the need to improve a number of administrative matters relating to the conduct of the multipurpose services (MPS) program under the Aged Care Act.

6.360 The progress of action on this issue will be examined as part of the 2003-2004 performance audit of Rural Health and during the 2003-2004 financial statements audit.

6.361 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2003.

Ratings	Opening position at March 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
A	0	0	0	0
B	5	1	1	5
Total	**5**	**1**	**1**	**5**

Health Insurance Commission (HIC)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	(22.50)	3.48
Commonwealth's equity investment	52.44	44.16
Ratio of current assets to current liabilities	0.64:1	0.68:1
Ratio of total assets to total liabilities	1.51:1	1.45:1

6.362 The significant negative turnaround for HIC's operating results was primarily due to:

- revenue funding not keeping pace with technological changes as a result of the government's eBusiness agenda and electronic claiming (as confirmed by HIC);

- revenue funding increases not keeping pace with employee expense increases;
- increased amortisation and depreciation charges associated with the implementation of various systems which form part of the Business Improvement Program and changes to the accounting treatment of leasehold assets; and
- funding for the development of systems that form part of the Business Improvement Program have been provided through equity injections.

Overall, HIC's deficit for the year ended 30 June 2003 of $22.5 million was slightly less than the budgeted deficit of $23.2 million that was approved by the Government.

In the 2003-2004 Commonwealth Budget, HIC was granted additional revenue of $34.3 million to enable it to budget for a small operating surplus ($0.6 million).

The Commonwealth equity investment in HIC has increased largely due to the Business Improvement Program capital injection (as mentioned above). The slight decrease in the ratio of current assets to current liabilities is the result of an increase in the employee provision. The ratio of total assets to total liabilities has improved due to an increase of intangible assets resulting from the implementation of various systems that are part of the Business Improvement Program (as mentioned above).

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	16,648.97	15,052.02
Total expenses	16,597.21	14,996.78
Total assets	1,873.00	1,257.05
Total liabilities	1,845.72	1,237.23

6.363 The increases in administered revenues and expenses relate to general volume and average cost increases for the Medicare Benefits system, the Pharmaceutical Benefits Scheme (PBS) and the 30 per cent Private Health Insurance Rebate Scheme. In addition, the Medical Indemnity IBNR Scheme was introduced and administered by HIC during the year. The initial expense for the scheme of $498 million represents the amount advised by the Australian Government Actuary and was taken up at 30 June 2003. The effect of the Medical Indemnity IBNR Scheme is also reflected in the administered total assets and total liabilities.

Audit results

Financial statements

6.364 An unqualified audit report on HIC's financial statements was issued, which included an emphasis of matter due to the inherent uncertainty regarding the Commonwealth's liability for the Medical Indemnity IBNR Scheme for the Medical Defence Organisations. Refer to Part 3 of this report for details.

Summary of significant agency audit findings

6.365 As part of the interim audit, the ANAO identified the following issues for attention by HIC:

- address the control practices and administration of user access over the mainframe environment;
- establish a security monitoring and incident detection function within the organisation;
- formally implement and test comprehensive business continuity plan and supporting disaster recovery plans;
- establish a central register for portable and attractive assets and ensure that the policy and procedures relating to the portable and attractive assets are adhered to;
- undertake regular stocktakes on assets leased from the outsourced IT provider to ensure that the costs incurred on the assets are relevant and appropriate for operational requirements;
- ensure that monthly asset reconciliations are independently reviewed and that management is provided with explanations of monthly changes in assets; and
- monitor agreements with external agencies to ensure that they remain current.

6.366 HIC's responses were generally positive. However, all issues except one remain outstanding. The issue dealing with monthly asset reconciliations has been satisfactorily resolved. The ANAO acknowledges that HIC has established a portable and attractive assets register and the associated policy since the finalisation of the 2002–2003 financial statements audit. Furthermore, HIC has advised that stocktakes of outsourced IT leased assets have been undertaken by both the outsourced IT provider and HIC. However, the results of the action taken by HIC to address the matters have yet to be audited by the ANAO. They will be reviewed along with the progress of the other outstanding issues as part of the 2003-2004 financial statements audit.

6.367 The final audit phase noted one new significant business risk audit issue. This issue was in relation to the apparent discrepancy in the nexus between attributed costs and associated billings following a review of various new software/system programs, initiatives, and projects being developed during the year. The ANAO has recommended that HIC agrees with the DoHA, a methodology and basis for calculating and including overhead costs attributable to its projects. It should also implement a more accurate cost attribution process within its financial system for new projects and programs to ensure the allocation of costs accurately reflects the timing of those costs and that the full costs of development can be identified against the original budget.

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

- improve the reporting channels by which key financial risks arising out of operational activities are identified;
- evaluate the ability of the existing Finance Division resources to meet the needs of key internal and external stakeholders with respect to the financial reporting function;
- investigate the most appropriate way for the New South Wales State Office to receive direction and input from the Central Office Finance Division to ensure an appropriate balance is achieved between the objectives of efficient transaction processing and management of statutory reporting risks;
- amend the note disclosure relating to economic dependency to align it against the documentary undertaking from the Department of Finance and Administration; and
- improve the monitoring of the financial impact and progress of Business Improvement Program initiatives.

6.369 The progress of action taken on these issues will also be examined as part of the 2003-2004 financial statements audit.

Summary of significant administered audit findings

6.370 No significant audit issues were noted during the audit. However, additional moderate risk audit issues were noted relating to the following:

- as a result of the major impact of the Government's Medical Indemnity IBNR Scheme on HIC's 2002–2003 financial statements it was recommended that HIC; undertake a detailed risk assessment of all the medical indemnity scheme measures administered by HIC; establish an effective process to ensure the identification and analysis of potential impacts of financial risks arising out of the operational aspects of HIC activities; and to supplement the current system development staff involved on the Medical Indemnity Project with appropriate Finance resources who should assume the responsibility for the mitigation of the assessed financial reporting risks;

- develop reconciliations between the underlying systems for grant expenses and accruals, and the general ledger from which financial information is generated;
- implement preventative measures to ensure accounts which are restricted by legislation do not become overdrawn; and
- gain a comprehensive understanding of the estimation model, its underlying assumptions and the processes used by HIC to determine the outstanding claims for Medicare and PBS at year end.

6.371 Progress on these issues will also be examined as part of the 2003-2004 financial statements audit.

6.372 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2003.

Ratings	Opening position at March 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
A	0	0	1	1
B	7	1	9	15
Total	**7**	**1**	**10**	**16**

Medibank Private Ltd (Medibank)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	10.31	(175.47)
Commonwealth's equity investment	392.69	382.39
Ratio of current assets to current liabilities	1.59:1	1.58:1
Ratio of total assets to total liabilities	1.63:1	1.62:1

6.373 Medibank's annual report notes the significant improvement in performance this year and the need to ensure outlays remain at a level members are prepared to fund through premium contributions.

Changes in accounting policies

6.374 Medibank adopted AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets' for the first time. This had no impact on the financial statements.

6.375 In addition, Medibank also adopted AASB 1028 'Employee Benefits' for the first time. The financial effect of the adoption of this standard was a reduction of retained earning of $82,000 and an increase in employee expenses and provision in the current period of $165,000.

Audit results

Financial statements

6.376 An unqualified audit report on Medibank's financial statements was issued.

Summary of significant agency audit findings

6.377 There were no significant audit issues arising from the audit.

Comments on non-material entities with significant audit findings

6.378 There was only one significant audit issue relating to non-material entities within this portfolio and that referred to the Health Services Australia Ltd. At the time of audit, the changes that had occurred to companies in the group were not reflected in their Registers of Members and Share Capital as required by section 168 of the Corporations Law. The ANAO has been advised that appropriate action has now been taken by the companies to update these registers.

Immigration and Multicultural and Indigenous Affairs Portfolio

Reporting Entity as at 30 June 2003	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Immigration and Multicultural and Indigenous Affairs	**Yes**	✓	02-Sep-03	◆
Migration Review Tribunal	No	✓	09-Sep-03	
Refugee Review Tribunal	No	✓	09-Sep-03	
Aboriginal and Torres Strait Islander Commission	**Yes**	✓	08-Oct-03	◆
–Aboriginals Benefit Account	No	✓	28-Aug-03	
–Aboriginal and Torres Straight Islander Educational and Cultural Advancement Account	No	✓	08-Oct-03	
–Aboriginal and Torres Straight Islander Land Fund Account	**Yes**	✓	08-Oct-03	
–Bilioara Pty Ltd	No	✓	30-Sep-03	
–Yeperenya Pty Ltd	No	✓	14-Oct-03	
Indigenous Business Australia	No	✓	13-Oct-02	
–Bowen Basin Holdings Pty Ltd	No	✓	28-Oct-03	
–Bowen Basin Holdings Trust	No	✓	28-Oct-03	
–Bowen Basin Investments Pty Ltd	No	✓	28-Oct-03	
–Bowen Basin Investments Trust	No	✓	28-Oct-03	
Aboriginal Hostels Limited	No	✓	24-Sep-03	◆
Australian Institute of Aboriginal and Torres Strait Islander Studies	No	✓	29-Sep-03	
Indigenous Land Corporation	No	✓	09-Sep-03	
Torres Strait Regional Authority	No	✓	03-Sep-03	
Anindilyakwa Land Council	No	✓	10-Sep-03	
Central Land Council	No	✓	26-Sep-03	
Northern Land Council	No	✓	18-Sep-03	
Tiwi Land Council	No	✓	26-Sep-03	
Wreck Bay Aboriginal Community Council	No	✓	15-Dec-03	

✓ audit report not modified
E audit report contains an emphasis of matter
Q audit report contains a qualification
A audit report contains additional statutory disclosure

⊷ signed financial statements not presented for audit at this time
☞ financial year end date other than 30 June 2003
◆ significant internal control issues noted (since Audit Report No.61 of 2002–2003) and/or other signficant audit issues noted

Portfolio overview

6.379 The 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.

6.380 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	2003 $m	2002 $m
Net surplus/(deficit) for the year	26.94	(37.21)
Commonwealth's equity investment	185.44	140.16
Ratio of current assets to current liabilities	1.62:1	1.39:1
Ratio of total assets to total liabilities	1.93:1	1.72:1

6.381 An analysis of DIMIA's financial performance and position highlighted the following significant issues:

- increased appropriation revenue received for the administration of outcomes and insurance revenue of $13 million from Comcover relating to damage at various detention centres;
- suppliers' expense decreased by $54.3 million due mainly to a reduction in on-shore detainees and reduced costs for the administration of output 1.5 on Manus Island and Nauru;

- a significant increase in DIMIA's land and buildings of $46.3 million as a result of the transfer of land associated with the detention centres and additional buildings from the Department of Finance and Administration (Finance); and
- a substantial increase in DIMIA's finance leases of $11 million due to the signing of a four year extension to the IT services contract.

6.382 During the reporting period the net equity of DIMIA increased by $45.3 million. This increase is due to the net effect of an equity injection of $27.5 million, the transfer of detention centres from Finance of $29.40 million, an operating surplus of $26.9 million offset by a return of contributed equity of $2.7 million (related to the Agency Banking Investment Scheme adjustment), the transfer of the Christmas Island Immigration Reception and Processing Centre to Finance of $20.4 million and a capital use charge of $15.4 million.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	397.16	313.44
Total expenses	238.44	203.99
Total assets	496.51	506.88
Total liabilities	32.00	36.72

6.383 The increase in administered revenue of $83.7 million is mainly a result of an increase in visa revenue of $55 million from short stay visitor visas, migration applications and on-shore student applications. In addition, there was an increase in recovery costs associated with airfares, charters and escorts of detainees.

6.384 Administered expenses increased by $34.5 million due to an increase in migrant community service grants and an increased write-down of detainee debts as a consequence of fully accruing all detainee debts.

6.385 Improved processes at State Offices resulted in the banking of public money and write-off of receivables being undertaken in a more timely period. This contributed to a reduction in administered assets of $10.4 million.

6.386 There was an overall decrease in administered liabilities of $4.7 million due to a decrease in unearned income and a decrease in trade creditors as a result of DIMIA's efforts to improve the timeliness of payments to suppliers.

6.387 The ANAO was satisfied that these items had been correctly accounted for and disclosed correctly in the financial statements.

Audit results

Financial statements

6.388 An unqualified audit report on DIMIA's financial statements was issued.

Summary of significant agency and administered audit findings

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

- management policies and procedures to mitigate risks to the business and accounting processes were not adequately adhered to by the Australian Commerce and Industry Office in Taipei;
- a fraud control plan which had not been updated;
- a lack of regular reviews of users with privileged access to the Financial Management Information System;
- untimely removal of access from employees who had left DIMIA;
- the need to update DIMIA's Business Continuity Plan (BCP) within a Departmental framework; and
- the IT Disaster Recovery Plan, a component of the BCP, was missing key elements.

6.390 Overall, the ANAO considers that DIMIA has made reasonable progress in resolving these audit issues. It is anticipated that they will be cleared over the coming year.

6.391 One additional control issue was identified during the final audit phase which related to the signing of contracts that contained unlimited indemnities. Under the Financial Management and Accountability (FMA) Regulations, approval of unlimited indemnities by the Finance Minister is required prior to signing. DIMIA has signed seven contracts with unlimited indemnity clauses without the Finance Minister's authorisation.

6.392 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2003.

Ratings	Opening position at March 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
A	0	0	1	1
B	6	3	0	3
Total	**6**	**3**	**1**	**4**

Aboriginal and Torres Strait Islander Commission (ATSIC)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	28.41	60.86
Commonwealth's equity investment	552.07	527.60
Ratio of current assets to current liabilities	6.98:1	3.90:1
Ratio of total assets to total liabilities	15.06:1	10.59:1

6.393 ATSIC achieved a surplus substantially less than the prior year, primarily due to the following factors:

- an asset write down of $15.9 million as a result of a rigorous exercise undertaken by management to provide for business loans in arrears ;
- losses made on the divestment of Morr Morr amounting to $11.6 million;
- an increase in employee expenses of $2.6 million due to across the board pay rises; and
- an increase in depreciation charge of $1.5 million due to increase in asset base.

6.394 Additional operational activities were undertaken during the year resulting in an increase in employee and grant expenses. This was marginally offset by an increase in revenues from government from $1.07 billion to $1.14 billion.

6.395 Despite the decrease in the net surplus, the Commonwealth's equity investment has increased during the year. The increase is mainly attributed to:

- an increase in accumulated surpluses of $18 million ; and
- an increase in the asset revaluation reserve of $6.4 million.

6.396 The increase in the ratio of current assets to current liabilities is due to an increase of $22 million in cash in the financial statements of ATSIC compared to that of the prior year, due to timing of transfer of funds out of cash at agents to loan receivables.

6.397 The increase in the ratio of total assets to total liabilities is attributable to the factors below:

- an increase in the cash balance of $22 million compared to prior year;

- a decrease of $2.3 million in finance lease liabilities due to a refresh during the year;
- no ongoing Capital Use Charge and grant liabilities in 2003; and
- a decrease in provision for deferred tax liabilities of $3.6 million.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	93.93	50.07
Total expenses	91.11	92.38
Total assets	1,380.81	1,171.81
Total liabilities	7.76	8.30

6.398 The increase in administered revenues is primarily due to an increase of $12 million in interest revenue due to favourable interest rates and a net gain of $32 million on the sale of Capital Index Bonds held by the Aboriginal and Torres Strait Islander Land Fund Account.

6.399 The increase in total assets is primarily due to increases in investments held by the Aboriginal and Torres Strait Islander Land Fund Account and the Aboriginal Benefit Account.

Audit results

Financial statements

6.400 An unqualified audit report on ATSIC's financial statements was issued.

Summary of significant agency audit findings

6.401 As part of the interim audit, the ANAO noted that ATSIC needed to:

- enforce the IT network account policy and, in conjunction with the IT service provider, review the number of privileged users; and
- perform a review of all users who have logical access to key systems within ATSIC and restrict access to those users with appropriate business needs.

6.402 These two issues have now been cleared.

6.403 As part of the final audit, the ANAO noted that ATSIC needed to:

- amend the Grant Management System (GMS) to strengthen procedures in processing and recording transactions for grantees in breach of grant conditions and to ensure that there is a clear audit trail to support recording of inadequate acquittals;

- review the status of all long outstanding loans as a priority; undertake proactive debt recovery procedures; and ensure that the provision for doubtful debts continues to be based on the recoverability of the full loan value, after allowing for realisation of any security held; and
- institute monthly reconciliation procedures and ensure any loan balances included in the cash at agents balance are transferred to loans receivable in a timely manner to effectively monitor the receivables to ensure that the repayments are made in accordance with the terms of the loan agreement.

6.404 The first issue has now been cleared, while work on estimating the business loan provision and the transfer of loan balances to loans receivables is continuing.

6.405 The following table provides a summary of the status of audit issues arising from the audit.

Ratings	Opening position at March 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
A	-	-	-	-
B	2	2	3	3
Total	**2**	**2**	**3**	**3**

Aboriginal and Torres Strait Islander Land Fund Account (ATSILFA)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	89.44	46.70
Commonwealth's equity investment	1,290.65	1,095.20
Ratio of current assets to current liabilities	No liabilities	No liabilities
Ratio of total assets to total liabilities	No liabilities	No liabilities

6.406 The ATSILFA received a special appropriation of $90.4 million (2001–2002; $88.8 million) that is credited directly to the ATSILFA and a further revenue appropriation of $53.5 million that is distributed to the Indigenous Land Corporation. These appropriations will cease in 2004 as, in subsequent years, the capital base of the ATSILFA will be sufficient for the annual earnings to replace the government's appropriations, making it a perpetual fund. The ATSILFA earned $56.1 million (2001–2002: $45.30 million) in investment income and also gained an investment revaluation increment of $15.56 million (2001–2002: $18.96 million).

Audit results

Financial statements

6.407 An unqualified audit report on ATSILFA's financial statements was issued.

Summary of significant agency audit findings

6.408 There were no significant audit issues arising from the audit.

Comments on non-material entities with significant audit findings

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

Aboriginal Hostels Ltd (AHL)

6.410 The major issues noted as a result of the audit related to the need for AHL to:

- improve asset management and reporting procedures; and
- improve their financial management procedures relating to reconciliations and the maintenance of a log of non-standard journals.

6.411 AHL has advised that appropriate action has been taken, or is proposed, to address these issues.

Industry, Tourism and Resources Portfolio

Reporting Entity as at 30 June 2003	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Industry, Tourism and Resources	**Yes**	✓	29-Aug-03	◆
Australian Government Analytical Laboratories	No	✓	29-Aug-03	
Australian Technology Group Limited	No	✓	3-Oct-03	
Australian Tourist Commission	**Yes**	✓	15-Aug-03	
CVC REEF Limited	No	✓	7-Nov-03	
Hydrocool Pty Limited	No	✓	3-Oct-03	
Geoscience Australia	No	A	18-Sep-03	
IIF Bioventures Pty Limited	No	✓	19-Dec-03	
IIF Foundation Pty Limited	No	✓	19-Dec-03	
IIF Investments Pty Ltd	No	✓	19-Dec-03	
IIF Newport Pty Limited	No	✓	19-Dec-03	
Wind Corporation of Australia	No	✓	7-Nov-03	
IIF (CM) Investments Pty Ltd	No	✓	19-Dec-03	
IP Australia	No	✓	17-Sep-03	◆
National Aeronautics and Space Administration + (30-Sept-02)	No	✓	13-Dec-02	
National Standards Commission	No	✓	15-Aug-03	

✓ audit report not modified
E audit report contains an emphasis of matter
Q audit report contains a qualification
A audit report contains additional statutory disclosure

➾signed financial statements not presented for audit at this time
☞financial year end date other than 30 June 2003
◆significant internal control issues noted (since Audit Report No.61 of 2002–2003) and/or other signficant audit issues noted

Portfolio overview

6.412 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.

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

6.414 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	2003 $m	2002 $m
Net surplus/(deficit) for the year	4.79	(8.60)
Commonwealth's equity investment	29.04	29.18
Ratio of current assets to current liabilities	1.11:1	1.31:1
Ratio of total assets to total liabilities	1.49:1	1.51:1

6.415 The DITR financial result changed from deficit to surplus, largely due to the 'one-off' expenses recognised in the prior financial year relating to the transfer of Australian Surveying and Land Information Group (AUSLIG) from DITR to Geoscience Australia.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	1,332.67	1,349.73
Total expenses	1,470.75	4,040.99
Total assets	529.08	1,286.74
Total liabilities	245.12	262.34

6.416 The decrease in administered expenses is mainly attributed to the $2.3 billion write-down of administered investments that was recognised in the prior year, largely as a result of the corporatisation of the Snowy Mountains Hydro Electric Authority (SMHEA). The reduction in total assets is principally due to a loan repayment by SMHEA of $808 million.

Audit results

Financial statements

6.417 An unqualified audit report on DITR's financial statements was issued.

Summary of significant agency and administered audit findings

6.418 As part of the interim audit the ANAO noted that DITR was still in the process of:

- strengthening controls over the processing of claims for payment;
- developing a more broadly based business resumption plan, in addition to the existing disaster recovery plan covering their IT systems and processes; and
- strengthening access controls surrounding DITR's Oracle databases, which are used to store critical financial data.

6.419 The latter two issues are still outstanding and require management action.

6.420 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2003.

Ratings	Opening position at March 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
A	0	0	0	0
B	3	1	0	2
Total	**3**	**1**	**0**	**2**

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

Australian Tourist Commission (ATC)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	4.15	1.72
Commonwealth's equity investment	8.87	5.65
Ratio of current assets to current liabilities	1.46:1	1.06:1
Ratio of total assets to total liabilities	1.67:1	1.32:1

6.422 The increase in net surplus was due to a decrease in employee expenses, which can be largely attributed to redundancy payouts recorded in the prior year. The increase in the Commonwealth's equity investment is as a result of the increases in the current year surplus.

Audit results

Financial statements

6.423 An unqualified audit report on ATC's financial statements was issued.

Summary of significant agency audit findings

6.424 There were no significant agency audit issues arising from the audit.

Comments on non-material entities with significant audit findings

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

Geoscience Australia

6.426 An unqualified audit report on the financial statements was issued. The report contained a paragraph on 'Other Statutory Disclosures' to advise readers that Geoscience Australia had breached section 48 of the FMA Act. The contravention was in relation to the Joint Geology and Geophysics Research Station (JGGRS) special account, that was identified as not having the appropriate determination required for the establishment of a special account.

6.427 Details on the section 48 breach can be found in Part 3 of this report.

IP Australia

6.428 Four audit findings of moderate risk were noted during the audit as follows:

- The independent review of credit card purchases was insufficient. Such a control is necessary to ensure the appropriate use of public funds.
- Purchase orders were not raised for more than half of all supplier purchases made in 2002–2003. Moreover, there was inadequate guidance as to when a purchase order was required to be raised.
- IP Australia does not have a documented and approved Disaster Recovery Plan (DRP). IP Australia has however made significant progress in this area, including a recently approved Business Continuity Plan.
- The number of users who had high-level 'systems administrator' access privileges to the Authority's FMIS is excessive.

Parliamentary Departments

Reporting Entity as at 30 June 2003	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of the Senate	No	✓	01-Sep-03	
Department of the House of Representatives	No	A	01-Sep-03	
Department of Parliamentary Library	No	✓	25-Jul-03	
Department of the Parliamentary Reporting Staff	No	✓	12-Sep-03	
Joint House Department	**Yes**	✓	27-Aug-03	

✓ audit report not modified
E audit report contains an emphasis of matter
Q audit report contains a qualification
A audit report contains additional statutory disclosure

➾signed financial statements not presented for audit at this time
☞financial year end date other than 30 June 2003
◆significant internal control issues noted (since Audit Report No.61 of 2002–2003) and/or other signficant audit issues noted

Portfolio Overview

6.429 There are five parliamentary departments supporting the Australian Parliament:

- Joint House Department;
- Department of the Senate;
- Department of the House of Representatives;
- Department of Parliamentary Library; and
- Department of the Parliamentary Reporting Staff.

6.430 The following comments relate only to material departments.

Joint House Department (JHD)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	0.39	(0.42)
Commonwealth's equity investment	3.12	3.30
Ratio of current assets to current liabilities	2.35:1	1.47:1
Ratio of total assets to total liabilities	1.54:1	1.44:1

6.431 There has been no major movement in items on the Statement of Financial Performance except other revenue that increased predominantly due to recovery of monies relating to security services provided by the JHD under the Security Maintenance project from the Senate. This is the cause of the movement from last year's deficit to this year's surplus.

Items administered on behalf of the Commonwealth

Key financial measures for the year	2003 $m	2002 $m
Total revenues	0.20	40.00
Total expenses	28.39	27.99
Total assets	1,458.97	1,236.10
Total liabilities	0.12	2.40

6.432 The higher revenue in 2002 was due to a one off adjustment associated with the initial recognition of artwork donated to the Parliament of Australia. The increase in assets is a result of the revaluation exercise conducted during the year. The reduction in liabilities is due to the timing of invoice processing.

Audit Results

Financial statements

6.433 An unqualified audit report on JHD's financial statements was issued.

Summary of significant agency and administered audit findings

6.434 There were no significant departmental or administered audit issues arising from the audit.

Comments on non-material entities with significant audit findings

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

Department of the House of Representatives

6.436 An unqualified audit report on the financial statements was issued. The report contains a paragraph on 'Other Statutory Matters' advising readers that the Department had breached section 48 of the FMA Act. The Department reported two special accounts that had no established determination under section 20 of the FMA Act. These accounts are the Commonwealth Parliamentary Association—Training Head of Trust and Commonwealth Parliamentary

Association—Commonwealth of Australian Branch. Proper accounts and records had not been maintained for these accounts.

Prime Minister and Cabinet Portfolio

Reporting Entity as at 30 June 2003	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of the Prime Minister and Cabinet	**Yes**	✓	7-Aug-03	
Australian National Audit Office	No	✓	14-Aug-03	
Office of National Assessments	No	✓	9-Oct-03	
Office of the Commonwealth Ombudsman	No	✓	29-Sep-03	
Office of the Inspector-General of Intelligence and Security	No	✓	1-Oct-03	
Office of the Official Secretary to the Governor-General	No	✓	11-Sep-03	◆
Australian Public Service Commission	No	✓	19-Aug-03	
National Australia Day Council	No	✓	10-Sep-03	

✓ audit report not modified
E audit report contains an emphasis of matter
Q audit report contains a qualification
A audit report contains additional statutory disclosure

➾signed financial statements not presented for audit at this time
☞financial year end date other than 30 June 2003
◆significant internal control issues noted (since Audit Report No.61 of 2002–2003) and/or other signficant audit issues noted

Portfolio overview

6.437 The Department and the agencies comprising the Prime Minister and Cabinet portfolio produce a range of outputs directed at achieving well coordinated, efficient and accountable public administration, supported by a values based Australian Public Service.

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

Department of the Prime Minister and Cabinet (PMC)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	733	5,158
Commonwealth’s equity investment	6,228	14,305
Ratio of current assets to current liabilities	1.7:1	3.20:1
Ratio of total assets to total liabilities	1.5:1	2:1

6.439 There were decreases in both revenues ($35 million) and expenditures ($31 million) in 2002–2003. In addition there were significant decreases in both equity and operating surplus for the year. These movements are primarily due to:

- higher than usual balances in the prior period that related to Commonwealth Heads of Government Meeting (CHOGM) activity; and
- a return of $8 million in capital to the Official Public Account (OPA).

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	3.214	5.891
Total expenses	40.320	30.107
Total assets	33.756	38.657
Total liabilities	11.375	8.961

6.440 The decrease in total revenue is mainly attributable to a reduction in revenue relating to government advertising commissions received through the Media Commissions Advance Special Account resulting from a reduction in government advertising in 2002–2003.

6.441 Administered expenses have risen by $10 million in 2002–2003. This increase is due to expenses related to the Anti-Terror advertising campaign that was undertaken by PMC in 2002–2003 and is partially offset by the $10.7 million reduction in grants expense. Grants expense decreased by $10.7 million on a comparative basis in 2002–2003 due to the payment of $10 million in 2001–2002 to the Queensland Government for security at CHOGM.

6.442 The decrease in total assets is mainly a result of a significant decrease in administered cash due to the return of $2.6 million capital to the OPA and $5.3 million returned to the OPA following the cessation of the agency banking arrangements. This was partially offset by the revaluation of administered assets to fair value, which resulted in a $5.5 million increment to the Asset Revaluation Reserve. The primary administered assets are Kirribilli and the Lodge.

Audit results

Financial statements

6.443 An unqualified audit report on PMC's financial statements was issued.

Summary of significant agency and administered audit findings

6.444 There were no significant departmental or administered audit issues arising from the audit.

Comments on non-material entities with significant audit findings

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

The Office of the Official Secretary to the Governor-General

6.446 The audit identified one area of moderate significance requiring improvement. This related to the segregation of duties in some areas. The finding was satisfactorily addressed by management prior to the end of the audit.

Transport and Regional Services Portfolio

Reporting Entity as at 30 June 2003	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Transport and Regional Services	**Yes**	✓	11-Sep-03	◆
Airservices Australia	**Yes**	✓	26-Aug-03	
Albury-Wodonga Development Corporation	No	✓	5-Sep-03	
Australian Maritime College ☞ (31 December 2002)	No	✓	27-Mar-03	
Australian Maritime College Search Limited ☞ (31 December 2002)	No	✓	27-Mar-03	
Australian Maritime Safety Authority	No	✓	23-Sep-03	
Australian Rail Track Corporation	**Yes**	✓	30-Sep-03	
Australian Railway Infrastructure Foundation	No	✓	30-Sep-03	
Civil Aviation Safety Authority	**Yes**	✓	22-Aug-03	
Maritime Industry Finance Company Ltd	No	✓	2-Oct-03	
National Road Transport Commission	No	✓	28-Aug-03	
Stevedoring Industry Finance Committee	No	➾		
National Capital Authority	**Yes**	✓	28-Aug-03	

✓ audit report not modified
E audit report contains an emphasis of matter
Q audit report contains a qualification
A audit report contains additional statutory disclosure

➾signed financial statements not presented for audit at this time
☞financial year end date other than 30 June 2003
◆significant internal control issues noted (since Audit Report No.61 of 2002–2003) and/or other signficant audit issues noted

Portfolio overview

6.447 The Transport and Regional Services Portfolio delivers transport and regional development programmes and services to assist the Minister for Transport and Regional Services and the Minister for Regional Services, Territories and Local Government to achieve the Government's desired outcomes for the benefit of the Australian community.

6.448 Transportation is an important element in Australia's economic prosperity and in ensuring all Australians have access to a high standard of general services and facilities that are safer, more effective and efficient.

6.449 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.

6.450 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.

6.451 The portfolio comprises the Department of Transport and Regional Services and a number of statutory and non-statutory bodies. Each portfolio agency administers programmes and contributes a range of other outputs on behalf of the government.

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

Department of Transport and Regional Services (DOTARS)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	20.09	34.71
Commonwealth's equity investment	312.11	223.51
Ratio of current assets to current liabilities	4.16:1	2.44:1
Ratio of total assets to total liabilities	7.46:1	6.54:1

6.453 The net surplus for the year is $20.09 million before allowing for the capital use charge (CUC). After adjusting for CUC, the result was an operating deficit of $4.5 million, which was less than the approved operating deficit of $6.4 million for the fiscal year. This improved result is attributable to a number of factors which resulted in lower than projected expenses being brought to account in 2002–2003. DOTARS's net equity position increased primarily as a result of an increase in financial assets. The increase in financial assets was mainly attributable to the deferred timing of expenditure on some capital projects in the Indian Ocean Territories because of external factors.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	427.29	351.60
Total expenses	3153.19	3523.79
Total assets	883.38	935.83
Total liabilities	114.12	137.54

6.454 The increase in revenue is primarily due to increased collections of the Air Passenger Ticket Levy ($31.5 million) and proceeds from the sale of assets ($5.3 million). The decrease in expenses is caused by an implementation of a change in accounting policy for grants in the financial year 2001–2002 ($66.4 million) and a decrease in funding for existing programs in line with implementation and completion of programmes. Funds have been rephased to subsequent periods reflecting deferred timing of expenditure in some programmes. The decrease in administered assets primarily reflects a decrease in receivables associated with a change in accounting treatment of appropriation receivable. The decrease in liabilities relates to the payables for administered programmes.

Audit results

Financial statements

6.455 An unqualified audit report on DOTARS's financial statements was issued.

Summary of significant agency and administered audit findings

6.456 The issue noted by the ANAO during the interim phase of the audit in relation to Finance user segregation has been satisfactorily addressed by DOTARS. The following issues were noted during the final phase of the audit in relation to the DOTARS's special accounts:

- the previously agreed charge rate used for calculation of the Road User Charge credited to the Australian Land Transport Development Account (ALTD). A $2.85 million adjustment to the balance brought forward has not been previously reported. This outstanding balance was identified in the current year following a review of the appropriation charge rate methodology previously agreed between DOTARS and the ANAO; and
- the approach adopted in 1999-2000 for appropriating the $70 million social bonus paid under the *Telstra Corporation Act 1997* for the Rural Transaction Centres (RTC). The *Telstra Corporation Act 1997* (s47) required the $70 million 'Social Bonus' declared on 9 November 1999 arising

from the second tranche sale of Telstra Shares to be paid into the Rural Transaction Centres (RTC) Special Account. The credit applied to the account was $61.66 million, with the balance of $8.34 million being directly appropriated to DOTARS as disclosed in the 1999-2000 Budget by way of annual appropriation to meet the costs of operating the programme. As noted in Note 29D of the 2002–2003 financial statements it has subsequently been identified that the full $70 million should have been appropriated to the RTC Special Account with departmental costs then debited to that Account. The approach adopted in the 1999-2000 Budget resulted in a $8.34 million understatement in the RTC Special Account which was a breach of Section 47 of the *Telstra Corporations Act 1997*. This has been corrected in 2002–2003 by increasing the balance brought forward to the Special Account by $8.34 million.

6.457 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2003.

Ratings	Opening position at March 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
A	0	0	0	0
B	1	1	2	2
Total	**1**	**1**	**2**	**2**

Airservices Australia (Airservices)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Profit / (loss) from Ordinary Activities after Income Tax	32.70	24.85
Commonwealth's equity investment	226.37	258.58
Ratio of current assets to current liabilities	1.35:1	1.94:1
Ratio of total assets to total liabilities	1.60:1	1.79:1

6.458 Airservices' current year profit after tax compared favourably to the 2002 financial year's profit of $24.8 million. The result is contributed to by gains from the cross border lease arrangement ($42.2 million) and asset revaluation ($24 million). It has been offset by reductions in aviation prices and activity levels ($18.3 million), additional superannuation costs ($39.3 million) and additional tax expenses related to prior years' activities ($14.6 million).

Audit results

Financial statements

6.459 An unqualified audit report on Airservices' financial statements was issued.

Summary of significant agency and administered audit findings

6.460 There were no significant agency or administered audit issues arising from the audit.

Australian Rail Track Corporation (ARTC)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Profit / (loss) from Ordinary Activities after Income Tax	32.70	24.85
Commonwealth's equity investment	226.37	258.58
Ratio of current assets to current liabilities	1.35:1	1.94:1
Ratio of total assets to total liabilities	1.60:1	1.79:1

6.461 The ARTC 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. Increases in sales revenue have largely occurred due to volume increases. There has been an increase in the gross tonne kilometres charges while flag falls have remained relatively constant, indicating that while the number of train movements remains steady, train length and weight has increased.

Changes in accounting policies

6.462 The ARTC adopted the new Accounting Standard AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets' which has resulted in a change in the account for the dividends provision. Previously, the ARTC recognised a provision for dividend based on the amount that was proposed or declared after the reporting date. In accordance with the requirements of the new Standard, a provision for dividends will only be recognised at the reporting date where the dividends have been publicly declared, determined or publicly recommended prior to reporting date. The effect of the revised policy has been to increase retained profits and decrease provisions at the beginning of the year by $5,725,000. In accordance with the new Standard, no provision for dividend has been recognised for the year ended 30 June 2003.

Audit results

Financial statements

6.463 An unqualified audit report on ARTC's financial statements was issued.

Summary of significant agency and administered audit findings

6.464 There were no significant agency or administered audit issues arising from the audit.

Civil Aviation Safety Authority (CASA)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	(2.49)	(2.29)
Commonwealth's equity investment	15.44	20.12
Ratio of current assets to current liabilities	1.56:1	1.70:1
Ratio of total assets to total liabilities	1.59:1	1.79:1

6.465 The operating result was relatively consistent with the forecasted budget deficit. However, the major contributor to the operating deficit was the $2.34 million contribution to Avsuper (defined-benefit superannuation fund), required to achieve 100 per cent assets/liability coverage in the fund at 30 June 2003. The decrease in the Commonwealth's equity investment is as a result of the current year deficit of $2.49 million, the first time recognition of a $0.52 million leasehold restoration provision and the capital use charge dividend payment of $2.21 million. These decreases were offset by a $0.54 million increase in equity as a result of an increase in the valuation of CASA's property, plant and equipment.

6.466 The decrease in the current ratio is due to a significant decrease in the ending cash balance, which is mainly the result of substantial capital expenditure in 2002–2003. The majority of 2002–2003 capital expenditure was associated with the CASA Improvement Programme.

Audit results

Financial statements

6.467 An unqualified audit report on CASA's financial statements was issued.

Summary of significant agency and administered audit findings

6.468 There were no significant agency or administered audit issues arising from the audit.

National Capital Authority (NCA)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	(0.03)	2.58
Commonwealth's equity investment	7.89	8.69
Ratio of current assets to current liabilities	1.04:1	1.80:1
Ratio of total assets to total liabilities	2.48:1	2.85:1

6.469 NCA incurred an operating deficit as a result of a decrease in sales of goods and services, interest earned and donations and an increase in expenses from a number of activities.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	0.88	1.62
Total expenses	8.82	9.94
Total assets	341.05	334.72
Total liabilities	0.49	0.17

6.470 The overall reduction in revenue is mainly attributed to a significant decrease in contributions for memorial construction although there was some increase in revenue from diplomatic land rent. An overall decrease in expenditure is associated with a significant lesser amount of write down and impairment of assets this year.

Audit results

Financial statements

6.471 An unqualified audit report on NCA's financial statements was issued.

Summary of significant agency and administered audit findings

6.472 There were no significant agency or administered audit issues arising from the audit.

Treasury Portfolio

Reporting Entity as at 30 June 2003	Material Entity	Annual Report	Opinion Issued	Audit Issues
Department of the Treasury	**Yes**	E, A	10-Sep-03	
–Royal Australian Mint (commercial activity)	No	✓	12-Aug-03	◆
Australian Office of Financial Management	**Yes**	✓	22-Aug-03	◆
Australian Bureau of Statistics	**Yes**	✓	1-Aug-03	◆
Australian Competition and Consumer Commission	No	✓	26-Aug-03	
Australian Securities and Investments Commission	**Yes**	✓	8-Aug-03	
Australian Prudential Regulation Authority	No	✓	19-Sep-03	◆
Australian Accounting Standards Board	No	✓	12-Sep-03	
Australian Taxation Office	**Yes**	Q	15-Sep-03	◆
–Australian Valuation Office (commercial activities)	No	✓	31-Jul-03	
National Competition Council	No	✓	18-Sep-03	
Reserve Bank of Australia	**Yes**	✓	13-Aug-03	
–Note Printing Australia Pty Ltd	No	✓	28-Jul-03	
Reserve Bank of Australia Officers' Superannuation Fund	No	✓	9-Oct-03	
Corporations and Markets Advisory Committee	No	✓	12-Sep-03	
Productivity Commission	No	✓	4-Sep-03	

✓ audit report not modified
E audit report contains an emphasis of matter
Q audit report contains a qualification
A audit report contains additional statutory disclosure

➾signed financial statements not presented for audit at this time
☞financial year end date other than 30 June 2003
◆significant internal control issues noted (since Audit Report No.61 of 2002–2003) and/or other signficant audit issues noted

Portfolio overview

6.473 The Treasury portfolio undertakes a range of activities aimed at achieving strong sustainable economic growth and the improved well-being 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.

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

The Department of the Treasury (Treasury)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	3.73	10.87
Commonwealth's equity investment	33.55	34.05
Ratio of current assets to current liabilities	1.95:1	2.17:1
Ratio of total assets to total liabilities	1.91:1	2.12:1

6.475 The surplus reduced from that of the prior year by $7.14 million. This is mainly attributable to a $24.08 million decrease in the sale of goods and services due to a decrease in the Royal Australian Mint's circulating coins sales. The decrease was offset by a $17.12 million increase in appropriations associated with the Department taking over tax legislation design responsibilities from the ATO.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	2,612.29	3,608.44
Total expenses	33,148.75	32,518.89
Total assets	16,489.01	16,852.73
Total liabilities	5,610.26	7,111.56

6.476 The decrease in administered revenues is attributed to the $944.48 million decrease in the dividend paid to the Treasury by the Reserve Bank of Australia (RBA).

6.477 The increase in administered expenses is mainly due to an increase in grant related expenses and foreign exchange losses, caused by an appreciating Australian Dollar.

6.478 The Treasury's administered liabilities decreased through the combined effect of the UMP/AMIL scheme being transferred to the Health portfolio and favourable exchange rate movements reducing IMF commitments.

Changes in accounting policies

6.479 The accounting policies used in the preparation of the financial statements in 2002–2003 are consistent with those used in 2001–2002, except for the following changes:

- The inflow and outflow of costs associated with the collection of seigniorage for the Australian Government was recognised for the first time in the Departmental Statement of Cash Flows.
- Treasury changed the methodology for calculating the Reserve Bank of Australia remote contingency to exclude FMA Act Agency deposits.

Audit results

Financial statements

6.480 An unqualified audit report on the Treasury's financial statements was issued, which included an emphasis of matter due to the inherent uncertainty regarding the liability for the HIH Claims Support Scheme. The issue regarding the HIH Claims Support Scheme liability also resulted in an emphasis of matter in the prior year.

6.481 The audit report also mentioned under 'Other Statutory Matters' that Treasury breached section 48 of the FMA Act. During 2002–2003, three special accounts were identified as not having the appropriate Determination as required by section 20 of the FMA Act. The accounts were the Ministerial Council on Consumer Affairs; the Commonwealth Consumer Affairs Advisory Council; and the Advisory Panel for Marketing in Australia of Infant Formula. As there is no available evidence that these accounts were determined to be special accounts under section 20 of the FMA Act and to remove any doubt as to their legal existence, these accounts were abolished by the Minister for Finance and Administration on 25 June 2003. All required adjustments have been made and the accounts are adequately disclosed and recorded in the financial statements for 2002–2003.

Summary of significant agency and administered audit findings

6.482 The issue noted by the ANAO during the interim phase of the audit in relation to the management of asset disposals has been resolved by Treasury.

6.483 There were no other significant agency or administered audit issues arising from the audit.

6.484 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2003.

Ratings	Opening position at March 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
A	0	0	0	0
B	1	1	0	0
Total	**1**	**1**	**0**	**0**

Australian Office of Financial Management (AOFM)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	1.82	1.10
Commonwealth's equity investment	7.37	3.14
Ratio of current assets to current liabilities	6.22:1	3.97:1
Ratio of total assets to total liabilities	6.99:1	3.47:1

6.485 The operating surplus increased from the prior year by $0.72 million. This is primarily attributable to an increase in Departmental appropriations in the current year to fund higher capital use charge and depreciation of new asset acquisitions.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	4,572.06	4,276.16
Total expenses	6,375.45	7,165.01
Total assets	16,663.42	15,042.92
Total liabilities	61,702.62	68,688.75

6.486 The increase in administered revenue of $295.90 million was due primarily to a change in accounting policy for the measurement of Commonwealth Government Securities, which resulted in revenue of $469 million being recognised in the current year. The increase was partially offset by a decrease in swap interest revenue of $299 million, as a result of a number of swap maturities in the current year. The decrease in administered expenses of $789.56 million was mainly due to a decrease in Commonwealth Debt interest expense of $468 million, as a result of a decrease in Commonwealth Securities on issue. In addition, swap interest expenses decreased by $177 million.

6.487 It should also be noted that 2002 administered expenses included a one-off book entry of $140 million for the assumption of former debts of the Snowy Mountains Hydro Electricity Authority.

6.488 The increase in administered assets is mainly due to an increase in the balance of investments (term deposits) of surplus OPA funds from the prior year of $1.8 billion.

6.489 Administered liabilities have decreased primarily due to a reduction in the Commonwealth Securities on issue and outstanding swap principal liabilities.

Changes in accounting policies

6.490 The accounting policies used in the preparation of the financial statements in 2002–2003 are consistent with those used in 2001–2002 except for the measurement of administered financial assets and liabilities. With the implementation of a specialist debt management system, the AOFM has moved to align its accounting framework fully with best practice market conventions. The principal changes, effective from 30 June 2003 relate to the measurement, under the historical cost accounting convention of Treasury Bonds and Treasury Capital Index Bonds.

Audit results

Financial statements

6.491 An unqualified audit report on AOFM's financial statements was issued.

Summary of significant agency audit findings

6.492 During the interim phase of the audit, the ANAO noted an issue in relation to Departmental CAMM reconciliations, which had not been prepared on a monthly basis in the current financial year. This issue has subsequently been resolved.

Summary of significant administered audit findings

6.493 The ANAO noted an issue during the interim phase of the audit in relation to the process of drawing special account expenditure. A correcting journal was processed in CAMM and amounts reconciled at year end. This issue will be further addressed by the AOFM in 2003-2004.

6.494 There were no new significant audit issues arising from the final audit phase.

6.495 The following table provides a summary of the status of audit issues arising from the audit.

Ratings	Opening position at March 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
A	0	0	0	0
B	2	1	0	1
Total	**2**	**1**	**0**	**1**

Australian Bureau Of Statistics (ABS)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	6.71	10.58
Commonwealth's equity investment	56.15	60.91
Ratio of current assets to current liabilities	0.63:1	0.68:1
Ratio of total assets to total liabilities	1.63:1	1.59:1

6.496 The operating surplus has decreased from the prior year by $3.87 million. This is attributable to a decrease in funding due to the finalisation of the Census, which in turn resulted in a decrease in employee and supplier expenses. The decrease was offset by an increase in the sale of goods and services revenue due to the sale of census items.

Audit results

Financial statements

6.497 An unqualified audit report on ABS's financial statements was issued.

Summary of significant agency audit findings

6.498 The ANAO noted two weaknesses relating to employee expense management during the interim phase of the audit. The ABS has adequately resolved these issues.

6.499 The ABS's fraud control plan had not been reviewed and updated since 2000.

6.500 The following table provides a summary of the status of audit issues arising from the audit.

Ratings	Opening position at March 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
A	0	0	0	0
B	2	2	1	1
Total	**2**	**2**	**1**	**1**

Australian Securities And Investments Commission (ASIC)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	(0.11)	(5.60)
Commonwealth's equity investment	(1.03)	(0.92)

Ratio of current assets to current liabilities	0.537:1	0.744:1
Ratio of total assets to total liabilities	0.979:1	0.981:1

6.501 The operating deficit has decreased by $5.49 million from that of the prior year as a result of an increase in appropriations of $16.74 million. This increase was provided mainly for the implementation of the Financial Services Reform Act 2001 and to enhance consumer protection, regulatory and enforcement roles. Revenue from external sources also increased by $1.45 million. These increases were partially offset by increases in employee expenses of $11.73 million as a result of an increase in staff numbers and salary rates; supplier expenses of $1.08 million; and depreciation and amortisation expense of $0.62 million as a result of a higher fixed asset balance due to acquisitions and capitalisation of intangibles during the year.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	431.34	413.37
Total expenses	26.86	25.06
Total assets	24.03	26.32
Total liabilities	8.17	6.53

6.502 Total revenues increased by $17.97 million during 2002–2003. This increase is mainly due to the Corporations Act activities—incorporations and licence applications.

6.503 Total expenses increased by $1.80 million as a result of an increase in expenses of $4.87 million for development and marketing of the new search facility on the ASIC website to enable the public easier access to their accounts in relation to the Banking Act refunds. This increase was offset by a decrease in the write-off of bad debts of $3.07 million due mainly to improved debt management practices.

6.504 Total assets decreased by $2.29 million due mainly to a smaller accrual being made for companies required to lodge their outstanding 2002 annual returns.

6.505 Total liabilities increased by $1.64 million due mainly to refunds to clients with credit balances.

Audit results

Financial statements

6.506 An unqualified audit report on the ASIC's financial statements was issued.

Summary of significant agency audit findings

6.507 An issue noted by the ANAO during the interim phase of the audit in relation to delegation breaches for sign-off on asset acquisitions and disposals. As a result of the highlighted breaches, management implemented from 1 March 2003, a process whereby the Manager of the Accounts Payable function performs a 5 per cent daily audit on invoices less than $100,000, and all invoices with amounts greater than $100,000 are checked for appropriate delegation.

6.508 The following table provides a summary of the status of audit issues arising from the audit.

Ratings	Opening position at March 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
A	0	0	0	0
B	1	1	0	0
Total	**1**	**1**	**0**	**0**

Australian Taxation Office (ATO)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	80.59	(42.06)
Commonwealth's equity investment	(15.67)	(60.42)
Ratio of current assets to current liabilities	0.95:1	0.83:1
Ratio of total assets to total liabilities	0.98:1	0.90:1

6.509 The significant improvement in the ATO's net surplus for the year is due to a number of factors. In aggregate, the level of revenue has increased, the major impact being the increase in Departmental appropriations of $250 million due to additional funding associated with the ATO's Output Pricing Review. This additional funding has not been fully utilised mainly due to delays in ATO recruiting appropriate compliance staff as planned in the Output Pricing Agreement. There is also a one-off reduction in supplier expenses for $35 million due to a major review of accrued expenses being undertaken.

6.510 The net operating surplus significantly contributed to the reduction in the negative equity position. The other factors affecting the equity balance are:

- an equity injection of $28.86 million;
- a payment to the Commonwealth of $63.09 million; and
- payment of $1.62 million dividend to the Commonwealth by AVO.

Items administered on behalf of the Commonwealth

Key financial measures for year	2003 $m	2002 $m
Total revenues	190,807.03	173,543.94
Total expenses	6,107.81	4,689.79
Total assets	48,434.72	41,679.33
Total liabilities	23,777.56	20,712.37

6.511 The increase in revenues collected on behalf of the Commonwealth is attributable to several factors affecting various sources of revenue, including:

- an increase in PAYG revenue of $5.33 billion due to general growth factors and increased compliance and lodgement activity;

- an increase in companies revenue of $4.69 billion due to general growth factors, improved profitability, and increase in compliance activity leading to greater penalties raised;
- an increase in GST revenue of $4.19 billion due to a number of factors including strong economic growth, particularly in the housing market and increased compliance and lodgement activity undertaken by the ATO; and
- an increase in superannuation revenue of $2.31 billion attributed to the initial recognition of Unfunded Defined Benefit (UDB) superannuation surcharge receivable of $281 million and accrued revenue for superannuation surcharge of $1.60 billion.

6.512 The expenses administered on behalf of the Commonwealth have also increased by $2.30 billion due to an increase in the provision for refunds for individuals and companies. The increase in provision for refunds related to companies is due to the higher tax collection during the year through instalments.

Audit results

Financial statements

6.513 A qualified audit report was issued on the ATO's financial statements relating to the treatment of the information technology outsourcing contract. Refer to Part 3 of this report for details.

Summary of significant agency audit findings

6.514 During the interim audit, the ANAO recommended that the ATO formally implement Business Continuity Management (BCM) policies and standards, complete testing of the BCM and Disaster Recovery Plans (DRP), and develop, implement and test a DRP for their mid-range computing platforms.

6.515 The new issue noted during the final phase of the audit related to the process for costing internally generated software, whereby the process should be improved and guidance provided for its consistent application.

6.516 The ATO has commenced action in resolving the issues identified in both interim and final audit stages.

Summary of significant administered audit findings

6.517 For UDB Superannuation Funds the ATO issues superannuation surcharge assessments to members, and for amounts that are deferred, the super funds are required to maintain a surcharge debt account for each member, collect the surcharge and remit collections to the ATO. The ATO, however, is required to recognise in its financial statements the surcharge revenue and receivable in the year in which the taxpayer's liability arises. Superannuation surcharge receivable from the UDB funds of $281 million has been brought to account for the first time this year.

6.518 A comparison of the UDB receivable as per the ATO records with the information received from UDB super funds identified significant variances. The ANAO acknowledged that the information received from the UDB funds was not reliable in all cases and accepted the data obtained from the ATO system and records. The ATO has advised that the UDB funds' compliance with legislation will be followed up. In addition, action will be taken by the ATO to appropriately manage the UDB debts owing to the ATO.

6.519 The ATO manages its operations and prepares administered balances for the Consolidated Financial Statements using the Taxation Liability Method (TLM). However, the ATO's financial statements are prepared on a full accrual basis using the Economic Transaction Method (ETM). Under this method of revenue recognition the accrued revenue figures for various heads of revenue are estimated using different economic models. No accrued revenue had previously been reported by the ATO for superannuation surcharge revenue. In prior years, the superannuation surcharge accrued revenue was considered by the ATO to be immaterial and a model had not been developed to estimate the item. As this revenue item has been increasing since its introduction five years ago, the ANAO requested the development of a model and estimation of the accrued revenue for this item. This resulted in an adjustment to revenue of $1,617 million covering current and prior years. In order to ensure a consistent approach for different heads of revenue, it has been recommended that the ATO undertake a comprehensive review of the ETM recognition points and document the results of the review for future reference.

6.520 A sizeable number of adjustments were requested by the ANAO during the audit and have been correctly accounted for in the financial statements. The financial statements contained adjustments of $5,558 million with a net increase on the surplus of $2,489 million. The TLM balances prepared by the ATO for the Consolidated Financial Statements contained adjustments of $2,573 million with a net increase on the surplus of $546 million. The level of audit requested adjustments highlights the need for an improved Quality Assurance process that supports financial statement preparation.

6.521 In prior years, the ANAO raised with the ATO serious concerns over the completion of key reconciliations between the financial management information system (SAP) and ATO business systems. Considerable effort has been devoted to undertaking these reconciliations and developing systems to support the reconciliations in the future. The bank reconciliations and the reconciliations between major business systems and SAP have been completed satisfactorily except for the Fringe Benefits Tax (FBT) system reconciliation with SAP which did not have any material impact on the financial statement balances. The ANAO has recommended that the ATO ensure regular reconciliation of all business systems with SAP.

6.522 A staged introduction of the legislation resulting from the new tax system has created a gap in the law for allowing franking deficit tax paid by companies to be offset. As at 30 June 2003, the ATO has allowed credits for franking deficit tax offset of approximately $200 million without the supporting legislation in place. The ANAO has been advised that the ATO stopped the relevant company assessments on 15 June 2003 when the ATO management became aware of the issue. At the time of the audit, the amending legislation which retrospectively allowed for the franking deficit tax offset was being considered by the Parliament. The ANAO has recommended that the ATO review controls to ensure that all necessary legislative requirements are adhered to.

6.523 During the interim phase of the audit, the ANAO noted the following internal control issues:

- processes to ensure that there is a regular and complete reconciliation between the ATO and Australia Post records for revenue collection;
- scope of certificates of compliance providing assurance that key processing controls are operating and the integrity of the quality assurance processes; and
- establishment or updating of service level agreements between the ATO and other organisations.

6.524 Other matters noted during the final audit stages include the:

- provision for doubtful debts and credit amendments under $1 million requires more rigor in the estimation process such as improved supporting evidence and documentation; and
- IT change management and documentation processes relating to the Instalment Processing System and FBT has not been undertaken in accordance with the corporate process.

6.525 The discrepancy in the Billpay bank reconciliation has been finalised and a process has been developed to ensure regular and complete reconciliations are completed between the ATO and Australia Post records for revenue collection. The ATO has initiated remedial action to address the matters raised and continued to improve its internal control structure via its program of financial and business improvements.

6.526 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2003.

Ratings	Opening position at March 2003	Issues resolved prior to August 2003	New issues to August 2003	Closing position at August 2003
A	1	1	1	1
B	5	1	8	12
Total	**6**	**2**	**9**	**13**

Reserve Bank of Australia (RBA)

Financial results

Summary of agency results

Key financial measures for year	2003 $m	2002 $m
Net surplus/(deficit) for the year	2,173.00	1,868.00
Commonwealth's equity investment	9,414.00	9,510.00
Ratio of current assets to current liabilities	N/A	N/A
Ratio of total assets to total liabilities	1.16:1	1.19:1

6.527 In 2002–2003, underlying earnings were $1,238 million, compared with $1,400 million in 2001–2002. The decline reflects the exceptionally low level of interest rates around the world over the past two years.

Audit results

Financial statements

6.528 An unqualified audit report on the RBA's financial statements was issued.

Summary of significant agency audit findings

6.529 There were no significant audit issues arising from the audit.

Comments on non-material entities with significant audit findings

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

Royal Australian Mint (the Mint)

6.531 Overall, the results of the audit were satisfactory in relation to the accounting for the Mint's transactions and balances. It was identified during 2002–2003 that the Mint does not have a documented Business Continuity Plan (BCP) or Disaster Recovery Plan (DRP). Both plans are integral components of an organisation's risk management strategy. The ANAO has been advised that this issue will be addressed in 2003-2004 through the development of a BCP and DRP.

Australian Prudential Regulation Authority (APRA)

6.532 Overall, the results of the audit were satisfactory in relation to the accounting for APRA's transactions and balances in 2002–2003. However, APRA's controls over: the accounting for administered levies, especially superannuation levies, and over information security, particularly in relation to levy data, required further improvement. The main concerns were the non-issue of invoices in certain instances and the issue of duplicate invoices in other instances (administered levies); and inadequacies in password security and in the monitoring of security-related events (information security). APRA advised of appropriate remedial action in relation to each of these issues.

6.533 In addition, the ANAO raised certain matters in relation to the accounting for an annual appropriation provided to APRA in 2001–2002. The main issue related to the provision of $2.1 million in the funding of APRA's core operations that are normally funded through a Special Appropriation under APRA's enabling legislation. In the ANAO's view, this funding was to be recovered from industry through increased levies and repaid to the CRF. APRA advised that it was consulting with Treasury and Finance to resolve this matter.

Canberra ACT	P. J. Barrett
9 January 2004	Auditor-General

Appendices

Appendix 1: Significant Findings by Major Entity

The following table sets out 'A' rated findings (significant business or financial risks) identified in the interim audit of entities as part of the 2002–2003 financial statement audit cycle.

Table 1

Summary of 'A' category findings

Entity	No of 'A' findings	Explanatory Comment
Department of Defence	10	Six of the Category A findings are carried forward from the previous year. There are issues in asset management including inventory pricing and consumption, in conjunction with asset recognition and write-downs and specialist military equipment repairs. In addition concerns exist with personnel records administration and system processes.
Australian Taxation Office (ATO)	1	The administered cash reconciliations and reconciliations of supporting business systems to the FMIS are key controls over the accuracy and validity of the financial information. A number of deficiencies have been noted relating to the completion and significant progress has been made to date of these critical reconciliations. The ATO has responded by implementing a project to address the completion of these reconciliations. Significant exposure to the risk of mainframe inoperability exists, which is not adequately addressed in the business resumption plan or disaster recovery plan.

Further details on each of these findings, and on the 'B' rating findings, are included in Part 6 of Audit Report No.61 2002–2003. A table summarising the number of 'A' and 'B' findings follows.

Table 2

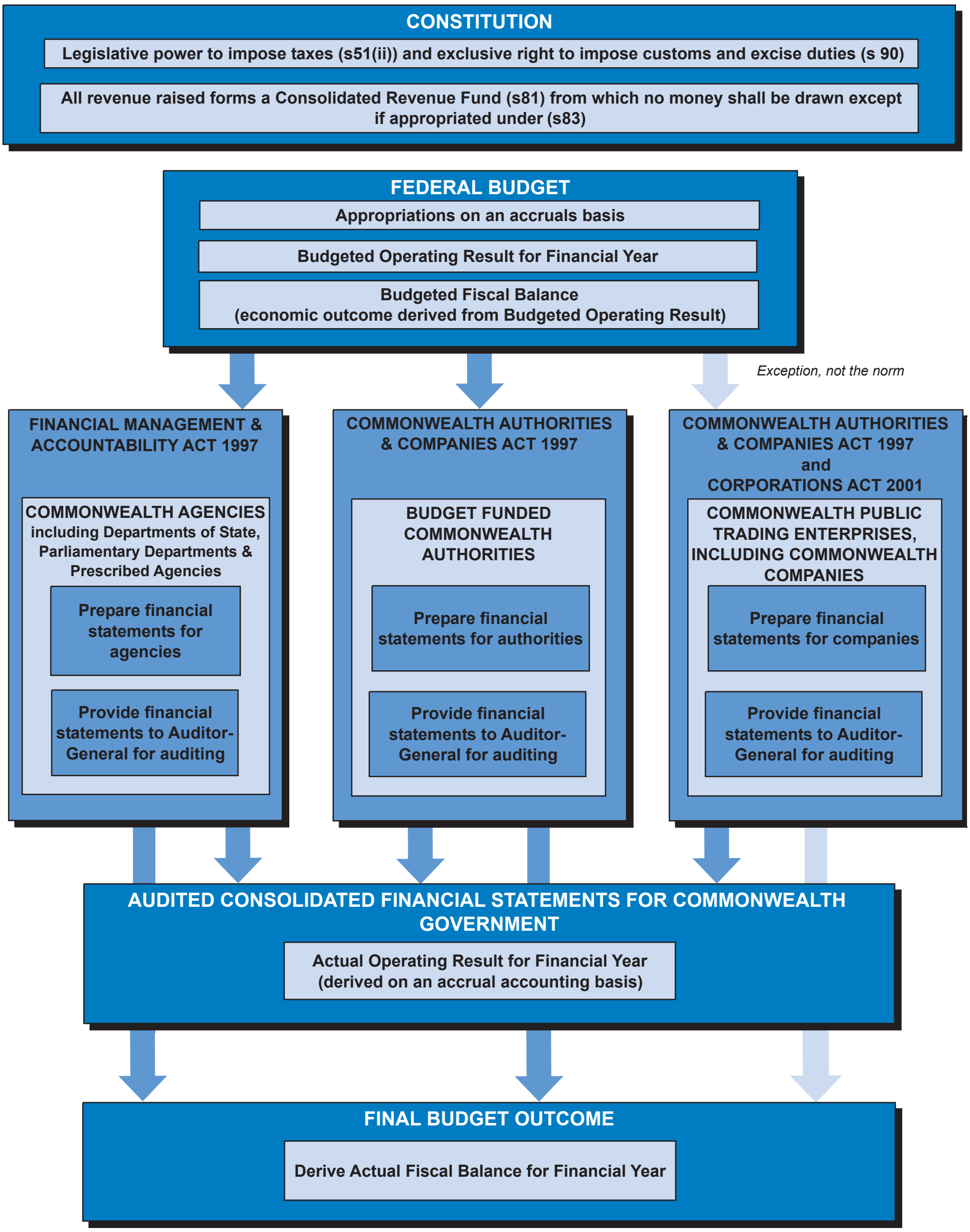
'A' and 'B' ratings by entity at 30 March 2003

Entity	2003 Rating		2002 Rating	
	A	B	A	B
Department of Agriculture, Fisheries and Forestry—Australia	0	4	0	1
Attorney-General's Department	0	1	0	4
Australian Customs Service	0	2	0	2
Department of Communications, Information Technology and the Arts	0	7	0	8
Department of Defence	10	29	13	32
Repatriation Commission and the Department of Veterans' Affairs	0	4	0	0
Department of Education, Science and Training	0	2	0	3
Department of Employment and Workplace Relations	0	5	0	8
Department of the Environment and Heritage†	0	2	1	3
Department of Family and Community Services	0	6	0	4
Centrelink	0	5	0	3
Department of Finance and Administration	0	0	0	0
Department of Foreign Affairs and Trade	0	1	0	1
Department of Health and Ageing	0	5	0	5
Health Insurance Commission	0	7	1	12
Department of Immigration and Multicultural and Indigenous Affairs	0	6	0	14
Department of Industry, Tourism and Resources	0	3	0	3
Department of the Prime Minister and Cabinet	0	0	0	1
Department of Transport and Regional Services	0	1	0	1
Department of the Treasury	0	1	0	4
Australian Taxation Office	1	5	3	7
Total	**11**	**96**	**18**	**116**

† Department of Environment and Heritage (2003) excludes the Bureau of Metereology (BOM) in this report. The BOM became a prescribed agency on 12 September 2002.

Appendix 2: The Financial Reporting Framework

The financial reporting framework is outlined in the diagram below. Then follows an overview of the financial reporting requirements for the various types of Australian Government entities captured by the framework. Finally the audit of the financial statements of these entities is described.



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 and financial position of all agencies, authorities and other entities controlled by the Commonwealth Government.

The financial statements for the year ended 30 June 2003 and the audit report thereon were published in November 2003.[14] The results of the audit are reported in Part Two of this report.

Commonwealth agencies

Commonwealth agencies are legally part of the Commonwealth Government and are subject to the provisions of FMA Act. They comprise departments of State, Parliamentary departments and prescribed agencies.

The FMA Act requires agency Chief Executives to prepare financial statements for their agencies in accordance with Finance Minister's Orders (FMOs). The FMOs include a requirement that the statements comply with accounting standards issued by the Australian Accounting Standards Board.

Commonwealth authorities and subsidiaries

Commonwealth authorities are bodies corporate that hold money on their own account and have been 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 CAC 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.

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[14] Commonwealth Government of Australia, Consolidated Financial Statements for the Year Ended 30 June 2003, Canberra, November 2003.

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 other bodies 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.

Audit of Commonwealth Government financial statements

Audit scope

The Chief Executives of agencies, and the directors of authorities and companies, are responsible for the truth and fairness of the financial statements and for the records, controls, procedures and organisation that support the preparation of those statements.

The ANAO's independent audits of financial statements are undertaken to form an opinion whether, in all material respects, the statements are true and fair. 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 of the entity's records and its control environment, information systems, control procedures and statutory disclosure requirements. Evidence supporting the amounts and other information in the statements is examined on a test basis, and accounting policies and significant accounting estimates are evaluated.

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. 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 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. Audit reports may be qualified because of a disagreement between the auditor and management of the entity on the application of accounting standards or other reporting requirements, because the scope of the audit work needed to form an opinion has been limited in some way, or because of a conflict between applicable reporting requirements.

An audit report may contain an 'emphasis of matter' to draw attention to a matter that is relevant to the readers of the financial statements. An 'emphasis of matter' 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.

The audit report may also contain details on 'other matters'. Section 57 of the FMA Act requires that, in reporting to Ministers on the financial statements of Agencies, the Auditor-General must not only report on whether the statements have been prepared in accordance with the FMOs and give a true and fair view of matters required by the FMOs but must also state particulars of any contravention by a Chief Executive of section 48 of the FMA Act.

Glossary of Terms

AAO	Administrative Arrangement Orders
AAS	Australian Accounting Standard
AASB	Australian Accounting Standards Board
ACA	Assurance Control and 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	*Commonwealth Authorities and Companies Act 1997*
CEIs	Chief Executive's Instructions
CEO	Chief Executive Officer
CFO	Chief Finance Officer
CFS	Commonwealth Government of Australia Consolidated Financial Statements
the Charter	the *Charter of Budget Honesty Act 1998*
CobiT Model	Control Objectives for Information Related Technology
CUC	Capital Use Charge
FBO Report	Final Budget Outcome Report
Finance	The Department of Finance and Administration
FMA Act	*Financial Management and Accountability Act 1997*
FMIS	Financial Management Information System
FMOs	Finance Minister's Orders
GAAP	Australian Generally Accepted Accounting Practices
GFS	Government Finance Statistics
HRMIS	Human Resources Management Information System
IFRSs	International Financial Reporting Standards
IT	Information Technology
KPI	Key Performance Indicator
RBA	Reserve Bank of Australia

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