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Auditor-General Report No.9 2023–24
Financial Statements Audit

**Audits of the Financial Statements of Australian
Government Entities for the Period Ended
30 June 2023**

Australian National Audit Office

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Senior Executive Director
Corporate Management Group
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Or via email:

communication@anao.gov.au.





Canberra ACT
14 December 2023

Dear President
Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1997*, I have undertaken the audits of the financial statements of Australian Government entities and examinations and inspections of the accounts and records of those entities. The report is titled *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2023*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website — <http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Grant Hehir'.

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

For further information contact:
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Phone: (02) 6203 7300
Email: ag1@anao.gov.au

Auditor-General reports and information about the ANAO are available on our website:

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Executive summary

The ANAO publishes an annual audit work program (AAWP) which reflects the audit strategy and deliverables for the forward year. The purpose of the AAWP is to inform the Parliament, the public and government sector entities of the planned audit coverage for the Australian Government sector by way of financial statements audits, performance audits, performance statements audits and other assurance activities. As set out in the AAWP, the ANAO prepares two reports annually that, drawing on information collected during financial statements audits, provide insights at a point in time to the financial statements risks, governance arrangements and internal control frameworks of Commonwealth entities. These reports provide Parliament with an independent examination of the financial accounting and reporting of public sector entities.

These reports explain how entities' internal control frameworks are critical to executing an efficient and effective audit and underpin an entity's capacity to transparently discharge its duties and obligations under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). Deficiencies identified during audits that pose either a significant or moderate risk to an entity's ability to prepare financial statements free from material misstatement are reported.

This report presents the final results of the 2022–23 audits of the Australian Government's Consolidated Financial Statements (CFS) and 243 Australian Government entities. The Auditor-General Report No.26 2022–23 *Interim Report on Key Financial Controls of Major Entities*, focused on the interim results of the audits of 27 of these entities.

Consolidated financial statements

Audit results

1. The CFS presents the whole of government and the General Government Sector financial statements. The 2022–23 CFS were signed by the Minister for Finance on 15 November 2023 and an unmodified auditor's report was issued by the Auditor-General on 17 November 2023.
2. There were no significant or moderate audit issues identified in the audit of the CFS in 2022–23 or 2021–22.

Australian Government financial position

3. The Australian Government reported a net operating balance of a surplus of \$24.9 billion (\$20.6 billion deficit in 2021–22). The Australian Government's net worth deficiency decreased from \$607.2 billion in 2021–22 to \$570.2 billion in 2022–23 (see paragraphs 1.7 to 1.27).

Financial audit results and other matters

Quality and timeliness of financial statements preparation

4. The ANAO issued 241 unmodified auditor's reports as at 30 November 2023, including the CFS. The financial statements were finalised and auditor's reports issued for 91 per cent (2021–22: 86 per cent) of entities within three months of financial year-end.
5. A quality financial statements preparation process will reduce the risk of inaccurate or unreliable reporting. Seventy-two per cent of entities delivered financial statements in line with

an agreed timetable, an increase compared with 2021–22 (65 per cent). The total number of adjusted and unadjusted audit differences decreased during 2022–23, although 50 per cent of audit differences remained unadjusted. The quantity and value of adjusted and unadjusted audit differences indicate there remains an opportunity for entities to improve quality assurance frameworks over financial statements preparation processes (see paragraphs 2.146 to 2.163).

Timeliness of financial reporting

6. Annual reports that are not tabled in a timely manner before budget supplementary estimates hearings decrease the opportunity for the Senate to scrutinise an entity’s performance. There has been a decline in the number of entities that tabled an annual report prior to the portfolio’s Senate estimates hearing. Sixty-six per cent of entities that are required to table an annual report in Parliament tabled prior to the date that the portfolio’s Senate estimates hearing commenced (2021–22: 74 per cent). Of the entities required to table an annual report, 13 per cent (2021–22: 8 per cent) had not tabled an annual report as at 30 November 2023 (see paragraphs 2.164 to 2.174).

Internal audit

7. Internal audit plays an important role in providing assurance over an entity’s system of risk management and internal control. Although not mandated, the majority of entities had established an internal audit function. The ANAO reviewed the structure of and coverage provided by internal audit. Identified areas for improvement include: adopting formal audit committee charters; developing and monitoring internal audit budgets to determine they are fit for purpose and considering appropriate organisational structure for the officer overseeing the internal audit function (see paragraphs 2.35 to 2.58).

8. Twenty-one per cent of entities decreased their internal audit budget in the period 2020–21 to 2022–23. There were 2,687 internal audits undertaken by Commonwealth entities between 2020–21 and 2022–23. Most internal audits completed focused: systems of risk management and governance; information, communications and technology, project and program management; and financial controls. Over this period there was a decrease in internal audits completed on procurement and information, communications and technology, but an increase in internal audits completed on cyber security and performance reporting (see paragraphs 2.59 to 2.76).

9. There is an opportunity for the Australian Government to consider whether guidance relating to the implementation and delivery of internal audit would be beneficial to enhance the Australian Government’s system of internal control.

Emerging technology

10. Use of emerging technologies in the sector requires governance thinking. Emerging technologies, such as Artificial Intelligence, Machine Learning and Robotic Process Automation present opportunities for improvement and innovation, and risks. Thirty-six entities advised the ANAO that they had adopted some form of emerging technology. The majority of entities adopting these technologies did not create policies or a governance framework to support their use of these technologies, or have regard to external policies guidance such as Australia’s eight *Artificial Intelligence Ethics Principles*. The lack of governance frameworks for managing the use

of emerging technologies could increase the risk of unintended consequences (see paragraphs 2.27 to 2.31).

Summary of audit findings

11. Total number of findings identified by the ANAO has decreased. A total of 196 findings were reported to entities as a result of the 2022–23 financial statements audits (a decrease from 2021–22). These comprised nine significant, 36 moderate, 137 minor findings and 14 legislative breaches. The highest number of findings are in the categories of:

- governance of legal and other matters impacting entity financial statements;
- IT governance including security, change management and user access; and
- accounting and control of non-financial assets.

12. These audits findings included three significant legislative breaches, one of which was first identified since 2012–13. The majority of legislative breaches relate to incorrect payments of remuneration to key management personnel and/or non-compliance with determinations made by the Remuneration Tribunal. It is important that entities have a robust framework in place to govern payments made to executives to ensure that they are consistent with policy or legal requirements (see paragraphs 2.77 to 2.145).

Governance of legal and other matters impacting financial statements

13. During 2022–23 the ANAO identified four significant audit findings across four entities in relation to weaknesses in financial statement preparation processes with respect to consideration of legal matters. These audit findings indicate a failure in governance supporting the preparation of the financial statements. These weaknesses included the assessment of the impact of the receipt of legal advice or recently determined legal matters which has the potential to affect an entity's administration, financial management and financial reporting obligations. These findings highlighted instances where information on legal matters was not referred to entity Chief Financial Officers, or was not otherwise assessed for impact on the financial statements. In other instances evidence identified by the ANAO during the course of the audits did not accord with management representations and additional audit work was required to be undertaken by the ANAO. The ANAO recommended that the entities design, document and implement processes to ensure legal and other matters are considered when preparing financial statements and that all matters identified for consideration are communicated to the ANAO (see paragraphs 2.110 to 2.111).

Information Technology governance

14. In 2022–23 there was an increase in the number of audit findings relating to weaknesses in change management policies and controls for IT systems. The ANAO found that 78 per cent of entities assessed do not have an effective control to monitor access or activity in entities' systems after user cessation (see paragraphs 2.89 to 2.101).

Accounting for computer software

15. Accounting for computer software requires improvement. The value of computer software recognised by entities totalled \$22.1 billion at 30 June 2023. Entities have recorded a

cumulative write-downs and impairment of \$789.1 million in the period 2019–20 to 2022–23. During 2022–23 the ANAO identified an increase in weaknesses in entity processes for accounting for computer software, particularly with respect to Software as Service, impairment and software under construction. The significance of the investment in computer software and the nature of the findings identified indicate that there are opportunities for entities to improve quality assurance frameworks supporting accounting for computer software (see paragraphs 2.118 to 2.125).

Financial sustainability

16. An assessment of an entity's financial sustainability can provide an indication of financial management issues or signal a risk that the entity will require additional or refocused funding. The ANAO's analysis concluded that the financial sustainability of the majority of entities was not at risk. There would be benefit in the Australian Government developing financial sustainability performance targets or benchmarks. This would enable an entity to assess its own financial sustainability against agreed parameters over time, and against like entities (see paragraphs 2.175 to 2.205).

Reporting and auditing frameworks

Changes to the Australian public sector reporting framework

17. There are no significant changes to accounting standards affecting the Commonwealth for 2022–23. The revised requirements for Australian Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement* effective for financial years commencing 2022–23 have been incorporated into the ANAO's audit methodology. The application of ASA 315 by the ANAO has resulted in the identification of an increased number of areas of weakness in entities' use of and reliance on IT (see paragraphs 3.6 to 3.8).

18. Sustainability reporting is also a rapidly emerging area of interest, and the ANAO is contributing to discussions as reporting and assurance standards. Key developments in sustainability reporting and assurance included the issuance of international sustainability reporting and assurance standards and release of exposure drafts of Australian sustainability reporting and assurance standards. The Department of the Treasury commenced development of a broad sustainable finance reporting framework for Australia which includes climate-related financial disclosures, and the Department of Finance commenced related work to implement appropriate arrangements for Commonwealth public sector entities and companies to disclose exposure to climate-related risks develop (see paragraphs 3.12 to 3.18).

19. The ANAO quality assurance framework has been updated to ensure compliance with the new and revised Australian Quality Management Standards effective 15 December 2022. The revised standards introduce a framework for quality management that is focused on proactively identifying and responding to quality risks (see paragraphs 3.25 to 3.31).

20. Data analytics continues to be a focus for the ANAO, and audits undertaken in 2022–23 have continued to build on previous initiatives to enhance audit quality and efficiency (see paragraphs 3.32 to 3.39).

Cost of this report

21. The cost to the ANAO of producing this report is approximately \$430,000.

1. The Consolidated Financial Statements

Chapter coverage

This chapter outlines the results of the audit of the Consolidated Financial Statements (CFS) of the Australian Government, which includes the Whole of Government (Australian Government) and the General Government Sector (GGS) financial statements for the year ended 30 June 2023.

This chapter also includes:

- the key audit matters (KAM) reported for the Australian Government;
- an analysis of the Australian Government's financial outcome and financial position; and
- an analysis of other matters identified during the audit of the CFS.

Audit results

The 2022–23 CFS was signed by the Minister for Finance on 15 November 2023 and the Auditor-General's unmodified auditor's report was issued on 17 November 2023.

There were no significant or moderate audit findings identified in the audit of the CFS in 2021–22 or 2022–23.

The Australian Government reported a net operating balance of a surplus of \$24.9 billion (\$20.6 billion deficit in 2021–22). The surplus is mainly due to growth in taxation revenue. Revenue grew by \$73.2 billion (11.9 per cent) while expenses grew by \$27.7 billion (4.4 per cent).

The Australian Government's net worth deficiency decreased from \$608.7 billion in 2021–22 to \$570.2 billion in 2022–23 mainly due to the operating surplus and revaluation gains recorded during the year.

Background

1.1 Government accountability and transparency is supported by the preparation and audit of the Australian Government's CFS. The CFS and the associated financial analysis provide information to assist users in assessing the financial performance and position of the Australian Government. The CFS is prepared by the Department of Finance (Finance) and issued by the Minister for Finance.

1.2 The CFS presents the consolidated whole of government financial results which includes the results of all Australian Government controlled entities, as well as the GGS financial statements. The 2022–23 CFS is prepared in accordance with section 48 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the requirements of the Australian Accounting Standards, particularly AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049).

1.3 AASB 1049 requires, with limited exceptions, the principles and rules in the Australian Bureau of Statistics' Government Finance Statistics (GFS) Manual to be applied in the preparation of the CFS where compliance with the GFS Manual would not conflict with Australian Accounting Standards.

Key areas of financial statements risk

1.4 The ANAO's 2022–23 audit approach identified six key areas of financial statements risk that had the potential to impact the Australian Government and which were considered Key Audit Matters (KAM).

Table 1.1: Key areas of financial statements risk

Relevant financial statement item ^a	Key audit matters	Audit risk rating	Factors contributing to the risk assessment
Taxation revenue \$617.4 billion <i>Australian Taxation Office</i>	Accuracy of taxation revenue	Higher	<ul style="list-style-type: none"> complexity and judgement involved in the reliable estimation of taxation revenue due to uncertain timing of tax return assessments, payments and forecasting of likely taxation revenue outcomes; significant judgement when selecting the appropriate base and method for revenue recognition; completeness, relevance and accuracy of source data used in developing taxation revenue estimates; and estimation involved consideration of historical taxpayer behaviours together with assumptions about economic factors such as future wage growth, and gross domestic product.
Personal benefits expense \$142.8 billion <i>Department of Education</i> <i>Department of Health and Aged Care</i> <i>Department of Social Services</i>	Accuracy and occurrence of personal benefits expense	Higher	<ul style="list-style-type: none"> reliance on the correct self-disclosure of personal circumstances by a large number of diverse recipients; and reliance on a complex information technology system for the processing of a high volume of payments across numerous personal benefit types with varying conditions for determining the correct payment amount.
Superannuation liabilities ^b \$313.1 billion <i>Department of Defence</i> <i>Department of Finance</i>	Valuation of superannuation liabilities	Higher	<ul style="list-style-type: none"> complexity of the calculation, requiring significant judgement in the selection of long-term assumptions, including economic assumptions and demographics of the schemes' members; and detailed disclosure requirements for the presentation and disclosure of defined benefit plans.
Collective investment vehicles (component of investments, loans and placements) \$114.8 billion	Valuation of collective investment vehicles	Moderate	<ul style="list-style-type: none"> size of the investments and inherent subjectivity and significant judgements and estimates required where market data is not available to determine the fair value of these investments.

Relevant financial statement item ^a	Key audit matters	Audit risk rating	Factors contributing to the risk assessment
<i>Future Fund Management Agency Department of Finance</i>			
Specialist Military Equipment (SME) \$84.6 billion <i>Department of Defence</i> Other plant, equipment and infrastructure \$78.8 billion <i>Numerous entities</i>	Valuation of specialist military equipment and other plant, equipment and infrastructure assets	Moderate	<ul style="list-style-type: none"> differences in accounting policies applied by Government Business Enterprises, such as NBN Co and Snowy Hydro Limited, compared to those applied and adjusted for in the preparation of the CFS; complex valuation process and judgement involved in valuing assets such as the NBN network, Australian Rail Track Corporation and Snowy 2.0; the annual impairment and revision of useful lives are subject to a high degree of judgement and subjectivity; and high degree of judgement applied to the valuation of SME due to the highly specialised nature of equipment, including judgements required to determine appropriate useful lives, to assess the financial impact of indicators of impairment and to obtain replacement costs of assets with similar capability in the absence of an active market.
Australian Government Securities \$574.0 billion <i>Australian Office of Financial Management (AOFM)</i>	Valuation and disclosure of Australian Government Securities	Moderate	<ul style="list-style-type: none"> the fair value movement of Australian Government Securities has a material impact on the financial statements due to the significant value of the liability and significant volume of instruments issued; and fair value is subject to price changes in local and global money and capital markets.

Note a: Figures presented in Table 1.1 may differ from the financial statements of individual entities because of eliminations and adjustments at the CFS level or where the entities identified contribute a majority to the balance of the financial statement line item.

Note b: These are the main government entities responsible for administration and reporting of Australian Government superannuation liabilities. Liabilities also include schemes managed by other entities, such as the Australian Postal Corporation.

Source: ANAO 2022–23 audit results, and the CFS for the year ended 30 June 2023.

Audit results

1.5 The 2022–23 CFS was signed by the Minister for Finance on 15 November 2023 and the Auditor-General’s unmodified auditor’s report was issued on 17 November 2023.

1.6 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits of the CFS.

Australian Government’s financial outcome

1.7 The following provides analysis of key financial balances for the Australian Government.

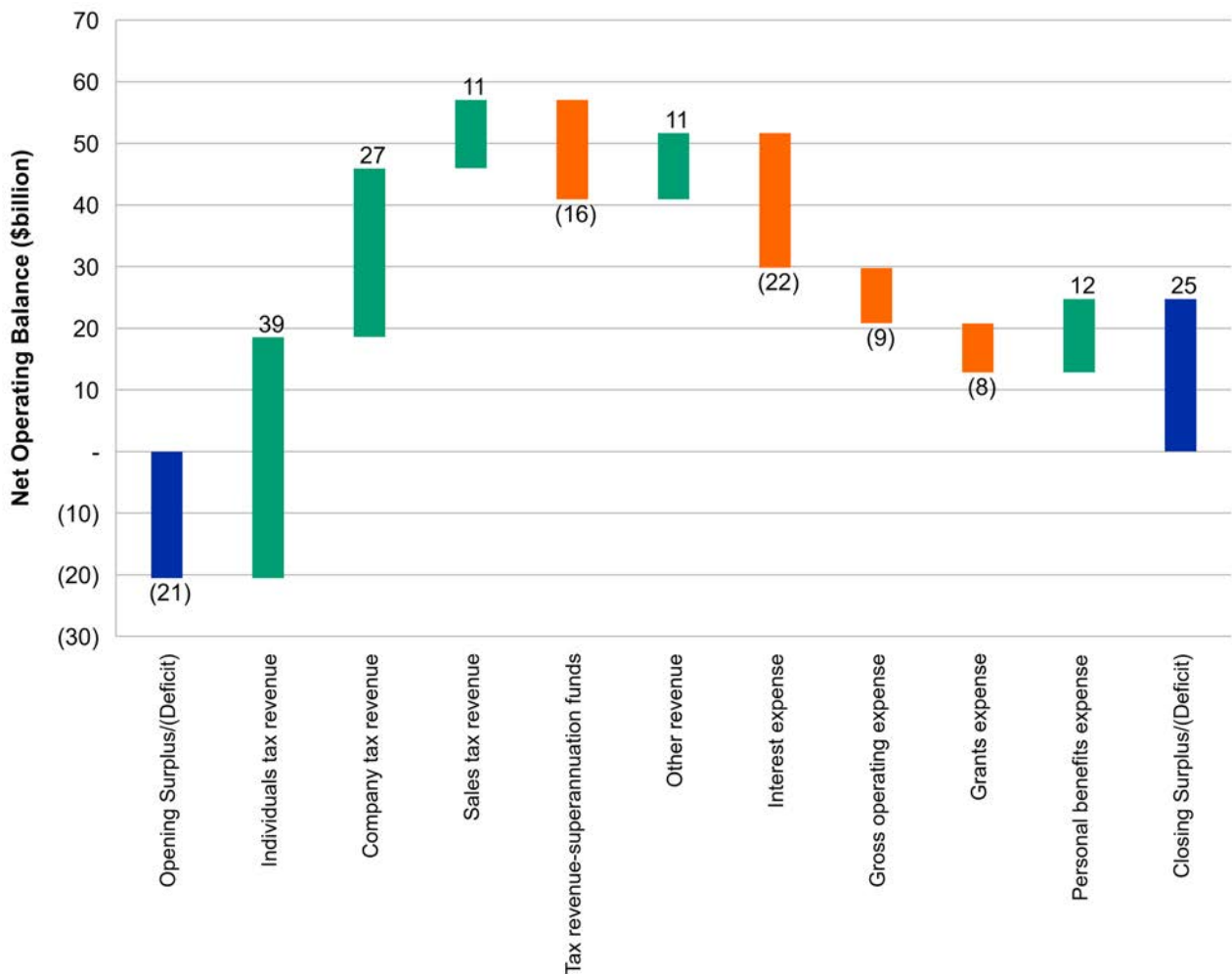
Operating result

1.8 The following key financial measures were reported for 2022–23:

- net operating balance was a surplus of \$24.9 billion (compared to a deficit of \$20.6 billion in 2021–22);
- operating result was a surplus of \$13.7 billion (compared to a surplus of \$28.3 billion in 2021–22); and
- comprehensive result (change in net worth) was an increase in net worth of \$38.4 billion (compared to an increase of \$135.8 billion in 2021–22).

1.9 Figure 1.1 presents the changes in the Australian Government’s net operating balance from 1 July 2022 to 30 June 2023.

Figure 1.1: Changes in the Australian Government’s net operating balance from 1 July 2022 to 30 June 2023



Source: ANAO analysis of the 2022–23 CFS.

1.10 Table 1.2 provides commentary on the main contributors to the change in net operating balance of the Australian Government identified in Figure 1.1.

Table 1.2: Explanation of key movements in net operating balance

Relevant financial statement item	Explanation for key movements in net operating balance
Individuals tax revenue	There has been a \$39.1 billion increase in individual taxation revenue as a result of stronger growth in employment and wages, interest rates and capital gains.
Company tax revenue	Company income tax revenue increased by \$27.3 billion across various industries, particularly the mining sector due to higher commodity prices during the year.
Sales tax revenue	Sales taxes comprise the Goods and Services Tax (GST), wine equalisation and luxury car taxes. The increase was due mainly to increased GST of \$11.0 billion due to strong collections from various industries and a stronger economy leading to increased consumption.
Superannuation funds tax revenue	Superannuation funds tax revenue has decreased by \$16.2 billion. The prior year revenue saw an increase due to higher contributions and returns from a stronger economy. The gains were not reflected in 2022–23 due to lower investments returns and higher foreign exchange losses.
Other revenue	Other revenue has increased by \$11.0 billion as a result of: <ul style="list-style-type: none"> • an increase of \$3.7 billion in excise duty reflecting increased collection from a stronger economy; • an increase of \$1.2 billion in visa application charges as international travel continue to improve following the lockdown; • an increase of \$1.0 billion in rendering of services revenue largely from contribution from the States and Territories to the National Disability Insurance Scheme reflecting increased demand; and • an increase of \$1.9 billion from interest revenue consistent with wider market conditions.
Interest expense (including superannuation interest)	There was an increase of \$21.9 billion in interest and superannuation interest expenses for: <ul style="list-style-type: none"> • a \$12.3 billion increase on the Reserve Bank of Australia’s (RBA) exchange settlement balances. The average annual interest rate on these exchange balances increased from 0.1 per cent to 2.8 per cent in 2022–23. Interest expense for RBA’s other liabilities also increased by \$2.2 billion; • an increase of \$2.7 billion on interest expenses for treasury bonds and notes. The yields for these securities has increased substantially during the year due to higher levels of borrowing, higher interest rates and an inflationary environment; and • a \$3.4 billion increase in superannuation interest expense for defined benefit superannuation schemes administered by the Australian Government. This increase was driven by higher interest rates.
Gross operating expense	The increase in gross operating expenses was largely driven by an increase in benefits to households of \$9.0 billion as a result of: <ul style="list-style-type: none"> • an increase in participant expenses for the National Disability Insurance Scheme of \$6.6 billion driven by both an increase in the number of participants and an increase in the average payment per participant. The increased utilisation rates reflect participants becoming more familiar with requesting and receiving supports;

Relevant financial statement item	Explanation for key movements in net operating balance
	<ul style="list-style-type: none"> • an increase of \$1.0 billion in the Child Care Subsidy program because of increased childcare usage as the economy returns to pre-COVID levels; and • an increase of \$1.4 billion in Aged Care payments reflecting increase government investment in the area as a result of the Royal Commission recommendations.
Grants expense	<p>Grants expenses has increased by \$7.8 billion mainly to:</p> <ul style="list-style-type: none"> • an \$11.0 billion increase in GST revenue redistribution to the States and Territories; and • a payment of \$2.0 billion for the Social Housing Accelerator program. This was to create homes for Australians on social housing waiting lists and increase housing supply to facilitate this from states and territories funding within two years ending 30 June 2025. The payment was paid before 30 June 2023 and as such was recorded as an expense in 2023.
Personal benefits expense	<p>Personal benefits have decreased by \$11.7 billion as a result of the following offsetting factors:</p> <ul style="list-style-type: none"> • a decrease of \$14.9 billion as a result of cessation of the personal benefits associated with the COVID-19 Disaster Payments (CDP); • an increase in social security personal benefits of \$2.7 billion driven by payment indexation; • decreased working age payments due to a stronger jobs market; and • decreased studies assistance payments consistent with lower university enrolments.

Source: ANAO analysis of 2022–23 CFS.

1.11 There were instances of expenditure brought forward into 2022–23 that impacted on the underlying cash balance. The cash payments in 2022–23 were as a result of decisions by the Australian Government to make payments before 30 June 2023. The impact of these payments was to reduce the underlying cash balance (surplus) at 30 June 2023, however, except for the last item, they have not impacted the net operating balance, as disclosed in the CFS as discussed below:

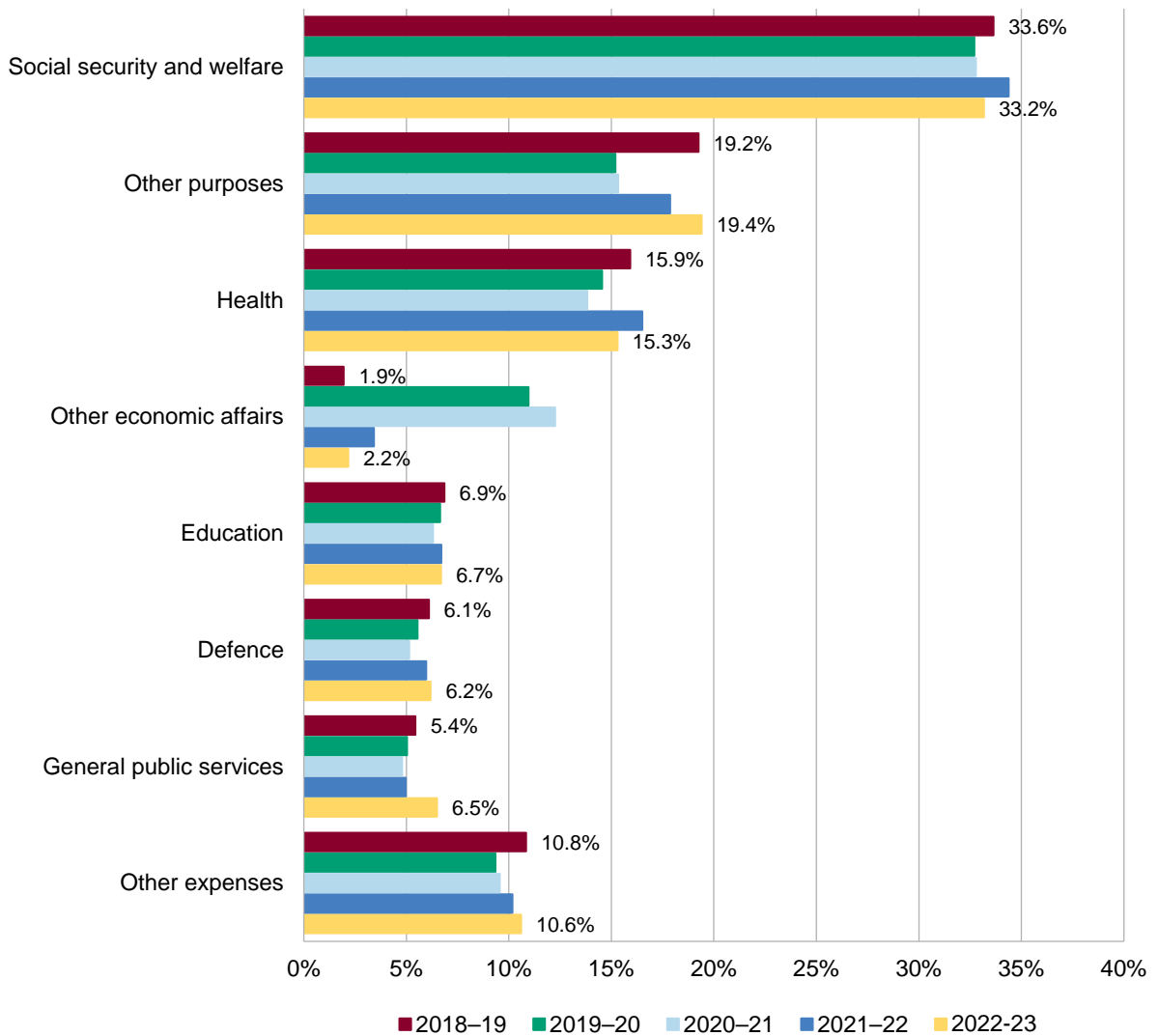
- \$2.3 billion in prepayments under the Disaster Recovery Funding Arrangement made by the Department of Treasury. This decreased the provision for disaster recovery payments but resulted in a decrease in the underlying cash balance;
- \$0.5 billion in prepayments relating to foreign military sales, the procurement of ICT hardware and the purchase of additional marine diesel fuel by the Department of Defence. These payments reduced the underlying cash balance; and
- \$0.4 billion increase in Financial Assistance Grants under national recovery payments, as a result of a bring-forward amount from 75 per cent in 2021–22 to 100 per cent in 2022–23 to assist with the national recovery from COVID-19 and natural disasters. These payments reduced the operating result and underlying cash balance.

Classification of expenses by the functions of Government

1.12 Figure 1.2 provides an analysis of the Australian Government’s expenses by function from 1 July 2018 to 30 June 2023. As a percentage of total expenses, each function has remained stable during this period, except for:

- ‘Other purposes’: Payments to States – Increased due to additional General Revenue Assistance from Treasury for increased payments under national partnership agreements and for GST distribution;
- ‘Other economic affairs’: During 2019–20 and 2020–21 the ‘Other economic affairs’ function included higher expenses due to the JobKeeper and cashflow boost payments which supported businesses and individuals impacted by the effects of the COVID-19 pandemic. The percentage of expenditure has returned to pre-pandemic levels by 2022–23; and
- ‘General public services’: The movement is the result of a \$12.3 billion increase in interest paid by RBA for the exchange settlement accounts as discussed in Table 1.2.

Figure 1.2: Proportion of expenses of Government by function from 2018–19 to 2022–23



Note a: The 'Other purposes' function includes interest on Australian Government debt.

Note b: The 'Other economic affairs' function represents non-standard payments including storage, tourism promotion, labour market assistance to industry and industrial relations.

Note c: 'Other expenses' includes payments to: agriculture, forestry and fishing; fuel and energy; housing and community amenities; mining, manufacturing and construction; public order and safety; recreation and culture; transport and communications.

Source: ANAO analysis of the CFS from 2018–19 to 2022–23.

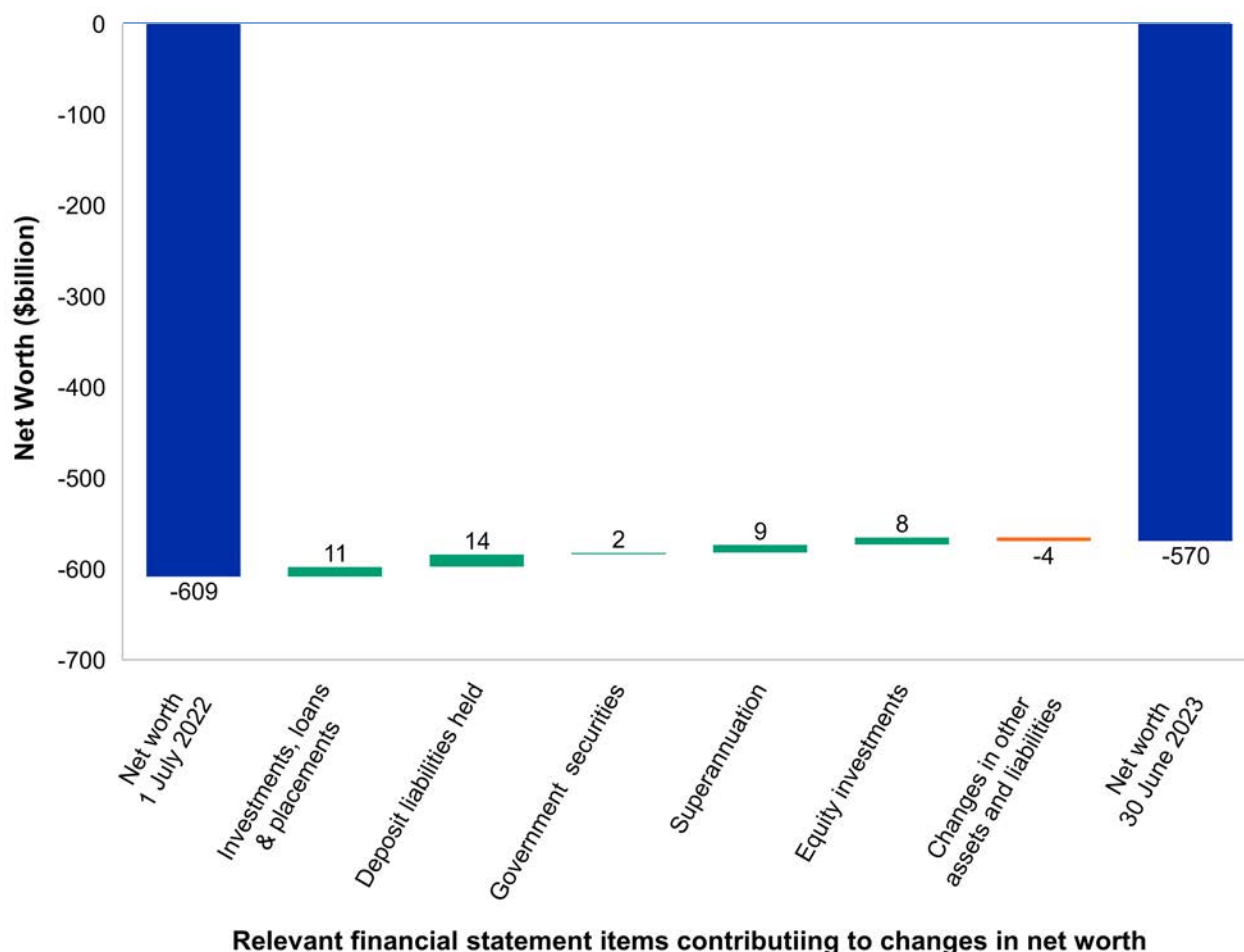
Australian Government's financial position

Net worth

Changes in the Australian Government's net worth from 1 July 2022 to 30 June 2023

1.13 The Australian Government's net worth deficiency reduced from \$608.7 billion in 2021–22 to \$570.2 billion in 2022–23. Figure 1.3 provides an analysis of the movement in net worth from 1 July 2022 to 30 June 2023.

Figure 1.3: Changes in the Australian Government's net worth from 1 July 2022 to 30 June 2023



Source: ANAO analysis of the 2022–23 CFS.

1.14 Table 1.3 provides commentary on the main contributors to the change in net worth of the Australian Government identified in Figure 1.3.

Table 1.3: Explanation of key movements in net worth

Relevant financial statement item	Explanation for key movements in net worth
Investments, loans & placements	There has been an \$11.1 billion increase in investments, loans and placements mainly due to an increase in non-Australian government securities held by RBA for monetary policy objectives and International Monetary Fund (IMF) funding commitments.
Deposit liabilities held	The RBA operates an exchange settlement account (deposits) which are provided to financial institutions to settle financial obligations arising from the clearing of payments, while state and foreign governments may also hold deposits at RBA. The decrease of \$13.5 billion is primarily due to scheduled maturities of the Term Funding Facility (TFF). The TFF was established by the RBA as a response to the pandemic to offer low-cost three-year funding to authorised deposit-taking institutions (ADIs). The facility was closed to new drawdowns on 30 June 2021 and will continue to decrease until 2023–24.
Government securities	There has been a \$1.6 billion decrease ¹ in government securities (and similar decrease in face value of securities on issue) during the year reflecting the requirement for less securities to be issued due to the Australian Government's operating surplus.
Superannuation liabilities	The valuation of the Australian Government's defined benefit superannuation liability decreased by \$8.9 billion primarily due to an increase in the discount rate that has been applied in the calculation of the liability. The discount rate applied in the calculation of superannuation liabilities is consistent with the long-term Australian Government bond rate which increased during the period.
Equity investments	Equity investments primarily comprise of the Future Fund's holdings of listed equities and listed managed investment schemes. There was an \$8.2 billion increase in the value of these investments due to an overall increase in amounts invested and the improvements in the performance of underlying equity markets.
Changes in other assets and liabilities	There has been a net decrease of \$4.5 billion from movements of other assets and liabilities, the key drivers are: <ul style="list-style-type: none"> • a \$13.5 billion increase in the provision for the Military Compensation Scheme as a result of actuarial assumption changes and the actuarial modelling to reflect recent claim experience; • other creditors liability increasing by \$6.5 billion due to increased unsettled purchase agreements by the Reserve Bank of Australia at year-end; • partially offset by an increase in the other property, plant and equipment asset balance by \$7.9 billion due to the continuing progress on the Government's various infrastructure projects like NBN, Snowy Hydro and WSA Co Ltd; and • partially offset by an increase in the value of assets due to business as usual acquisition for the specialist military equipment (\$3.4 billion), buildings (\$3.1 billion) and land (\$1.7 billion).

Source: ANAO analysis of 2022–23 CFS.

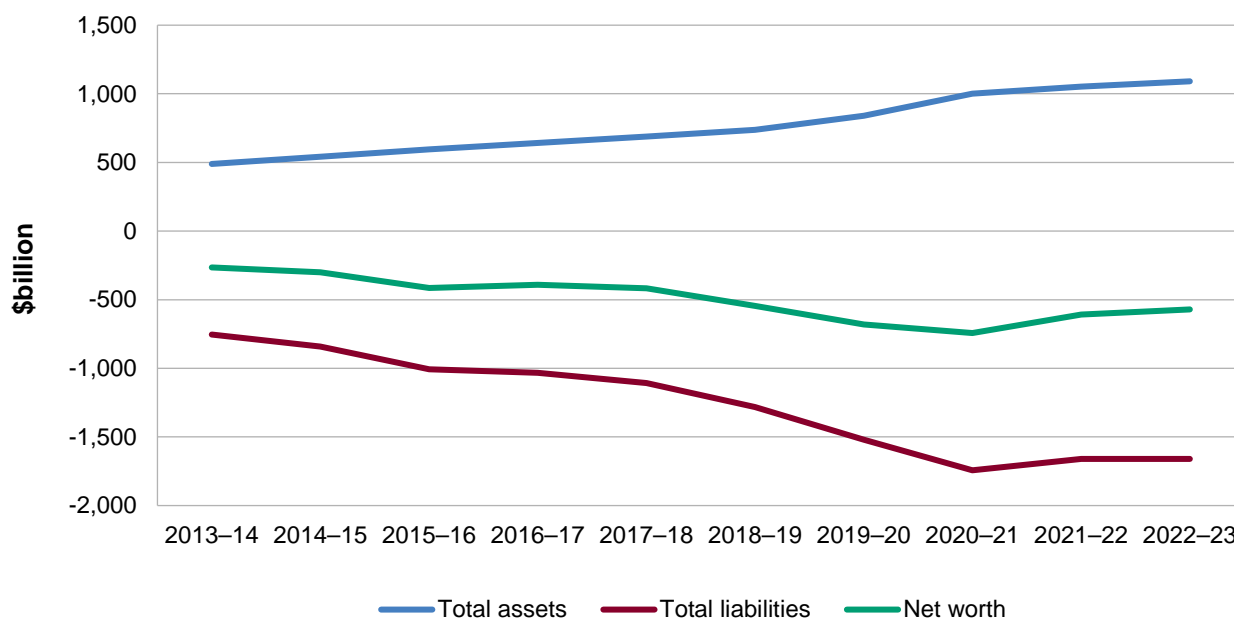
Changes in the Australian Government's net worth from 2013–14 to 2022–23

1.15 Figure 1.4 illustrates the total assets, total liabilities and net worth of the Australian Government since 2013–14. During the period:

¹ Government securities issued by AOFM but held by the Reserve Bank of Australia are eliminated as part of the consolidation process.

- Total assets: increased from \$489.8 billion to \$1,090.3 billion;
- Total liabilities: increased from \$754.1 billion to \$1,660.6 billion; and
- Net worth: net worth position decreased, from a deficit of \$264.3 billion to a deficit of \$570.2 billion.

Figure 1.4: Australian Government's total assets, total liabilities and net worth, from 2013–14 to 2022–23

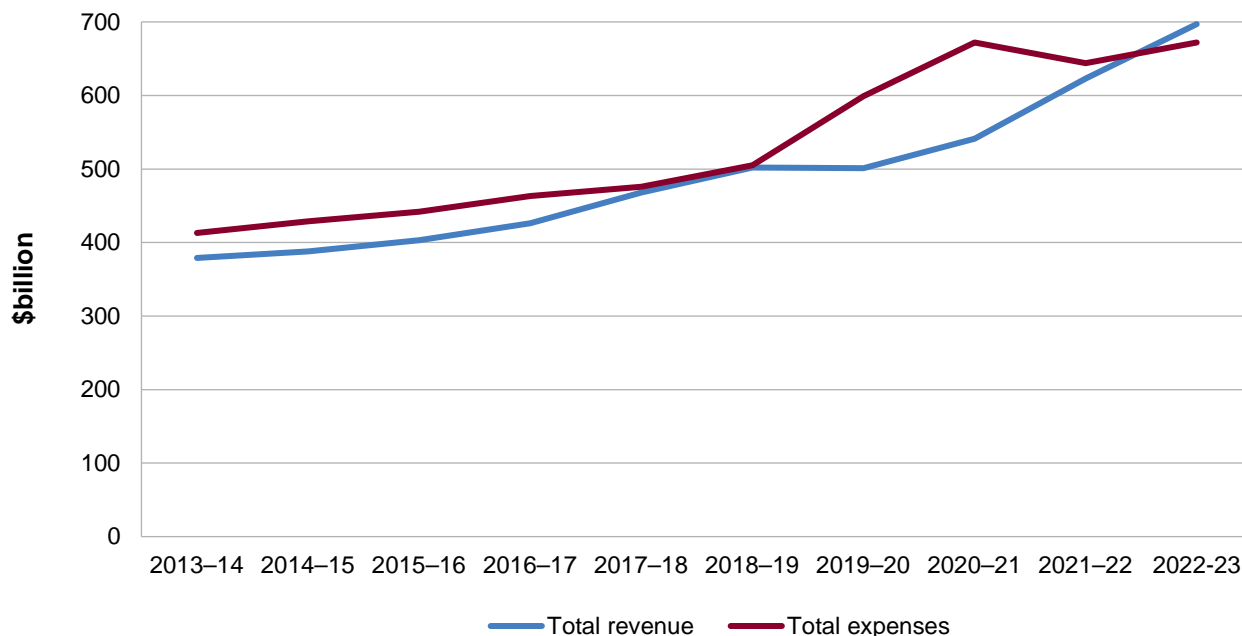


Source: ANAO analysis of the 2013–14 to 2022–23 CFS.

Government securities

1.16 Government securities are primarily issued to meet the financing needs to the Australian Government and are issued to fund the operations of the Australian Government because over the period from 2013–14 to 2021–22, the Australian Government's expenses have been greater than revenue it received. During 2022–23, this trend has been reversed with revenue exceeding expenses for the first time in 15 years. Figure 1.5 below illustrates the trend of Australian Government revenue and expenses over the period 2013–14 to 2022–23.

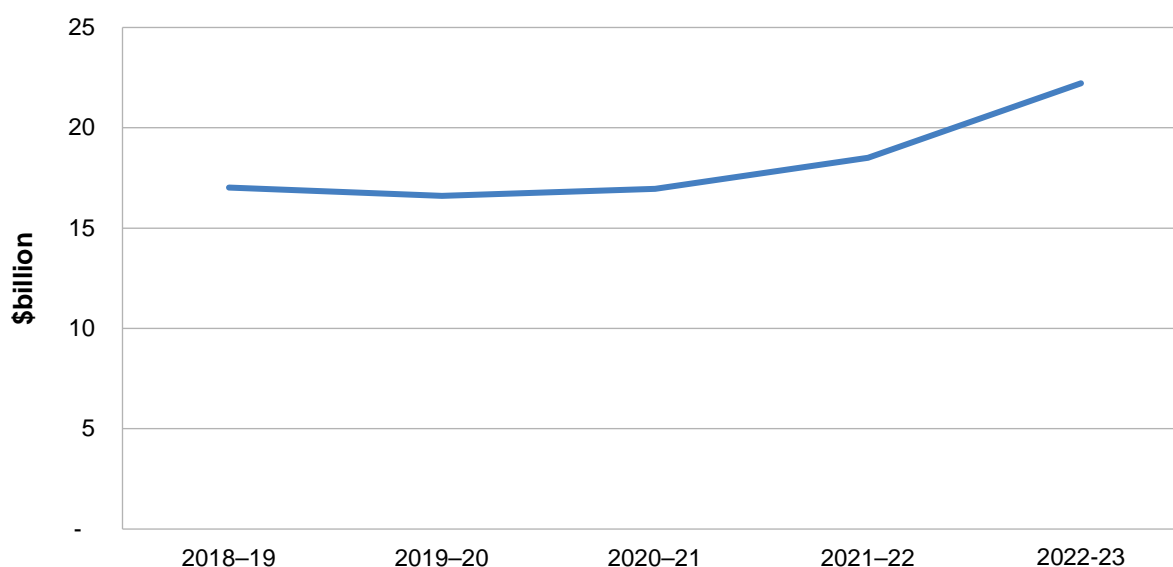
Figure 1.5: Australian Government revenue and expense for the period 2013–14 to 2022–23



Source: ANAO analysis of the 2013–14 to 2022–23 CFS.

1.17 AOFM is responsible for managing the Australian Government Securities which totalled \$825.5 billion in Government Securities for the GGS, comprised of Treasury Bonds, Treasury Indexed Bonds and Treasury Notes, at 30 June 2023. The value of the Australian Government’s Debt is \$574.7 billion due largely to the RBA holding a portion of Government Securities on issue. Figure 1.6 shows that the interest paid by AOFM for Australian Government securities on issue, with an increasing interest expenses and an expectation that it will continue to increase in the short term.

1.18 Yields have increased which has had an impact on the interest cost on AOFM issued debt. Figure 1.6 demonstrates the interest paid by AOFM on Government Securities over the period five year period from 2018–19 to 2022–23. Interest repayments are forecast to grow over time as new bonds are issued at higher interest rates.

Figure 1.6: AOFM Government Securities Interest Paid from 2018–19 to 2022–23

Source: ANAO analysis of AOFM from 2018–19 to 2022–23.

Net debt

1.19 There was a steady growth in net debt as a percentage of Gross Domestic Product (GDP) since 2013–14, growing from 7.3 per cent and peaking in 2020–21 at 23.9 per cent due to the COVID-19 pandemic. Since this time there has been a decrease in the net debt position to 16.3 per cent of GDP in 2022–23. This improvement was the result of:

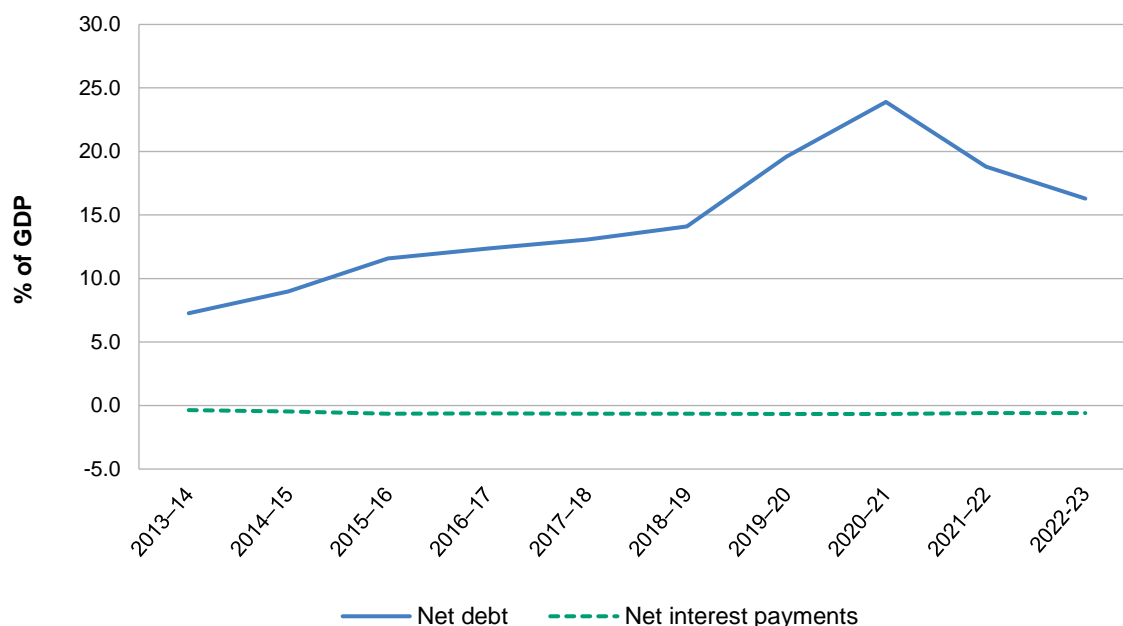
- the decrease of \$13.4 billion in the fair value of Australian Government debt on issue due to rising interest rates;
- the decrease of \$13.5 billion at the RBA primarily due to scheduled maturity of the Term Funding Facility following the COVID-19 pandemic; and
- the Australian Government's surplus in 2022–23, for which the Government Securities on issue from the AOFM decreased by \$1.6 billion.

1.20 Net interest payments were \$14.9 billion in 2022–23 compared to \$9.5 billion in 2021–22.² Due to the size of the Australian Government's debt portfolio and an environment of rising interest rate it is expected that there will be an increase in interest payments in the future.

1.21 Figure 1.7 illustrates the change in the indicators of the net financial position and net interest payments of the Australian Government from 2013–14 to 2022–23 as a percentage of GDP.

² Net interest payments are interest paid less interest received by the Australian Government during the financial year. The total interest paid in 2022–23 was \$23.6 billion (2021–22: \$13.4 billion) and the interest received was \$8.7 billion (2021–22: \$3.9 billion).

Figure 1.7: Australian Government net debt position as per cent of GDP, from 2013–14 to 2022–23



Source: ANAO analysis of 2022–23 commentary on the CFS.

Superannuation liabilities and the Future Fund

1.22 The Australian Government has superannuation liabilities arising from obligations to employees for defined benefit superannuation schemes. Note 9C of the CFS provides information on the nature of these schemes. The total superannuation net liability for these schemes was \$313.1 billion as at 30 June 2023 (\$322.0 billion as at 30 June 2022). The significant balances of the reported net liability relate to the following schemes that are closed to new members:

- Commonwealth Superannuation Scheme (\$69.5 billion);
- Public Sector Superannuation Scheme (\$103.2 billion);
- Military Superannuation Benefits Scheme (\$100.1 billion); and
- Defence Force Retirement and Death Benefits Scheme (\$33.8 billion).

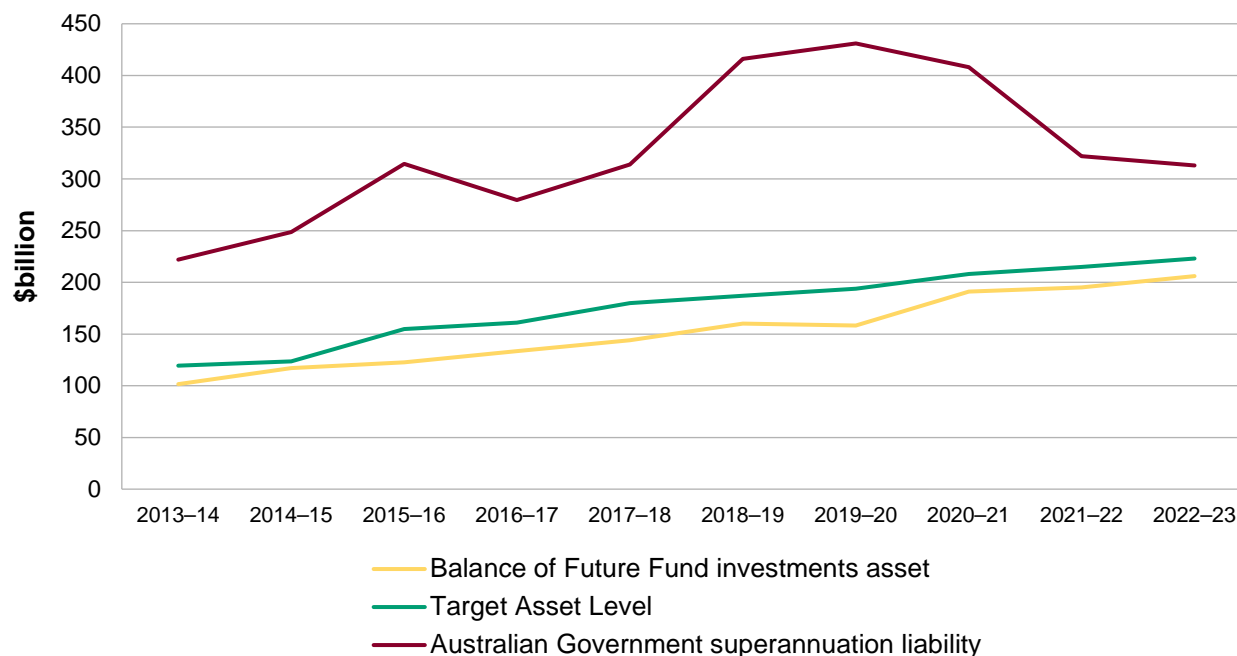
1.23 The primary reason for the decrease in the liability is the increase in the discount rate used in valuing the superannuation liability between 30 June 2022 and 30 June 2023³. The long term nature of the superannuation liability means that small changes to the discount rate can have a large impact on the estimation of the value of the liability.

1.24 The Future Fund was established by the *Future Fund Act 2006* to strengthen the Australian Government’s long-term financial position through the acquisition of financial assets and investments to assist in the discharge of the Australian Government’s superannuation liabilities. The Future Fund Board of Guardians is responsible for deciding how to invest the assets of the Future Fund through balancing the risk aspects of each investment mandate to maximise returns.

³ The discount rate applied in the estimation of the liability was 4.2–4.4% (2022: 3.8–3.9%). The increase in the discount rate was related to the increase in the market yield on Australian government securities during 2022–23.

1.25 Figure 1.8 provides an overview of the balances of the Australian Government superannuation liabilities, the net investment balance of the Future Fund and the target asset level (TAL) from 2013–14 to 2022–23.

Figure 1.8: Total value of Australian Government superannuation liabilities and Future Fund investments, and the target asset level, from 2013–14 to 2022–23



Source: ANAO analysis of 2022–23 CFS and the Target Asset Level Declaration issued by the designated actuary of the Future Fund on 25 June 2021.

1.26 The TAL represents the best estimate of the assets required, together with investment earnings on those assets, which would be sufficient to meet unfunded superannuation benefit payments accrued up to the start of the financial year. The discount rate used to calculate the present value of future payments for TAL purposes represents the expected investment return on Future Fund assets. The Australian Government’s superannuation liability included in Figure 1.8 reflects the present value of future unfunded superannuation benefits payments discounted using the Commonwealth bond rate, in accordance with Australian Accounting Standards.

1.27 Figure 1.8 shows that the 2022–23 estimate of the TAL is \$222.7 billion⁴, which is above the current Future Fund investment asset balance of \$202.9 billion (2022: \$195.1 billion). The *Future Fund Act 2006* permits drawdowns when the balance of the Future Fund equals or exceeds the TAL. The Australian Government has previously announced it would delay drawdowns from the Future Fund until at least 2026–27.

Investments for policy purposes

1.28 The Australian Government reports fiscal aggregates including net operating balance and underlying cash. These aggregates exclude cash or accounting movements that are of an

⁴ Designated Actuary’s Report: Target Asset Level Declaration of 25 June 2021, available from <https://www.finance.gov.au/sites/default/files/2021-07/2021%20Future%20Fund%20TAL%20Declaration.pdf> [accessed on 9 November 2023].

investment or financing nature, such as investments made for policy purposes and the fair value losses on these investments.

1.29 Investments made for policy purposes have elements of economic and social benefits in addition to providing commercial returns to the Australian Government. These investments are also referred to as alternative financing arrangements.

1.30 The Parliamentary Budget Office (PBO) has noted that — ‘under successive governments there has been a shift toward delivering more government policies using alternative financing arrangements rather than direct payments’.⁵ The Joint Committee of Public Accounts and Audit (JCPAA) conducted an inquiry into Alternative Financing Mechanisms and released its report in March 2022.⁶

1.31 The JCPAA recommended that the Minister for Finance ‘consider changes to improve transparency for equity investments’ consistent with proposed improvements identified by the PBO to budget documents to assist Parliament in scrutinising investments for policy purposes.

1.32 Segregating the commercial and non-commercial portions (economic and social benefits) of the investments to better reflect the implications on key fiscal aggregates in the financial statements would also be beneficial. This would better reflect the initial cost and/or losses expected on investments made for policy purposes where a sufficient rate of return is not expected, as losses in subsequent years would not be reflected in underlying cash balances.

1.33 This would improve transparency on where the Government for policy purposes, is investing and seeking a sufficient rate of return on equity compared with those circumstances where the Government is not investing to make a sufficient rate of return.

1.34 In response to the JCPAA’s recommendations, the Department of Finance introduced improvements to the transparency and disclosure in budget reporting of balance sheet items as part of the 2023–24 Budget. These improvements were made to enhance the understanding of the Australian Government’s financial position by parliamentarians and the public. These included:

- the disclosures of investments, loans and placements have been disaggregated in the 2023–24 budget papers to provide estimates for collective investment vehicles, residential mortgage-backed securities, and other interest-bearing securities. These disclosures correspond with the Consolidated Financial Statements;
- enhanced disclosure and analysis to show composition of balance sheet assets and liabilities and movements over time. The additional disclosures provide detail on the estimated balances of the Australian Government’s investment funds and superannuation schemes and the asset allocation of the Future Fund; and

5 Parliamentary Budget Office Report no.1/2020, available from <https://www.pbo.gov.au/publications-and-data/publications/research-reports/alternative-financing-government-policies> [accessed 9 November 2023].

6 Joint Committee of Public Accounts and Audit Report 490, available https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Public_Accounts_and_Audit/Alternative_finance/Report [accessed 9 November 2023].

- narrative disclosures on the definitions of equity investments have also been included in the budget papers and more guidance and resources have been published on the Department of Finance website⁷.

1.35 The Department of Finance has advised the JCPAA that it will continue to look for opportunities to improve the level of transparency and disclosure contained in the Budget Papers.⁸

1.36 The ANAO has reviewed the recommendation regarding better segregation of the commercial and non-commercial portions (economic and social benefits) of the investments to better reflect the implications on key fiscal aggregates (of underlying cash and net operating balance) in the financial statements. The impact of the equity injections on operations of these entities is not reflected in the net operating balance unless dividends are received from the entities. The ongoing valuations of these entities are reflected in net worth. If the valuation of these entities deteriorates (for example as a result of accumulating losses or the valuation of future cash flows associated with assets procured through equity injections being less than their purchase costs), the deterioration in the position will be reflected in the GGS' net worth but not impact on the net operating balance even if the deterioration was a predictable result of a non-commercial policy decision. The Department of Finance should review the appropriateness of its return-on-investment forecast model to improve guidance on the accounting treatment of equity injections when the investment has elements of economic and social benefits.

Case study 1. Australian Rail Track Corporation – Equity injections for the Inland Rail project

The Australian Government provides financing for the Inland Rail project through the Australian Rail Track Corporation (ARTC). At 30 June 2023 the Australian Government was committed to invest a substantial amount of equity funding into ARTC to deliver the project (which is in early construction phases) with \$1.0 billion in equity contributions provided in 2022–23. This is an example of alternative financing arrangements that requires an assessment of whether a sufficient rate of return can be generated from the investment to determine what portion reflects an economic transaction (equity investment) and which portion is for social benefits (grants expense).

ARTC's accounting policy for the assets constructed in relation to the Inland Rail Line is to impair the expenditure based on the forecast net present value of the project to nil value on the construction of Inland Rail. This impairment is based on the judgement that the discounted future net cash flows from the operation on the Inland Rail are less than the cost of construction. Impairment of the expenses relating to the Inland Rail assets amounted to \$866.5 million in 2022–23.

As the injection is made to an existing entity that achieves a real rate of return from existing operations, the injection of equity is treated as an investment asset. As a result, changes in value of the entity are reflected as a change in GGS net worth, but the cost of making the

7 Commonwealth Balance Sheet User Guide, available from <https://www.finance.gov.au/government/financial-reporting-and-accounting-policy/commonwealth-balance-sheet-user-guide> [accessed on 13 November 2023].

8 Budget Paper No. 1: Statement 10 – Appendix B, available from https://budget.gov.au/content/bp1/download/bp1_bs10_app_b.pdf [accessed on 15 November 2023].

investment (if there is a social benefit portion) is not reflected in the GGS's net operating balance or underlying cash balance.

Definitions used in this chapter

1.37 Table 1.4 below provides a glossary of the key fiscal aggregates and other terminology used in this chapter to explain the Australian Government's net worth and financial performance.

Table 1.4: Definitions of terms used

Name	Definition
Net operating balance	This is calculated as income from transactions minus expenses from transactions. It is equivalent to the change in net worth arising from transactions.
Operating result	Income less expenses, excluding the components of other comprehensive income. Also known as 'profit or loss'. The operating result includes the net operating balance plus items including net write-down of assets, net gains/(losses) from the sale of assets, net foreign exchange gains/(losses), net interest on derivatives gains/(losses), net fair value gains/(losses) and net other gains/(losses).
Comprehensive result	Total change in net worth before transactions with owners in their capacity as owners. Also known as 'total change in net worth'.
Fiscal balance	The financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. A positive result reflects a net lending position and a negative result reflects a net borrowing position. Also known as net lending/ (borrowing).
Net worth	The net worth of the Australian Government is defined as assets less liabilities.
Net debt	Net debt is equal to gross debt minus the stock position in financial assets corresponding to debt instruments. The Department of Finance define net debt in the preface to the CFS as 'the sum of deposits held, government securities, loans and lease liabilities less the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements).
Government securities	All securities issued by the Australian Government at tenders conducted by the AOFM. They comprise Treasury Bonds, Treasury Notes and Treasury Indexed Bonds.
Investments for policy purposes	Acquisitions of financial assets for policy purposes are distinguished from investments by the underlying government motivation for acquiring the assets. Where assets are acquired for the purpose of implementing or promoting government policy (e.g. loans to assist industry development), the acquisition of the assets is treated as being for policy purposes. Acquisition of financial assets for policy purposes includes government policies encouraging the development of certain industries or assisting citizens affected by natural disaster.
Underlying cash balance	Net cash receipts from operations (excluding net Future Fund earnings), less net capital investment (including by finance lease).

Source: Australian Bureau of Statistics (2015). Australian System of Government Finance Statistics: Concepts, Sources and Methods; AASB 101 *Preparation of Financial Statements*, paragraph 5 and 7; AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, Appendix A; and Reserve Bank of Australia (2017). Glossary RBA. [Internet], available from <https://www.rba.gov.au/glossary/> [accessed 9 November 2023].

2. Financial audit results and other matters

Chapter coverage

This chapter provides a summary of the:

- 2022–23 auditor’s reports issued by the ANAO;
- observations regarding entities’ internal control environments;
- unadjusted and adjusted audit differences reported to entities during 2022–23;
- findings identified during the course of the 2022–23 financial statements audits of entities.

This chapter also provides analysis of the:

- quality and timeliness of financial statements preparation;
- timeliness of entities’ financial reporting;
- financial sustainability of material entities; and
- observations across the sector relating to: internal audit; adoption of emerging technologies by entities; removal of user access; IT change management; accounting for computer software and cost recovery arrangements.

Conclusion

The ANAO issued 241 unmodified auditor’s reports, including the Australian Government’s Consolidated Financial Statements (CFS). The financial statements were finalised and auditor’s reports issued for 91 per cent (2021–22: 86 per cent) of entities within three months of financial year-end.

For the majority of entities, at the completion of the final audits, key elements of internal control were operating effectively to provide reasonable assurance that the entities were able to prepare financial statements that were free from material misstatement. In 10 entities where significant audit findings were identified these findings reduced the level of confidence and assurance that could be placed on key elements of internal control. These significant audit findings mainly related to: governance of legal and other matters; and IT governance and controls.

Timeliness of tabling of entity annual reports declined

Sixty-six per cent (2021–22: 74 per cent) of entities that are required to table an annual report in Parliament tabled prior to the date that the portfolio’s supplementary budget Senate estimates hearing commenced. Twelve per cent of entities, a decrease from 2021–22, tabled annual reports one week or more before the hearing (2021–22: 52 per cent). Of the entities required to table an annual report, six per cent (2021–22: eight per cent) had not tabled an annual report as at 30 November 2023.

Timeliness of completed financial statements presented improved

Seventy-two per cent of entities delivered financial statements in line with an agreed timetable — an increase compared with 2021–22 (65 per cent). The total number of adjusted and unadjusted audit differences decreased during 2022–23, although 50 per cent of audit differences remained unadjusted. The quantity and value of adjusted and unadjusted audit differences indicate there remains an opportunity for entities to improve quality assurance frameworks over financial statements processes.

Total number of audit findings decreased

A total of 196 audit findings were reported to entities as a result of the 2022–23 financial statements audits (2021–22: 205). These comprised 9 significant (2021–22: 5), 36 moderate (2021–22: 35), 137 minor findings (2021–22: 144) and 14 legislative breaches (2021–22: 21). The highest number of significant and moderate findings are in the categories of: Governance of legal and other matters impacting entity financial statements; IT governance including security, change management and user access; and accounting and control of non-financial assets (including computer software).

IT controls remain a key issue

In 2022–23 there was an increase in the number of audit findings relating to weaknesses in change management policies and controls for IT systems.

The ANAO found that 78 per cent of entities assessed do not have an effective control to monitor access or activity in entities' systems after user cessation.

Findings on governance

The ANAO identified four significant audit findings in relation weaknesses in four entities' financial statement preparation process with respect to consideration of legal matters. These findings highlighted instances where information on legal matters was not referred to entity Chief Financial Officers, or was not otherwise assessed for impact on the financial statements.

Accounting for computer software needs improvement

The value of computer software recognised by entities totalled \$22.1 billion at 30 June 2023. Entities have recorded a cumulative write-downs and impairment of \$789.1 million in the period 2019–20 to 2022–23. During 2022–23 the ANAO identified an increase in weaknesses in entity processes for accounting for computer software. and made and increased number of findings. There are opportunities for entities to improve quality assurance frameworks supporting accounting for computer software (particularly in relation to Software as a Service).

Legislative breaches

The majority of legislative breaches identified by the ANAO in 2022–23 relate to incorrect payments of remuneration to key management personnel and/or non-compliance with determinations made by the Remuneration Tribunal.

Internal audit

Eighty-four per cent of entities had established an internal audit function in 2022–23. Twenty-one per cent of entities decreased their internal audit budget in the period 2020–21 to 2022–23. There were 2,687 internal audits undertaken between 2020–21 and 2022–23. Identified areas for improvement include: adopting formal audit committee charters; developing and monitoring internal audit budgets to determine they are fit for purpose and considering appropriate organisational structure for the officer overseeing the internal audit function. There is an opportunity for the Australian Government to consider whether additional guidance relating to the implementation and delivery of internal audit would be beneficial to enhance the Australian Government's system of internal control.

Use of emerging technologies in the sector requires governance thinking

Emerging technologies, such as Artificial Intelligence, Machine Learning and Robotic Process Automation present opportunities for improvement and innovation, as well as risks. Thirty-six entities advised the ANAO that they had adopted some form of emerging technology. The majority of entities adopting these technologies did not create policies or a governance framework to support their use of these technologies, or have regard to external policies guidance such as Australia's eight *Artificial Intelligence Ethics Principles*. The lack of governance frameworks for managing the use of emerging technologies could increase the risk of unintended consequences

Financial sustainability in material entities remains sound

An analysis of the operating results and balance sheet positions for material entities concluded that the financial sustainability for the majority of those entities was not at risk. There would be benefit in the Australian Government developing performance targets or benchmarks. This would enable an entity to assess its own financial sustainability against agreed parameters over time, and against like entities.

Cost recovery impact statement compliance is largely in order

The ANAO's analysis of cost recovered activities identified that entities largely complied with the requirements to prepare cost recovery implementation statements (CRIS) for each cost recovered activity in accordance with the Australian Government's Cost Recovery Policy. Fifty-two per cent of entities had not updated their CRIS to include estimates of the 2022–23 financial year or the outcomes of the performance of the activity of the previous period. Expenses incurred in delivering cost recovered activities exceeded external revenue received for the period 2020–21 to 2022–23. Expenses in delivering cost recovered activities grew by 13 per cent over this period, while revenue increased by 9 per cent (net of partial funding from the Australian Government). There is an opportunity to for the Department of Finance to review current disclosure practices and provide additional guidance to Commonwealth entities to enhance relevant disclosures. Improvements in disclosures would enhance transparency of cost recovery financial performance.

Introduction

2.1 The Auditor-General is mandated by the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) to audit and form an opinion on the financial statements of all Commonwealth entities and companies (and their controlled subsidiaries).⁹ This chapter summarises the results of the 2022–23 financial statements audits and provides commentary on specific topics which relate to the governance and administration of entities.

Summary of 2022–23 auditor's reports

At 30 November 2023 the ANAO issued 241 unmodified auditor's reports, including the Australian Government's Consolidated Financial Statements (CFS). There were no modified

⁹ Section 43 relating to corporate and non-corporate Commonwealth entities and Section 98 relating to Commonwealth companies (established under the *Corporations Act 2001*).

auditor's reports in 2022–23 (2021–22: one). Ninety-one per cent of auditor's reports were signed within three months of year-end compared to 86 per cent in 2021–22.

In 2022–23 a total of 58 (2021–22: 57) Key Audit Matters (KAM) were included across the 27 entities included in Auditor-General Report No. 26 of 2022–23 *Interim Report on Key Financial Controls of Major Entities*. These KAM mainly related to the valuation of the Australian Government's assets and liabilities, including listed and unlisted equity investments, loans and receivables, non-financial assets (including specialist military equipment and infrastructure), defined benefit superannuation liabilities, Australian Government securities and personal benefit provisions.

Auditor's reports issued

2.2 A comparison of the number and type of auditor's reports issued by the Auditor-General and his delegates in 2021–22 and 2022–23 (as at 30 November 2023), including the CFS is summarised at Table 2.1.

Table 2.1: Summary of auditor's reports issued and outstanding as at 30 November 2023

Auditor's report	2022–23	2021–22
Unmodified	241 ^a	237
• Included an emphasis of matter	15 ^a	15
• Included a Report on other legal and regulatory requirements	0	0
Modified	0	1
Auditor's reports issued	241	238
Not yet issued	3 ^b	10 ^c
Total number of financial statements audits^d	244^d	248^d

Note a: Fifteen of the unmodified auditor's reports included an emphasis of matter.

The auditor's report for eight entities included an emphasis of matter to draw users' attention to the basis of preparation of the financial statements or restrictions on the distribution or use of the auditor's report. These entities are: Australia Post Licensee Advisory Council Ltd, Australian Sports Foundation Charitable Trust, Darwin Hotel Partnership, Gagudju Lodge Cooinda Trust, IBA Retail Property Trust, Ikara Wilpena Holdings Trust, Performance Bond Fund Trust and Tennant Creek Land Holding Trust.

An emphasis of matter was included in the auditor's report for two entities to draw user's attention to a material uncertainty associated with the operations of the entity. These entities are: Gagudju Lodge Cooinda Trust and Kakadu Tourism (GLC) Pty Ltd.

The auditor's report for seven entities included an emphasis of matter to draw to users' attention a particular matter in the financial statements. These entities are: ANSTO Nuclear Medicine Pty Ltd, Australian Scientific Instruments Pty Ltd, Australian Securities and Investments Commission, Bureau of Meteorology, Creative Partnerships Australia Ltd, Department of Veterans' Affairs and Seafarer's Safety, Rehabilitation and Compensation Authority. For details of each of matters included in the auditor's report refer to Chapter 4.

Note b: As at 30 November 2023, the 2022–23 financial statements audits had not been finalised for the following entities: Bundanon Trust, Royal Australian Navy Central Canteens Board and Wreck Bay Aboriginal Community Council.

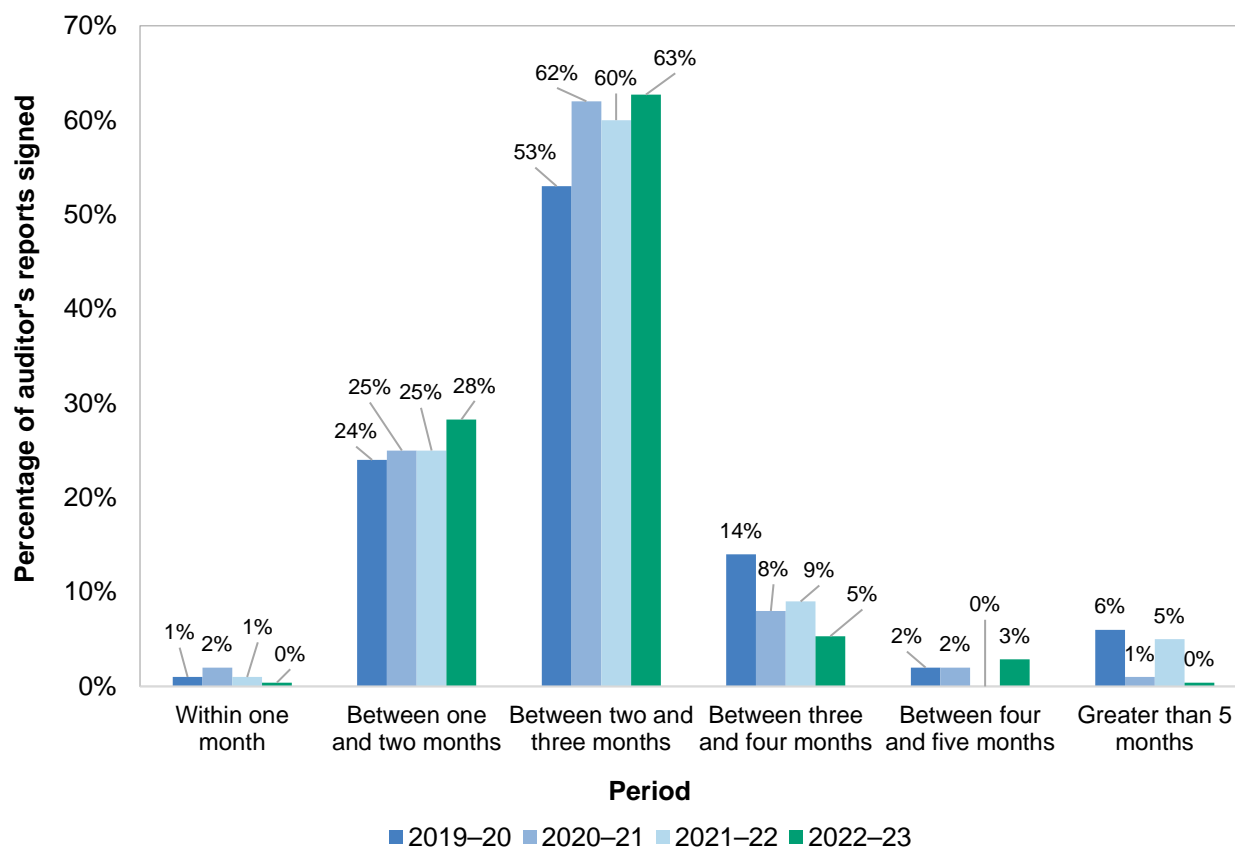
Note c: As at 2 December 2022, the 2021–22 financial statements audits had not been finalised for 10 entities. The results of these audits are included at Appendix 5.

Note d: The Consolidated Financial Statements is included in the total number of financial statements audits.

Source: 2021–22 and 2022–23 ANAO auditor's reports.

2.3 The finalisation of a financial statements audit is marked by the signing of the auditor's report. Figure 2.1 shows that the percentage of entities with financial statements and the associated auditor's report signed within three months of the reporting year-end has increased from 2019–20. Ninety-one per cent of auditor's reports were signed within three months of year-end compared to 86 per cent in 2021–22.

Figure 2.1: Timeframes for auditor's report signing from the end of financial year



Source: ANAO analysis.

2.4 The ANAO issued 99 per cent of auditor's reports within two business days of the signing of the financial statements by the accountable authority (2021–22: 98 per cent).

Key audit matters

2.5 While ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* (ASA 701) only requires Key Audit Matters (KAM) reporting for listed entities, the Auditor-General considers including KAM to be good practice for financial statements auditing in the public sector and includes KAM in certain audit reports. Communicating KAM helps users of financial statements better understand those matters that, in the auditor's professional judgement, were of the most significance in the audit of the financial statements.

2.6 The ANAO has reported KAM in 2022–23 for the entities included in Auditor-General Report No. 26 of 2022–23 *Interim Report on Key Financial Controls of Major Entities* (ANAO Report No. 26) and the Consolidated Financial Statements (CFS). In 2022–23, a total of 58 KAM were reported across 27 entities (compared with 57 KAM reported across 25 entities in 2021–22). The

majority of KAM related to the valuation, allocation and accuracy of assets and liabilities, including:

- advances, loans and other receivables, including accounting for concessional loans;
- non-financial assets including property, plant and equipment and specialist military equipment;
- investments in listed or unlisted entities or other financial products;
- intangibles, including computer software;
- leases; and
- provisions, including defined benefit superannuation funds and personal benefits.

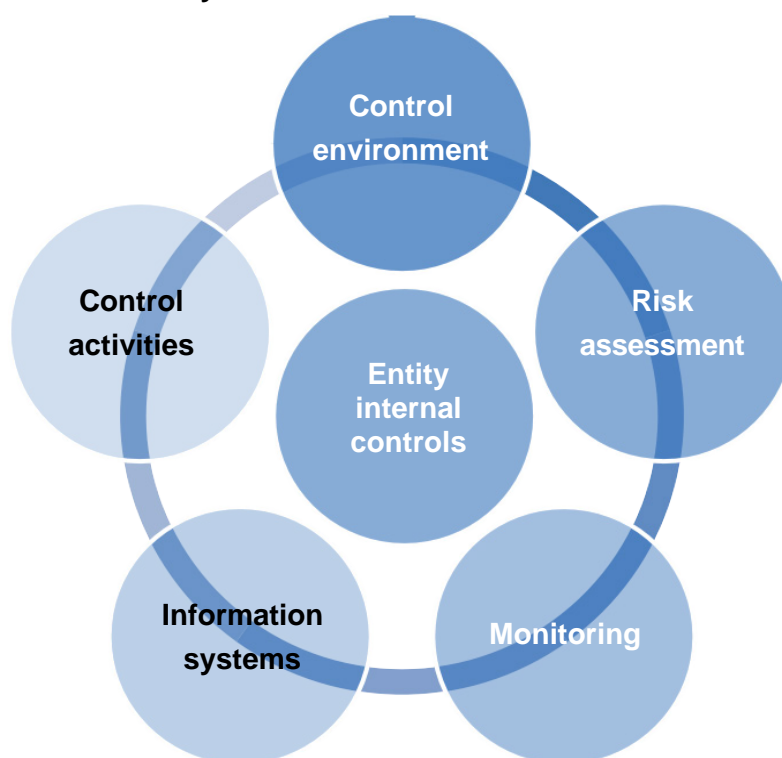
2.7 Other KAM included: completeness and accuracy of expenses relating to personal benefits and other payments; and completeness and accuracy of revenue relating to taxation, royalty and other revenue arising from fees and charges. Further details of the KAM reported are included in the discussion of results of financial statements audits in Chapter 4 of this report.

Assessment of entities' internal control environment supporting the preparation of financial statements

For the majority of entities, at the completion of the final audits, key elements of internal control were operating effectively to provide reasonable assurance that the entities were able to prepare financial statements that were free from material misstatement. In ten entities where significant audit findings were identified these findings reduced the level of confidence and assurance that could be placed on key elements of internal control. These significant audit findings mainly related to: Governance of legal and other matters; and IT governance and controls.

Emerging technologies, such as Artificial Intelligence, Machine Learning and Robotic Process Automation present opportunities for improvement and innovation, as well as risks. Appropriate governance structures are critical to achieving the ethical and responsible use of emerging technologies. Entity governance structures should consider usage of the technologies, an understanding of the operation of the technologies and consider both business and technology perspectives. Thirty-six entities advised the ANAO that they had adopted some form of emerging technology. The majority of entities adopting these technologies did not create policies or a governance framework to support their use of these technologies, or have regard to external policies guidance such as Australia's eight *Artificial Intelligence Ethics Principles*. The lack of governance frameworks for managing the use of emerging technologies could increase the risk of unintended consequences.

2.8 The ANAO applies the framework in ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment* to consider the impact of elements of an entity's internal controls supporting the preparation of financial statements. This approach provides a basis for designing and implementing responses to the assessed risk of material misstatement. Figure 2.2 below outlines these elements.

Figure 2.2: Elements of entity internal controls

Source: ASA 315 *Identifying and assessing the risk of material misstatement through understanding the entity and its environment*, paragraphs 4 to 21.

2.9 An effective internal control framework provides a level of assurance that entities are able to prepare financial statements that are free from material misstatement. For the majority of entities in 2022–23, key elements of internal control were operating effectively, providing the ANAO with reasonable assurance that the prepared financial statements were free from material misstatement.

2.10 Except for particular finding/s outlined in Chapter 4¹⁰, key elements of internal control were operating effectively to provide reasonable assurance that entities are able to prepare financial statements that are free from material misstatement. These particular findings reported to entities' represented moderate business or financial management risk to the entity.

2.11 For entities where audit findings were reported, the ANAO was required to undertake additional audit procedures to obtain sufficient and appropriate audit evidence that provided reasonable assurance the entity's financial statements were not materially misstated.

10 The entities were: Administrative Appeals Tribunal; Anindilyakwa Land Council; Attorney-General's Department; Australian Communications and Media Authority; Australian Nuclear Science and Technology Organisation; Australian Securities and Investments Commission; Australian Taxation Office; Bureau of Meteorology; Clean Energy Regulator; Commonwealth Scientific and Industrial Research Organisation; Commonwealth Superannuation Corporation; Departments of: Agriculture, Fisheries and Forestry; Climate Change, Energy, the Environment and Water; Employment and Workplace Relations; Finance; Foreign Affairs and Trade; Home Affairs; Infrastructure, Transport, Regional Development, Communications and the Arts; the Prime Minister and Cabinet; the Treasury; and Veterans' Affairs; Great Barrier Reef Marine Park Authority; National Blood Authority; National Disability Insurance Agency; NDIS Quality and Safeguards Commission; Northern Land Council; Royal Australian Air Force Veterans' Residences Trust Fund; Royal Australian Air Force Welfare Trust; and Royal Australian Mint.

2.12 Table 2.2 details the assessment of the effectiveness of the elements of internal control at the conclusion of the final audit for the entities included in this report.

Table 2.2: Assessment of the effectiveness of the elements of internal control

Overall assessment of effectiveness of elements of internal control supporting the preparation of financial statements	Percentage of entities
Effective, with no significant or moderate audit findings identified	84%
Effective, with the exception of particular moderate audit findings identified	12%
Reduced level of reliance due to significant audit findings identified	4%

Source: ANAO analysis of 2022–23 audit results.

2.13 There were 12 significant audit findings reported for 10 entities during 2022–23 which reduced the level of reliance which could be placed on the effective operation of internal control supporting the preparation of the financial statements. The audit findings reported to these entities presented a significant business or financial management risk to each entity. These included issues that could result in a material misstatement of the entity’s financial statements.

2.14 The ten entities are: Army and Air Force Canteen Service; the Australian Taxation Office; Bundanon Trust, the Departments of: Defence; Education; Health and Aged Care; and Social Services, the National Archives of Australia; Royal Australian Navy Central Canteens Board and Services Australia.

Control environment

2.15 The PGPA Act sets out the requirements to establish and maintain systems relating to risk and control. Section 16 of the PGPA Act states that:

The accountable authority of a Commonwealth entity must establish and maintain:

- (a) an appropriate system of risk oversight and management for the entity; and
- (b) an appropriate system of internal control for the entity;

including by implementing measures directed at ensuring officials of the entity comply with finance law.^{11, 12}

2.16 An effective control environment is underpinned by a fit-for-purpose governance structure. Indicators of an effective governance structure include whether management has established frameworks and processes that promote positive attitudes, awareness and actions concerning the entity’s internal controls and their importance in the entity. The main elements reviewed included: governance structures relevant to the preparation of the financial statements; audit committee and assurance arrangements; systems of authorisation; and processes for recording financial transactions.

11 The PGPA Act section 13 defines officials of Commonwealth entities.

12 In accordance with section 8 of the PGPA Act, finance law means the PGPA Act or PGPA Rules, any instrument made under the PGPA Act or Appropriation Acts

2.17 Clear lines of accountability and reporting are important in establishing a strong internal control environment for the purposes of preparing the financial statements. The involvement of those charged with governance is an important element of these structures. Just as important is ensuring that staff at all levels in an entity understand their own role in the control framework. This can be achieved through the issuance of accountable authority instructions and delegation instruments.

Audit committees

2.18 Except for the seven entities below, entities had established audit committees that met the membership requirements outlined in section 17¹³ or section 28¹⁴ of the PGPA Rule. The PGPA Rule requires that the Accountable Authority (or head of the Accountable Authority in the case of a board), Chief Executive and Chief Financial Officer must not be members of the Audit Committee. The PGPA Rule also requires that:

- for non-corporate Commonwealth entities there is at least three members who are independent of the entity and a majority of the members must not be officials of any Commonwealth entity; and
- for corporate Commonwealth entities all members must not be employees of the entity.

2.19 These entities were: AAF Company; Australian Broadcasting Corporation; Australian Institute of Health and Welfare; Australian Strategic Policy Institute Ltd; Bundanon Trust and Royal Australian Air Force Veterans' Residences Trust Fund.¹⁵

Risk assessment processes

2.20 Section 16 of the PGPA Act sets out an accountable authority's responsibilities regarding the establishment of appropriate risk oversight and management in an entity. An understanding of an entity's process to identify and manage risk is essential to an effective and efficient financial statements audit. A review of this process is completed to assist the ANAO to understand how entities identify and manage risks relating to financial statements and assess the risk of material misstatement to an entity's financial statements.

2.21 One significant legislative breach has been reported by the ANAO in relation to non-compliance with section 16 of the PGPA Act relating to the Tiwi Land Council, which has not established a formal risk management policy.

Fraud control

2.22 Section 10 of the PGPA Rule details the minimum standards for accountable authorities of Commonwealth entities for managing the risk and incidence of fraud. The accountable authority of an entity must take all reasonable measures to prevent, detect and deal with fraud relating to the entity. This includes conducting fraud risk assessments regularly and when there is a substantial change in the structure, functions or activities of the entity.¹⁶ The ANAO's assessment

13 For Commonwealth entities.

14 For Commonwealth companies.

15 The ANAO has been advised that the Australian Broadcasting Corporation and Australian Institute of Health and Welfare have updated their audit committee membership to comply with the requirements of the PGPA Rule.

16 Section 10 (a) Public Governance, Performance and Accountability Rule 2014.

of entities' fraud risk assessment procedures identified that 13 entities had not conducted a fraud risk assessment within the past two years.

Information systems and communication

2.23 The information system relevant to the preparation of the financial statements consists of activities and policies, and accounting and supporting records, designed and established to initiate, record and process entity transactions (as well as to capture, process and disclose information about events and conditions other than transactions).

2.24 An entity's business processes include activities that are designed to record information, including accounting and financial reporting information and to ensure compliance with laws and regulations.

2.25 Ninety-five audit findings have been reported to entities in 2022–23 relating to the IT control environment, accounting for 48 per cent of all audit findings identified by the ANAO. The most common findings identified related to weaknesses in: privileged and other user access and change management. Further information relating to these findings is available in paragraphs 2.84 to 2.108.

2.26 Two moderate audit findings have also been reported relevant to the activities designed to record financial information:

- National Blood Authority – weaknesses identified in relation to the classification and allocation of funding expenditure between departmental and administered funds; and
- Bureau of Meteorology – weaknesses in the management of records supporting the recognition and measurement of property, plant, equipment and intangibles; leases; and revenue.

Emerging technologies

2.27 Emerging technologies¹⁷ are new technologies or the further development of existing technologies. Key emerging technologies include robotic process automation¹⁸ (RPA) and artificial intelligence¹⁹ (AI), including generative AI and machine learning (ML).

17 National Archives of Australia, *Information management for current, emerging and critical technologies*, available from <https://www.naa.gov.au/information-management/managing-information-assets/types-information/information-management-current-emerging-and-critical-technologies> [accessed 16 November 2023]

18 Robotic process automation (RPA) uses automation technologies to mimic back-office tasks of human workers, such as extracting data, filling in forms, moving files, et cetera.

IBM, *What is robotic process automation (RPA)?* IBM, USA, 2023, available from <https://www.ibm.com/topics/rpa> [accessed 5 December 2023].

19 AI systems embrace a family of technologies that can bring together computing power, scalability, networking, connected devices and interfaces, and data. These systems can be programmed to perform specific tasks such as reasoning, planning, natural language processing, computer vision, audio processing, interaction, prediction and more. With machine learning, AI systems can improve on tasks over time according to a set of human-defined objectives and can operate with varying levels of autonomy.

Digital Transformation Agency, *Adoption of Artificial Intelligence in the Public Sector*, DTA, Australia, 2023, available from <https://architecture.digital.gov.au/adoption-artificial-intelligence-public-sector-0> [accessed 10 November 2023].

2.28 Government organisations around the world are adopting emerging technologies to help them achieve their public purpose or mission.²⁰

2.29 Emerging technologies present opportunities for improvement and innovation, and risks. Some of the risks include a lack of transparency, bias and discrimination, security and privacy concerns, legal and regulatory challenges, misinformation, manipulation and unintended consequences.

2.30 Appropriate governance structures are critical to achieving the ethical and responsible use of emerging technologies. Entities governance structures should consider usage of the technologies, an understanding of the operation of the technologies and consider both business and technology perspectives.²¹

2.31 The Digital Transformation Agency (DTA) has released an initial Data and Digital Government Strategy outlining its vision to deliver simple, secure, and connected public services for all people and business through world class data and digital capabilities.²² In addition, the Department of Industry, Science and Resources (DISR) has designed Australia's eight Artificial Intelligence Ethics Principles to ensure AI²³ is safe, secure and reliable.

Case study 2. Adoption of emerging technologies by entities

The ANAO analysed adoption of emerging technologies by Commonwealth entities and companies in 2022–23. Thirty-six entities advised the ANAO that they had adopted some form of emerging technology. AI was the most widely reported as being adopted. Some entities advised the ANAO of the use of multiple types of emerging technology.

Twenty-seven entities adopted AI, including commercially available products, chatbots and supporting advanced data analysis. These entities advised the ANAO that the purposes for which AI was adopted included media related, administrative and entity specific tasks. Entities advised that AI is being used for social media posts, financial processing, research and development, threat detection, monitoring and data analysis.

Fourteen entities adopted RPA. Entities are using RPA for administrative purposes, including invoice processing, archiving, scanning and forms processing.

Among those that advised the ANAO that they used emerging technologies, a number of entities reported not implementing governance frameworks to manage their adoption. Of the 27 entities that adopted AI, 15 did not create policies to support their use of AI. Of the 12 entities that reported implementing governance policies, one entity did not consider external

20 Gartner, *Gartner Says Government Organizations Are Increasing Investment in AI, But Their Workforce Remains Apprehensive*, Gartner Inc, STAMFORD, Conn, 2021, available from <https://www.gartner.com/en/newsroom/press-releases/2021-10-05-gartner-says-government-organizations-are-increasing-> [accessed 10 November 2023].

21 Digital Transformation Agency, *Adoption of Artificial Intelligence in the Public Sector*, DTA, Australia, 2023, available from <https://architecture.digital.gov.au/adoption-artificial-intelligence-public-sector-0> [accessed 10 November 2023].

22 Digital Transformation Agency, *Data and Digital Government Strategy*, Commonwealth of Australia, Australia, 2023, available from <https://www.dta.gov.au/digital-government-strategy> [accessed 10 November 2023].

23 Department of Industry, Science and Resources, *Australia's Artificial Intelligence Ethics Framework*, available from <https://www.industry.gov.au/publications/australias-artificial-intelligence-ethics-framework> [accessed 17 November 2023].

policies and procedures. Four of the 14 entities implementing RPA did not create policies to support implementation of RPA. Of the ten entities which created policies, four did not consider external policies and procedures before implementation.

An absence of frameworks governing the use of emerging technologies could increase the risk of unintended consequences, particularly as the adoption of these technologies become more prevalent.

Control activities

2.32 The control activities component of an entities' system of internal control are primarily direct controls which are designed to prevent, detect or correct misstatements.²⁴ Auditors are required to evaluate the design of the controls and determine whether the controls have been implemented. Controls include authorisations and approvals, reconciliations, verifications (such as edit and validation checks or automated calculations), segregation of duties, and physical or logical controls, including those addressing safeguarding of assets.

2.33 Where the ANAO identifies one or more control deficiencies, the ANAO assesses whether, individually or in combination, the deficiencies constitute a significant deficiency and reports these to accountable authorities as audit findings. The ANAO applies professional judgement in determining whether a deficiency represents a significant control deficiency. Information relating to the audit findings identified by the ANAO during 2022–23 is available at paragraphs 2.77 to 2.145.

Monitoring of controls

2.34 Entities undertake many types of activities as part of their monitoring of control processes, including external reviews, self-assessment processes, post-implementation reviews and internal audit. The level of review of these activities by the ANAO is determined through a risk assessment approach that takes into consideration the nature, extent and timing of each activity and the activities' application to the preparation of the financial statements.

2.35 Internal audit can provide accountable authorities with independent and objective assurance, particularly in relation to the design and operating effectiveness of an entity's system or risk management and internal control. The ANAO has reviewed the structure of and coverage provided by entity internal audit functions in 2022–23 (see paragraphs 2.36 to 2.76).

Internal audit

Internal audit plays an important role in providing assurance over an entity's system of risk management and internal control. During 2022–23 84 per cent of entities had an established internal audit function. The ANAO has reviewed the structure of and coverage provided by internal audit during 2022–23. Identified areas for improvement include: adopting formal audit committee charters; developing and monitoring internal audit budgets to determine they are fit for purpose and considering appropriate organisational structure for the officer overseeing the internal audit function.

24 ASA 315 *Identifying and Assessing the Risks of Material Misstatement*, paragraph A.123

Internal audit charters provide a mechanism to clearly communicate an accountable authority's expectations of internal audit's mandate, authority and scope. Fifty-five per cent of entities had internal audit charters. In the absence of a charter, there is a risk that the internal audit function's mandate, authority and independence are not well understood with an entity, potentially limiting the effectiveness of the function.

Twenty-one per cent of entities decreased their internal audit budget in the period 2020–21 to 2022–23. A safeguard to the independence and objectivity of the internal audit function is regular consideration of the appropriateness of the internal audit function's budget by an entity's audit committee (in providing advice on the function). Seventy-three per cent shared the budget with the audit committee.

In 77 per cent of entities the officer responsible for internal audit had shared responsibilities (including for financial management, or the system of internal control and risk management). Accountable authorities should be mindful of the potential for impairments to objectivity and implement appropriate safeguards in determining the organisational structure for internal audit.

The majority of internal audit plans were approved by the Accountable Authority with advice from an audit committee and considered entity strategic risks. There were 2,687 internal audits undertaken by Commonwealth entities between 2020–21 and 2022–23. Most internal audits completed was focused on: systems of risk management and governance; information, communications and technology, project and program management; and financial controls. Over this period there was a decrease in internal audits completed on procurement and information, communications and technology, but an increase in internal audits completed focusing on cyber security and performance reporting.

There is an opportunity for the Australian Government to consider whether additional guidance relating to the implementation and delivery of internal audit would be beneficial to enhance the Australian Government's system of internal control.

2.36 The Institute of Internal Auditors (IIA) defines an internal audit function as being:

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.²⁵

2.37 There is no mandated requirement for Commonwealth entities or companies to establish an internal audit function. However, Section 16 of the PGPA Act requires the accountable authority to establish and maintain an appropriate system of risk oversight and management; and appropriate system of internal control.

2.38 An appropriately designed and resourced internal audit can assist the accountable authority of an entity to obtain assurance over the design, implementation and operating

²⁵ IIA, International Standards for the Professional Practice of Internal Auditing, January 2004 [IIA Standards], available from <https://www.theiia.org> [accessed 16 October 2023].

effectiveness of the system of risk management and internal control within an entity. The Australian Securities and Investments Commission notes that:

An internal audit function can contribute to corporate governance by providing an organisation's directors and audit committee with independent reviews of, and suggestions for, improving the design and operation of the organisation's financial and non-financial control environment...

Internal audit can be an important element in the control environment of organisations and can contribute to more effective risk management.²⁶

2.39 The Department of Finance's (Finance) Resource Management Guides (RMG) relating to audit committees describe the importance of internal audit, particularly: 'the relationship between the audit committee and the managers of the internal audit function is central to enabling the audit committee to meet its responsibilities'.²⁷ Finance outlines that an audit committee should:

- have input into the internal audit work plan; and
- have access to internal audit reports in order to inform its advice to the accountable authority.²⁸

2.40 The ANAO has analysed the design, independence and internal audits completed provided during the period 2020–22 to 2022–23.²⁹ The ANAO's analysis has been undertaken with reference to the standards issued by the IIA³⁰, best practice and guidance issued by other regulators and bodies within Australia.

2.41 The standards issued by the IIA are not mandated for application by entities. The purpose of the IIA standards is to establish principles and practices for internal audit, and a framework within which it can be performed. The IIA standards also provide a basis for the evaluation of the performance of internal audit, and promotion of a culture focussed on improving organisational processes and operations.

2.42 The ANAO's analysis indicates that there is an opportunity for the Australian Government to consider whether policies or guidance relating to implementation and delivery of internal audit would enhance the Australian Government's system of internal control.

26 Australian Securities and Investments Commission, *Internal Audit*, available from: <https://asic.gov.au/regulatory-resources/financial-reporting-and-audit/auditors/internal-audit/> [accessed 16 October 2023].

27 Department of Finance, *A guide for non-corporate Commonwealth entities on the role of audit committees*, September 2021, p. 28, available from: https://www.finance.gov.au/sites/default/files/2021-10/Guide%20for%20non-corporate%20Commonwealth%20entities%20on%20the%20role%20of%20audit%20committees_0.pdf [accessed 16 October 2023]

28 *ibid.*

29 This analysis does not include: the Australian Security Intelligence Organisation, Australian Signals Directorate and Australian Secret Intelligence Service.

30 IIA, *International Standards for the Professional Practice of Internal Auditing*, January 2004 [IIA Standards], available from <https://www.theiia.org> [accessed 16 October 2023].

Establishment of the internal audit function

2.43 The majority of entities had an internal audit function during 2022–23. The ANAO’s analysis indicated that 16 per cent of entities did not have an internal audit function.³¹ These entities advised the ANAO that they did not have internal audit due to the entity’s view on the:

- level of complexity or scale of their entity’s operations;
- system of risk management and internal control operated effectively.

2.44 The Australian Securities Exchange (ASX) *Corporate Governance Principles and Recommendations* recommend that where a listed entity does not have internal audit those charged with governance should formally and periodically review the need for such a function.³² The ASX also recommends that where an entity does not have an internal audit function it should document and disclose the process employed for evaluating and continually improving the effectiveness of its governance, risk management and internal control processes in its annual report.³³

2.45 There is merit for Accountable Authorities, with advice from audit committees, in entities without internal audit regularly reassessing this posture. This assessment should consider and document the sources of assurance available in forming a view on the effectiveness of governance and internal controls in the absence of internal audit.

Design of entity internal audit functions

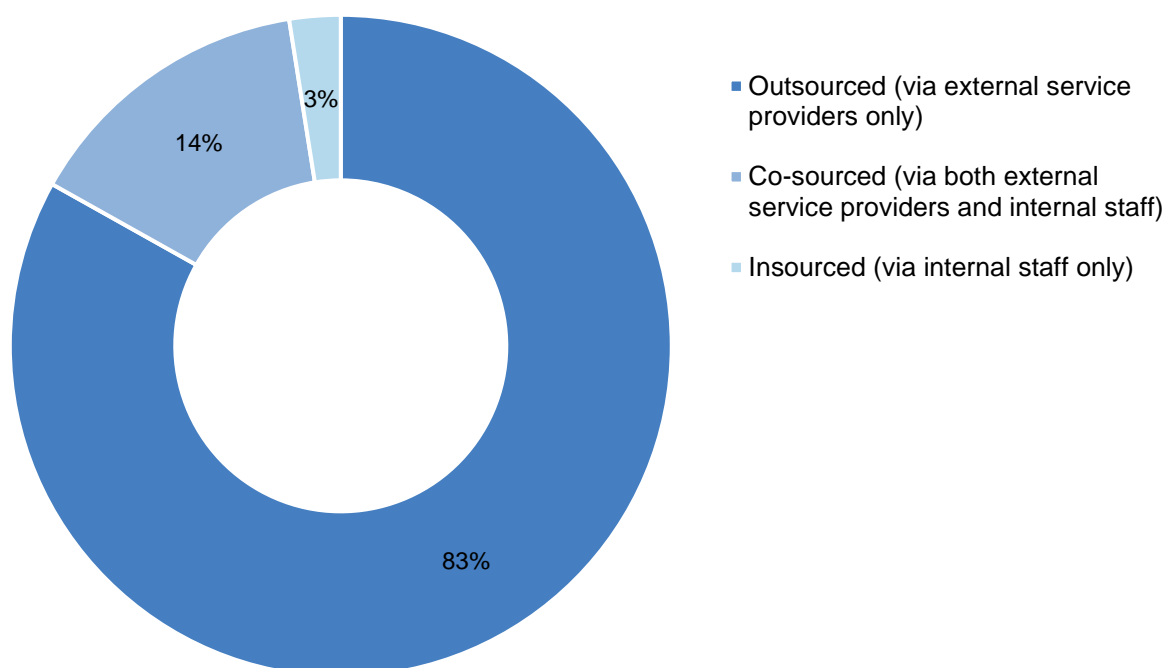
2.46 Internal audit can be delivered through a different of models, including outsourced to external service providers or insourced partially or fully with an entity’s own internal auditors. As demonstrated in Figure 2.3, the ANAO’s analysis indicates that the delivery of the internal audit function within an entity is most likely to be delivered through outsourced arrangements.

31 These entities (subsidiaries are not separately listed) are: AAF Company; Anindilyakwa Land Council; Army and Air Force Canteen Service; Australian Law Reform Commission; Australian Military Forces Relief Trust Fund; Australian Sports Foundation Limited; Bundanon Trust; Climate Change Authority; Creative Partnerships Australia Ltd; Domestic, Family and Sexual Violence Commission; Grains Australia Limited; National Australia Day Council Limited; National Competition Council; North Queensland Water Infrastructure Authority; Northern Territory Aboriginal Investment Corporation (entity was established during 2022–23); Office of the Auditing and Assurance Standards Board; Office of the Australian Accounting Standards Board; Australian Organ and Tissue Donation and Transplantation Authority; RAAF Veterans' Residences Trust Fund; RAAF Welfare Recreational Company; RAAF Welfare Trust Fund; Royal Australian Navy Central Canteens Board; Royal Australian Navy Relief Trust Fund; Seafarers Safety, Rehabilitation and Compensation Authority (Seacare Authority); Sydney Harbour Federation Trust; Tiwi Land Council; Workplace Gender Equality Agency; and Wreck Bay Aboriginal Community Council.

32 ASX Corporate Governance Council, *Corporate Governance Principles and Recommendations*, 4th Edition, February 2019, p. 27, available from <https://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-fourth-edn.pdf> [accessed 16 October 2023].

33 *ibid.*

Figure 2.3: Sourcing of the internal audit function



Source: ANAO analysis.

2.47 The ANAO’s analysis also indicated that material entities (33 per cent) were more likely than non-material entities (four per cent) to insource or co-source the delivery of their internal audit function.

2.48 The IIA standards have requirements which underline the principles for robust delivery of internal audit activities, particularly: requirements for continuous professional development for internal auditors; position descriptions which outline the responsibilities of internal auditors; embedded audit policies; and procedures governing the conduct of internal audit activities, including relating to quality assurance and improvement.³⁴ The ANAO has analysed the conformance of entities with insourced or co-sourced internal audit functions with these standards. Table 2.3 details the conformance of entities with outsourced internal audit with the IIA standards.

Table 2.3: Conformance with IIA standards relating to the conduct of internal audit functions by entities with insourced or co-sourced internal audit functions

Requirement	Percentage of entities which comply
Mandatory training and continuing professional development of internal auditors	52%
Position descriptions which describe the responsibility of auditors	78%

34 IIA Standard 1210 *Proficiency*, IIA Standard 1230 *Continuing Professional Development*, IIA Standard 1300 *Quality Assurance and Improvement Program*, IIA Standard 1310 *Requirements of the Quality Assurance and Improvement Program*, IIA Standard 2030 *Resource Management*, IIA Standard 2040 *Policies and Procedures* and IIA Standard 2120 *Risk Management*.

Requirement	Percentage of entities which comply
Membership of professional associations and industry bodies relevant to internal audit	44%
Policies and procedures relating to the conduct of internal audit	70%
Quality assurance and improvement program that covers all aspects of the internal audit function	63%

Source: ANAO analysis.

2.49 The IIA standards state that an entity should review the effectiveness and performance of internal audit at least once every five years.³⁵ The ANAO's analysis indicates that 36 per cent of entities' internal audit functions had been subject to review within the period 2018–19 to 2022–23.

2.50 The ANAO's analysis demonstrates that:

- improvements could be made by entities which insource their internal audit function, relating to the governance framework supporting conduct and quality assurance of internal audit activity; and
- accountable authorities, supported by advice from audit committees, could consider performing more regular reviews of the effectiveness of the function to confirm it remains fit-for-purpose.

Independence of the internal audit function

2.51 The independence of the internal audit function can be supported by:

- structure, including the appointment of a Chief Audit Executive (CAE);
- an internal audit charter;
- documented processes for review and approval of the internal audit plan; and
- documented processes for determining the budget of the internal audit function.

Structure of the internal audit function

2.52 The CAE is a role articulated in the IIA standards as the officer with responsibility for the internal audit function. The appointment of a CAE is not mandated for Commonwealth entities. The requirements of the standards in relation to this role have been adopted by the ANAO as a framework to benchmark the independence of the officer within an entity responsible for the internal audit. The IIA standards state that:

- the internal audit function must be independent, with auditors being objective in their work³⁶;
- the CAE should regularly communicate directly with the board of an entity;

35 IIA Standard 1312 *External Assessment*.

36 IIA Standard 1100 *Independence and objectivity*.

- the CAE must report to a level within the organisation that allows it to fulfil its responsibilities³⁷;
- safeguards should be in place to limit impairments to independence or objectivity of the CAE where they also perform other management activities.³⁸

2.53 The ANAO's analysis indicates that entities had largely structured their organisations to support direct access for the officer responsible for internal audit to communicate directly to the accountable authority or the audit committee.

- Ninety-four per cent of entities had a formal policy which provided the officer responsible for internal audit direct access to report to the audit committee.
- Eighty-seven per cent of entities had a formal policy or organisational structure which provided the officer responsible for the internal audit with direct access to report to the accountable authority.

2.54 Twenty-three per cent of entities with an internal audit function had appointed a CAE as a distinct role within the entity's organisational structure. In the remaining 77 per cent of entities the officer responsible for internal audit had shared responsibilities and also performed other functions including: Chief Financial Officer, Chief Operating Officer, General Counsel and other officers working across governance, risk management, legal and fraud control. In these entities, these officers may have responsibility for the design, implementation and operating effectiveness of the entity's system of risk management and internal control.³⁹ The ANAO's analysis demonstrates that accountable authorities, with advice from audit committees, should actively consider the independence and objectivity of the officer responsible for the internal audit function given the majority of these officers have shared responsibilities. In considering organisational structure, accountable authorities should be mindful of the potential for impairments to objectivity and implement appropriate safeguards in undertaking internal audit activity.

Internal audit charters

2.55 The IIA standards require that the 'purpose of, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter'.⁴⁰ The IIA standards also require that the CAE should at regular intervals review the charter and present it to management, the board or audit committee for approval.⁴¹

2.56 The IIA considers that internal audit charters are important because they provide an entity 'a blueprint for how internal audit will operate and helps the governing body to clearly signal the

37 IIA Standard 1110 *Organisational independence*.

38 *ibid*.

39 The following entities advised the ANAO that the accountable authority was the CAE: Australian Radiation Protection and Nuclear Safety Agency; Great Barrier Reef Marine Park Authority; and National Faster Rail Agency.

40 IIA Standard 1000 *Purpose, Authority and Responsibility*.

41 *ibid*.

value it places on internal audit's independence'.⁴² The IIA considers that the following attributes should be covered in an internal audit charter:

- mission and purpose;
- authority;
- applicability of the *International standards for Professional Practice of Internal Auditing*;
- independence and objectivity (including unfettered access to records);
- responsibility;
- scope of internal audit activities; and
- quality assurance and improvement program.^{43, 44}

2.57 The ANAO analysis indicates that 55 per cent of the entities had an internal audit charter in place in 2022–23. For these entities the ANAO identified that:

- the majority of entities had included in the charter the core attributes identified by the IIA;
- eighty-six per cent of entities had reviewed and approved the charter within the last two years;
- sixteen per cent of charters had not been reviewed by the audit committee; and
- thirty per cent of charters had not been reviewed or approved by the accountable authority.

2.58 Internal audit charters provide an opportunity for the accountable authority, and audit committee, to signal the importance of internal audit to an entity's performance and governance framework. Charters provide a mechanism to clearly communicate an accountable authority's expectations around internal audit mandate, authority and scope. In the absence of a charter, there is a risk that the internal audit function's mandate, authority and independence are not well understood with an entity, potentially limiting the effectiveness of the function. Accountable authorities could enhance the effectiveness of their internal audit function by implementing, and regularly reviewing, a charter that clearly establishes the mandate, authority and scope of the function.

Internal audit work plan

2.59 The internal audit work plan describes the activities that will be undertaken by internal audit across a set period. The IIA standards describe that internal audit will be effectively managed when it considers trends and emerging issues that could impact the entity. Particularly, 'internal audit activity adds value to the organization and its stakeholders when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management, and control processes; and objectively provides relevant assurance'.⁴⁵

42 The Institute of Internal Audit, *The Internal Audit Charter – a Blueprint to Assurance Success*, January 2019, available at: <https://www.theia.org/globalassets/documents/resources/the-internal-audit-charter-a-blueprint-to-assurance-success-august-2019/pp-the-internal-audit-charter.pdf> [accessed 16 October 2023]

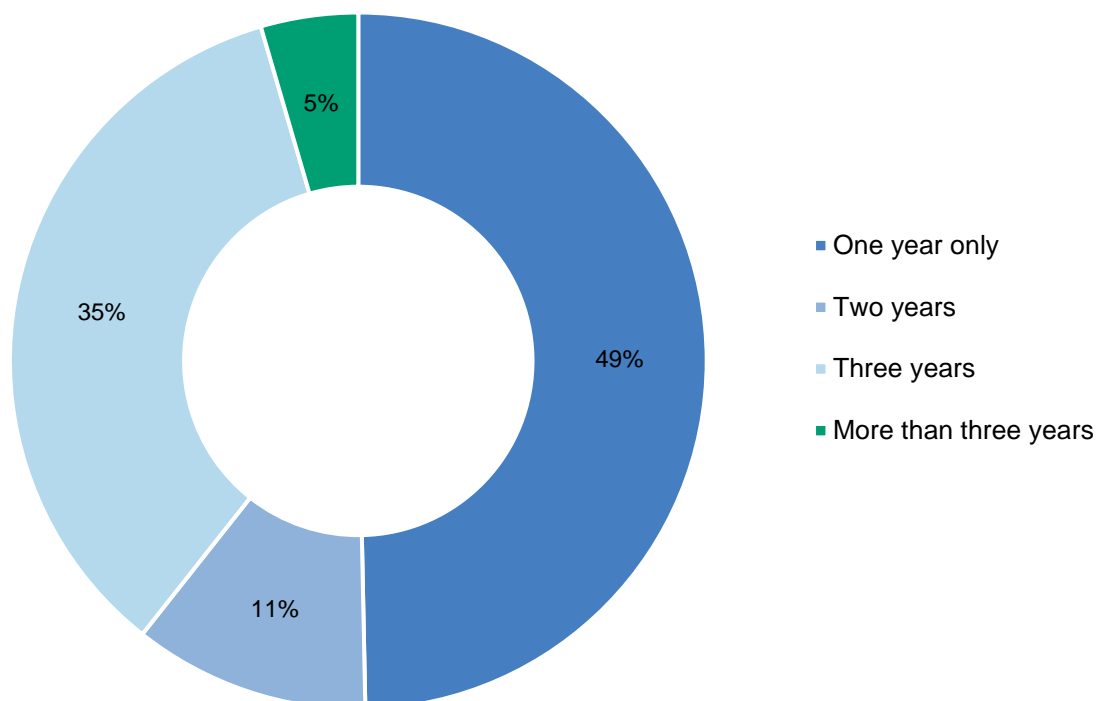
43 *ibid.*

44 IIA Standard 1000 *Purpose, Authority and Responsibility* and IIA Standard 1010 *Recognising mandatory guidance in the internal audit charter*.

45 IIA Standard 2000 *Managing the Internal Audit Activity*.

2.60 Ninety-eight per cent of entities with an internal audit function had an internal audit plan during 2022–23.⁴⁶ Figure 2.4 provides a summary of the period covered by these plans.

Figure 2.4: Periods of time covered by 2022–23 internal audit plans of entities



Source: ANAO analysis.

2.61 Involving the audit committee in the development of the internal audit work plan is a key responsibility outlined in the RMGs relating to audit committees. The involvement of the audit committee in providing advice on the internal audit work plan supports the independence of the internal audit function. During 2022–23 90 per cent of internal audit plans were reviewed by audit committees.

Internal audit budgets

2.62 The ability of the internal audit function to fulfil its responsibilities is partly dependent on the availability of resources. Seventy-nine per cent of entities had a distinct budget for internal audit.

2.63 A safeguard to the independence and objectivity of the internal audit function is regular consideration of the appropriateness of the internal audit function’s budget by an entity’s audit committee (in providing advice on the function). Of the entities with a distinct budget, 73 per cent shared the budget with the audit committee.

⁴⁶ The entities without an internal audit plan for 2022–23 were: the Australian National Maritime Museum; National Offshore Petroleum Safety and Environmental Management Authority; and Office of the Inspector-General of Intelligence and Security.

2.64 The total budget for internal audit activities increased on average by \$47,325 from 2020–21 to 2022–23. Table 2.4 demonstrates the average budget for internal audit functions for 2020–21 to 2022–23.

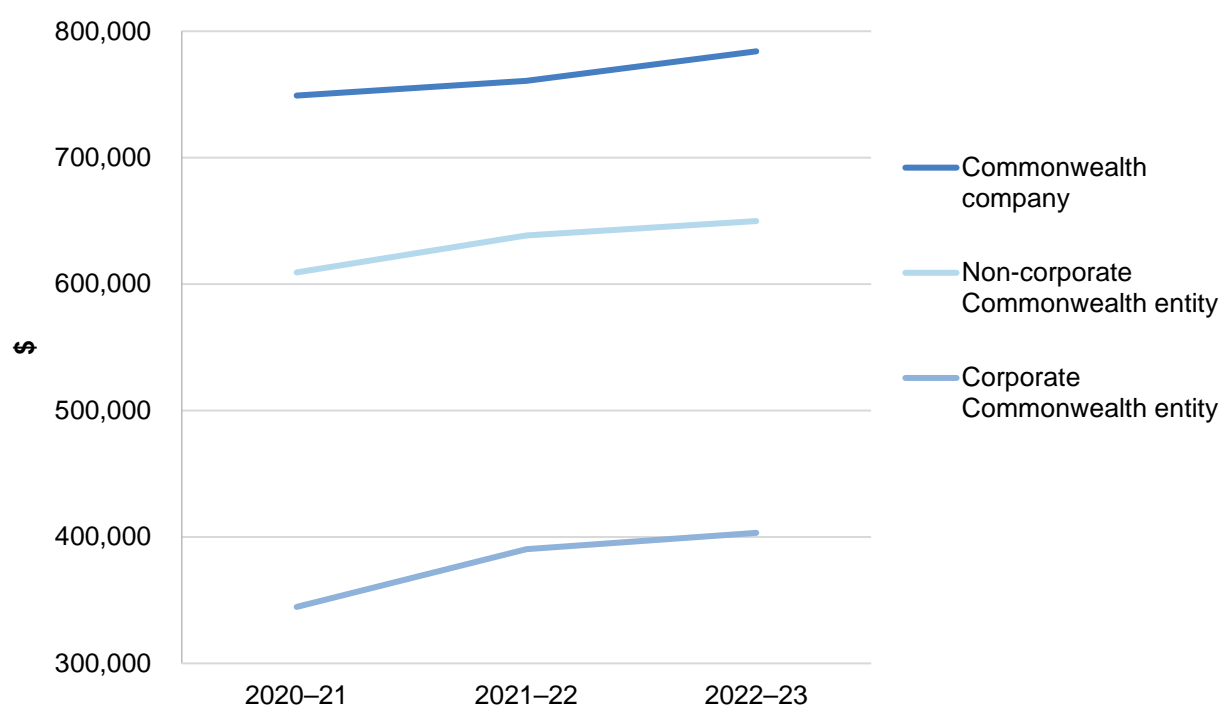
Table 2.4: Average internal audit budget from 2020–21 to 2022–23

2020–21	2022–23	2023–24
\$518,573	\$553,767	\$565,898

Source: ANAO analysis.

2.65 Figure 2.5 provides an overview of the average internal audit function budget for the period 2020–21 to 2022–23 by classification of entity.

Figure 2.5: Average internal budgets by type of entity during the period 2020–21 to 2022–23



Source: ANAO analysis.

2.66 Twenty-one per cent of entities reduced their internal audit budget during the period 2020–21 to 2022–23. Table 2.5 provides an overview of the entities which have reduced their internal audit budget in the period 2020–21 to 2022–23 by more than 20 per cent and the amount of the reduction expressed as a percentage of the 2020–21 budget.

Table 2.5: Entities with a 20 per cent or greater reduction in internal audit budget over the period 2020–21 to 2022–23

Reduction in the internal audit budget	Entities
20–29% per cent reduction	Australian Transaction Reports and Analysis Centre; Department of Agriculture, Fisheries and Forestry ^a ; Department of Social Services; Independent Parliamentary Expenses Authority; and National Museum of Australia.

Reduction in the internal audit budget	Entities
30–39% per cent reduction	Australian Digital Health Agency; Australian Institute of Marine Science; and Department of the Prime Minister and Cabinet ^a .
50–59% per cent reduction	Australian Hearing Services; Department of Education ^a ; National Health Funding Body; and Services Australia.

Source: ANAO analysis.

Note a: The departments of: Agriculture, Fisheries and Forestry; Education; and Prime Minister and Cabinet internal audit budgets decreased partly due to the impact of MoG changes, where functions previously administered by each entity were transferred to other entities during this period.

2.67 The ANAO’s analysis identified that the majority of entities had distinct budgets for the internal audit function which were also subject to oversight by the audit committee. The ANAO’s analysis indicates that there is scope for this practice to become further embedded across the sector. Accountable authorities, and audit committees, should regularly consider the sufficiency of internal audit budgets, and whether the level of internal audit activity remains fit for purpose.

Internal audits completed

2.68 There were 2,687 internal audits completed by entities during the period 2020–21 to 2022–23. Table 2.6 provides analysis on the number of audits conducted in each year of this period.

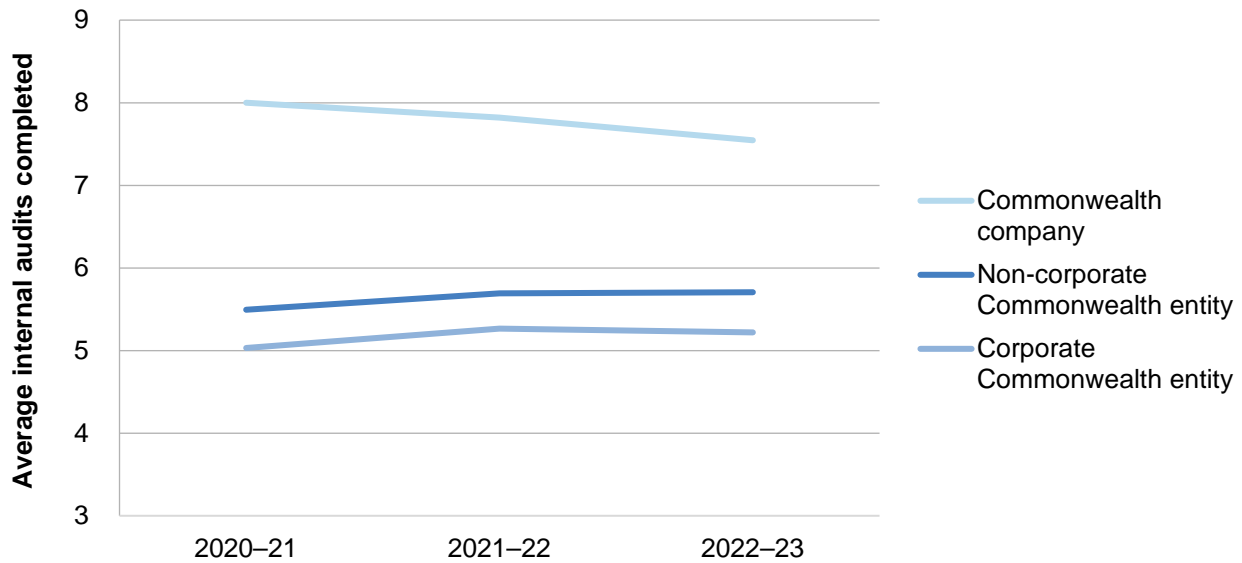
Table 2.6: Number of internal audits completed by entities from 2020–21 to 2022–23

2020–21	2021–22	2022–23
877	908	902

Source: ANAO analysis.

2.69 Figure 2.6 provides an overview of the average number of internal audits for the period 2020–21 to 2022–23 by type of entity. The ANAO’s analysis indicates that, on average, entities have retained a consistent level of internal audits completed during the period.

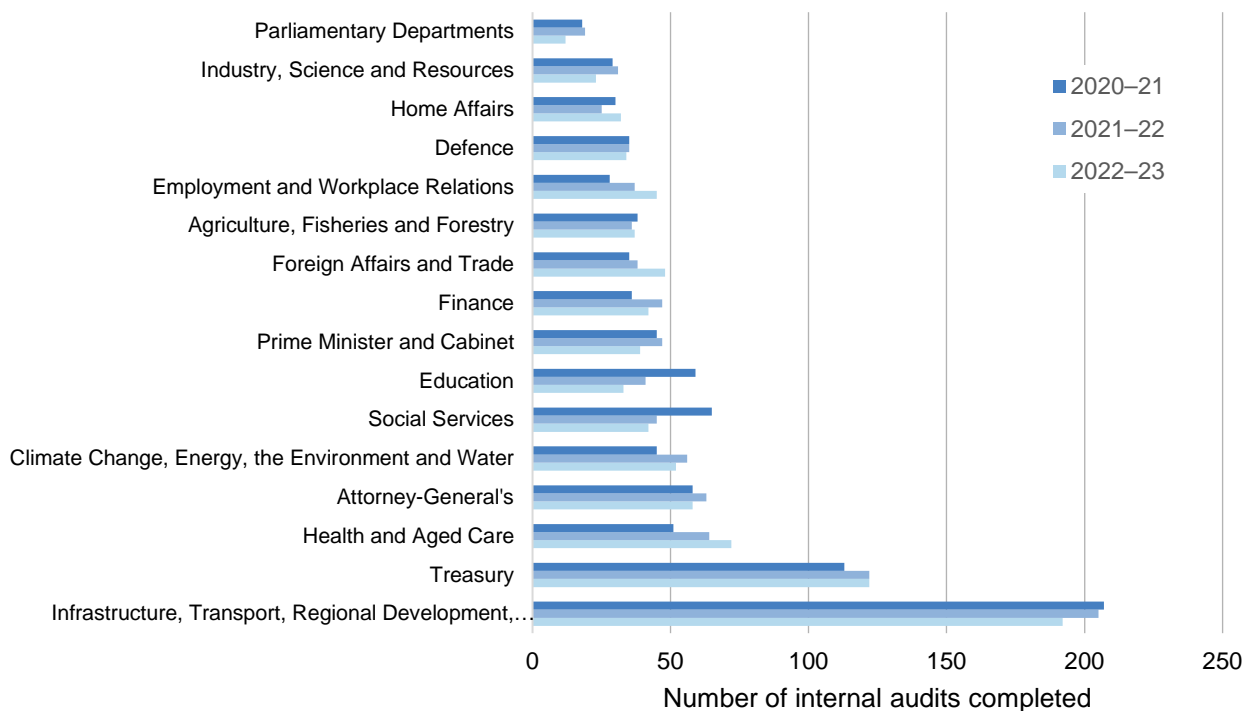
Figure 2.6: Average number of internal audits completed per entity during the period 2020–21 to 2022–23 by type of entity



Source: ANAO analysis.

2.70 Figure 2.7 provides an overview of the total internal audits completed during the period 2020–21 to 2022–23 by portfolio.

Figure 2.7: Internal audits completed during the period 2020–21 to 2022–23 by portfolio



Source: ANAO analysis.

Note a: To enable comparison across the period this figure reflects the portfolios identified in the Administrative Arrangements Orders which were in force during 2022–23. As a result, the ANAO has allocated internal audits completed by entities to reflect new or amended portfolios arising due to MoG changes during the period.

2.71 Of the 159 entities with an internal audit function, 20 of these entities account for 40 per cent of the total internal audits completed by entities for the period 2020–21 to 2022–23. The remaining 60 per cent of internal audits were completed by 141 entities. Table 2.7 demonstrates the number of internal audits completed by these entities.

Table 2.7: Entities comprising a total of 40% of total internal audits completed from 2020–21 to 2022–23

Entity	Internal audits performed
Department of Home Affairs	91
Reserve Bank of Australia	81
Australian Postal Corporation	78
Australian Broadcasting Corporation	71
Airservices Australia	70
Australian Taxation Office	63
Department of Education	60
Australian Rail Track Corporation Ltd	55
NBN Co Limited	54
Department of Health and Aged Care	52
Department of Defence	51
Snowy Hydro Limited	51
Department of Foreign Affairs and Trade	41
National Disability Insurance Agency	47
Australian Securities and Investments Commission	46
Services Australia	39
Australian Prudential Regulation Authority	35
Australian Criminal Intelligence Commission	34
Commonwealth Superannuation Corporation	34
Department of Social Services	31

Source: ANAO analysis.

2.72 The majority of planned internal audits have been finalised by entities. Table 2.8 provides an overview of the completion of internal audits listed on an entities internal audit work plan.

Table 2.8: Completion rate for internal audits planned by entities during the period 2020–21 to 2022–23

2020–21	2021–22	2022–23
87.1 per cent	88.3 per cent	88.1 per cent

Source: ANAO analysis.

2.73 Table 2.9 provides an overview of the entities which have reduced the number of internal audits completed in the period 2020–21 to 2022–23 by more than 20 per cent and the amount of the reduction expressed as a percentage of the internal audits that were completed in 2020–21.

Table 2.9: Entities with a 20 per cent or greater reduction in internal audits completed during the period 2020–21 to 2022–23

Reduction in internal audit activity	Entities
20–29% per cent reduction	Australian Film, Television and Radio School; Australian Hearing Services; Cancer Australia; Department of Finance; Department of Industry, Science and Resources; Department of Social Services; Independent Health and Aged Care Pricing Authority; National Film and Sound Archive of Australia; Northern Australia Infrastructure Facility; Office of the Fair Work Ombudsman; Office of the Official Secretary to the Governor-General; Reserve Bank of Australia; and Screen Australia.
30–39% per cent reduction	Australian Human Rights Commission; Australian Institute of Marine Science; Department of the Prime Minister and Cabinet ^a ; National Mental Health Commission; National Transport Commission; and Office of National Intelligence.
40–49% per cent reduction	Australian Bureau of Statistics; Australian Federal Police; Australian Prudential Regulation Authority; Department of Agriculture, Fisheries and Forestry ^a ; Independent Parliamentary Expenses Authority; and National Museum of Australia.
50–59% per cent reduction	Aboriginal Hostels Limited; Administrative Appeals Tribunal; Australian National University; Australian Public Service Commission; Coal Mining Industry (Long Service Leave Funding) Corporation; Department of the House of Representatives; National Health and Medical Research Council; and Productivity Commission.
60–69% per cent reduction	Australian Institute for Teaching and School Leadership Limited; Department of Defence; and Department of Education ^a .
70–79% per cent reduction	Australian Curriculum, Assessment and Reporting Authority; Digital Transformation Agency; and Office of the Commonwealth Ombudsman.
80–89% per cent reduction	Geoscience Australia.
90–100% per cent reduction	NDIS Quality and Safeguards Commission; Office of the Inspector-General of Intelligence and Security; and Old Parliament House.

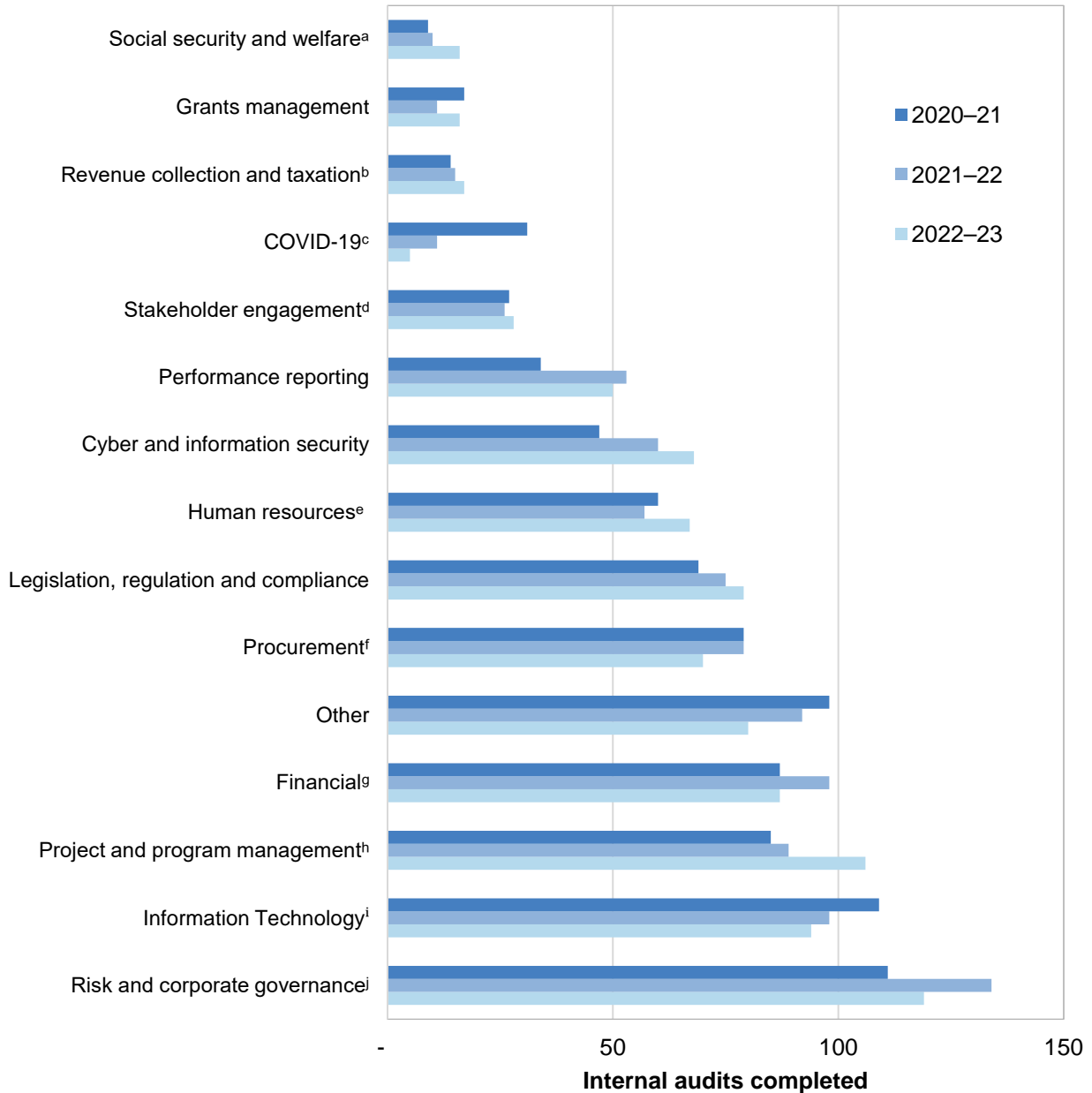
Source: ANAO analysis.

Note a: The departments of: Agriculture, Fisheries and Forestry; Education; and Prime Minister and Cabinet internal audits completed decreased partly due to the impact of MoG changes, where functions previously administered by each entity were transferred to other entities during the period.

2.74 The ANAO has assessed the purpose of each internal audit completed in order to categorise them into key themes to analyse the coverage of the audits completed over key areas

of entity systems of risk management and internal control. Figure 2.8 shows the categorisation of internal audits into significant areas of an entity’s system of risk management and internal control.

Figure 2.8: Internal audits completed during the period 2020–21 to 2022–23 by category



Source: ANAO analysis.

Note a: Social security and welfare includes personal benefits payments and debt management activities.

Note b: Revenue collection and taxation includes the administration of taxation, collection of levies and other funding.

Note c: COVID-19 includes all program administration relating to the Australian Government’s response to COVID-19.

Note d: Stakeholder engagement includes all audits primarily undertaken on relationship management, consultation, communication and complaints management.

Note e: Human resources includes all audits related to talent management, learning and development, recruitment, employee engagement and workplace health and safety.

Note f: Procurement includes all aspects of the procurement cycle.

Note g: Financial includes financial processing activities, including accounts payable, receivable, payroll processing and like financial processes.

Note h: Project and program management relates to project or program delivery, except to the extent otherwise separately classified as revenue collection and taxation, social welfare and grant.

Note i: Information Technology includes data analytics, business continuity and disaster recovery except where the audit was related to cyber security.

Note j: Risk and governance includes all other aspects of entity corporate governance, including: conflicts of interest, fraud or quality assurance activities.

2.75 Figure 2.8 indicates that the majority of internal audits completed over the period 2020–21 to 2022–23 were mainly in relation to: risk and governance; information, communications and technology, project and program management; financial controls. During this period there has been rebalancing of internal audit work plans. Over the period 2020–21 to 2022–23 there has been a reduction in internal audit activity associated with:

- programs associated with COVID-19;
- systems of risk management and enterprise level internal controls;
- information, communications and technology; and
- procurement.

2.76 The ANAO's analysis indicated that over the period 2020–21 to 2022–23 there has been an increase in internal audit activity in the following areas:

- performance reporting; and
- cyber and information security.

Audit findings

There has been a decrease in the total number of audit findings identified by the ANAO in 2022–23 compared with 2021–22. A total of 196 audit findings were reported to entities as a result of the 2022–23 financial statements audits (2021–22: 205). These comprised 9 significant (2021–22: 5), 36 moderate (2021–22: 35), 137 minor findings (2021–22: 144) and 14 legislative breaches (2021–22: 21). The highest number of significant and moderate findings are in the categories of: Governance of legal and other matters impacting entity financial statements; IT governance including security, change management and user access and accounting for and management of non-financial assets.

The ANAO identified four significant audit findings in relation weaknesses in these entities' financial statement preparation process with respect to consideration of legal matters in 2022–23. These audit findings indicate a failure in governance supporting the preparation of the financial statements with respect of legal matters at these entities. This includes the assessment of the impact of the receipt of legal advice or recently determined matters which has the potential to affect an entity's administration, financial management and financial reporting obligations. These findings highlighted instances where information on legal matters was not referred to entity Chief Financial Officers, or was not otherwise assessed for impact on the financial statements. In other instances evidence identified by the ANAO during the course of the audits did not accord with management representations and additional audit work was required to be undertaken by the ANAO. The ANAO recommended that these entities design, document and implement processes to ensure legal and other matters are considered when

preparing financial statements and that all matters identified for consideration are communicated to the ANAO.

The ANAO reported an increase the number of audit findings relating to weaknesses in change management policies and controls for IT systems. Weaknesses in change management controls can increase the risk of unauthorised or erroneous changes being made; systems incompletely or inaccurately processing data; and reduced integrity of system records and information. The ANAO’s findings highlight two important considerations for entities: appropriately segregating conflicting duties; and following a structured change management framework.

The ANAO found that that 78 per cent of entities assessed do not have an effective control to monitor access or activity in an entity’s IT systems after user cessation. The weaknesses identified by the ANAO indicate that there is increased risk of unauthorised access to systems and data at these entities.

The gross book value of computer software recognised by entities totalled \$22.1 billion at 30 June 2023. Entities recorded \$352.0 million in write-downs and impairment of computer software in 2022–23, and have recorded a cumulative write-downs and impairment of \$789.1 million in the period 2019–20 to 2022–23. The ANAO identified an increase in the number of findings related to weaknesses in accounting for computer software. The significance of the Australia Government’s investment in computer software and the nature of the findings identified indicate that there are opportunities for entities to improve quality assurance frameworks supporting accounting for computer software (particularly in relation to Software as a Service).

Across three entities three significant legislative breaches, one of which was first identified in 2012–13, were identified. The majority of all legislative breaches relate to incorrect payments of remuneration to key management personnel (KMP) and/or non-compliance with determinations made by the Remuneration Tribunal. It is important that entities have a robust framework in place to govern payments made to KMP to ensure that they are consistent with policy or legal requirements. Effective management of remuneration includes aligning payroll process with policy, legal and contractual requirements.

2.77 Audit findings are raised in response to the identification of a potential business or financial risk posed to an entity. Often these risks arise from deficiencies within an entity’s internal control processes or frameworks. Weaknesses in internal controls increase the possibility that an entity will not prevent or detect a material misstatement in its financial statements in a timely manner. The ANAO rates audit findings according to the potential business or financial management risk posed to the entity. The ANAO’s rating scale is presented in Table 2.10.

Table 2.10: Audit findings rating scale

Rating	Description
Significant (A)	Issues that pose a significant business or financial management risk to the entity. These include issues that could result in a material misstatement of the entity’s financial statements.
Moderate (B)	Issues that pose a moderate business or financial management risk to the entity. These may include prior year issues that have not been satisfactorily addressed.

Rating	Description
Minor (C)	Issues that pose a low business or financial management risk to the entity. These may include accounting issues that, if not addressed, could pose a moderate risk in the future.
Significant legislative breach (L1)	Instances of significant potential or actual breaches of the Constitution; and instances of significant non-compliance with the entity's enabling legislation, legislation that the entity is responsible for administering, and the PGPA Act.
Other non-compliance with legislation (L2)	Other instances of non-compliance with legislation the entity is required to comply with.
Non-compliance with subordinate legislation (L3)	Instances of non-compliance with subordinate legislation, such as the PGPA Rule.

Source: ANAO reporting policy.

2.78 A summary of findings identified for the period ended 30 June 2023 by category is presented in Table 2.11.

Table 2.11: Audit findings by category for the period ended 30 June 2023

Category	Significant	Moderate	Minor	Main areas of weakness
Financial statements preparation	–	2	9	<ul style="list-style-type: none"> quality and timeliness of the preparation underlying financial statements
IT control environment	4	24	67	<ul style="list-style-type: none"> security management, particularly, user access and monitoring of privileged users; and change management process.
Compliance and quality assurance frameworks	4	2	8	<ul style="list-style-type: none"> entity level internal controls, policies and procedures including risk assessment processes; entities' financial statement preparation process with respect to consideration of legal matters; and compliance frameworks addressing key business risks and program payments.
Accounting and control of non-financial assets	–	4	12	<ul style="list-style-type: none"> management of inventory balances; management and monitoring of assets including stocktakes, work in progress and capitalisation; and processes supporting the valuation and assessment of impairment of assets.

Category	Significant	Moderate	Minor	Main areas of weakness
Revenue, receivables and cash management	–	1	12	<ul style="list-style-type: none"> recognition of revenue arising from multi-year contracts; and monitoring, management and review of bank accounts.
Human resources financial processes	–	–	7	<ul style="list-style-type: none"> management of leave entitlements; documentation and oversight of activities supporting payroll functions.
Purchases and payables management	–	–	10	<ul style="list-style-type: none"> authorisation and oversight of expenditure; and segregation of duties.
Other audit findings	1	3	12	<ul style="list-style-type: none"> governance and compliance relating to engagement and termination of staff, staff remuneration and Board operations; processing of journal entry transactions; financial arrangements for intercompany transactions and charging costs between Departmental and Administered funding; management of delegations; and governance arrangements with third party service providers.
Legislative breaches	3	10	1	<ul style="list-style-type: none"> failure to meet legislative requirements relating to payments; and remuneration of key management personnel.
Total	12	46	138	

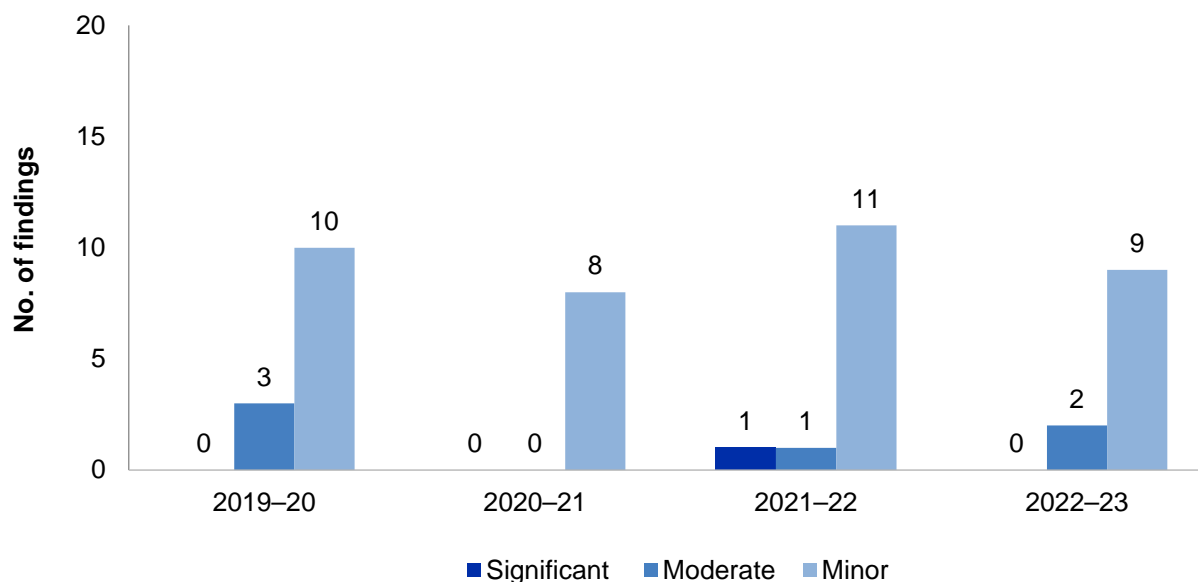
2.79 Information relating to significant and moderate findings and significant legislative breaches are summarised in this chapter. Further information on each of these findings can be found in Chapter 4 of this report broken down by entity.

Financial statements preparation

2.80 Financial statements are an important means of demonstrating how Commonwealth entities, both at an individual and whole-of-government level, meet their financial management responsibilities. In order to provide relevant and reliable financial information to the users, entities should prepare quality financial statements in a timely manner to support entities in

meeting legislative reporting obligations including tabling of annual reports. Effective project management underpins successful financial statements preparation processes. Figure 2.9 below shows the total number of audit findings identified by the ANAO from 2019–20 to 2022–23 related to financial statement preparation processes.

Figure 2.9: Financial statements preparation audit findings 2019–20 to 2022–23



Source: ANAO data.

2.81 One significant audit finding was reported in 2021–22 in relation to the disclosure of key management personnel remuneration by the Army and Air Force Canteen Service. This audit finding was resolved during 2022–23.

2.82 Two new moderate findings were reported in 2022–23 relation to the preparation of the annual financial statements for the National Archives of Australia and the Royal Australian Mint.

2.83 There were nine minor audit findings reported in 2022–23. One minor audit finding reported was a result of remediation work completed by the Anindilyakwa Land Council to address a previously reported moderate audit finding. The remaining eight audit findings were first reported during 2022–23. These findings relate to quality review processes and preparation of position papers to support accounting positions, judgements and estimates in the financial statements.

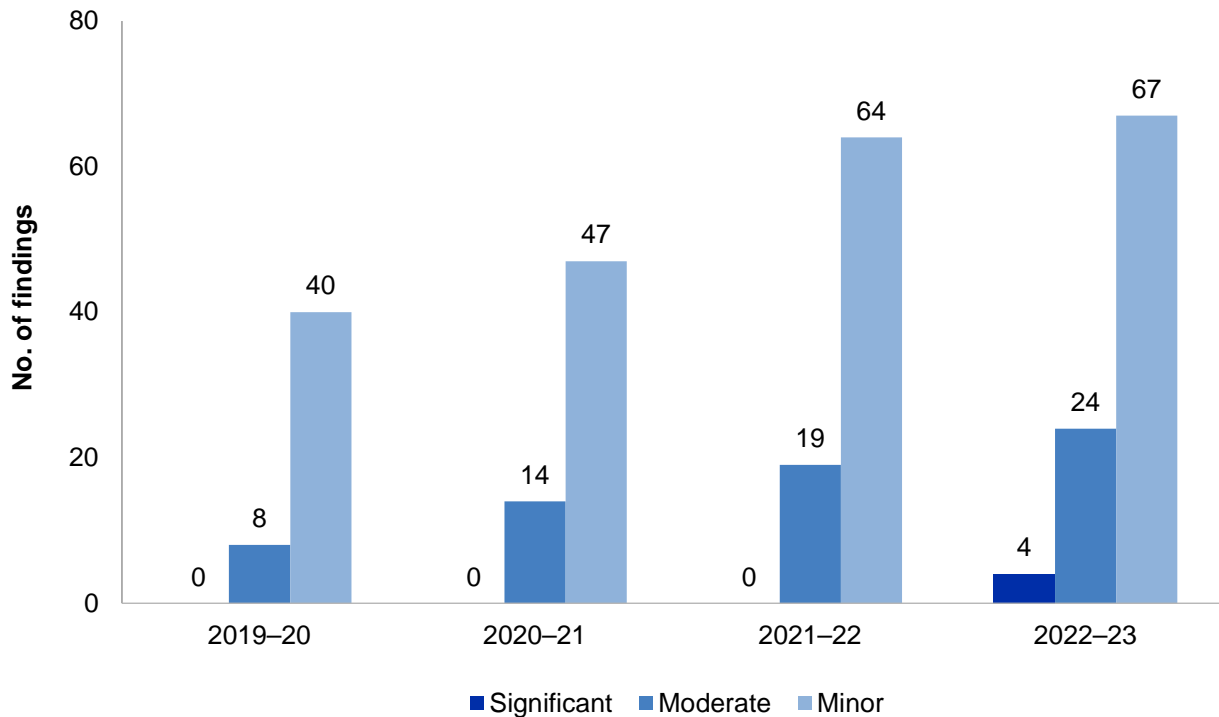
Information Technology control environment

2.84 The information technology (IT) control environment refers to the policies, procedures and controls that maintain the integrity of information and security of data in an entity. This includes:

- IT security management, which incorporates user access management, privileged user activity logging and monitoring as well as security configuration settings such as password controls; and
- IT change management and data centre and network operations, including management of backup and recovery processes.

2.85 The IT control environment is the environment in which applications run, and so it also supports the effective functioning of the application controls that may be relied on in the audit. Figure 2.10 below shows the total number of audit findings identified by the ANAO from 2019–20 to 2022–23 related to the IT control environment.

Figure 2.10: IT control environment audit findings 2019–20 to 2022–23



Source: ANAO data.

2.86 There are four new significant findings across four entities including:

- Australian Taxation Office (ATO) – Weaknesses were identified associated with the ATO’s enterprise change management for key information technology systems supporting the preparation of the financial statements. These weaknesses included a disconnect between change management policy and procedural documentation in relation to segregation of duties particularly in relation to developers and migrators. The ATO was also unable to provide the ANAO with a complete and accurate list of changes made to financial systems assessed as in scope for the financial statements audit.
- Department of Defence – Weaknesses were identified in relation to the removal of users’ access. The ANAO identified 1,451 users whose access was not removed in accordance with the Information Security Manual (ISM) requirements. Testing also identified almost 2,000 instances where former employees and/or contractors had logged into and accessed data from the Department of Defence’s systems.⁴⁷
- National Archives of Australia – Weaknesses were identified regarding the design and implementation of IT general controls. The weaknesses included: insufficient oversight and documentation of review of privilege user access and activity logs; no formalised or

⁴⁷ Some users accessed the ICT systems multiple times post termination.

documented periodic review of user access; and inconsistent mapping of roles and responsibility configurations, including workflow approvers and inconsistent chart of accounts mapping configurations.

- Services Australia – Weaknesses were identified related to Service’s Australia’s IT governance. The weaknesses identified were in relation to IT controls in the implementation of a large-scale IT roll-out for residential aged care and the re-emergence of a large number of individual control issues affecting change and access management and business operations.

2.87 Twenty-two new moderate findings were reported during 2022–23.⁴⁸ Three of the moderate audit findings identified in 2022–23 were resolved as part of the 2022–23 final audit and one moderate audit finding was upgraded to a significant audit finding in relation to the Department of Defence.⁴⁹

2.88 Of the 20 unresolved audit findings reported at the conclusion of 2022–23, six moderate findings remain unresolved from prior years, three of these related to 2020–21.⁵⁰

2.89 User access management includes the processes and procedures to ensure that only authorised users are granted access to systems and data, and that access is removed when it is no longer required. Two of the significant audit findings relate to user access. Twenty of the moderate findings relate to weaknesses in user access management with nine pertaining to management of terminated user access.⁵¹ Refer to paragraphs 2.214 to 2.101 for further analysis related to weaknesses relating to user access removal.

2.90 Users with administrative privileges, commonly referred to as privileged users, are able to make significant changes to IT systems’ configuration and operation, bypass critical security settings and access sensitive information. To reduce the risks associated with this access, the Information Security Manual⁵² requires that privileged user access be appropriately restricted and when provided, that the access is logged, regularly reviewed and monitored. There was one significant audit finding reported to the National Archives of Australia, nine moderate findings

48 Further details regarding the moderate findings can be found in the entity results section in Chapter 4 for the Attorney-General’s Department, Australian Communications and Media Authority, Australian Nuclear Science and Technology Organisation, Commonwealth Scientific and Industrial Research Organisation, Commonwealth Superannuation Corporation, Departments of: Agriculture, Fisheries and Forestry; Climate Change, Energy, the Environment and Water; Education; Employment and Workplace Relations; and the Prime Minister and Cabinet, Great Barrier Reef Marine Park Authority, National Disability Insurance Agency, and Services Australia.

49 Further details regarding the resolved moderate audit findings can be found in the entity results section in Chapter Four for the Department of: Finance, Home Affairs and the National Disability Insurance Agency.

50 Further details regarding these unresolved moderate findings can be found in the entity results section in Chapter 4 for the Clean Energy Regulator, Departments of: Infrastructure, Transport, Regional Development, Communications and the Arts; Social Services; Veterans’ Affairs, and National Disability Insurance Agency.

51 Further details regarding the moderate findings can be found in the entity results section in Chapter 4 for the Australian Communications and Media Authority, Commonwealth Superannuation Corporation; the Department of: Agriculture, Fisheries and Forestry; Education; Employment and Workplace Relations; Infrastructure, Transport, Regional Development, Communications and the Arts; Social Services; Prime Minister and Cabinet and the National Disability Insurance Agency.

52 Australian Signals Directorate, *Information Security Manual*, Australian Cyber Security Centre, Canberra 2023, available at <https://www.cyber.gov.au/acsc/view-all-content/ism> [accessed 17 November 2023].

and 13 minor findings reported relating to privileged user access. Thirty-two of the fifty-one findings were raised in 2022–23 and 19 were raised in prior years.

2.91 IT security management continues to remain the most common area of weakness in the IT control environment, with over 77 per cent of findings, and 82 per cent of the significant and moderate findings, relating to this area. Focus is required by entities to ensure that the risks of unauthorised changes to systems and data and unauthorised data leakage are being appropriately managed.

Removal of user access

2.92 The Australian Cyber Security Centre has reported that malicious cyber activity continues to pose a threat to Australian Government entities.⁵³ Threats to the confidentiality and integrity of data held by entities means that entities need to enforce effective access controls to systems and networks and ensure the timely removal of systems access following a user's cessation with the entity.

2.93 The Protective Security Policy Framework (PSPF) and Australian Government Information Security Manual (ISM) assist entities to use their risk management framework to protect information and systems from both internal and external threats. The PSPF governs the security of government Information Communications Technology (ICT) systems across non-corporate Commonwealth entities and the ISM provides the guidance to implementing appropriate security controls across all entities.

2.94 The ANAO has identified and reported previously⁵⁴ that several government entities have not implemented effective controls relating to the timely removal of user access. As stated in the PSPF: 'Effectively managing personnel security includes ensuring departing personnel fulfil their obligations to safeguard Australian Government resources; this limits the potential for the integrity, availability, and confidentiality of those resource to be compromised'. This highlights a potential security threat to systems and information across all government entities.

2.95 The ANAO assessed termination controls in place at 140 relevant⁵⁵ government entities and found that 29 entities (2021–22: 53 entities) do not have a policy that defines the timeframe access should be removed from systems following a user's departure from the entity. A lack of policies related to user access removal increases the risk that access will not be removed in a timely manner which may result in users' inappropriately accessing information.

2.96 The ISM states that 'Removing or suspending access to systems, applications and data repositories can prevent them from being accessed when there is no longer a legitimate business requirement for their user, such as when personnel change duties, leave an organisation or are

53 Australian Cyber Security Centre, Annual Cyber Threat Report 2022–23, available from <https://www.cyber.gov.au/about-us/reports-and-statistics/asd-cyber-threat-report-july-2022-june-2023> [accessed 17 November 2023].

54 Auditor-General Report No.8 2022–23 Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2022.

55 Relevant entities include all departments of state, and other entities that manage their own IT network services. Highly classified networks have been excluded from the assessment.

detected undertaking malicious activities⁵⁶. Timely removal of access is an important control to prevent unauthorised access to government systems and data. Six entities have a timeframe of greater than thirty days to remove user access to government systems.

2.97 Of the entities reviewed, 24 entities (2021–22: 35 entities) do not allow for the HR systems to enter terminations after cessation. This was either due to an assessment by the entity that it does not require backdated cessations as all users are identified and actioned on their last working day, or to system restrictions. However, should a user separation certificate not be completed prior to cessation, the system would reflect an incorrect date. Not allowing backdated terminations prevents an entity from monitoring these cases, can result in incorrect records and removes an entity's ability to monitor inappropriate access.

2.98 The majority of entities assessed, 108 entities of 140 relevant entities (2021–22 119 entities), do not have an effective control to monitor access or activity in entities systems after user cessation. Of these 140 entities, 17 entities currently have an open finding relating to terminations including one⁵⁷ which has been assessed as a significant risk (2021–22: none) and nine⁵⁸ which have been assessed as a moderate risk (2021–22: seven). During 2022–23, three entities resolved moderate audit findings previously reported by implementing updated control processes relating to user access removal. These entities are: the Attorney-General's Department (see paragraphs 4.2.21 to 4.2.23); the Australian Nuclear Science and Technology Organisation (see paragraphs 4.11.32 to 4.11.35) and Department of Home Affairs (see paragraphs 4.10.19 to 4.10.21). Not reviewing the access of individuals means entities are unable to assess and remediate any impact from unauthorised access to systems. This increases the risk that access to systems post termination is not detected and inappropriate activities undertaken are not mitigated.

2.99 Timely removal of access from terminated staff continues to be an issue across entities in 2022–23. There has been an improvement in the development of security policies relating to timely removal of access⁵⁹ and a small improvement in the implementation of monitoring controls⁶⁰, however the total number of findings in removal of access processes has increased.⁶¹

56 Information Security Manual, *Guidelines for Personnel Security*, available from <https://www.cyber.gov.au/resources-business-and-government/essential-cyber-security/ism/cyber-security-guidelines/guidelines-personnel-security> [accessed 10 November 2023].

57 For further details refer to the chapter 4 contribution for the Department of Defence.

58 For further details refer to the chapter 4 contributions for the following entities: Australian Communications and Media Authority, Commonwealth Superannuation Corporation, Departments of: Agriculture, Fisheries and Forestry; Education; Employment and Workplace Relations; Infrastructure, Transport, Regional Development, Communications and the Arts; Prime Minister and Cabinet; and Social Services; and National Disability Insurance Agency.

59 In 2021–22 there were 53 of 144 entities that did not have a policy defining timeframes for access removal. Auditor-General Report No.8 2022–23 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2022*.

60 In 2021–22 there were 119 of 144 entities that did not have a monitoring control in place to monitor access or activity after user cessation. Auditor-General Report No.8 2022–23 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2022*.

61 In 2021–22 there were 14 entities with an open finding, seven of which were assessed as being moderate risk. Auditor-General Report No.8 2022–23 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2022*.

2.100 The Attorney-Generals' Department collected⁶² information on entities self-assessed level of maturity for the of PSPF. As at 30 June 2022, 83 per cent of the 97 non-corporate entities assessed themselves as being fully effective or higher at removing access 'On separation or transfer, the entity removed personnel's access to Australian Government resources, including physical facilities and ICT systems.'⁶³ The ANAO's observations around termination controls indicate entities may be overestimating the effectiveness of the control environment, which is consistent with findings in previous ANAO performance audits undertaken on entities' cyber security.⁶⁴

2.101 The weaknesses identified by the ANAO pose an increased risk of unauthorised access to systems and data. Entities should review the management of these areas, and implement the appropriate controls included in the PSPF and ISM to mitigate the risks.

IT change management

2.102 Change management policies and controls are designed to manage the risk of disruption to services, and to protect information and IT systems.

2.103 During 2022–23 the ANAO reported an increase the number of audit findings relating to weaknesses in change management policies and controls for IT systems. Weaknesses in change management controls can increase the risk of:

- unauthorised or erroneous changes being made;
- failure to make necessary changes when required;
- systems incompletely or inaccurately processing data; and
- reduced integrity of system records and information.

2.104 The findings identified by the ANAO have highlighted two important considerations for entities in designing and implementing change management controls:

- appropriately segregating conflicting duties; and
- following a structured change management framework.

Appropriately segregating conflicting duties

2.105 Effective internal control in the change management process requires adequate segregation of duties between those who perform procedures or controls and those who review or approve those activities. The work of one individual is either independent of, or serves as a check on, the work of another.

2.106 Inadequate segregation of duties increases the risks of unauthorised changes or undetected errors being implemented into the production IT environment, which can increase the risk of system failures or security breaches. There is a risk that developers with the ability to

62 Following Machinery of Government changes effective from 3 August 2023 the Attorney-General's Department is no longer responsible for PSPF. The Department of Home Affairs is now responsible for the PSPF.

63 Protective Security Policy Framework, PSPF 14: Separating Personnel, available from <https://www.protectivesecurity.gov.au/publications-library/policy-14-separating-personnel> [accessed 11 November 2023].

64 Auditor-General Report No.1 2019–20 *Cyber Resilience of Government Business Enterprises and Corporate Commonwealth Entities* and Auditor-General Report No.32 2020–21 *Cyber Security Strategies of Non-Corporate Commonwealth Entities*.

develop and implement changes in a production environment may circumvent controls or directly manipulate system data.

2.107 Where segregation of duties is not possible, entities should monitor the activities performed by users or perform a 'look-back' of changes to ensure changes are authorised and appropriate.

Case study 3. Audit findings: Segregating conflicting duties

The Australian Tax Office (ATO), National Disability Insurance Agency (NDIA) and Services Australia (SA) have bespoke IT systems that support business operations and financial reporting. All of these entities have processes for managing changes to the production IT environment, however, all of these entities did not adequately segregate the ability of staff to both develop and implement changes into their production IT environment. Developers had access to directly implement changes into the production IT environment and could circumvent controls for reviewing and authorising changes. The weaknesses in segregating conflicting duties reduced the integrity of change management processes and records. It also increased the risk of systems being unreliable and incorrect information supporting financial reporting in these entities.^a

Note a: Further details regarding these findings can be found in the entity results section in Chapter 4 for the Australian Taxation Office, National Disability Insurance Agency and Services Australia.

Following a structured change management process

2.108 IT systems and technologies should be regularly maintained and updated to ensure continued operation and protection of information. IT changes resulting from maintenance and development activities should be managed appropriately to reduce the risk of service disruptions, unauthorised changes, and errors. Following a formal process for identifying and requesting changes can help ensure that all changes are properly authorised and documented and increases the reliability and integrity of IT systems

Case study 4. Audit findings: Structured change management framework

The ATO established a change management framework for identifying, requesting, authorising and implementing IT changes. However, the application of the change management framework varied across ATO's business groups and, in some instances, removed important internal controls for managing risks of unauthorised or erroneous changes to its systems. The non-compliance with ATO's framework reduced the integrity of change management records. It also increased the risk of systems being unreliable and providing incorrect information supporting financial reporting.^a

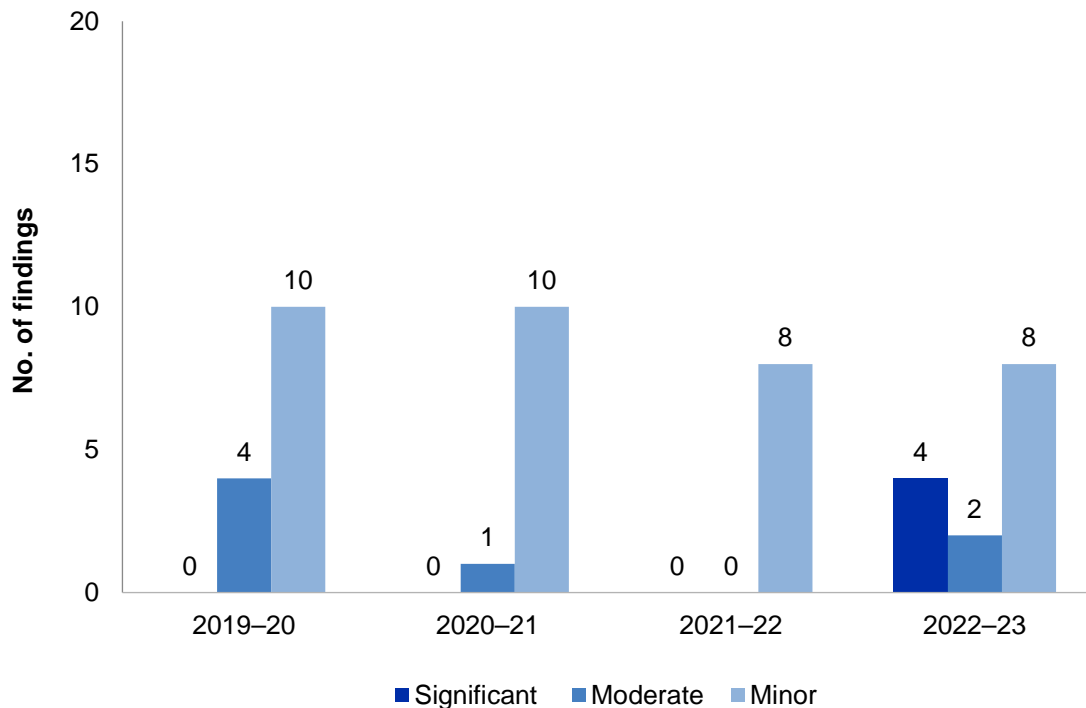
Note a: Further details regarding this finding can be found in the entity results section in Chapter 4 for the Australian Taxation Office.

Compliance and quality assurance frameworks

2.109 Entities rely on internal and external systems, parties and information in decision-making processes. The implementation of effective compliance and quality frameworks and processes provides assurance over the completeness and accuracy of the information and is integral to the preparation of financial statements free from material misstatement. Figure 2.11. below shows

the total number of audit findings identified by the ANAO from 2019–20 to 2022–23 related to compliance and quality assurance frameworks.

Figure 2.11: Compliance and quality assurance framework audit findings 2019–20 to 2022–23



Source: ANAO data.

2.110 Four new significant findings were reported during 2022–23. The significant audit findings have been reported in relation to the processes designed and established in relation the governance of legal and other matters impacting the financial statements in the following entities: Departments of: Health and Aged Care; Education; and Social Services and Services Australia.

2.111 These audit findings indicate a failure in governance supporting the preparation of the financial statements with respect of legal matters at these entities. This includes the assessment of the impact of the receipt of legal advice or recently determined matters which has the potential to affect an entity’s administration, financial management and financial reporting obligations. These findings highlighted instances where information on legal matters was not referred to entity Chief Financial Officers, or was not otherwise assessed for impact on the financial statements. In other instances evidence identified by the ANAO during the course of the audits did not accord with management representations and additional audit work was required to be undertaken by the ANAO. The ANAO recommended that these entities design, document and implement processes to ensure legal and other matters are considered when preparing financial statements and that all matters identified for consideration are communicated to the ANAO.

2.112 There were two new moderate findings reported to the Departments of: Foreign Affairs and Trade; and Health and Aged Care during 2022–23 related to assurance over administered

programs.⁶⁵ Six of the eight minor findings were raised in 2022–23 and two were raised in 2021–22.

Case study 5. Audit findings: Impact of legal matters and legal advice on the preparation of financial statements

In the course of preparing the financial statements entities must consider legal and other governance matters which may have an impact on the financial statements. These matters may include recent decisions of a court or tribunal or advice received from legal counsel.

In conducting a financial statements audit the ANAO requests that entities provide access to all information, such as records and documentation and other matters, of which the entity is aware that are relevant to the preparation of the financial statements. The ANAO also requests that entities disclose all known instances of non-compliance or suspected non-compliance with laws and regulations that should be considered in the preparation of the entity's financial statements.

A robust financial statements preparation process identifies these matters in a timely manner, demonstrated by:

- the free exchange of information on legal matters with a potential financial impact statements between responsible line areas and entity Chief Financial Officers; and
- the preparation of position papers and working papers supporting the financial statements which outline the potential impacts and treatment in the financial statements.

During the 2022–23 financial statements audits of the Departments of: Education, Health and Aged Care; Social Services; and Services Australia the ANAO identified significant audit findings in relation weaknesses in these entities' financial statement preparation process with respect to consideration of legal matters.^a The ANAO identified legal matters, with an impact on the financial statements, which had not been previously communicated to the ANAO or for which the entity had not considered the potential impact on the financial statements. In some cases these matters necessitated adjustments to the balances and disclosures made in the financial statements.

Both the number of matters identified and the number of adjustments made to these entities' financial statements highlighted significant weaknesses in governance relating to assessment and reporting of these matters.

The ANAO recommend that these entities:

- design, implement and document processes to ensure that legal or other matters are identified for consideration on the financial statements, and that all matters are communicated to the ANAO;
- improve reporting to entity audit committees on legal and other matters; and
- formalise arrangements for the sharing of information between other entities or service providers for which each entities have portfolio responsibility.

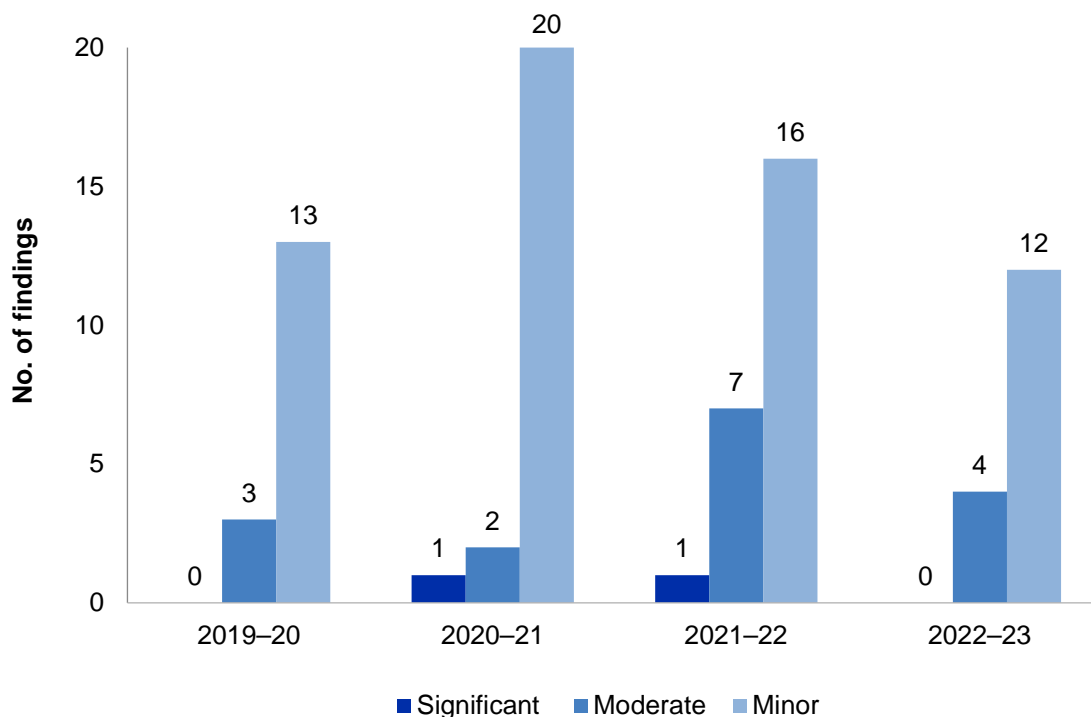
⁶⁵ Further details regarding these new moderate findings can be found in the entity results section in Chapter 4 for the Department of: Foreign Affairs and Trade; and Health and Aged Care.

Note a: Further information regarding these significant audit findings can be found in the entity contributions for the Department of: Education; Health and Aged Care; Social Services and Services Australia in Chapter 4.

Accounting and control of non-financial assets

2.113 Entities control a diverse range of non-financial assets on behalf of the Australian Government, including land and buildings, specialist military equipment, leasehold improvements, infrastructure, plant and equipment, inventories and computer software. Figure 2.12 below shows the total number of non-financial asset audit findings identified by the ANAO from 2019–20 to 2022–23.

Figure 2.12: Accounting and control of non-financial assets audit findings 2019–20 to 2022–23



Source: ANAO data.

2.114 The significant audit finding relating to weaknesses in asset management processes at the Royal Australian Navy Central Canteen Board reported in 2021–22 was downgraded to a minor audit finding as part of the 2022–23 interim audit.

2.115 Six of the previously reported moderate findings were resolved as part of the 2022–23 audit. Five of the six resolved moderate findings were raised in 2021–22 and one was raised in 2020–21.⁶⁶

⁶⁶ These findings related to: Administrative Appeals Tribunal; Army and Air Force Canteen Service and the Department of: Defence and Health and Aged Care and the Royal Australian Navy Central Canteens Board. Further information can be found in found in the entity results section in Chapter 4.

2.116 Three of the new moderate findings related to development on intangible assets and capitalisation management. The remaining audit finding related to weaknesses around the disposal of assets and inventory.⁶⁷

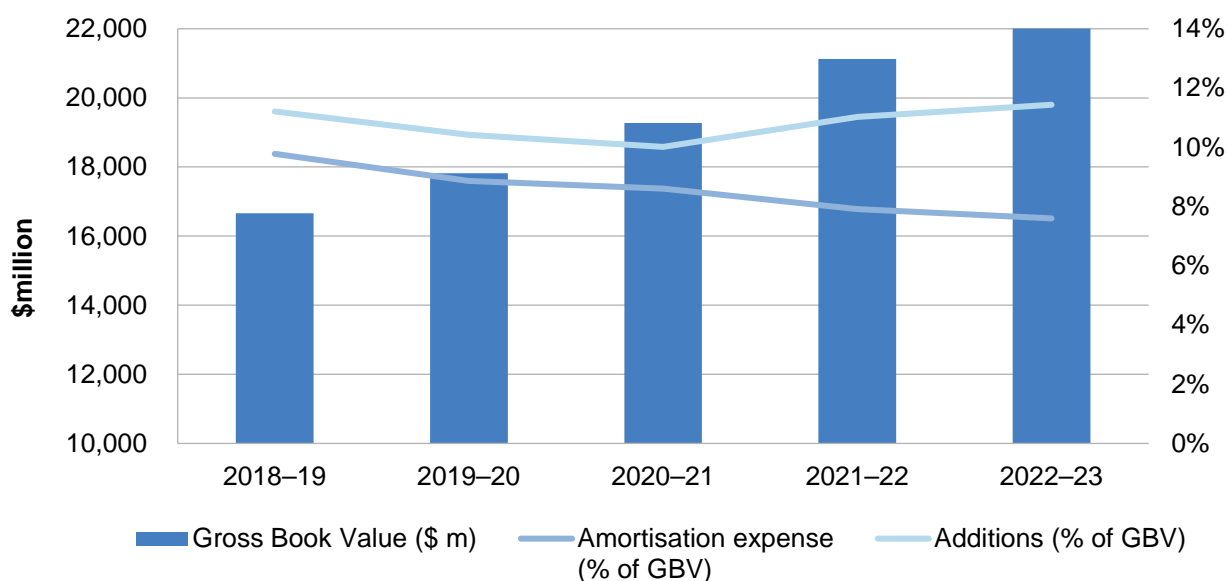
2.117 The minor findings relate to:

- fair valuation adjustments;
- assessments for impairment of assets;
- data management and integrity;
- inventory management;
- stocktake procedures; and
- capitalisation.

Intangible assets

2.118 The Australian Government’s intangible assets comprise mainly internally developed or purchased computer software. Three of the four moderate and one of the 12 minor audit findings reported in 2022–23 relate to weaknesses in entity’s accounting process for computer software. As reported in the CFS at 30 June 2023, the gross book value of computer software recognised by entities totalled \$22.1 billion. Figure 2.13 demonstrates that during the period 2019–20 to 2022–23 there has a \$5.4 billion increase in capitalised computer software reported by entities. The total amount of computer software in progress at 30 June 2023 was \$2.83 billion.

Figure 2.13 Balance of Australian Government computer software 2018–19 to 2022–23



Source: ANAO analysis of the 2018–19 to 2022–23 CFS.

2.119 Computer software developed by Commonwealth entities and Commonwealth companies is often unique to the Australian Government and related to the regulatory or service

67 Further details regarding these new moderate finding can be found in the entity results section in Chapter 4 for the Australian Securities and Investments Commission; Departments of: Defence; Education; and Infrastructure, Transport, Regional Development, Communications and the Arts

delivery function conducted by those entities, for example, social security benefits, health benefits, trade facilitation and taxation administration. The development of this software is evolving with broader market trends and there is increasing use of ‘Software as a Service (SaaS)’ arrangements. SaaS arrangements, also referred to as cloud computing arrangements, allow entities to access software from a managed service provider over the internet, which contrasts to the practice of internally developing and managing the software within an entity.

2.120 In Auditor-General Report No.8 of 2022–23 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2022* the ANAO identified that it is important for entities to establish accounting policies, processes for capturing capital costs and quality assurance processes which regularly review intangible asset balances for impairment.

2.121 ASB 138 *Intangible Assets* (AASB 138) provides the criteria for the identification, recognition, and measurement of intangible assets including computer software. AASB 138 contains detailed guidance on the type and nature of costs incurred in development or purchase of computer software that can be capitalised as intangible assets by entities.

2.122 The International Financial Reporting Standards (IFRS) Interpretations Committee recently issued two agenda decisions that provided interpretations on accounting for software as a service (SaaS) contracts (cloud computing).⁶⁸ The Committee identified that in respect of SaaS contracts these arrangements are not considered to be intangible assets where the customer does not control the software application and are often only service contracts that should be expensed.

2.123 Given the history of rapid changes in technology, intangible assets are susceptible to technological obsolescence.⁶⁹ AASB 136 *Impairment of Assets* (AASB 136) requires entities to assess whether there is any indication that non-financial assets may be impaired at end of each reporting period. Specific requirements apply for impairment testing of intangible assets.⁷⁰

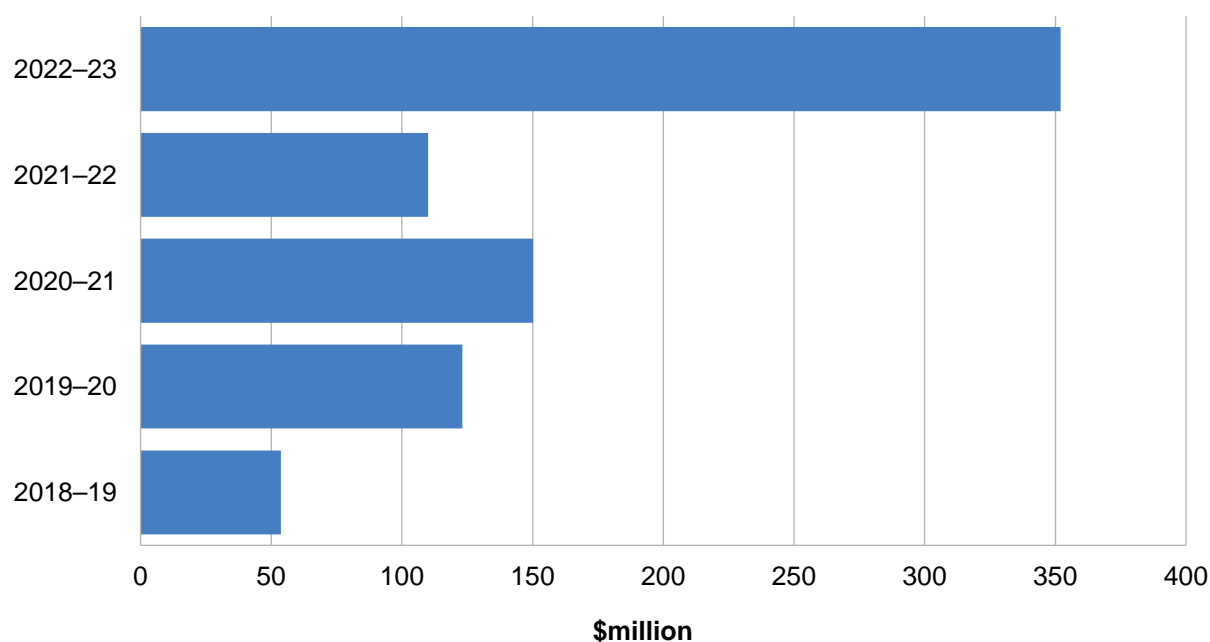
2.124 Australian Government entities recorded \$352.0 million in write-downs and impairment of computer software in 2022–23, and have recorded a cumulative write-downs and impairment of \$789.1 million in the period 2019–20 to 2022–23. Figure 2.14 shows Australian Government recoverable amount write-downs and impairment for computer software over the past five years have ranged between \$53.7 million and \$352.0 million per year.

68 The International Financial Reporting Standards (IFRS) Interpretations Committee, *Customer’s Right to Receive Access to the Supplier’s Software Hosted on the Cloud* (IAS 38 Intangible assets), March 2019, available at <https://www.ifrs.org/content/dam/ifrs/supporting-implementation/agenda-decisions/2019/ias38-customers-right-to-receive-access-to-the-suppliers-software-hosted-on-the-cloud-mar-19.pdf> [accessed 13 November 2023].

69 AASB 138, paragraph 92.

70 AASB 136, paragraph 10 states impairment testing is required in the reporting period for: intangible assets with an indefinite useful life; intangible assets not yet available for use; and intangible assets initially recognised during the period.

Figure 2.14 Balance of the Australian Government's expenses for write downs of computer software 2018–19 to 2022–23



Source: ANAO analysis of the 2018–19 to 2022–23 CFS.

2.125 As demonstrated in Figure 2.14 the write-downs and impairment for computer software increased during 2022–23. This increase was mainly related to the write-down by Services Australia of \$232.6 million of computer software associated with the Welfare Payment Infrastructure Transformation Program - Entitlement Calculation Engine, due to a decision to discontinue the project.

Case study 6. Audit findings: Accounting for intangible assets – computer software

During 2022–23 the ANAO identified an increase in weaknesses in entity processes for accounting for computer software including:

- capitalisation of costs related to SaaS associated with software development that did not meet the requirements of the accounting standards; and
- inadequate processes implemented to consider whether software under development was subject to impairment or had been completed required by the accounting standards.

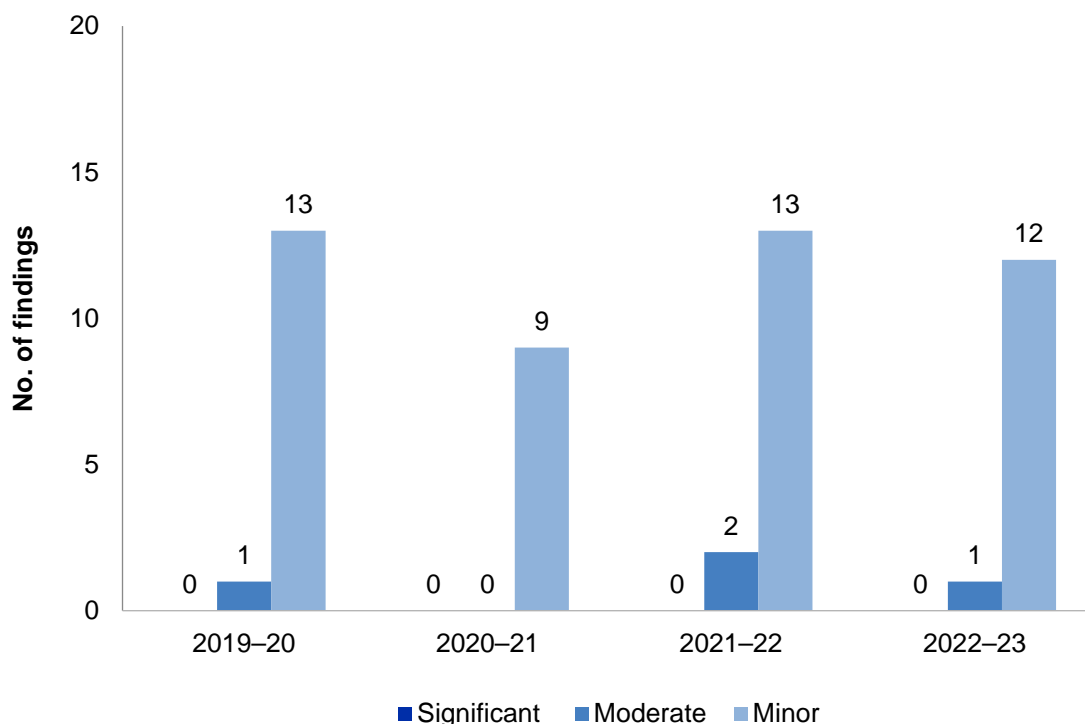
Given the significance of the Australia Government's investment in computer software and the nature of the findings identified by the ANAO there are further opportunities for entities to improve quality assurance frameworks supporting the recognition and measurement of computer software. This should include enhancing the knowledge of the finance and asset management teams of relevant financial reporting requirements and computer software project outcomes in order to ensure that significant accounting policies adopted by entities are consistent with the requirements of the accounting standards.

Note a: Further information regarding these moderate audit findings can be found in the entity contributions for the Australian Securities and Investments Commission and Departments of: Education; Infrastructure, Transport, Regional Development, Communications and the Arts in Chapter 4.

Revenue, receivables and cash management

2.126 Revenue and receivables include Parliamentary appropriations, taxation revenue, customs and excise duties and administered levies. Commonwealth entities also generate revenue from the sale of goods and services and a range of other sources. Cash management involves the collection and receipt of public monies and the management of official bank accounts. Figure 2.15 shows the total number of revenue, receivable and cash management audit findings identified by the ANAO from 2019–20 to 2022–23.

Figure 2.15: Revenue, receivables and cash management audit findings 2019–20 to 2022–23



Source: ANAO data.

2.127 One moderate finding reported to the Australian Taxation Office during 2021–22 remains unresolved in 2022–23.

2.128 There were 10 new minor findings reported during 2022–23 and one unresolved finding first raised in 2020–21. Three of the 11 minor findings relate to revenue and receivables management. Weaknesses in this category include:

- ageing debt collection; and
- processes underpinning the estimation of receivable balances within the financial statements including the accuracy and completeness of the data supporting these estimates.

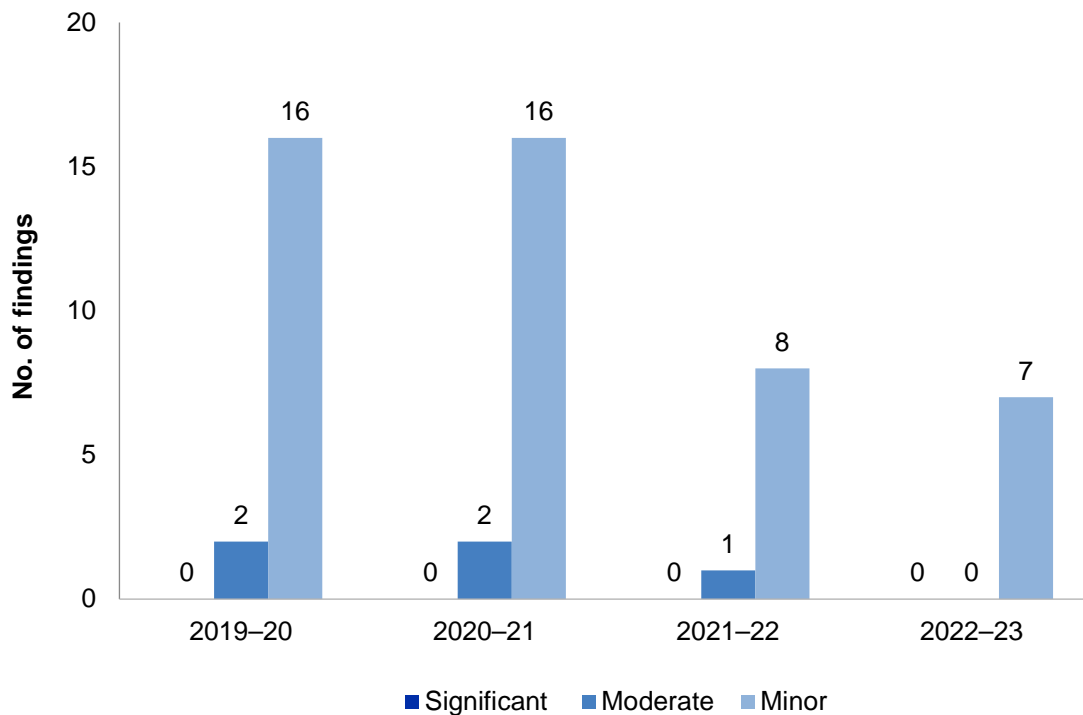
2.129 The eight remaining minor findings relate to cash management controls. Cash controls are core processes expected to be in a mature state at every entity. The weaknesses in this category were primarily a result of weaknesses in the timeliness and completeness of reconciliations of bank accounts.

Human resource financial processes

2.130 Human resources encompass the management and administration of employee entitlements and payroll functions. Employee benefits represent the most significant departmental expenditure for most entities, and the associated leave and superannuation liabilities are subject to estimates and judgements in inputs.

2.131 Human resource transactions are high volume with both automated and manual processing. As a result, any control weaknesses can result in systematic errors increasing the risk of material misstatement. Figure 2.16 below shows the total number of human resources financial processes audit findings identified by the ANAO from 2019–20 to 2022–23.

Figure 2.16: Human resources financial processes audit findings 2019–20 to 2022–23



Source: ANAO data.

2.132 The moderate audit finding reported in 2021–22 in relation to the Northern Land Council was resolved in 2022–23. No significant or moderate findings were reported during 2022–23.

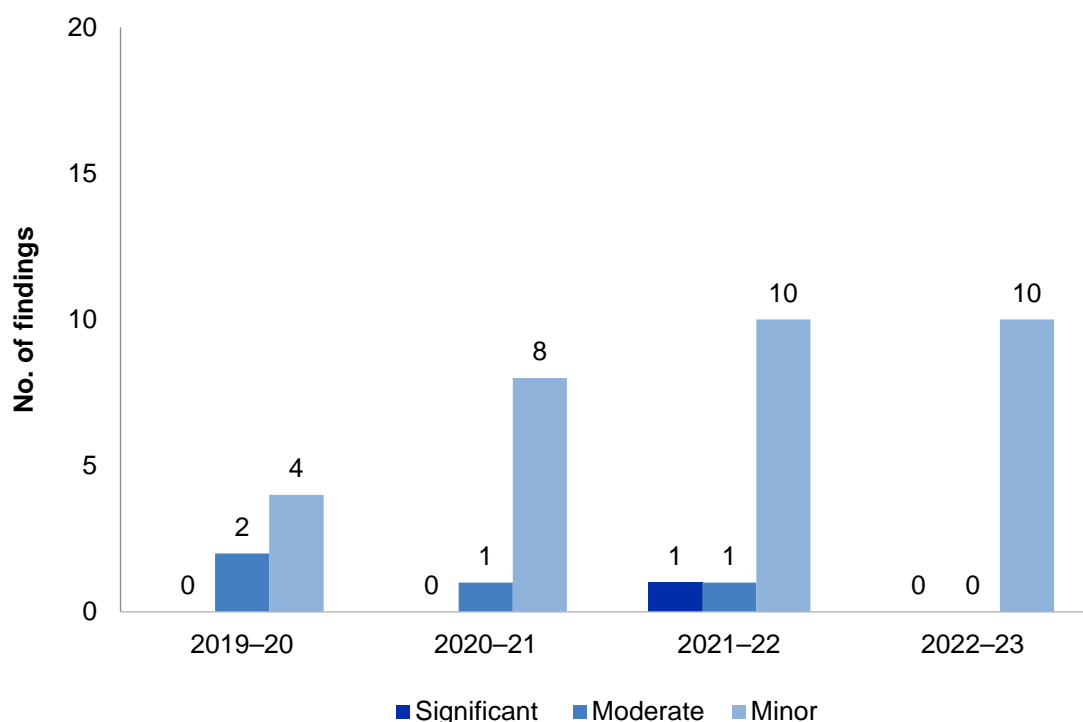
2.133 Of the seven audit findings reported, three were raised in 2022–23. Four minor findings remain unresolved from prior years and one of these findings has been unresolved since 2015–16. The findings in this category relate to weaknesses in:

- management of employee leave entitlements;
- maintenance of payroll records and controls; and
- management on key management personnel remuneration and related parties disclosures (further information is available at paragraph 2.145).

Purchases and payables management

2.134 Purchases and payables are payments to, or due to suppliers, including contractor and consultancy expenses, lease payments and general administrative payments. These expenses typically comprise the second most significant departmental expenditure item of entities after employee benefits. Figure 2.17 below shows the total number of purchases and payables audit findings identified by the ANAO from 2019–20 to 2022–23.

Figure 2.17: Purchases and payables management audit findings 2019–20 to 2022–23



Source: ANAO data.

2.135 One significant finding was reported in 2021–22 to the Department of Veterans’ Affairs in relation to the methodology supporting the valuation of the military compensation provision reported in the financial statements. This was downgraded to a moderate audit finding as part of the 2022–23 interim audit and was resolved as part of the final audit.

2.136 There was one unresolved moderate finding first reported in 2020–21 relating to weaknesses in the governance of Australian Defence Force health services at the Department of Defence. This was resolved as part of the 2022–23 audit.

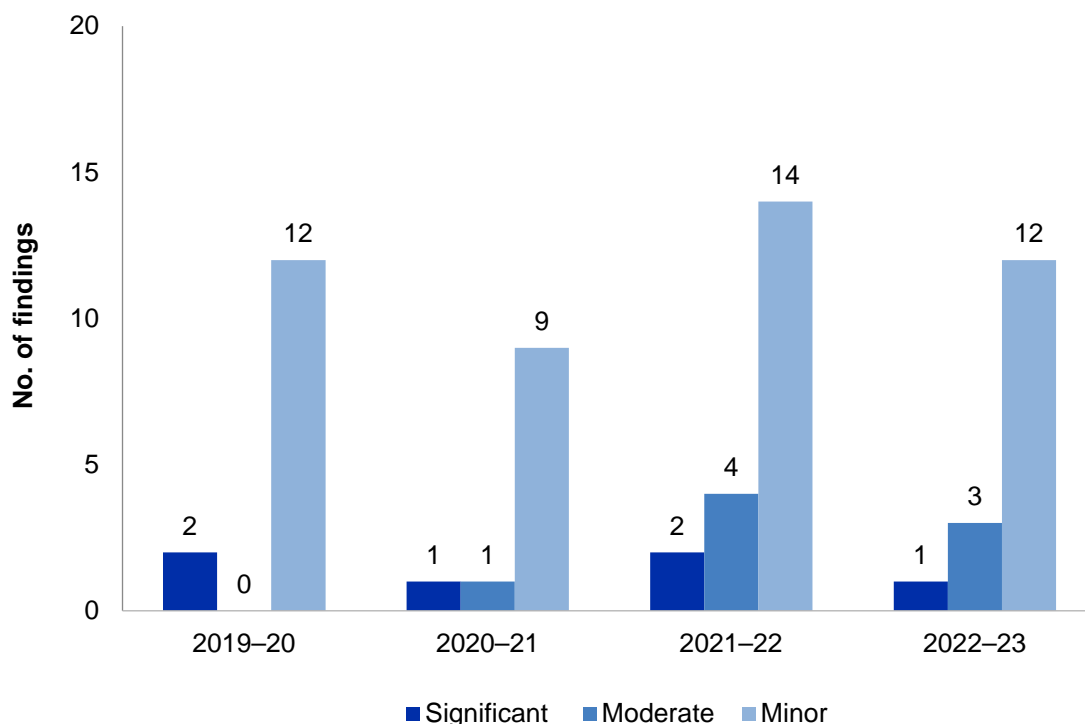
2.137 Five new minor audit findings were reported in 2022–23 and five unresolved findings were first raised in 2021–22. Common weaknesses in this category over the period from 2019–20 to 2021–2023 relate to:

- processes supporting the authorisation of expenditure, including maintaining proper segregation of duties; and
- timeliness of credit card acquittals.

Other audit findings

2.138 Other audit findings typically include items relating to the: management and implementation of service level agreements or memoranda of understanding; updating or maintaining of key governance documentation. Figure 2.18 below shows the total number of other audit findings identified by the ANAO from 2019–20 to 2022–23.

Figure 2.18: Other audit findings 2019–20 to 2022–23



Source: ANAO data.

2.139 One significant audit finding was resolved as part of the 2022–23 audit relating to the Royal Australian Navy Central Canteens Board. One significant audit finding from 2021–22 remains unresolved relating to Bundanon Trust⁷¹ relating to going concern.

2.140 One moderate audit find remains unresolved which was first reported to the Royal Australian Air Force Veterans' Residences Trust as part of the 2021–22 financial statements audit. The remaining two moderate audit findings were identified in 2022–23 and were reported to the Bureau of Meteorology and National Blood Authority.

2.141 Seven of the 12 minor audit findings were raised in 2022–23. The findings in this category relate to weaknesses in: segregation of duties between processing and approving of manual journals; and the formalisation of corporate documents and internal policies.

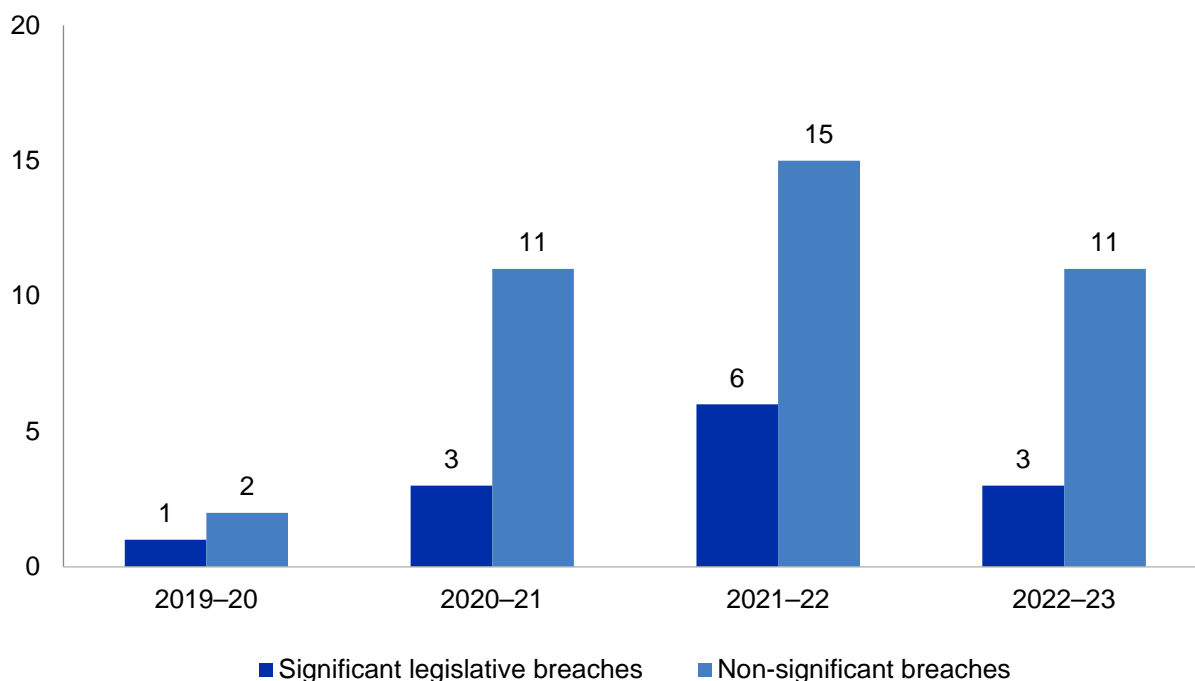
Legislative compliance

2.142 In accordance with ANAO policy, significant legislative breaches are reported to Parliament consistent with the reporting of significant and moderate audit findings. Significant

⁷¹ The audit of the Bundanon Trust's 2022–23 financial statements had not been completed at 30 November 2022.

legislative breaches include: instances of significant potential or actual breaches of the Constitution; and instances of significant non-compliance with the entity’s enabling legislation, legislation that the entity is responsible for administering, and the PGPA Act. Figure 2.19 below illustrates legislative breaches identified by the ANAO between 2019–20 to 2022–23.

Figure 2.19 Significant legislative breaches 2019–20 to 2022–23^a



Note a: For the purpose of this analysis L2 and L3 categories have been combined non-significant breaches.

Source: ANAO data.

2.143 There were three significant legislative breaches reported during 2022–23. One of the breaches was identified during the 2022–23 and two remain unresolved from prior years. The significant legislative breaches relate to the following entities:

- Department of Health and Aged Care. The breach relates to potential breaches of section 83 of the Constitution regarding payments made in under the *Aged Care Act 1997* and the *Health Insurance Act 1973*.
- Northern Land Council (NLC). This breach relates to the requirement for funds in the NLC’s its royalty trust account to be distributed to traditional owners within agreed timeframes (in accordance with the requirements of the *Aboriginal Land Rights (Northern Territory) Act 1976*. This breach was first identified in 2012–13.
- Tiwi Land Council. The breach relates to the Tiwi Land Council to have in place a formal risk management policy nor a formal risk management framework as required by the section 16 of the *Public Governance, Performance and Accountability Act 2013*.

2.144 The 11 non-significant breaches primarily related to:

- non-compliance with determinations made by the Remuneration Tribunal for remuneration of key management personnel (incorrect payments); and
- non-compliance with requirements for Commonwealth Procurement Rules.

2.145 The appropriateness of governance of key management personnel remuneration (KMP) has been a continued focus for the ANAO in 2022–23. Over the period 2019–20 to 2022–23 the ANAO has continued to identify legislative breaches relating to KMP remuneration.

Case study 7. Audit findings: Key management personnel and compliance with Remuneration Tribunal determinations

Seven of the 11 non-significant breaches in 2022–23 relate to incorrect payments of remuneration to KMP and/or non-compliance with determinations made by the Remuneration Tribunal. The causes of incorrect payments identified by the ANAO included:

- incorrect rates of superannuation or incorrect calculation of base salary for superannuation being factored into total remuneration;
- allowances and other payments paid to executives not provided for in contracts or a Remuneration Tribunal determination;
- value of reportable fringe benefits that were provided by an entity were not included in the calculation of salary. Reportable fringe benefits are clearly identified in determinations as being a component of remuneration;
- acting arrangements or engagements with other Commonwealth entities that did not attract remuneration were paid to executives or board members despite no remuneration being provided for in the determination of the Remuneration Tribunal; and
- bonus payments made to executives that were not provided for in the relevant determination or contract, or allowed for the total remuneration cap to be exceeded.

It is important that entities have a robust framework in place to govern payments made to KMP to ensure that they are consistent with policy or legal requirements. In June 2023, the ANAO published an edition of [Audit Insights – Executive Remuneration](#), which identified key lessons arising from ANAO audits related to managing remuneration. Effective management of remuneration includes aligning payroll process with policy, legal and contractual requirements.

- Regularly test the operating effectiveness of payroll processes — Entities and their audit and risk committees could consider whether periodic internal or other compliance audits are performed to provide assurance over the payroll process for executives.
- Design and implement fit for purpose payroll controls — Some executive remuneration may have increased complexity. The tailoring of payroll processes to the specific requirements of the underlying instrument, contract or determination reduces the risk of error in payments.
- Regularly test the operating effectiveness of payroll processes — Entities and their audit and risk committees could consider whether periodic internal or other compliance audits are performed to provide assurance over the payroll process for executives.

Quality and timeliness of financial statements preparation

A quality financial statements preparation process will reduce the risk of inaccurate or unreliable reporting. At the completion of 2022–23 audits the ANAO reported a reduction in the number of findings related to financial statement preparation. Two key indicators of the

quality of the financial statements preparation process are: the number and quantum of adjusted and unadjusted audit differences; and the timeliness of financial statement preparation.

In 2022–23 72 per cent of entities delivered financial statements in line with an agreed timetable – an increase compared with 2021–22 (65 per cent).

The total number of adjusted and unadjusted audit differences decreased. In 2022–23 50 per cent of audit differences remained unadjusted. The quantity and value of adjusted and unadjusted audit differences indicate there remains an opportunity for entities to improve quality assurance frameworks over financial statements preparation processes.

The ANAO's findings indicate that there are opportunities for entities to improve quality assurance frameworks, to ensure that significant accounting policies, estimates and adjustments underpinning financial statements are reviewed as early as possible in the preparation process.

2.146 The primary purpose of financial statements is to provide relevant and reliable information to users about a reporting entity's financial position. Financial statements preparation is often a complex task, involving compliance with a number of requirements established by Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*.

2.147 In order to provide relevant and reliable financial information to the users, entities should prepare quality financial statements in a timely manner to support entities to meet legislative reporting obligations including the tabling of annual reports. The preparation of quality financial statements will be demonstrated by adherence to a well-defined financial statements preparation timetable with minimal adjustments required to financial statements throughout the audit process.

2.148 In concluding an audit the ANAO reports on the quality of financial statements preparation to entities. The following measures are considered by the ANAO when assessing the quality of the financial statements preparation process:

- number and quantum of adjusted and unadjusted audit differences; and
- timeliness of financial statements preparation.

2.149 At the completion of the 2022–23 financial statements audits, the ANAO reported two moderate audit findings and nine minor audit findings relating to processes supporting financial statements preparation (2021–22: one significant; one moderate and eleven minor findings). Further analysis of the financial statements preparation process findings identified is available at paragraphs 2.80 to 2.83.

Financial statements preparation

2.150 The ANAO assessed the timeliness of financial statements preparation. Timeliness in preparation was assessed by comparing the date of delivery of the financial statements to previously agreed timeframes. The timeframe was established by entities and agreed with audit teams for the delivery of financial statements.

2.151 Timeliness in financial statements preparation in 2022–23 improved compared to 2021–22, with delivery of financial statements:

- in line with the agreed timeframes achieved by 72 per cent of entities (2021–22: 65 per cent);
- a further seven per cent of entities delivered financial statements within two working days of the agreed timeframe (2021–22 two per cent); and
- twenty one per cent of entities delivered financial statements after two working days of the agreed timeframe (2021–22: 29 per cent).

Audit differences

2.152 The quality of financial statements preparation is also assessed by considering the number and value of audit differences identified. Throughout the financial statements audit process, audit differences other than those considered trivial are communicated to entities. Entities are encouraged to adjust all audit differences.⁷² The total number of individual audit differences identified in 2022–23 decreased compared with 2021–22. A total of 232 individual audit differences were identified in 2022–23 (2021–22: 250) which impacted the revenue, expenses, assets and equity balances reported. The ANAO also identified 191 audit adjustments associated with presentation and disclosure of transactions and balances in the financial statements.

2.153 A key indicator of the quality of entity financial statements is whether audit differences identified are adjusted by entities. Of the 232 audit differences identified by the ANAO during 2022–23, 116 or 50 per cent remained unadjusted by entities (2021–22: 107 or 43 per cent). Of these unadjusted differences, 73 related to material entities (2021–22: 55).⁷³ The unadjusted differences, both in aggregate and individually, did not result in a material misstatement to the financial statements.

2.154 The Department of Finance's (Finance) *Financial Statements Better Practice Guide* indicates that 'better practice entities will promote an environment in which the correction of errors or misstatements is seen as an appropriate course of action, regardless of whether or not they are considered to be material'.⁷⁴

2.155 Table 2.12 shows that the net value impact of unadjusted audit differences compared to prior year has decreased for revenue, expenses, assets and equity. There has been an increase net value impact compared to 2021–22 for liabilities.

72 ANAO Audit Manual, 111 Evaluating Misstatements: section 111.60: A misstatement is clearly trivial if it is clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances, available from <https://www.anao.gov.au/work/audit-manual/fsasg-specific> [accessed 10 November 2023].

73 Material entities are those entities and companies that comprise 99 per cent of revenues, expenses, assets and liabilities of the total General Government Sector.

74 Department of Finance *Financial Statements Better Practice Guide* section 7.2.3, available from <https://www.finance.gov.au/government/financial-reporting-and-accounting-policy/financial-statements-better-practice-guide> [accessed 10 November 2023].

Table 2.12: Total value of unadjusted audit differences (\$ million)

	2022–23			2021–22		
	Debit impact	Credit impact	Net impact	Debit impact	Credit impact	Net impact
Revenue	354.0	(122.7)	231.3	543.6	(833.7)	(290.1)
Expenses	254.6	(471.7)	(217.1)	809.9	(464.2)	345.7
Assets	373.1	(176.0)	197.1	1,181.5	(871.0)	310.6
Liabilities	77.5	(130.4)	(52.9)	49.4	(83.3)	(33.9)
Equity	257.2	(415.6)	(158.39)	332.2	(664.5)	(332.3)
Number of adjustments	116			107		

Source: ANAO analysis of entity 2022–23 and 2021–22 closing reports.

2.156 The ANAO also considers the impact of the unadjusted audit differences on the CFS. Of the unadjusted differences identified in the 2022–23 financial statements audits, a total of four adjustments relating to three entities were reported to Finance who prepare the CFS and were subsequently adjusted. These entities were the Departments of: Defence; Education; and the Treasury.

2.157 The total value of adjusted audit differences has increased compared to 2021–22 for expenses, liabilities and equity. There a decrease in adjusted audit differences relating to revenue and assets. Table 2.13 shows the net value impact of adjusted audit differences compared to 2021–22.

Table 2.13: Total value of adjusted audit differences (\$ million)

	2022–23			2021–22		
	Debit impact	Credit impact	Net impact	Debit impact	Credit impact	Net impact
Revenue	78.9	(63.6)	15.3	296.5	(227.2)	69.3
Expenses	2,302.8	(589.8)	1,713.0	362.1	(115.7)	246.4
Assets	830.5	(982.8)	(152.3)	155.9	(405.1)	(249.2)
Liabilities	276.0	(2,610.7)	(2,334.7)	100.7	(365.3)	(264.6)
Equity	836.4	(77.7)	758.71	288.0	(91.2)	196.9
Number of adjustments	116			143		

Source: ANAO analysis of entity 2022–23 and 2021–22 closing reports.

2.158 The quantity and value of adjusted and unadjusted audit differences indicate there remains an opportunity for entities to improve quality assurance frameworks over financial statements processes.

2.159 The ANAO's findings indicate that there are opportunities for entities to improve quality assurance frameworks, to ensure that significant accounting policies, estimates and adjustments underpinning financial statements are reviewed as early as possible in the preparation process. In their assurance role, audit committees are encouraged to actively support management

through the critical evaluation of accounting papers and holding entities to account for delivering on agreed timetables and taking up all identified audit adjustments.

Powers of the Auditor-General to obtain information

2.160 The *Auditor-General Act 1997* (AG Act) provides the Auditor-General, and delegated officials, with wide ranging information gathering powers. In practice, information is gathered through cooperation with audited entities. Section 32 of the A-G Act provides the Auditor-General with the ability to direct a person to provide information or documents that the Auditor-General requires, as well as the ability to direct that a person attend a judicial proceeding to give evidence before the Auditor-General, or an authorised official.

2.161 There were six notices issued by the Auditor-General under Section 32 of the A-G Act in the audit of 2022–23 financial statements (2021–22: nil). Table 2.14 identifies the Section 32 notices issued by the Auditor-General during financial statements audits in 2022–23.

Table 2.14: Section 32 notices to produce documentation and information issued during the ANAO's 2022–23 financial statements

Entity	Reason for issuance	Did the entity comply
Department of Finance	To obtain information and documents in respect of certain legal matters.	Yes
Department of Health and Aged Care	To obtain information and documents electronically and due to restrictions of the <i>Privacy Act 1988</i> and other portfolio legislation.	Yes
Department of Home Affairs	To obtain information and documents in respect of certain legal matters.	Yes
Department of Social Services	To obtain information and documents in respect of certain legal matters.	Yes
National Disability Insurance Agency	To obtain information and documents in respect of certain legal matters.	Yes
Services Australia	To obtain information and documents in respect of certain legal matters.	Yes

Source: ANAO analysis.

Timeliness of entity's preparation of annual reports

Annual reports that are not tabled in a timely manner before budget supplementary estimates hearings decrease the opportunity for the Senate to scrutinise an entity's performance.

On average it took 42 days (2021–22: 44 days) after the auditor's report was issued for annual reports to be tabled in Parliament. There has been a decline in the number of entities that tabled an annual report prior to the relevant portfolio's Senate estimates hearing. Sixty-six per cent (2021–22: 74 per cent) of entities that are required to table an annual report in Parliament tabled prior to the date that the portfolio's Senate estimates hearing commenced. Twelve per cent of entities, a decrease from 2021–22, has tabled annual reports one week or more before

the hearing (2021–22: 52 per cent). Of the entities required to table an annual report, six per cent (2021–22: 8 per cent) had not tabled an annual report as at 30 November 2023.

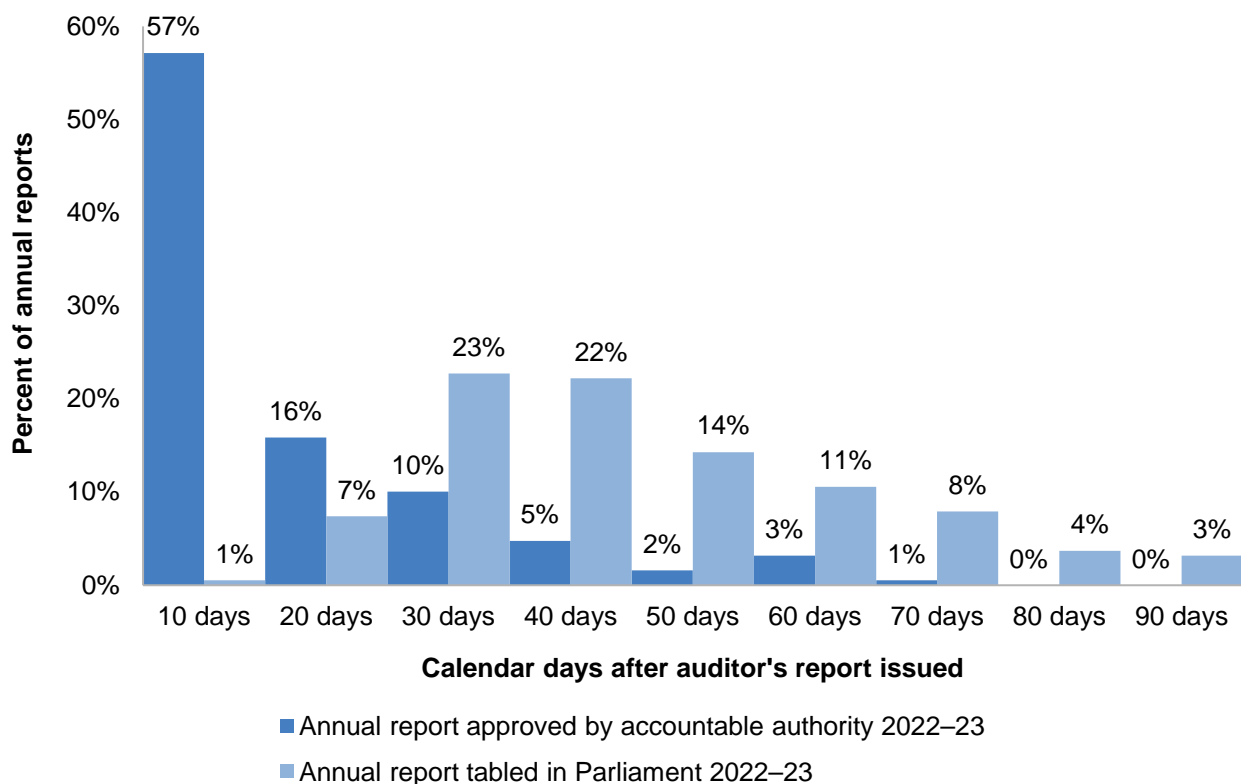
2.162 Annual reports inform the Parliament, the community and other stakeholders about the performance of entities. The publication of the annual report containing the audited financial statements is a key means to meet accountability and legislative obligations. For 2022–23 there were 187 entities required to present annual reports to the responsible minister under the *Public Governance, Performance and Accountability Act 2013*.

2.163 Annual reports are approved by the entity’s accountable authority before being provided to the minister and tabled in Parliament. RMG 135 *Annual report for non-corporate Commonwealth entities*, and 136 *Annual report for corporate Commonwealth entities* state that annual reports are to be provided to the relevant minister by the 15th day of the fourth month after the end of the reporting period. RMG 137 *Annual report for Commonwealth companies* states that Commonwealth company directors must give the annual report to the responsible minister the earlier of 21 days before the next annual general meeting after the end of the reporting period for the company or four months after the end of the reporting period for the company.

2.164 Figure 2.20 shows the time in days between the issue of the auditor's report to the:

- approval of the annual report by the accountable authority; and
- tabling of the annual report in Parliament.

Figure 2.20 Timeframe for tabling 2022–23 annual reports from issuance of auditor’s report



Source: ANAO analysis of entity annual reports.

2.165 The analysis above shows that accountable authorities approved 57 per cent of annual reports within 10 days of the issue of the auditor's report (2021–22: 48 per cent), with an overall average of 10 days (2021–22: 12 days). The average days between the accountable authority's approval of the annual report and tabling in Parliament was 31 days (2021–22: 30 days).

2.166 Thirty-one per cent of annual reports were tabled within 30 calendar days from the issue of the auditor's report (2021–22: 22 per cent). The tabling of annual reports in Parliament occurred on average 42 days after the auditor's report was issued (2021–22: 44 days). There are 12 entities (six per cent) that are required to table an annual report for 2022–23 which have not done so as at 30 November 2023 (2021–22: 8 per cent at 2 December 2022).

2.167 Annual reports should be tabled in Parliament to allow sufficient time for review before Senate estimates hearings. The RMGs on annual reports indicate that normally annual reports are tabled on or before 31 October and it is expected annual reports are tabled prior to the October estimates hearings.⁷⁵

2.168 For the private sector, the Governance Institute of Australia has identified timeliness of board papers as a key contributor for directors to prepare for and be effective at board meetings. Particularly:

An important aspect of any board paper policy is to set out the timing of board paper distribution. Board papers should be distributed sufficiently in advance of a meeting to ensure that there is time for the directors to digest the contents of the papers and prepare for the meeting. It is common practice to distribute board papers approximately one week before a meeting.⁷⁶

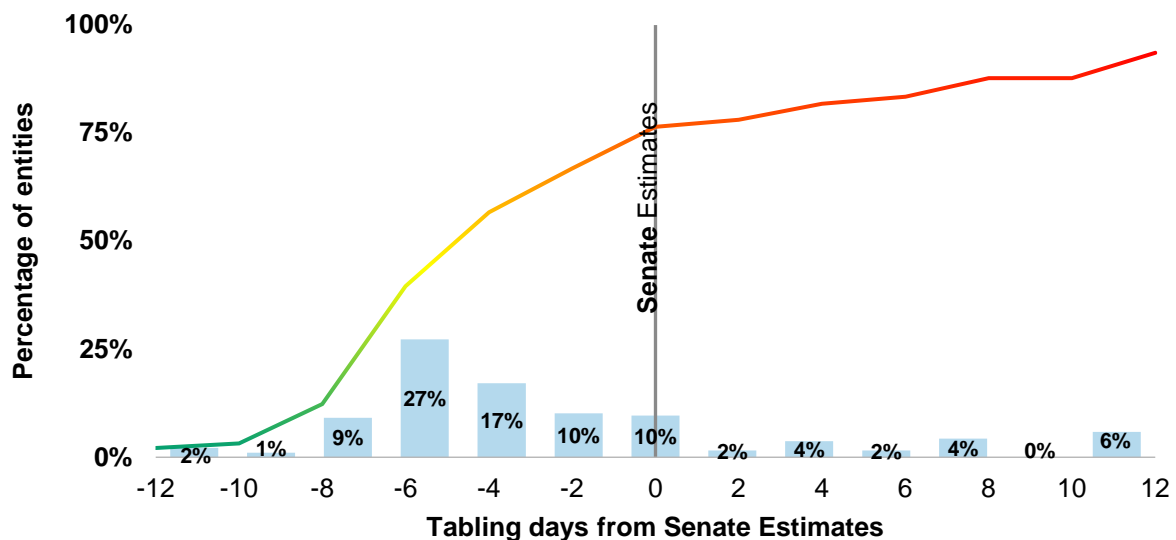
2.169 The Institute also identified that 'the provision of late papers should be discouraged as directors need sufficient time to read and digest board papers in order to be effective in their role and to meet their obligations'.⁷⁷ Figure 2.21 below shows that twelve per cent of entities tabled an annual report with greater than one week before the 2022–23 budget supplementary estimates hearing dates for their portfolio, a decrease of 40 per cent compared with 2021–22 (2021–22: 52 per cent).

75 RMG 135 *Annual Reports for non-corporate Commonwealth Entities*, RMG 136 *Annual reports for corporate Commonwealth entities* and RMG 137 *Annual reports for Commonwealth companies*.

76 Governance Institute of Australia, *Board Papers*, 2021, page 7, available from https://www.governanceinstitute.com.au/media/885677/govinst_guidance-board_papers_2021.pdf [accessed 23 November 2023].

77 *ibid.*

Figure 2.21 2022–23 annual report tabling date in relation to Budget supplementary estimates hearing as at 30 November 2023



Note a: This graph does not add to 100 per cent as a result of entities that had not tabled an annual report as at 30 November 2023.

Source: ANAO analysis of entity tabled annual reports.

2.170 There has been a decrease in timeliness of annual reports being tabled in the Parliament compared with the 2021–22 supplementary budget estimates. Figure 2.21 above shows that:

- sixty-six per cent of annual reports were tabled before entity’s portfolio hearing date, a decrease of 10 per cent compared with 74 per cent in 2021–22;
- ten per cent of entities annual reports were tabled on the date of the entity’s portfolio hearing consistent with 10 per cent in 2021–22; and
- twenty-four per cent of entities annual reports were or will be tabled after the date of the entity’s portfolio hearing, an increase from 16 per cent in 2021–22.

2.171 There were 23 entities across 7 portfolios that tabled annual reports after the portfolio’s 2023–24 Budget supplementary estimates hearing or had not tabled as at 30 November 2023. Table 2.15 includes further details about those entities that did not provide 2022–23 annual reports prior to Budget supplementary estimate hearings.

Table 2.15: Annual reports tabled after the portfolio’s Budget supplementary estimates hearings as at 30 November 2023

Reporting entity	Date auditor’s report issued	Annual report tabling date	Budget estimates date ^a
Attorney-General’s portfolio			
Australian Commission on Law Enforcement Integrity	24 Oct 23	30 Nov 23	24 Oct 23
High Court of Australia ^b	16 Aug 23	•	
Defence portfolio			

Reporting entity	Date auditor's report issued	Annual report tabling date	Budget estimates date ^a
AAF Company	19 Sep 23	30 Nov 23	25 Oct 23
Army and Air Force Canteen Service	12 Sep 23	30 Nov 23	
Australian Military Forces Relief Trust Fund	11 Aug 23	30 Nov 23	
Australian Strategic Policy Institute Ltd	4 Sep 23	•	
Royal Australian Air Force Veterans' Residences Trust Fund	15 Sep 23	•	
RAAF Welfare Recreational Company	24 Nov 23	•	
Royal Australian Air Force Welfare Trust Fund	9 Aug 23	30 Nov 23	
Royal Australian Navy Central Canteens Board	⇒	•	
Royal Australian Navy Relief Trust Fund	17 Aug 23	30 Nov 23	
Employment and Workplace Relations portfolio			
Seafarers Safety, Rehabilitation and Compensation Authority	21 Nov 23	•	25 Oct 23
Infrastructure, Transport, Regional Development, Communications and the Arts portfolio			
Bundanon Trust	⇒	•	23 Oct 23
National Archives of Australia	17 Nov 23	•	24 Oct 23
Prime Minister and Cabinet portfolio			
Anindilyakwa Land Council	29 Sep 23	30 Nov 23	27 Oct 23
Central Land Council	23 Aug 23	28 Nov 23	
Northern Land Council	29 Sep 23	•	
Northern Territory Aboriginal Investment Corporation	9 Oct 23	•	
Outback Stores Pty Ltd	31 Aug 23	•	
Tiwi Land Council	29 Sep 23	30 Nov 23	
Workplace Gender Equality Agency	7 Sep 23	•	24 Oct 23
Wreck Bay Aboriginal Community Council	⇒	•	27 Oct 23
Social Services portfolio			
NDIS Quality and Safeguards Commission	28 Sep 23	31 Oct 23	25 Oct 23

⇒: Financial statements not signed as at 30 November 2023.

•: Annual report not tabled at 30 November 2023.

Note a: This date is the first appearance for the portfolio at the 2023–24 Budget supplementary estimates hearing.

Note b: The requirements for the tabling of the annual report for the High Court of Australia are outlined in subsection 47(1) of the *High Court of Australia Act 1979*. The High Court of Australia must, as soon as practicable after 30 June, prepare and submit to the Minister a report relating to the administration of the affairs of the High Court under section 17 during the year that ended on that 30 June, together with financial statements in respect of that year in such form as the Minister for Finance approves.

Source: ANAO analysis of tabled 2022–23 annual reports.

2.172 Annual reports that are not tabled in a timely manner before budget supplementary estimates hearings decrease the opportunity for the Senate to scrutinise an entity’s performance.

Financial sustainability and management

An analysis of the operating results and balance sheet positions for material entities concluded that the financial sustainability for the majority of those entities was not at risk. Nevertheless, there would be benefit in the Australian Government developing performance targets or benchmarks. This would enable an entity to assess its own financial sustainability against agreed parameters over time, and against like entities.

The ANAO’s analysis of cost recovered activities identified that entities largely complied with the requirements to prepare cost recovery implementation statements (CRIS) for each cost recovered activity in accordance with the Australian Government’s Cost Recovery Policy. Fifty-two per cent of entities had not updated their CRIS to include estimates of the 2022–23 financial year or the outcomes of the performance of the activity of the previous period. Expenses incurred in delivering cost recovered activities exceeded external revenue received for the period 2020–21 to 2022–23. Expenses in delivering cost recovered activities grew by 13 per cent over this period, while revenue increased by 9 per cent (net of partial funding from the Australian Government). There is an opportunity to for the Department of Finance to review current disclosure practices and provide additional guidance to Commonwealth entities to enhance relevant disclosures. Improvements in disclosures would enhance transparency of cost recovery financial performance.

2.173 Section 15 of the PGPA Act requires that the accountable authority of an entity must govern the entity in a way that promotes: the proper use and management of public resources; the achievement of the purposes of the entity; and the financial sustainability of an entity.

2.174 Financial sustainability measures the ability of an entity to manage its financial resources so it can meet present and future spending commitments. This can provide an indication of financial management issues or point to an increased risk that an entity’s resourcing or functions are not sustainable.

2.175 The Department of Finance has established a portal for centrally capturing publicly available corporate information for all Commonwealth entities (transparency.gov.au). The portal includes tools that enable users to obtain and compare financial results across all entities through the application of the following financial ratios:

- total liabilities to total assets ratio, which indicates the level of ownership of the entity’s assets but can also be used to gain an understanding of the net equity of the entity;
- financial assets to total liabilities ratio, which indicates the extent to which an entity’s liabilities can be covered by its financial assets;
- current ratio, which indicates whether an entity’s current assets are greater than its current liabilities and whether the entity is likely to be able to pay its short-term liabilities as they fall due; and
- capital turnover ratio, which indicates whether an entity is replacing its assets at a sustainable rate.

2.176 The portal also provides general information about what each of these ratios measures and improvements or deterioration in the ratios indicate.⁷⁸ However, guidance to assist users' of financial statements in assessing whether the ratios indicate strong or weak financial performance in the context of the government sector has not been developed. There would be benefit in the Australian Government developing performance targets or benchmarks. This would enable an entity to assess its own financial sustainability against agreed parameters over time, and against like entities.

2.177 The analysis in this report is based on reported operating results (surpluses or deficits) of entities after adjusting for unfunded expenses, where relevant, highlighting the full cost of operations.⁷⁹ The ANAO's analysis of the operating results of all entities identified that:

- fifty per cent of not-for-profit entities reported a deficit in 2022–23; and
- fifty per cent of for-profit entities reported a deficit in 2022–23.

2.178 The *Budget Process Operational Rules* Rule 10 describes the process under which entities are required to follow to budget for any operating loss.⁸⁰ Entities are not able to budget for an operating loss without approval from the Minister for Finance, except for the following circumstances:

- a technical loss (accounting or timing issues);
- a charging entity with a loss less than \$10.0 million;
- entities within the Agriculture, Fisheries and Forestry portfolio which are under by levy revenue.

2.179 Seventy-three entities for which Rule 10 applies incurred operating losses in 2022–23. Of these entities, the ANAO was advised that 17 had received approval for their operating loss from the Minister for Finance.

Financial sustainability of material entities

2.180 Information on the financial performance of each material entity has been included in Chapter 4 of this report. In the absence of guidance specific to the government sector, the ANAO has developed parameters based on generally accepted concepts of financial sustainability and applied these to the operating results and balance sheets of material entities. These parameters are described in Table 2.16 and Table 2.17 below.

Operating results analysis

2.181 A key measure of an entity's financial management is its operating result for the year. Although the operating result is not the sole measure of performance of a public sector entity, a

78 Department of Finance, Financial Ratios, available at: <https://www.transparency.gov.au/financial-ratios> [accessed 6 December 2023].

79 The Government provides funding for non-operating costs (for example, replacement and capitalised maintenance of existing departmental assets) to non-corporate commonwealth entities via departmental capital budgets, funded through equity. Corporate Commonwealth entities continue to be funded for depreciation, amortisation and make-good expenses except for entities designated as Collection Institutions which are not funded for depreciation on their heritage and cultural assets.

80 Department of Finance, *Budget Process Operational Rules*, December 2022, page 25, available from https://www.finance.gov.au/sites/default/files/2023-05/Budget_Process_Operational_Rule_esffective_6%20December_2022.pdf [accessed 15 November 2023].

history of large deficits or surpluses in a not-for-profit Commonwealth entity could suggest the need for additional or refocused funding, elimination of non-value adding costs, and/or improved financial management.

2.182 Similarly in the case of for-profit entities and those with quasi-commercial operations, there is an expectation that financial management focuses on meeting expected returns.⁸¹ As a result, any entity in this category averaging a large deficit should be considered more closely.

2.183 The ANAO analysed the operating results of all material entities over a five-year period from 2018–19 to 2022–23. Of the 65 material entities, 41 were not-for-profit and 24 were corporate or commonwealth companies or not-for-profit entities which have quasi-commercial operations or departmental functions operating on a for-profit basis.

2.184 For the purposes of this analysis, material entities are grouped into three operating result categories as part of this analysis, outlined in Table 2.16 below.

Table 2.16: ANAO parameters for operating result category

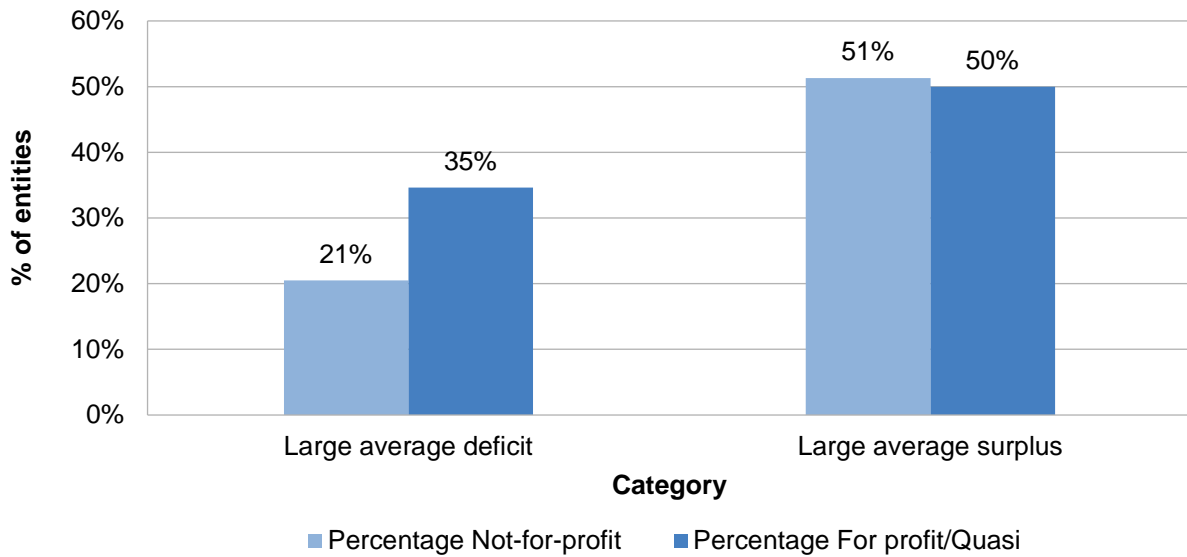
Category	Parameters
Large deficits	An entity's average deficit for the past five years is greater than one per cent of total expenses.
Small deficits or surpluses	An entity's average deficit or surplus for the past five years is less than one per cent of total expenses.
Large surpluses	An entity's average surplus for the past five years is greater than one per cent of total expenses.

Source: ANAO analysis.

2.185 Figure 2.22 illustrates the summary of average operating results for not-for-profit and for profit/quasi-commercial entities and whether they had large or small average deficits or surpluses over the five-year period from 2018–19 to 2022–23.

81 In the context of for-profit Commonwealth entities, the equivalent term for a surplus is profit and for a deficit is loss.

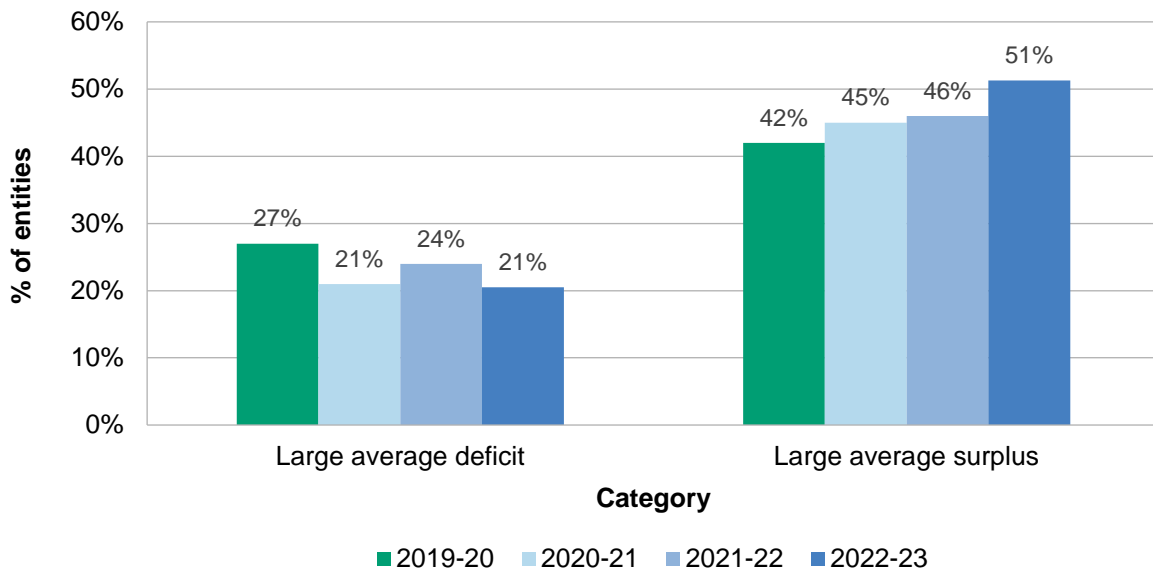
Figure 2.22 Average operating results analysis



Source: ANAO analysis of material entities' average operating results.

2.186 The level of large deficits and large surpluses for not-for-profit material entities over a five year period has remained relatively stable from 2019–20 to 2022–23. Figure 2.23 illustrates the percentage of not-for-profit material entities with a large average deficit or small average surplus over a five-year period for the period 2019–20 to 2022–23.

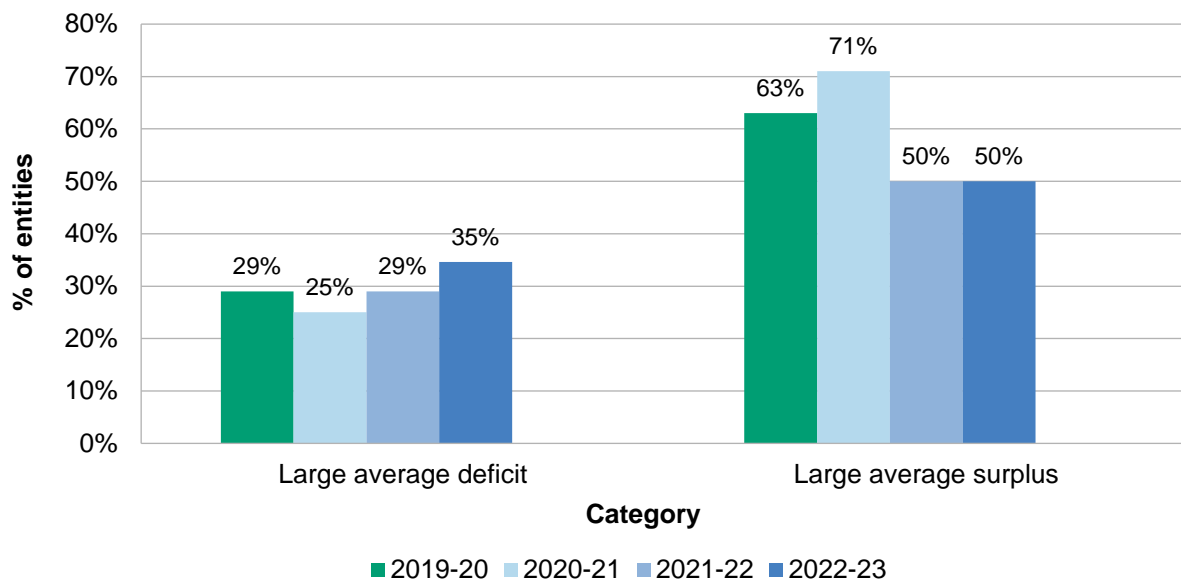
Figure 2.23 Average operating results for not-for-profit entities for the period 2019–20 to 2022–23



Source: ANAO analysis of material not-for-profit entities' average operating result for the period 2019–20 to 2022–23.

2.187 The level of large deficits for for-profit and quasi commercial material entities over a five year period has remained stable from 2019–20 to 2022–23, however, there has been a decrease in large surpluses. Figure 2.24 illustrates the percentage of for-profit and quasi commercial material entities with a large average deficit or small average surplus over a five-year period for the period 2019–20 to 2022–23.

Figure 2.24 Average operating results for for-profit and quasi commercial entities for the period 2019–20 to 2022–23



Source: ANAO analysis of material for-profit and quasi commercial entities' average operating result for the period 2019–20 to 2022–23.

2.188 The ANAO has analysed the primary drivers of large average deficits and large average surpluses for material entities.

Large average deficits for for-profit/quasi commercial entities

2.189 As illustrated in Figure 2.22, 35 per cent of material for-profit and quasi commercial entities reported average surpluses of more than one per cent of total expenses over the five-year period (2021–22: 29 per cent). Nine (2021–22: seven) for-profit/quasi-commercial entities recorded a large average deficit during this five year period. These large average deficits are attributable to the following factors:

- three entities recorded large average deficits, consistent with the previous financial years due to being in, or having been in, the build phase of large infrastructure projects and/or still in the process of increasing revenue. They were: Australian Naval Infrastructure Pty Ltd; National Intermodal Corporation Limited; and WSA Co Limited;
- two entities recorded large average deficits due mainly to reduced income arising from the impacts of the COVID-19 pandemic. These entities were: Airservices Australia and Voyages Indigenous Tourism Australia Pty Ltd;
- the Australian Rail Track Corporation Ltd large average deficit is related to impairment expenses recognised for property, plant and equipment (including rail infrastructure) assets. These expenses are as a result of impairments recognised on the assets being constructed for the Inland Rail network and on rail infrastructure assets in the Interstate and Hunter Valley rail networks. The impairment in the Interstate and Hunter Valley network is a result of decreases in the expected net income on which the fair value is calculated. Impairment for the Inland Rail network reflects that ARTC will only recover a part of the economic benefits which are anticipated to arise from the full cost of construction of Inland Rail;

- the Coal Mining Industry (Long Service Leave Funding) Corporation due to losses on investments during 2019–20 and 2021–22. The losses were primarily driven weaker performance of investments in unlisted until trusts;
- the Department of Finance, primarily due to the impact of impairments on investment properties due to weaker valuations arising from changes in market interest rates; and
- the Reserve Bank of Australia, primarily due to net valuation losses incurred on the fair value measurement of domestic securities acquired as part of the bond purchase program (BPP) in response to the COVID-19 pandemic during and higher interest costs on exchange settlement liabilities in 2021–22 and 2022–23.

2.190 One entity moved from the large average deficit category during 2022–23. The National Housing Finance and Investment Corporation⁸² moved categories due to the surplus reported in 2021–22 and 2022–23 arising from returns on entity's loan portfolio. The previously reported large average deficit was due to the recognition of concessional loan discount expense on loans advanced by the Corporation.

Large average deficits in not-for-profit entities

2.191 Ten (2021–22: nine) material not-for-profit entities recorded a large average deficit during the five year period. Six not-for-profit entities recorded a large average deficit during the period due to factors occurring in current and prior years.

- The Australian Bureau of Statistics has incurred operating losses in 2018–19, 2019–20, 2020–21 and 2022–23 due to the increased workload from survey development and roll-out, costs for SaaS development as well as costs incurred in analysing and reporting the information gathered during the national census conducted in 2021.
- The Australian Federal Police recorded deficits from 2018–19 to 2020–21 and 2022–23 predominantly as a result of: increased operating costs including additional protective equipment and cleaning of facilities in response to the COVID-19 pandemic; operational activity; and increased employee entitlements expenses including additional provisions made for unpaid superannuation entitlements.
- The Australian Signals Directorate's expenditure has increased since 2019–20 as part of the continued expansion of its operations and programs. The entity's deficits are attributable to additional expenditure from prior period appropriations for delayed projects.
- The Australian Prudential Regulatory Authority, which recorded deficits from 2018–19 to 2020–21 and 2022–23 due mainly to less revenue arising from industry levies and charges than projected.
- The Department of Climate Change, Energy, the Environment and Water was established in 2022–23. It recorded an operating deficit related to higher than anticipated employee costs and shared services costs and delivery of programs funded by prior period appropriations.

82 On 12 October 2023 the National Housing Finance and Investment Corporation was renamed to Housing Australia.

- The National Blood Authority's large average deficit is due to increased information, communications and technology expenses and contractor costs impacting the 2022–23 operating result.

2.192 Four not-for-profit entities recorded a large average deficit during the period primarily due to factors that occurred in prior years that impact the five year average to 2022–23.

- The Australian Research Council's large average deficit due was mainly due to the deficit incurred in 2021–22. The deficit in 2021–22 was due to increased supplier expenses to undertake a review and consultation on the National Competitive Grants Program.
- The Department of Parliamentary Services' large average deficit is due mainly to the operating deficit recorded in 2019–20 due mainly to the impact of the COVID-19 pandemic which impacted: increased cleaning costs, increased information, communications and technology costs and a reduction in revenue due to rental relief for tenants and a reduction in event hire.
- The Department of the Prime Minister and Cabinet's large average deficit is due to the impact of grant funding arrangements on the 2021–22 operating result.
- The National Library of Australia's large average deficit is due to a deficit in 2020–21 relating to the impairment of heritage and cultural assets due to revised assumptions applied in the valuation process and impact of COVID-19 on asset values.

Large average surpluses in not-for-profit entities

2.193 As illustrated in Figure 2.22, 51 per cent of material not-for-profit entities reported average surpluses of more than one per cent of total expenses over the five-year period (2021–22: 46 per cent). The following discussion focuses on the common drivers for these entities' large average surpluses.

2.194 Eleven (2021–22: 13) material not-for-profit entities have remained in the large average surplus category for 2022–23.

- The Australian Communications and Media Authority, which recorded large operating surpluses in 2021–22 and 2022–23 due mainly to the delays in the expenditure on new programs.
- The National Gallery of Australia recorded a large average surplus due mainly to receipt of goods or donations for no or nominal consideration, and bequests of cash, which are treated as income in the year received.
- The Australian Nuclear Science and Technology Organisation (ANSTO) recorded gains during the period attributable to the remeasurement of the nuclear waste management and decommissioning provisions. These gains were as a result of changes in the underlying discount rate applied in calculating the provisions. As discount rates increase, there is a reduction in the value of the provision which is recorded as a gain.
- The Australian Office of Financial Management (AOFM) received additional funding for the implementation and management of the Australian Business Securitisation Fund and the Structured Finance Support Fund. The associated expenditure has been less than budgeted due to lower investment activity in these funds.

- The Australian Securities and Investments Commission due to additional revenue recorded in 2021–22, including additional own source revenue received to deliver capital projects on behalf of other Australian Government entities and increased court cost recoveries.
- The Bureau of Meteorology recorded an average large operating surplus due to the impact of the Bureau’s contracts with customers which include the development of non-financial assets and insurance settlements for natural disasters. Expenses for these assets are capitalised and not recorded in the operating result until they are depreciated over their useful lives.
- The Department of Agriculture, Fisheries and Forestry recorded gains during 2020–21 and 2021–22 for the remeasurement of the Antarctic Restoration provision. This was due to changes in the underlying discount rate applied in calculating the provisions. As discount rates increase, there is a reduction in the calculation of the provision. DAFF transferred responsibility for the Australian Antarctic Division to the Department Change, Energy, Water and the Environment as a result of MoG changes during 2022–23.
- The Department of Education received funding during the period as part of COVID-19 pandemic stimulus packages. These funds were not fully expended in 2020–21. In addition, during 2020–21 the department received supplementation funding for amounts paid in earlier periods. Both of these items contributed to the surplus in that year.
- Geoscience Australia recorded an average large operating surplus due to the timing of the receipt of revenue and associated expenses for the Satellite-Based Augmentation System. The project is being delivered over time and involves construction of non-financial assets. Expenses for these assets are capitalised and not recorded in the operating result until they are depreciated over their useful lives.
- The National Health and Medical Research Council recorded an average large operating surplus due to the impact of decreases in expenditure on project-related activities resulting from the COVID-19 pandemic and the reversal of previously recognised impairment losses in 2020–21.
- Services Australia recorded operating surpluses in 2019–20, 2020–21 and 2021–22 due to additional funding received from the Australian Government to respond to the impacts of the COVID-19 pandemic. In 2022–23 Services Australia reported an operating loss arising mainly from the write down of intangible assets.

2.195 The National Capital Authority moved to the large average surplus category in 2022–23 due to large average surpluses recorded in 2021–22 and 2022–23. These surpluses were due to lower than expected employee expenses and higher income from fees for works approvals.

Balance sheet analysis

2.196 Consistent with the duties established in the PGPA Act entities are expected to actively manage their underlying financial position, maintaining asset levels to support their operations and ensuring that sufficient funds will be available to meet liabilities as they fall due.

2.197 The ANAO analysed the balance sheet positions of material Australian Government entities as at 30 June 2023. While it is necessary to have regard to the public sector context, the

following two measures are generally accepted indicators of the soundness of entities' balance sheets and are consistent with the ratios published by Finance:

- **Liquidity:** the extent to which an entity's liabilities are covered by cash or other financial assets. Where liabilities significantly exceed its financial assets, an entity may need a future injection of cash from government to meet those liabilities; and
- **Gearing:** the extent to which an entity's total assets are funded by debt rather than equity. An entity with high gearing may be running down its asset base that could indicate the need for a future capital injection from government.

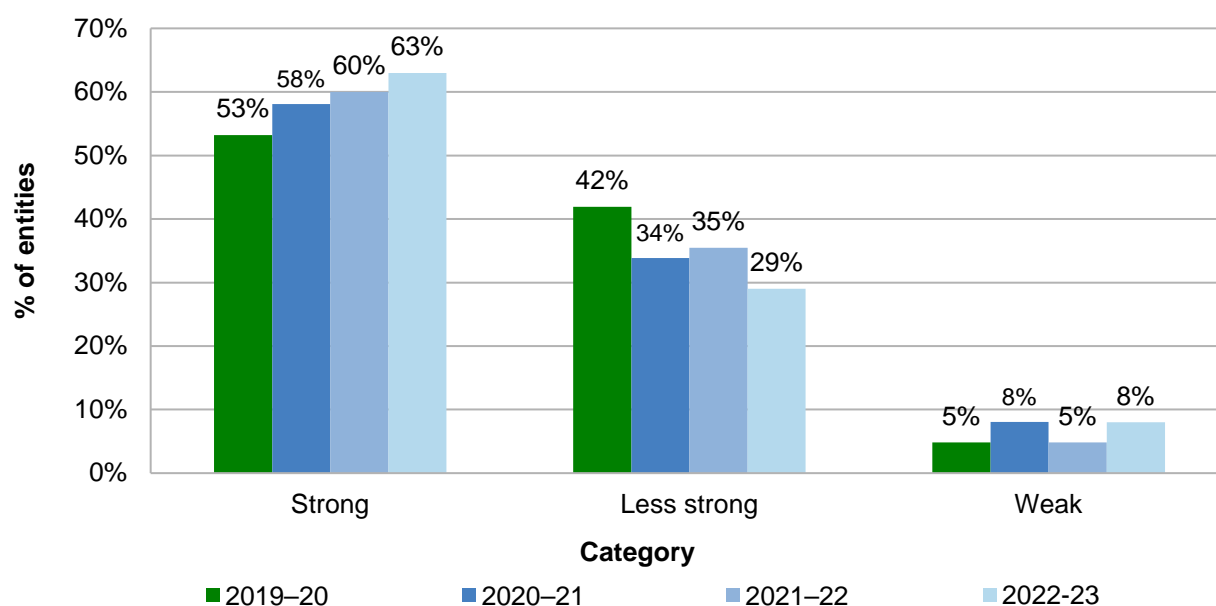
2.198 Based on the measures developed by Finance, the ANAO has reviewed an entity's ability to manage its underlying financial position. As no guidance to assist users in assessing whether the ratios indicate strong or weak financial performance in the context of the government sector has been issued, the ANAO has determined these parameters, outlined in Table 2.17 below.

Table 2.17: ANAO parameters for balance sheet categories

Category	Parameters
Strong	Entities where financial assets were at least 40 per cent of total liabilities and where total liabilities were less than 85 per cent of total assets. These entities have the strongest balance sheets.
Less strong	Entities where financial assets were less than 40 per cent of total liabilities OR where total liabilities were more than 85 per cent of total assets. These entities had weaker balance sheets, either in liquidity or gearing terms.
Weak	Entities where financial assets were less than 40 per cent of total liabilities AND where total liabilities were more than 85 per cent of total assets. These entities are the most likely to need additional funding in the future.

Source: ANAO analysis.

2.199 Figure 2.25 illustrates the strength of material entity balance sheets over the period 2019–20 to 2022–23.

Figure 2.25: Balance sheet analysis

Source: ANAO analysis of material entities' balance sheets.

2.200 Sixty-three per cent of material entities had strong balance sheets in 2022-23 (compared to 60 per cent in 2021-22), while 29 per cent had less strong balance sheets (compared to 35 per cent in 2021-22). The main driver for the improvement in balance sheet strength is due mainly to improved liquidity ratios stemming from increased financial asset values against decreasing liabilities balances.

2.201 Eight per cent of material entities had weak balance sheets in 2022-23 (compared to 5 per cent in 2021-22). The entities with weak balance sheets are predominantly those whose operations are dependent on government policy and continued funding by the Parliament. On this basis, and provided that appropriate attention is given to liquidity issues in the future, these entities are not at high risk of experiencing liquidity problems.

2.202 During 2022-23 the Australian Bureau of Statistics moved to the weak balance sheet category, due to reduced financial assets at 30 June 2023 which contributed to a lower liquidity ratio.

2.203 Entities which remained in the weak balance sheet category in 2022-23 are detailed below:

- the Australian Taxation Office (ATO) consistent with prior years, the ATO's weak balance sheet is attributable to the significance the entity's liabilities, particularly lease liabilities, which impact the ATO's liquidity ratio. Lease liabilities, representing the obligation for lease payments, are recognised at the commencement of a lease term. The ATO subsequently meet these payments through annual appropriations passed by the Parliament;
- the Department of Social Services (DSS) – consistent with prior years, DSS's weak balance sheet is attributable to the significance of lease liabilities recorded which impacted DSS's liquidity ratio. DSS subsequently meet these payments through annual appropriations passed by the Parliament. DSS's gearing ratio also been impacted by the transfer of DSS's

IT function to Services Australia under previous MoG changes which reduced the total value of DSS's non-financial assets. These services are now delivered under a shared service agreement;

- NBN Co Limited's balance sheet continues to be impacted by debt facilities, including loans and bonds, incurred during the construction and operation of the national broadband network; and
- Voyages Indigenous Tourism Australia Pty Ltd's balance sheet continues to be impacted by debt facilities. The entity holds borrowings to finance operations and construction and development of new assets.

Cost recovery

2.204 Cost recovery is one element of the Australian Government's 'Charging Framework'. The Charging Framework applies to entities in the General Government Sector that provide goods and services, or regulatory activities, to non-government customers. The focus of the Framework is to ensure consistency of charging activities and assist entities in determining when it is appropriate to charge for a government activity. The Framework comprises:

- the Australian Government Charging Policy; and
- the Cost Recovery Policy (CRP).

2.205 Cost recovery involves the Australian Government charging the non-government sector some or all of the efficient costs of a specific government activity.⁸³ The Australian Government may determine it is appropriate to charge non-government customers in the following circumstances:

Where specific demand for a government activity is created by identifiable individuals or groups they should be charged for it unless the Government has decided to fund that activity. Where it is appropriate for the Australian Government to participate in an activity, it should fully utilise and maintain public resources, through appropriate charging. The application of charging should not, however, adversely impact disadvantaged Australians.⁸⁴

2.206 Entities are required to 'aim to minimise cost recovery charges through the efficient implementation of cost recovered activities'.⁸⁵

2.207 The Australian Government may determine that some activities should only be partially cost recovered. The CRP indicates that partial recovery may be appropriate in circumstances where:

- charges are being phased in;
- full cost recovery would be inconsistent with community service obligations endorsed by the Australian Government; and

83 Australian Government Cost Recovery Policy

84 Department of Finance, Australian Government Charging Framework, Resource Management Guide No. 302, available from <https://www.finance.gov.au/government/managing-commonwealth-resources/implementing-charging-framework-rmg-302> [accessed 20 November 2023].

85 Australian Government Cost Recovery Policy, paragraph 15.

- the Australian Government has made an explicit policy decision to charge for part of the costs of an activity.⁸⁶

2.208 The Department of Finance is responsible for advising entities on the application of the cost recovery policies and assisting entities to develop, implement and review cost recovered activities.

2.209 The CRP is required to be applied by all non-corporate Commonwealth entities and by selected corporate Commonwealth entities for which a Government Policy Order applies.⁸⁷ Entities are required to comply with the following key requirements of the CRP:

- entities and responsible ministers must have obtained policy approval from the Australian Government to recover costs (paragraph 33);
- there must be a statutory authority to charge (paragraph 34);
- the costs of administering cost recovery should be proportional to the charges for and potential revenue from the activity (paragraph 25);
- entities must document each cost recovered regulatory activity in a Cost Recovery Implementation Statement (CRIS) before charging begins (paragraph 39); and
- entities report on costs recovery for regulatory charging activities at an aggregate level in the entity's annual financial statements in accordance with the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (paragraph 123).

2.210 Entities should closely monitor cost recovery performance in order to support their financial sustainability.

2.211 The ANAO performed an assessment of entities' compliance with the requirements of the cost recovery framework and the cost recovery guidelines. The ANAO's analysis indicates that there are 31 entities which undertook cost recovered activities during 2022–23.

2.212 The ANAO has analysed the extent to which entities have complied with the requirements of the key financial reporting requirements of the CRP.

Cost Recovery Implementation Statements

2.213 For cost recovery, transparency means documenting key information about the activity, such as the policy approval, statutory authority to charge and cost recovery model, in an accessible way for those who pay charges and for other stakeholders.⁸⁸ A Cost Recovery Implementation Statement (CRIS) is an explanatory document that provides key information on how cost recovery for a specific government activity is implemented.⁸⁹

2.214 A CRIS must be⁹⁰:

86 Australian Government Cost Recovery Policy, paragraph 14.

87 The Minister for Finance issued *Public Governance, Performance and Accountability (Charging for Regulatory Activities) Order 2017* which applies to: Wine Australia; Australian Maritime Safety Authority; Australian Pesticides and Veterinary Medicines Authority; Civil Aviation Safety Authority; Comcare; Director of National Parks; Food Standards Australia New Zealand; National Offshore Petroleum Safety and Environmental Management Authority; and Sydney Harbour Federation Trust.

88 Australian Government Cost Recovery Policy, paragraph 27.

89 *ibid*, paragraph 102.

90 *ibid*, paragraph 105.

- certified by the accountable authority of the Commonwealth entity;
- approved by the responsible Minister⁹¹; and
- published on the responsible entity's website before charging begins.

2.215 The ANAO's analysis indicates that all entities required to have a CRIS in place for a cost recovered activity had these in place during 2022–23.

Cost recovery performance and reporting

2.216 A CRIS should be detailed enough to allow the Parliament, those who pay cost recovery charges, and other stakeholders to analyse the activity.⁹² Entities are required to report at an activity level in a CRIS. Entities are required to prepare estimates of expenses and revenue each activity at the commencement of every financial year for that year and forward estimates period. As financial estimates are progressively updated throughout the year (e.g., at Additional Estimates or Supplementary Budget Estimates), entities should update relevant information in the CRIS.⁹³

2.217 Entities must also include financial outcomes for the cost recovered activity in the CRIS on an annual basis. The outcomes include expenses and revenue for the activity and an explanation of any material difference between them.

2.218 Of the 31 entities that prepared CRIS':

- fourteen entities had not updated a CRIS to include estimates for 2022–23 to include estimates of revenue and expenses and performance, at the activity level, for the previous period⁹⁴; and
- two entities had not updated a CRIS for the 2022–23 to include performance, at the activity level, of the previous period.⁹⁵

2.219 Section 34A of the FRR requires entities undertaking regulatory charging activities to include a note in their financial statements which provides information on the financial performance of these activities at an aggregate level (this note is referred to as the 'Regulatory Charging Summary'). These financial statement disclosures must include:

- a list of the regulatory charging activities;
- appropriations drawn down and applied to the regulatory activities;
- external revenue raised for the regulatory activities; and
- expenses related to the regulatory activities.

91 Where the rating for a cost recovery rating is assessed as high, the CRIS must also be approved by the Finance Minister.

92 Australian Government Cost Recovery Policy, paragraph 29.

93 *ibid*, paragraph 125.

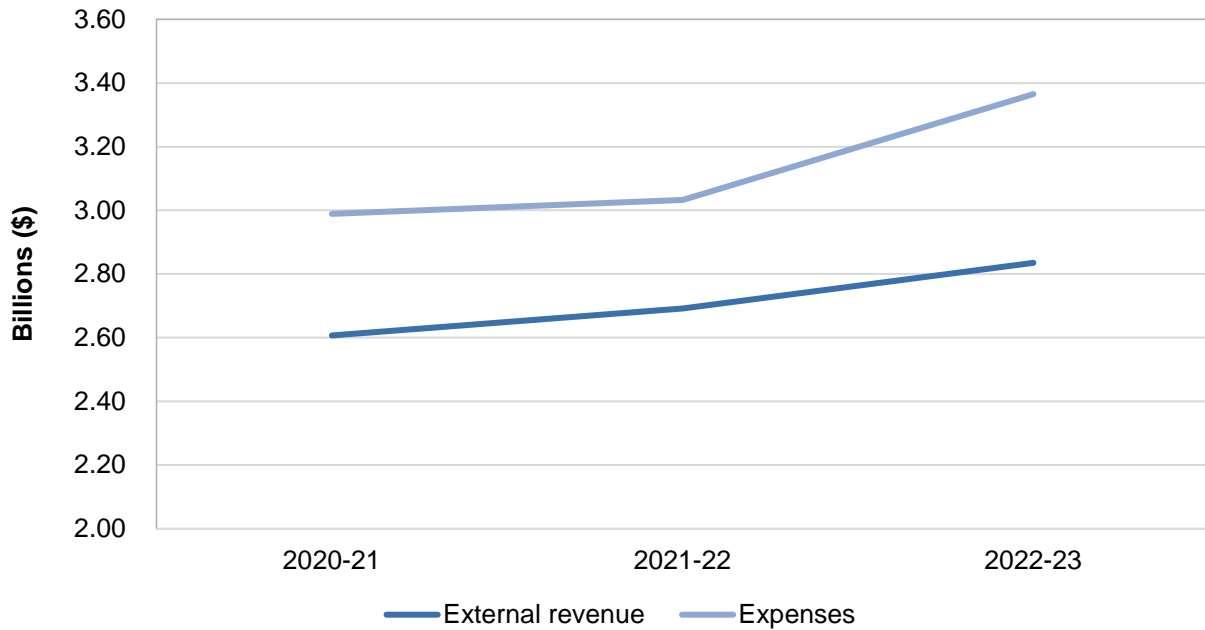
94 These entities were: Australian Financial Security Authority; Civil Aviation Safety Authority, Clean Energy Regulator; Comcare; Great Barrier Reef Marine Park Authority; Department of: Climate Change, Energy, the Environment and Water, Education, Employment and Workplace Relations, Home Affairs, Industry, Science, Energy and Resources, Infrastructure, Transport, Regional Development, Communications and the Arts; Food Standards Australia New Zealand; IP Australia and Sydney Harbour Federation Trust.

95 These entities were: Australian Maritime Safety Authority and Wine Australia.

2.220 The information included in the note provides industry, the Parliament and the public with assurance that these activities are being managed in a way that aligns expenses and revenues over time.⁹⁶ RMG 125 also includes additional information to assist entities in preparing these disclosures.

2.221 Figure 2.26 provides an overview the external revenue generated from cost regulatory charging activities compared with the total expenses incurred in delivering the activity for the period 2020–21 to 2022–23 as reported in entity financial statements.

Figure 2.26 External revenue and expenses incurred in delivery of regulatory charging activities for the period 2020–21 to 2022–23



Source: ANAO analysis of entity financial statements for the periods: 2020–21, 2021–22 and 2022–23.

2.222 Figure 2.26 demonstrates that over the period 2020–21 to 2022–23 expenses incurred in delivering cost recovered activities exceeded external revenue received. During this period, total external revenue increased by nine per cent, compared to expenses incurred which increased by 13 per cent. As noted in paragraph 2.207 the Australian Government may determine that it is appropriate to only partially recover costs.

2.223 The ANAO’s analysis indicates that 50 per cent of entities were reliant on appropriation funding to meet the expenses incurred in cost recovered activities in the period 2020–21 to 2022–23. The following entities are reliant on appropriation funding to meet 20 per cent or more of the expenses of their cost recovered activities: Aged Care Quality and Safety Commission, Australian Skills Quality Authority (National Vocational Education and Training Regulator), Australian Taxation Office, Department of Agriculture, Fisheries and Forestry, Department of Climate Change, Energy, the Environment and Water, Department of Education, Great Barrier Reef Marine Park Authority, Tertiary Education Quality and Standards Agency.

96 Public Governance, Performance and Accountability (Financial Reporting) Rule 2015.

2.224 The ANAO's analysis indicates that 50 per cent of entities received more external revenue than expenses during the period 2020–21 to 2022–23. The Australian Media and Communications Authority entities received 20 per cent or more external revenue than costs incurred. Entities must ensure alignment between revenue and expenses balance out over a reasonable period, for which the guidance suggests is the business cycle of the relevant activity.⁹⁷

2.225 The ANAO's analysis of entity financial statements also identified instances of non-compliance with requirements of Section 34 A of the FRR.

- Two entities had not included a note in the financial statements for the regulatory activities undertaken.⁹⁸
- Inconsistencies in the presentation of information in relation in the financial statements which limited the ability of users of the financial statements to determine cost recovery financial performance relating to:
 - some entities included only appropriation that represented the Australian Government's appropriation to support partial cost recovery, whereas some entities included all appropriations drawn down in respect of an activity limiting the ability to determine performance at the activity level.
 - inclusion of disclosures where cost recovered activities are undertaken by entities, but cash received is credited to a special or other appropriation. In some cases entities did not include disclosures, in some cases portfolio agencies responsible for the special appropriation included disclosures and in some cases these were duplicated; and
 - presentation of departmental and administered financial items in separate disclosures, limiting the ability of users to easily determine the financial performance of cost recovered activities at the entity level.

2.226 Given the scale of cost recovered activities there is an opportunity to for the Department of Finance to review entity disclosure practices and provide additional guidance to Commonwealth entities to enhance relevant disclosures. Such enhancements should provide users with information that allows them to develop an understanding of whether cost recovered activities are being implemented effectively.

97 Australian Government Cost Recovery Policy, paragraph 16.

98 These entities were Food Standards Australia New Zealand and Sydney Harbour Federation Trust.

3. Reporting and auditing frameworks

Chapter coverage

This chapter outlines the Australian Government's financial reporting framework, recent changes and emerging areas in the public sector auditing and reporting environment, updates to the ANAO Quality Management Framework, and key initiatives in data analytics.

Summary of developments

The implementation of revised auditing standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement* (ASA 315) has resulted in the identification of an increased number of areas of weakness in entities' use of and reliance on information technology (IT).

The National Anti-Corruption Commission (NACC) commenced operations on 1 July 2023 and operates under the *National Anti-Corruption Commission Act* (NACC Act). The ANAO will work with the NACC to establish a relationship as integrity bodies operating under our respective legislative frameworks.

Key developments in sustainability reporting and assurance included the development of international sustainability reporting and assurance standards and release of exposure drafts of Australian sustainability reporting and assurance standards. The Department of the Treasury (Treasury) commenced development of a broad sustainable reporting framework for Australia which includes climate-related financial disclosures, and the Department of Finance (Finance) commenced related work to implement appropriate arrangements for Commonwealth public sector entities and companies to disclose exposure to climate-related risks.

The ANAO has commenced applying its methodology guidance for audits of ethics. The ANAO also contributed to the Joint Committee on Public Accounts and Audit (JCPAA) inquiry into probity and ethics in the Australian Public Sector (APS) and presented at several external forums on ethics.

The [ANAO Quality Management Framework](#) (previously referred to as the ANAO Quality Assurance Framework) was updated in line with the new and revised Australian Quality Management Standards that came into effect on 15 December 2022. Key changes to the framework included new ANAO audit manual policies to further embed governance and leadership commitment to audit quality, capture initiatives that the ANAO was undertaking, including root cause analysis over identified deficiencies arising from quality assurance monitoring and the publication of the framework and related Audit Quality Report. The revised standards introduced a requirement for the Auditor-General to annually evaluate the design, implementation and operating effectiveness of the quality management framework. The Auditor-General's conclusion is set out in the Audit Quality Report.

Data analytics continues to be a focus area for the ANAO. Key initiatives such as the digital audit strategy and standardised data analytics solutions continue to enhance audit quality and efficiency.

Introduction

3.1 The Australian Government's financial reporting framework is primarily based on standards made independently by the Australian Accounting Standards Board (AASB).

3.2 The AASB bases its accounting standards on the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. As IFRS are designed primarily for use by private sector and for-profit organisations, the AASB amends the IFRS to reflect significant transactions and events unique to the public and not-for-profit private sectors. In doing so, the AASB considers standards issued by the International Public Sector Accounting Standards Board (IPSASB).

3.3 The *Public Governance, Performance and Accountability Act 2013* (PGPA Act) requires Commonwealth entities to apply Australian accounting standards when preparing financial statements. In addition to Australian accounting standards, the Minister for Finance prescribes additional financial reporting requirements for Commonwealth entities via the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR).

3.4 The audits of the financial statements of Australian Government entities are conducted in accordance with the ANAO Auditing Standards, which are made by the Auditor-General under section 24 of the *Auditor-General Act 1997* (Auditor-General Act). The ANAO Auditing Standards incorporate, by reference, the auditing standards made by the Australian Auditing and Assurance Standards Board (AUASB). The AUASB bases its standards on those made by the International Auditing and Assurance Standards Board (IAASB), an independent standard setting board of the International Federation of Accountants.⁹⁹

3.5 On 21 November 2023, the Treasurer announced a restructure under which the AASB, the AUASB and the Financial Reporting Council (FRC) will be combined into a single entity. The Treasurer also noted that the Australian Government will finalise the details of the governance arrangements for the new entity and will release draft legislation for public consultation, including appropriate transitional arrangements. The Auditor-General Act requires the Auditor-General to set the auditing standards to be complied with in performing relevant audits and reviews. The Auditor-General will consider any potential impacts on the independence of the Auditor-General that may arise from the restructure and, if there are risks to independence, consider how to mitigate those risks in the Auditor-General's standard-setting function. This could involve the broader adoption of adopting other available standards may be more appropriate.

3.6 The financial reporting and auditing frameworks that applied in 2022–23 are discussed further in Appendix 3 and Appendix 4 of this report.

Changes in the environment

Recent changes in the public sector auditing environment include:

- Implementation of revised auditing standard ASA 315 – the additional focus required under the revised standard has resulted in the identification of an increased number of areas of weakness in entities' use of and reliance on IT.
- Commencement of the NAAC on 1 July 2023 – The NAAC and the ANAO will work to establish a relationship as integrity bodies operating under our respective legislative frameworks.

⁹⁹ Accounting standards set out how to prepare financial statements and auditing standards set out how an auditor must audit including against accounting standards.

Implementation of revised auditing standard ASA 315

3.7 The implementation of revised auditing standard ASA 315 has resulted in audits placing greater focus on entities' processes and controls around governance, as well as IT risk and control environments. This increased focus has resulted in the identification of an increased number of insights, as well as areas of weakness in these areas.

3.8 The strengthened focus of the ANAO's audits on entities' processes and controls around governance included the examination and evaluation of: whether management, with oversight of those charged with governance, has created and maintained a culture of ethical behaviour; whether the entity's risk assessment process is appropriate to the entity's circumstances; and whether the entity's process for monitoring the system of internal control is appropriate. The ANAO raised a number of findings relating to governance matters, including in relation to a few entities failing to appropriately assess and report the impact of relevant legal matters in their financial statements. This internal control weakness increases the risk that not all matters that affect the financial statements are captured and reported appropriately. These findings are detailed in Chapters 2 and 4 of this report.

3.9 There has been an increase in the number of audit findings identified relating to the IT control environment following the ANAO's implementation of the revised ASA 315. This is partly due to some systems becoming in-scope as a result of the revisions in the standard. The findings identified included deficiencies in privileged user access processes and user termination controls. These findings are also detailed in Chapter 2 and 4 of this report.

National Anti-Corruption Commission

3.10 The NACC commenced operations on 1 July 2023. The NACC Act establishes the NACC as an independent Commonwealth agency to detect, investigate and report on serious or systemic corruption in the Commonwealth public sector.¹⁰⁰

3.11 The NACC Act and the Auditor-General Act both aim to enhance integrity and accountability in the public sector but have different focuses and functions. The NACC Act focuses on investigating and reporting on corruption issues in the public sector and the Auditor-General Act focuses on the proper use of public resources in the Commonwealth government sector.

3.12 The ANAO and the NACC will work to establish a relationship as integrity bodies operating under our respective legislative frameworks. The ANAO, in the course of performing ANAO audits, may refer evidence of serious or systemic corruption issues to the NACC Commissioner for investigation.

Emerging areas

Emerging areas in the public sector auditing and reporting frameworks include:

- sustainability reporting and assurance – there were several developments in sustainability reporting and assurance in 2023 including the development of international sustainability reporting and assurance standards, and the release of

100 NACC, *Overview of the NACC*, [Internet], NACC, available from <https://www.nacc.gov.au/about-nacc/overview> [accessed 7 November 2023].

exposure drafts of Australian sustainability reporting and assurance standards. The Treasury commenced development of a broad sustainable finance framework for Australia which includes climate-related financial disclosure, and Finance commenced related work to implement arrangements for Commonwealth public sector entities and companies to disclose climate-related risks.

- auditing ethics – the ANAO commenced use of its methodology guidance for audits of ethics, contributed to JCPAA inquiry into probity and ethics in the APS, and presented at several external forums on ethics.
- integrity – ethics and integrity are key focus areas for the public sector. The ANAO has published its Integrity Framework and Report for 2022–23 to provide increased transparency of the measures we undertake to maintain our institutional integrity and promote a strong pro-integrity culture.

Sustainability reporting update

3.13 On 26 June 2023, the International Sustainability Standards Board (ISSB) issued IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) and IFRS S2 *Climate-related Disclosures* (IFRS S2).¹⁰¹

On 23 October 2023, the AASB issued Exposure Draft ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information* (ED SR1).¹⁰² ED SR1 is based on the ISSB standard and includes three draft Australian Sustainability Reporting Standards (ASRS):

- ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information* (ASRS 1) – based on IFRS S1, but with scope limitation to climate-related financial disclosure
- ASRS 2 *Climate-related Financial Disclosures* (ASRS 2) – developed using IFRS S2 as the baseline
- ASRS 101 *References in Australian Sustainability Reporting Standards* (ASRS 101) – a service standard to be updated periodically to list the relevant versions of any non-legislative documents published in Australia and foreign documents referenced in ASRS standards.¹⁰³

3.14 It is noted that although ED SR1 has been issued, the *Australian Securities and Investment Commission Act 2001* (ASIC Act) currently does not explicitly grant the AASB and the AUASB the function to develop and formulate sustainability standards and associated auditing and assurance

101 IFRS S2 and IFRS S2 focus on the for-profit private sector and provide a common language for disclosing the effect of climate-related risks and opportunities on a company's prospects. Source: ISSB, *ISSB issues inaugural global sustainability disclosure standards*, [Internet], ISSB, 26 June 2023, available from <https://www.ifrs.org/news-and-events/news/2023/06/issb-issues-ifrs-s1-ifrs-s2/> [accessed 4 July 2023].

102 AASB, *Exposure Draft ED SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information*, [Internet], AASB, 23 October 2023, available from <https://www.aasb.gov.au/news/exposure-draft-ed-sr1-australian-sustainability-reporting-standards-disclosure-of-climate-related-financial-information/> [accessed 23 October 2023].

103 The comment period for ED SR1 closes on 1 March 2024.

standards.¹⁰⁴ The Treasury Laws Amendment (2023 Measures No. 1) Bill 2023, currently before the Senate¹⁰⁵, provides the AASB and the AUASB with these functions and also empowers the Financial Reporting Council to provide strategic oversight and governance functions in relation to the AASB's and AUASB's sustainability standards functions.

3.15 ED SR1 is also based on consideration of the Treasury's second consultation paper *Climate-related financial disclosure* (the second Treasury paper) issued on 27 June 2023.¹⁰⁶ The second Treasury paper proposes a three-phased approach to the application of mandatory disclosure requirements commencing with a limited group of very large entities expanding over two years to apply progressively to smaller entities.¹⁰⁷ It also proposes phasing and scaling of assurance requirements to allow for skills, capacity and processes to be developed in the market at a workable pace, and that financial auditors lead sustainability assurance engagements supported by technical climate and sustainability experts when required.

3.16 Finance is responsible for the implementation of Commonwealth Climate Disclosure (CCD) requirements for Commonwealth entities. To maximise comparability of disclosures across the public and private sector, it is proposed that the requirements for the Commonwealth public sector align with the private sector (refer Treasury consultation papers) except where there are reasons to differ.¹⁰⁸

3.17 Finance is also responsible for the design and development of a CCD assurance and verification regime, which will be developed in consultation with the ANAO. It is expected that ANAO financial statement auditors will deliver the audit process.

104 Explanatory Memorandum, Treasury Laws Amendment (2023 Measures No.1) Bil 2023 (Commonwealth), available from https://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r6979_ems_de7e0691-4f30-451f-b207-95aba989fd22/upload_pdf/JC008834.pdf;fileType=application%2Fpdf [accessed 4 September 2023].

105 Parliament of Australia, *Treasury Laws Amendment (2023 Measures No. 1) Bill 2023*, available from https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bid=r6979 [accessed 4 September 2023].

106 Treasury, *Climate-related financial disclosure: Second consultation*, [Internet], Treasury, 27 June 2023, available from <https://treasury.gov.au/consultation/c2023-402245> [accessed 3 July 2023].

107 Refer to Table 2, p11 of *Climate-related financial disclosure: Second consultation*, [Internet], Treasury, 27 June 2023, available from <https://treasury.gov.au/consultation/c2023-402245> [accessed 3 July 2023].

108 The disclosures include governance, strategy, risk management, and targets and metrics (including greenhouse gas emissions), which align with the core elements of the recommended climate-related disclosures of the TCFD. TCFD, *TCFD Recommendations*, [Internet], TCFD, June 2017, available from <https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf> [accessed 7 February 2022].

Sustainability assurance

3.18 On 2 August 2023, the International Auditing and Assurance Standards Board (IAASB) released an exposure draft of proposed International Standard on Sustainability Assurance 5000 *General Requirements for Sustainability Assurance Engagements* (ISSA 5000).^{109 110}

3.19 On 17 August 2023, the AUASB released a consultation paper on *Exposure of the IAASB's Proposed ISSA 5000 General Requirements for Sustainability Assurance Engagements; and Proposed Conforming and Consequential Amendments to Other IAASB Standards* to obtain feedback from stakeholders to inform the AUASB's response to the IAASB exposure draft on ISSA 5000 and to identify potential areas for modification for application in Australia.^{111,112}

Auditing Ethics

3.20 The ANAO audits activities against framework requirements to provide independent assurance to the Parliament and assist it to hold the executive government to account. In recent years, the ANAO has increasingly brought into scope issues of ethics (as defined in the PGPA Act and *Public Service Act 1999*) particularly where meeting mandatory requirements is not sufficient to ensure compliance with the high expectations set out in principles-based legislation and frameworks. This enhanced focus led to the development of ANAO methodology guidance for audits of ethics, finalised in 2022.

3.21 The first audit in which the methodology is being formally used, *Effectiveness of the Australian Public Service Commission's administration of statutory functions relating to upholding high standards of integrity and ethical conduct in the Australian Public Service*, is currently underway and is due to be tabled in the Parliament in April 2024. A further two effectiveness audits of selected entities' implementation of the APS ethical framework are listed as potential audits in the 2023-24 Annual Audit Work Program.¹¹³

109 IAASB, Exposure Draft *Proposed International Standard on Sustainability Assurance 5000 General Requirements for Sustainability Assurance Engagements and Proposed Conforming and Consequential Amendments to Other IAASB Standards*, ISAAB, August 2023, available from <https://www.iaasb.org/publications/proposed-international-standard-sustainability-assurance-5000-general-requirements-sustainability> [accessed 7 August 2023]. The comment period for this proposed standard closed on 1 December 2023.

110 ISSA 5000 is an overarching standard that addresses all phases of a sustainability assurance engagement and is consistent with existing International Standard on Assurance Engagements (ISAE) 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ISAE 3000) and ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements* (ISAE 3410). However, ISSA 5000 includes more specific requirements on certain sustainability priority areas (for example, the scope of the assurance engagement, audit evidence, materiality, estimates and experts and other practitioners).

111 AUASB, *AUASB Releases Consultation Paper on the IAASB's Proposed ISSA 5000 General Requirements for Sustainability Assurance Engagements*, [Internet], AUASB, 17 August 2023, available from <https://www.auasb.gov.au/news/auasb-releases-consultation-paper-on-the-iaasb-s-proposed-issa-5000-general-requirements-for-sustainability-assurance-engagements/> [accessed 22 August 2023].

112 The comment period for the AUASB consultation paper closed on 10 November 2023.

113 In some audits where instances of non-compliance with key ethical behaviour requirements were identified, the ANAO has included an appendix to the audit report summarising these key requirements and the findings raised. An example of such an audit is [Administration of the Community Health and Hospitals Program](#), including Appendix 4 *Non-compliance with ethical requirements*.

Integrity

3.22 Ethics and integrity are a strong focus area for the public sector, notably with the release of the report of the Royal Commission into the Robodebt Scheme and the establishment of the NACC. As noted above, ethics, integrity and probity will continue to be a focus of our audit work. The ANAO will also continue to build a working relationship with the NACC, both in sharing key sectoral insights and, as necessary, in considering matters which may be referred to the NACC as a result of our audit work.

3.23 As an integrity agency, the ANAO regards integrity as a core value of the organisation — critical in sustaining the confidence of Parliament, strengthening public trust in government and delivering quality audit products. Maintaining strong institutional integrity is essential to the operations and reputation of the ANAO. The ANAO has published its [Integrity Framework and Report for 2022–23](#) to provide increased transparency of the measures we undertake to maintain a high integrity culture within the ANAO.

3.24 The ANAO Integrity Framework provides an overarching structure to the ANAO integrity control system that promotes proactive integrity management. The framework serves to assist in ethical decision making and risk, fraud and misconduct management. The ANAO's framework is shaped by the legislation, frameworks, policies, assurance and governance mechanisms, as well as the actions taken by our people to embed a pro-integrity culture, consistent with the integrity guidance issued by the [Australian Public Service Commission](#).

3.25 The ANAO recognises that integrity demands not only quality in our products but also in the behaviours of our people. We expect our people to demonstrate integrity through their actions and behaviours in accordance with the ANAO's five key principles of integrity — independence, honesty, openness, accountability and courage. In the ANAO, integrity means more than simply complying with requirements, it means acting to achieve the intent and spirit of the requirements.

Quality Assurance Framework and Reporting

The ANAO quality management framework was updated in line with the new and revised Australian Quality Management Standards that came into effect on 15 December 2022. The revised standards introduced a requirement for the Auditor-General to annually evaluate the design, implementation and operating effectiveness of the framework. The Auditor-General's conclusion is set out in the Audit Quality Report.

ANAO Quality Management Framework

3.26 The quality of ANAO audit work is reliant on the strength of its independence and quality control processes. The ANAO defines audit quality as the provision of timely, accurate and relevant audits, performed independently in accordance with the requirements of the Auditor-General Act, ANAO auditing standards and methodologies, which are valued by the Parliament. Delivering quality audits results in improved public sector performance through accountability and transparency.

3.27 The [ANAO Quality Management Framework and Plan 2023–24](#) articulates the system of quality control that the ANAO has established to support the delivery of high-quality audit work

and enables the Auditor-General to have confidence in the opinions and conclusions in the reports prepared for the Parliament.

3.28 The ANAO quality management framework complies with the requirements of new and revised the Auditing Standards that came into effect on 15 December 2022:

- ASQM 1 – *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*
- ASQM 2 – *Engagement Quality Reviews*; and
- ASA 220 – *Quality Management for an Audit of a Financial Report and Other Historical Information*.

3.29 The revised standards introduced a quality management approach that is focused on proactively identifying and responding to risks relating to quality. The standards include enhanced requirements and focus on governance and leadership, monitoring and remediation. The ANAO made changes in the [ANAO Audit Manual](#) in response to the changes in the standards including further embedding the ANAO's commitment to audit quality and capturing initiatives that the ANAO was already undertaking in support of quality management including: root cause analysis; and the publication of the framework and Audit Quality Report. A new requirement of the standards and a key deliverable set out in the [ANAO Quality Management Framework and Plan 2023–24](#), is the ANAO evaluation of the Quality Management Framework on whether the framework provides the Auditor-General with reasonable assurance that the ANAO quality objectives are being achieved. The Auditor-General's conclusion of the evaluation is set out in the [ANAO Audit Quality Report 2022–23](#).

Ethical requirements and independence

3.30 Ethical requirements, with a focus on independence, are core to the ANAO Quality Management Framework. The fundamental principles of professional ethics, as set out in APES 110 *Code of Ethics for Professional Accountants (including independence standards)*, are integrity; objectivity; professional competence and due care; confidentiality; and professional behaviour. The ANAO maintains a continued focus on independence through the application of ANAO independence policies that manage threats to independence in the conduct of the ANAO's work.

Quality control and consultation processes

3.31 In the conduct of their work ANAO auditors apply a robust methodology to drive consistent quality and compliance with the ANAO Auditing Standards. The ANAO audit methodology incorporates policies regarding direction, supervision and review, consultation on significant technical and ethical issues, engagement quality review of high-risk audits and documentation of audit evidence and work performed.

ANAO Quality Reporting

3.32 The [Audit Quality Report 2022–23](#) demonstrates the ANAO evaluation of the design, implementation and operating effectiveness of the ANAO Quality Management Framework and the achievement of ANAO quality objectives. The report provides transparency in respect of the processes, policies, and procedures that support each element of the ANAO Quality Management

Framework, and reports audit quality indicators measuring ANAO performance against benchmarks. The report also includes the achievement of the quality assurance strategy and deliverables set out in the Quality Management Framework and Plan, including the results of internal and external quality assurance reviews.

Data analytics

The ANAO has developed a digital audit strategy for financial statements audits. The strategy aims to use technology and data analytics solutions to drive audit efficiency and innovation.

Acquiring consistent data from audited entities is a key challenge. The ANAO will be increasingly pursuing consistent data extraction processes with audited entities.

The ANAO maintains standardised data analytics solutions that integrate into the auditing workflow.

Digital audit strategy

3.33 The ANAO is actively shifting towards an increased use of digitalisation within audit processes in line with ongoing technological developments. Digital audit solutions include standardised data analytics processes, automated audit workflows and streamlined data acquisition processes.

3.34 During 2023, the ANAO launched a digital audit strategy and established a centre of excellence for digital auditing. The digital audit centre of excellence focuses on identifying and utilising technology and data analytics products that can be consistently applied across various audits to:

- drive audit efficiency and innovation;
- enhance audit quality by adopting consistent audit approaches;
- ensure consistency in use of data and technology;
- develop digital auditing capabilities; and
- improve staff job satisfaction and retention through modern audit practices.

Acquiring data from audited entities

3.35 Acquiring consistent data from audited entities is a key challenge to achieving the ANAO's digital audit goals. Audit processes cannot be made more efficient or effective based on unreliable or inconsistent data sources.

3.36 The ANAO's experience is that most audited entities do not have a consistent process for extracting data in supporting audits. This results in additional effort for both entities and the ANAO to validate and transform the data to ensure accurate and reliable analytical outcomes.

3.37 The ANAO will be working with audited entities to pursue consistent data extraction processes. Consistent data extraction processes benefit the ANAO and entities by reducing repeat data extraction, streamlining data ingestion, and improving data integration. This not only saves time and resources for the ANAO and the audited entity but also allows timely and accurate audits.

Case study 8. Obtaining consistent data

The Department of Defence (Defence) generates a significant volume of general ledger transactions due to the scale and nature of its operations. The ANAO financial statements audit team requests general ledger data extracts from Defence multiple times a year to address several areas of audit testing and run a standardised analytics solution for performing audit procedure on manual and adjusting journals.

Previously, acquiring general ledger data from Defence was manually intensive with significant work required from both Defence and the ANAO to obtain data extracts that were complete and structured to meet the needs of audit. Data extracts often had to be generated a number of times as they were too large and complex for the system to generate effectively. In addition, the data extracts were often in different formats or structures each time because of the manual extraction approach. This increased effort for both the ANAO and Defence.

Defence has developed and implemented a data extraction script to streamline the ANAO's extraction of general ledger transaction data. Now in its second year of use, the script extracts highly consistent data, significantly reducing the manual processes and time required to extract the data. As a result, the ANAO has implemented streamlined data transformation processes that support more timely audit testing.

Standardised data analytics solutions

3.38 Standardised solutions are data analytics products that are applied to all relevant financial statements audits to increase quality and effectiveness of audit testing. The ANAO's standardised data analytics solutions are a collaborative effort that uses the unique expertise and insights from both the data analytics and audit groups. Standardised solutions integrate into the auditing workflow by generating work papers that support the ANAO's quality requirements.

3.39 During 2022–23 the ANAO managed standardised analytics solutions for audit procedures conducted on journals, employee expenses and appropriations. The ANAO is also assessing further areas for developing standardised solutions.

3.40 The ANAO's systems assurance and data analytics and audit teams co-develop the standardised solutions. This collaborative approach delivers solutions that meet the needs of the auditing function. The teams perform quality assurance checks throughout development across the technical approach and compliance with auditing standards and methodologies. The ANAO's audit technical area reviews and approves standardised solutions before they are deployed to audit teams.

4. Results of financial statements audits by portfolio

Chapter coverage

This chapter outlines the results of the audits of the 2022–23 financial statements of individual entities by portfolio based on administrative arrangement orders existing as at 30 June 2023.

The chapter also details an overview of the portfolio and each material^a entity's primary role in the portfolio as well as:

- a summary of financial performance that provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items and commentary regarding significant movements;
- the number of audit differences reported to all entities within the portfolio;
- a summary of the key areas of financial statements risk and the factors contributing to those risks for all material entities. This includes identification of key audit matters (KAM) for relevant entities;
- the status of significant and moderate audit findings reported during 2022–23 and previous years for all entities.

Audit results

As detailed in Chapter 2 of this report at 30 November 2023 the ANAO issued 240 unmodified auditor's reports on entity financial statements. For the majority of entities, at the completion of the final audit, key elements of internal control were operating effectively to provide reasonable assurance that the entities were able to prepare financial statements that were free from material misstatement. Nine significant and 36 moderate audit findings were reported in 2022–23 (compared with five significant and 35 moderate findings in 2021–22). Twelve of these findings were unresolved from 2021–22 or earlier periods. Three significant legislative breaches were identified in 2022–23 (compared with six in 2021–22).¹¹⁴

Note a: Two subsidiary entities classified by the Department of Finance as material are consolidated into parent entities. These entities are: ANSTO Nuclear Medicine Pty Ltd (consolidated into Australian Nuclear Science and Technology Organisation) and CSIRO General Partner Pty Ltd (consolidated into Commonwealth Scientific and Industrial Research Organisation). The results relating to these entities are included in the section of this chapter relating to the parent entity.

Entities included within this chapter

4.0.1 This chapter reflects portfolio arrangements as at 30 June 2023. The following information for each portfolio is included in this chapter:

- an overview including:
 - an analysis of income, expenses, assets and liabilities that contributed to the 2022–23 CFS; and

114 As identified in Chapter 2, there were nine outstanding audits of 2021–22 financial statements not yet finalised by the ANAO at the time of the publication of Auditor-General Report No.8 2022–23 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2022*. These audits were finalised during 2022–23. This chapter includes these findings.

- a table of the number of audit differences reported to entities in the portfolio;
- for each material entity within the portfolio ^{115, 116}:
 - the primary role of the entity;
 - a summary of financial performance that provides a comparison of the 2021–22 and 2022–23 key financial statements items and commentary regarding significant movements; and
 - key areas of financial statements risk including those areas identified as key audit matters (KAM);
 - the status of significant and moderate audit findings reported in 2022–23 and previous years for all entities; and
 - a summary of the ANAO’s auditor’s report.

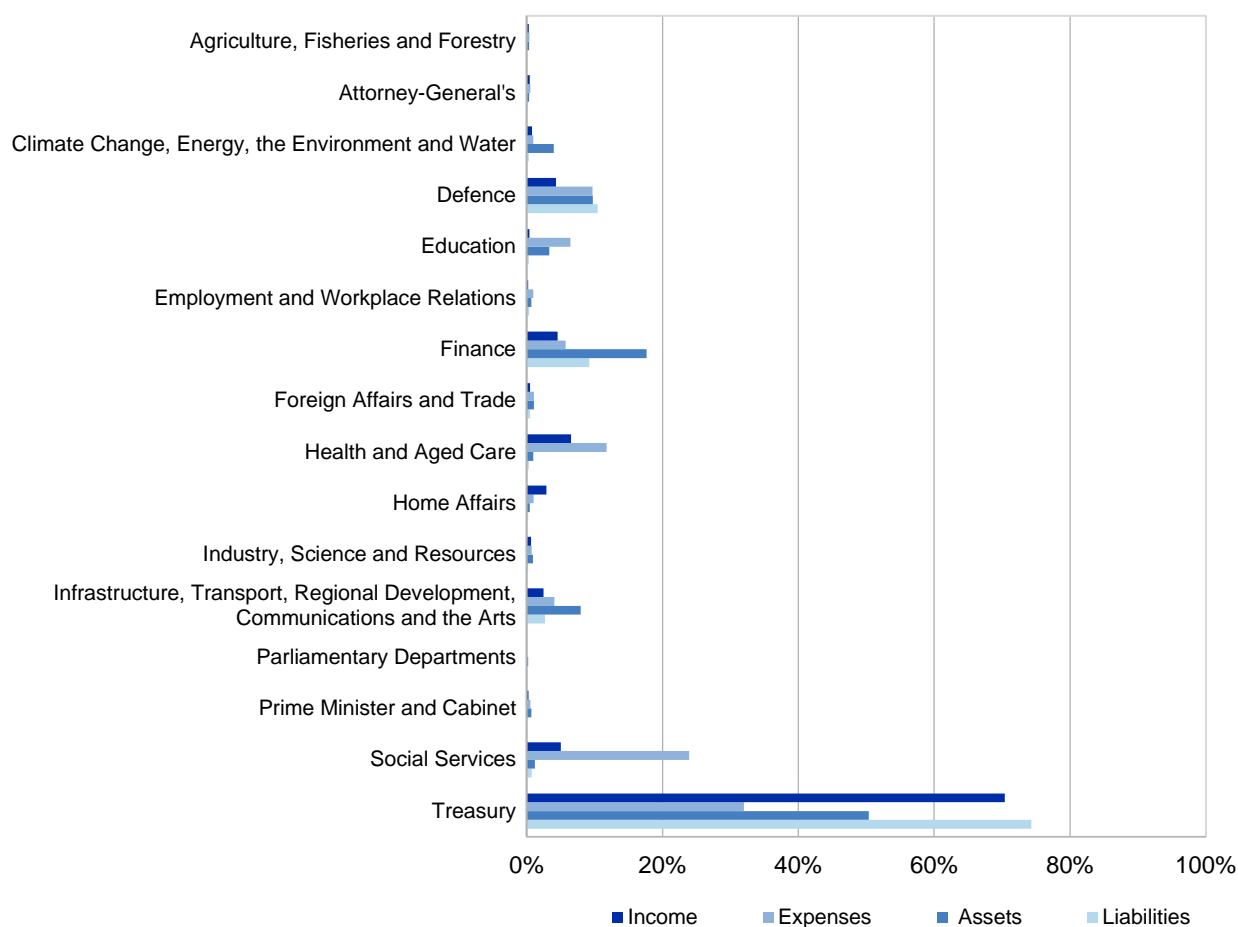
4.0.2 Information is also included for each non-material entity within a portfolio where there has been a significant or moderate audit finding; significant legislative breach identified or emphasis of matter included in the auditor’s report.

4.0.3 Figure 4.0.1 below provides each portfolio’s contribution, as a percentage of the Australian Government’s 2022–23 Consolidated Financial Statements (CFS).

115 The Department of Finance classifies entities as material where they fall within the top 99 per cent of the total general government sector’s assets, liabilities, income and expenses.

116 During 2022–23 the Department of Finance designated the Clean Energy Regulator as a material entity and the Indigenous Land and Sea Corporation as a non-material entity. These changes have been reflected in Chapter 4.

Figure 4.0.1: Portfolio's contribution as a percentage of the Australian Government's 2022–23 Consolidated Financial Statements



Source: ANAO analysis of 2022–23 CFS.

Financial statements audit approach

4.0.4 The primary purpose of audits of financial statements is to provide relevant and reliable information to users about an entity's financial performance and position. The ANAO's financial statements audits provide an independent examination of the financial accounting and reporting of public sector entities. The ANAO's objective in completing a financial statements audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the ANAO to express an opinion on whether they are in accordance with relevant legislation.

4.0.5 A central element of the ANAO's financial statements audit methodology, and the focus of the planning phase of the ANAO audits, is the development of a sound understanding of an entity's environment and internal controls relevant to assessing the risk of material misstatement in the financial statements. This understanding informs the ANAO's audit approach, including the reliance that may be placed on entity systems to produce financial statements that are free from material misstatement.

4.0.6 During the planning phase the ANAO undertakes a risk assessment of the overall risk of misstatement in the financial statements which includes consideration of the: operating

environment, adoption and use of technology, changes in and complexity of the financial reporting framework and results of previous audits. Whilst this risk assessment may cause the ANAO to focus on certain aspects of the financial statements the ANAO considers at greater risk of misstatement the ANAO performs audit procedures on all material financial statements line items and disclosures.

4.0.7 In planning an audit, the ANAO also considers internal controls relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls.

4.0.8 The interim phase of the audit assesses the design and operating effectiveness of selected controls.

4.0.9 In the final audit phase, the ANAO:

- audits the of the design and operating effectiveness of selected controls for the full year;
- substantively tests material balances and disclosures in the financial statements; and
- finalises its audit opinion on the entity's financial statements.

4.0.10 In accordance with the Australian Auditing Standards (and generally accepted auditing practice), the ANAO accepts a low level of risk that the audit procedures will fail to detect that the financial statements are materially misstated. This low level of risk is accepted because it is too costly to perform an audit that is predicated on no level of risk. Specific audit procedures are performed to ensure that the risk accepted is low. These procedures include:

- obtaining knowledge of the entity and its environment;
- reviewing the operation of internal controls;
- undertaking analytical reviews;
- testing a sample of transactions and account balances and conducting data analytics over entire populations; and
- confirming significant year end balances with third parties.

4.0.11 Where a performance audit was tabled during 2022–23 that was relevant to the financial management or administration of an entity, the impact of those observations on the audit approach will be discussed within the relevant portfolio section. For audits tabled from 1 July 2023 onwards, relevant observations will inform the ANAO's 2023–24 financial statements audit risk identification process.

Engagement risk

4.0.12 An audit engagement is assessed as being a high, moderate or low risk engagement based upon the overall risk of the engagement to the Auditor-General and the ANAO in accordance with the requirements of the ANAO Audit Manual.¹¹⁷ This risk assessment includes consideration of:

117 Engagement risks are assessed by the relevant audit team and communicated to entities in the audit planning phase. The ANAO assesses engagement risk applying the guidance contained within section 107 of the ANAO Audit Manual – FSASG Specific, which is available at: <https://www.anao.gov.au/work/audit-manual/fsasg-specific> [accessed 30 November 2023].

- the inherent risk of material misstatement arising from the engagement (that is, the risk that there is a material misstatement in the subject matter before the conduct of the engagement); and
- other professional risks, being any other source of risk to the Auditor-General and the ANAO arising from the conduct of the engagement including, but not limited to, litigious and reputational risks.

4.0.13 Engagement risks are communicated to entities during the planning phase of the audit. Engagement risk is also monitored during the course of the audit. Risk ratings may be subject to change where new developments emerge. Where information-gathering processes reveal evidence of misrepresentation or inadequacies, the risk of an engagement would be rated higher to reflect the risk of expressing an inappropriate conclusion based on a lack of sufficient appropriate audit evidence.

4.0.14 The level of engagement risk identified is a factor in determining the nature, timing and extent of audit procedures to be performed during the audit. In addition, for high risk audits, the ANAO considers the level of resources, including the skills and experience of the engagement team, needed to address the identified risks.

4.0.15 Table 4.0.1 includes a summary of the entities for which the ANAO assessed as having a high engagement risk for 2022–23.

Table 4.0.1: Entities with a high engagement risk rating for 2022–23

Entity	Engagement Risk Rating 2021–22	Engagement Risk Rating 2022–23
Australian Rail Track Corporation Ltd	High	High
Australian Taxation Office	High	High
Bundanon Trust	High	High
Department of Agriculture, Fisheries and Forestry ^a	Moderate	High
Department of Climate Change, Energy, the Environment and Water ^b		High
Department of Defence	High	High
Department of Education ^c	Moderate	High
Department of Employment and Workplace Relations ^b		High
Department of Health and Aged Care ^d	High	High
Department of Home Affairs	High	High
Department of Social Services	Moderate	High
NBN Co Limited	High	High
National Intermodal Corporation	High	High

Entity	Engagement Risk Rating 2021–22	Engagement Risk Rating 2022–23
Services Australia	Moderate	High
Wreck Bay Aboriginal Community Council	High	High

Note a: Engagement risk rating for 2021–22 relates to the former Department of Agriculture, Water and the Environment. On 1 July 2022 the entity was renamed the Department of Agriculture, Fisheries and Forestry.

Note b: The entity was established 1 July 2022 therefore there was no engagement risk rating for 2021–22.

Note c: Engagement risk rating for 2021–22 relates to the former Department of Education, Skills and Employment. On 1 July 2022 the entity was renamed the Department of Education.

Note d: Engagement risk rating for 2021–22 relates to the former Department of Health. On 1 July 2022 the entity was renamed the Department of Health and Aged Care.

Source: 2021–22 and 2022–23 ANAO results.

Audit findings

4.0.16 As explained in Chapter 2 (see paragraphs 2.77 to 2.145) audit findings are raised in response to the identification of a potential business or financial risk posed to an entity. Often these risks arise from deficiencies within an entity’s internal control processes or frameworks. Weaknesses in internal controls increase the possibility that an entity will not prevent or detect a material misstatement in its financial statements in a timely manner. The ANAO rates audit findings according to the potential business or financial management risk posed to the entity.

4.0.17 Table 4.0.2 below presents a summary of significant or moderate findings and significant legislative breaches reported as at 30 June 2023 and 30 June 2022 by portfolio and entity, including the number of findings carried forward as unresolved from the previous year.

4.0.18 For new audit findings first identified during the ANAO’s 2022–23 financial statements audits, the findings and associated recommendations were agreed by all entities. For repeat and unresolved audit findings, the findings and recommendations were agreed by all entities except for the:

- Department of Social Services – Removal of user access (refer to paragraph 4.15.22 to 4.15.25); and
- Tiwi Land Council – Risk management activities (refer to paragraph 4.14.63 to 4.14.67).

Table 4.0.2: Significant and moderate audit findings by portfolio and entity

Portfolio	Entity	30 June 2023		30 June 2022	
		New findings ^a	Repeat/ Unresolved findings ^b	New findings	Repeat/ Unresolved findings ^c
Agriculture, Fisheries and Forestry	Department of Agriculture, Fisheries and Forestry	1	–	– ^e	–
Attorney-General’s Portfolio	Attorney-General’s Department	1	–	1	–

Portfolio	Entity	30 June 2023		30 June 2022	
	Administrative Appeals Tribunal	–	–	1	–
Climate Change, Energy, the Environment and Water Portfolio	Department of Climate Change, Energy, the Environment and Water Portfolio	1	1	1 ^e	–
	Bureau of Meteorology	1	–	–	–
	Clean Energy Regulator	–	1	1	–
	Great Barrier Reef Marine Park Authority	1	–	–	–
Defence Portfolio	Department of Defence	1	1	1	3
	Department of Veterans' Affairs	–	2	3	5
	Army and Air Force Canteen Service	–	–	2	–
	Royal Australian Navy Central Canteens Board ^g	–	–	7	–
	Royal Australian Air Force Veterans' Residence Trust	–	1	1	–
	Royal Australian Air Force Welfare Trust Fund	–	–	1	–
Education Portfolio	Department of Education	2	1	1 ^f	–
Employment and Workplace Relations Portfolio	Department of Employment and Workplace Relations	–	1		–
Finance	Commonwealth Superannuation Corporation	1	–	–	–

Portfolio	Entity	30 June 2023		30 June 2022	
Foreign Affairs and Trade Portfolio	Department of Foreign Affairs and Trade	1	–	–	–
Health and Aged Care Portfolio	Department of Health and Aged Care	2	–	1	–
	National Blood Authority	1	–	–	–
Industry, Science and Resources Portfolio	Australian Nuclear Science and Technology Organisation	1	–	–	1
	Commonwealth Scientific and Industrial Research Organisation	1	–	–	–
Infrastructure, Transport, Regional Development, Communications and the Arts Portfolio	Department of Infrastructure, Transport, Regional Development, Communications and the Arts Portfolio	1	1	1	–
	Australian Communications and Media Authority	1	–	–	–
	Bundanon Trust	–	1 ^h	1	–
	National Archives of Australia	2	–	–	–
Prime Minister and Cabinet Portfolio	Department of the Prime Minister and Cabinet	1	–	–	–
	Anindilyakwa Land Council	–	–	1	–
	Northern Land Council	–	–	–	1
Social Services Portfolio	Department of Social Services	1	1	–	1
	National Disability Insurance Agency	1	1	–	1

Portfolio	Entity	30 June 2023		30 June 2022	
	NDIS Quality and Safeguards Commission	–	–	1	–
	Services Australia	7	–	–	–
Treasury Portfolio	Department of the Treasury	–	–	1	–
	Australian Securities and Investments Commission	1	–	–	–
	Australian Taxation Office	1	1	2	–
	Royal Australian Mint	1	–	–	–
Total		33	12	28	12

Note a: Significant and moderate audit findings by portfolio and entity

Note b: Repeat/unresolved findings are categorised as such if unresolved from a prior financial year. Findings transferred to another entity as a result of machinery of government changes which remain unresolved are treated as repeat findings for the purposes of this table.

Note c: As identified in Chapter 2, there were 10 outstanding audits of 2021–22 financial statements not yet finalised by the ANAO at the time of the publication of Auditor-General Report No.8 2022–23 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2022*. These audits were finalised during 2022–23. Table 4.0.2 includes the results of these audits.

Note d: Legislative breaches are not included in the table above. Three significant legislative breaches were reported in 2022–23. For further details refer to individual entity contributions in this chapter for: Department of Health and Aged Care, Northern Land Council and Tiwi Land Council.

Note e: The moderate audit finding relating to FMIS Privileged user access management was first reported to the former Department of Agriculture, Water and the Environment (DAWE) as part of the 2021–22 financial statements audit. DAFF transferred the administrative responsibility for the SAP Financial Management Information System (FMIS) to DCCEE in February 2023. Refer to paragraph 4.3.21 to 4.3.24.

Note f: The moderate audit finding related to Removal of user access was first reported to the Department of Education, Skills and Employment (DESE). On 1 July 2022, the Department of Employment and Workplace Relations (DEWR) was created, and some functions transferred from DESE. As a result, this finding was also relevant to DEWR.

Note g: The Royal Australian Navy Central Canteens Board's (RANCCB) 2022–23 financial statements were not signed (and the audit was not complete) at 30 November 2023. Results of the ANAO's 2022–23 interim audit of RANCCB are included in this report.

Note h: Bundanon Trusts' 2022–23 financial statements were not signed (and the audit was not complete) at 30 November 2023.

Source: ANAO correspondence 2021–22 and 2022–23.

4.1 Agriculture, Fisheries and Forestry portfolio

Portfolio overview

4.1.1 The Agriculture, Fisheries and Forestry portfolio is responsible for advising the government and implementing programs on rural adjustment and drought issues, plant and animal biosecurity and Australia’s agricultural, fisheries, food and forestry industries. Table 4.1.1 identifies material entities specifically mentioned in this section.

Table 4.1.1: Agriculture, Fisheries and Forestry portfolio material entities discussed in this section

Reporting entity	Material entity	Audit risk rating	Type of auditor’s report	Date financial statements signed	Date auditor’s report issued	Audit findings identified
Department of Agriculture, Fisheries and Forestry	Yes	High	✓	8 Sep 23	11 Sep 23	◆

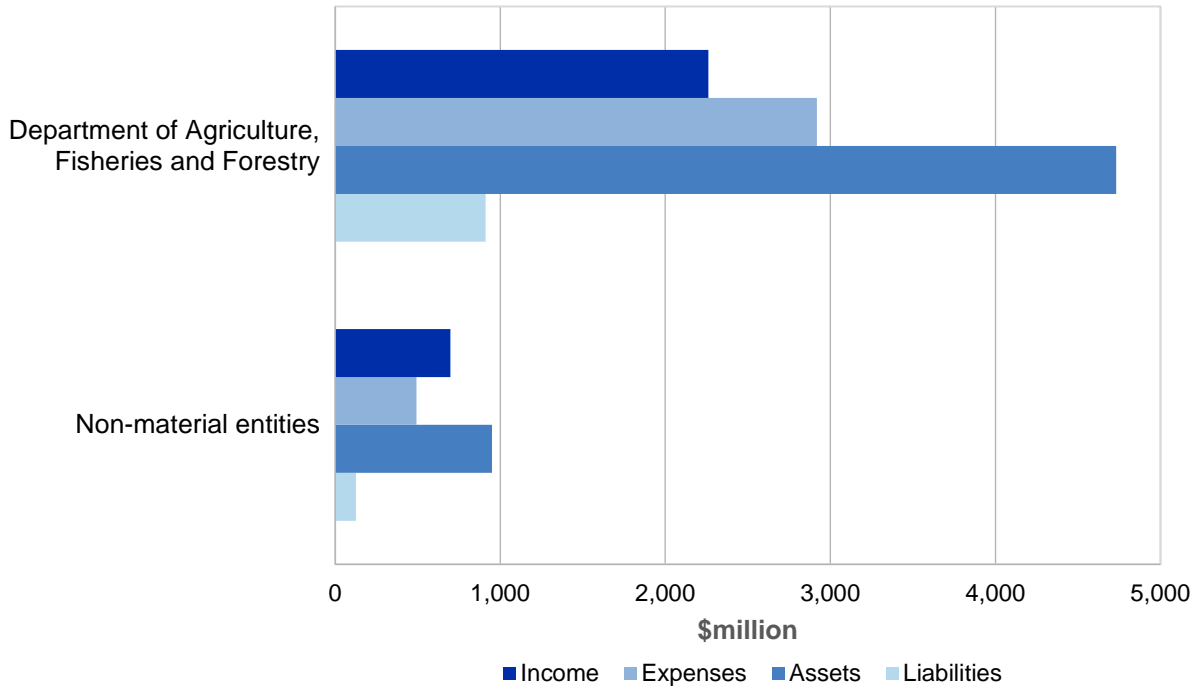
✓: auditor’s report not modified

◆: new significant or moderate findings and/or legislative matters noted

4.1.2 Figure 4.1.1 shows the Agriculture, Fisheries and Forestry portfolio’s income, expenses, assets and liabilities contribution to the Australian Government’s Consolidated Financial Statements (CFS) for the year ended 30 June 2023.¹¹⁸

¹¹⁸ This represents the portfolio’s contribution to the Australian Government’s CFS for the period ending 30 June 2023. It does not include transactions between agencies, such as appropriation revenue, which are not included in the CFS.

Figure 4.1.1: Agriculture, Fisheries and Forestry portfolio’s income, expenses, assets and liabilities



Source: ANAO analysis of 2022–23 CFS.

4.1.3 As previously outlined in Chapter 2, paragraphs 2.153 to 2.160, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2022–23 financial statements audits. Table 4.1.2 provides a summary of those audit differences that relate to entities within the Agriculture, Fisheries and Forestry portfolio.

Table 4.1.2: The number of audit differences for entities in the Agriculture, Fisheries and Forestry portfolio

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Agriculture, Fisheries and Forestry ^a	2	2	4	1	–	1
Australian Fisheries Management Authority	1	2	3	–	3	3
Australian Pesticides and Veterinary Medicines Authority	–	1	1	–	1	1

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Fisheries Research and Development Corporation	–	–	–	–	1	1
Grains Research and Development Corporation	1	–	1	–	–	–
Regional Investment Corporation	–	–	–	–	2	2

Note a: On 1 July 2022 the Department of Agriculture, Water and the Environment was renamed to the Department of Agriculture, Fisheries and Forestry.

Source: ANAO analysis of audit differences reported to entities in the Agriculture, Fisheries and Forestry portfolio.

4.1.4 The following section provides a summary of the 2022–23 financial statements audit results for the Department of Agriculture, Fisheries and Forestry.

Department of Agriculture, Fisheries and Forestry

4.1.5 The Department of Agriculture, Fisheries and Forestry (DAFF) is responsible for developing and implementing policies and initiatives to promote more sustainable, productive, internationally competitive and profitable Australian agricultural, food and fibre industries; safeguarding Australia’s animal and plant health status to maintain overseas markets and protect the economy and environment from exotic pests and diseases.

4.1.6 On 1 June and 23 June 2022, revised Administrative Arrangements Orders were issued by the Australian Government. As a result, on 1 July 2022, a Machinery of Government (MoG) change occurred with the following impacts for DAFF:

- the Department of Agriculture, Water and the Environment (DAWE) was renamed to DAFF; and
- functions related to water and the environment were transferred to the newly created Department of Climate Change, Energy, the Environment and Water (DCCEEW). Administered functions transferred to DCCEEW on 1 July 2022, with departmental functions transferring on 1 September 2022.

Summary of financial performance

4.1.7 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by DAFF (as outlined in Table 4.1.3 and Table 4.1.4 and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.1.3: Key departmental financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(819.0)	(1,231.7)
Revenue from government	767.3	1,130.7
Surplus/(deficit) attributable to the Australian Government	(51.6)	(101.0)
Total other comprehensive income/(loss)	(0.2)	88.4
Total comprehensive income/(loss) attributable to the Australian Government	(51.8)	(12.6)
Total assets	955.7	1,968.3
Total liabilities	711.0	1,187.3
Total equity	244.6	781.0

Source: DAFF's audited financial statements for the year ended 30 June 2023.

4.1.8 The decrease in the net cost of services, total deficit attributable to the Australian Government and revenue from government relates to the transfer of the water and environment functions to DCCEEW through the departmental MoG changes on 1 September 2023.

4.1.9 The decrease in total assets of \$1.1 billion mainly relate to assets of the water and environment functions transferred to DCCEEW through MoG changes. The assets transferred relate to the research vessel RSV Nuyina and other buildings, plant and equipment relating of the Australian Antarctic Division.

4.1.10 The decrease in total liabilities of \$476.3 million mainly relates to:

- liabilities for the water and environment functions transferred to DCCEEW through MoG changes, primarily the provision for Antarctic solid waste disposal sites and Antarctic regions; and
- offset by an increase in lease liabilities primarily related to a new lease entered into by DAFF for corporate offices.

Financial sustainability

4.1.11 In February 2023 DAFF advised the ANAO that it was reassessing its financial performance and sustainability due to a forecast loss position at 30 June 2023. As a result, the ANAO identified an additional area of financial risk relating to financial sustainability for which specific audit procedures were performed during the course of the audit (refer to Table 4.1.5).

4.1.12 For the year ended 30 June 2023 DAFF reported an actual total deficit of \$51.6 million. After adjustment for non-cash expenses for depreciation and amortisation, which are funded through departmental capital budget appropriations, DAFF reported a net cash surplus of \$2.5 million. The surplus result was mainly due to:

- the receipt of \$127.0 million of additional appropriations through *Appropriation Act No.3 2022–23* under the measure 'funding supplementation' in June 2023; and
- cost control measures implemented by DAFF's executive board in early 2023.

4.1.13 Underlying this result is the financial performance of cost recovered services. DAFF provides a range of cost recovered services for export, import and biosecurity services. DAFF incurred a deficit \$40.9 million for these services in 2022–23. As a result, during 2022–23 DAFF drew on annual appropriations to fund all expenses given the deficit in revenue received for these services.

4.1.14 At 30 June 2023 DAFF reported a net current asset position of \$83.2 million, primarily attributable to the receipt of \$127.0 million of additional funding from the Australian Government in June 2023 (refer to paragraph 4.1.12).

4.1.15 DAFF's action in response to the risks that were identified in relation to financial performance and sustainability include:

- the establishment of a financial improvement taskforce with focus on delivering improvements in the entity's financial acumen and financial sustainability;
- the Minister for Agriculture, Fisheries and Forestry agreeing to changes to regulatory fees and charges for biosecurity functions. The average fee increase was 28 per cent. The new fees and charges commenced on 1 July 2023;
- the Australian Government approving the introduction of a 'Biosecurity Sustainable Funding Model' which provides additional appropriations for DAFF to undertake biosecurity activities. This measure is intended to be funded by a 'Biosecurity Protection Levy', applicable from 1 July 2024, charged on all domestic agricultural fisheries and forestry producers.

4.1.16 DAFF's financial position improved following the actions taken in response to the forecast loss for 2022–23 described in paragraphs 4.1.12 to 4.1.15. The ANAO's analysis indicates that there are continued risks to DAFF's financial sustainability that will require close attention from DAFF's accountable authority.

- Performance of cost recovered services. The *Australian Government Cost Recovery Policy*¹¹⁹ requires that 'Australian Commonwealth entities should generally set charges to recover the full cost of providing specific activities, except where partial recovery is determined to be appropriate. Consistent with the requirements of the policy DAFF should regularly review its cost recovery performance and ensure that revenue from cost recovered activities aligns with the cost of providing the services over a reasonable period (the business cycle of the activity).
- The level of financial acumen and financial management expertise in DAFF. This area has also been identified out in the Capability Review undertaken by the Australian Public Service Commission (APSC) into DAFF released in September 2023.¹²⁰ The APSC identified as a priority area for capability improvement that DAFF:

119 Department of Finance, *Australian Government Cost Recovery Policy*, available from: <https://www.finance.gov.au/government/managing-commonwealth-resources/implementing-charging-framework-rmg-302/australian-government-cost-recovery-policy#stage-2cost-recovery-model-and-cris> [accessed 18 October 2023].

120 Australian Public Service Commission, *Capability Review, Department of Agriculture, Fisheries and Forestry*, available from: <https://www.apsc.gov.au/sites/default/files/2023-09/DAFF%20-%20Capability%20Review%20Report%202023.pdf> [accessed 18 October 2023].

...strengthen reporting and forecasting, as this is essential to DAFF managing its financial risk into the future. The department needs to prioritise developing program-level performance and financial reporting, consolidated at an enterprise level and used by the senior leadership team to inform resource allocation decisions, including how best to resource future priorities.

4.1.17 As part of the 2022–23 financial statements audit the ANAO recommended that DAFF review existing procurement processes to ensure that key decision makers for procurements have sufficient information regarding future financial performance and position to commit to a procurement at the time a contract is entered into.

Table 4.1.4: Key administered financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	1,542.2	2,310.8
Total income	961.1	893.8
Deficit	(581.1)	(1,417.0)
Total other comprehensive income/(loss)	216.3	277.7
Total comprehensive income/(loss)	(364.7)	(1,139.3)
Total assets administered on behalf of Government	3,774.9	11,292.2
Total liabilities administered on behalf of Government	201.0	325.0
Net assets	3,573.9	10,967.2

Source: DAFF's audited financial statements for the year ended 30 June 2023.

4.1.18 The decrease in total expenses, total deficit and total comprehensive loss relate mainly to the transfer of the water and environment functions to DCCEEW through MoG changes on 1 July 2022.

4.1.19 The increase in total income of \$67.3 million was due mainly to additional interest recorded on concessional loans reflecting the conclusion of the interest free period on some loans offered by the Regional Investment Corporation on behalf of DAFF.

4.1.20 The \$7.5 billion decrease in total assets was mainly due to assets relating to the water and environment functions being transferred to DCCEEW through MoG changes, these assets were:

- water entitlements and the Commonwealth's share in joint ventures associated with the Murray Darling Basin of \$4.6 billion;
- administered investments in portfolio entities of \$1.1 billion; and
- cash held in special accounts of \$2.1 billion.

Key areas of financial risk

4.1.21 In light of the key areas of risk and the ANAO's understanding of the operations of DAFF, during the interim phase of the 2022–23 audit the ANAO increased the overall risk of material misstatement in the financial statements audit from moderate to high in 2022–23. This increase was a result of DAFF's forecast financial position for 2022–23, which increased the risk that entity level and transactional internal controls important to financial management, preparation of the

financial statements and the supporting information technology (IT) environment may not operate effectively.

4.1.22 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of DAFF's financial statements. The ANAO focused audit effort on those specific areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.1.5 including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.1.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Departmental</i> all financial statement line items	Financial sustainability	Higher	<ul style="list-style-type: none"> significance of DAFF's forecast financial position during 2022–23.
<i>Departmental</i> revenue from contracts with customers \$521.1 million	Accuracy and completeness of own-source revenue relating to import and export functions KAM	Moderate	<ul style="list-style-type: none"> complex, numerous and high value of revenue streams, including differing charging methods, service provisions, legislative and cost recovery arrangements; decentralised approach to service provision and revenue collection; reliance on services provided by the Department of Home Affairs for the collection and capture of revenue arising from import declarations; and complexity and number of IT systems used to record and collect import and export revenue.
<i>Departmental and administered</i> all financial statements line items	MoG changes, particularly the valuation and reporting of assets and liabilities transferred to DCCEEW as a result of the changes	Moderate	<ul style="list-style-type: none"> significance of assets, liabilities, revenue and expenses transferred from DAFF to DCCEEW which increases the complexity of the financial statements preparation process.
<i>Administered</i> loans receivable (gross) \$2.8 billion credit loss allowance \$27.8 million	Valuation of loans to state and territory governments and farm businesses KAM	Higher	<ul style="list-style-type: none"> complexity in the accounting treatment for loans deemed concessional in nature, including judgements in estimating the market rate that would otherwise apply to the loan; estimation required to determine expected credit losses. This includes assumptions relating to the security held against each loan, likelihood of enforcement of the security and

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
			<p>impacts of industry trading, economic conditions and commodity pricing; and</p> <ul style="list-style-type: none"> reliance on third parties, including state and territory governments or the Regional Investment Corporation, for management of loans. Third parties are responsible for entering into loan agreements, approval of recipients, and ongoing monitoring of loans.
<p><i>Administered</i> levies and charges \$678.7 million</p>	<p>Accuracy and completeness of primary industry levies and charges revenue KAM</p>	Moderate	<ul style="list-style-type: none"> reliance on self-assessment by industry participants to calculate the revenue to be collected by DAFF, particularly the estimation of the level of agricultural production on which levies are calculated; and complexity of IT system used to calculate and collect levies and charges.

Source: ANAO 2022–23 audit results, and DAFF's audited financial statements for the year ended 30 June 2023.

4.1.23 The following performance audit reports were tabled during 2022–23 relevant to the financial management or administration of DAFF:

- Auditor-General Report No.6 2022–23 *Implementation of the Export Control Legislative Framework*; and
- Auditor-General Report No.17 2022–23 *Department of Agriculture, Fisheries and Forestry's Cultural Reform*.

4.1.24 The observations of these reports were considered in designing audit procedures in relation to departmental revenue from contracts with customers, particularly in relation to export fees and charges, and in the understanding and evaluation of the design and operating effectiveness of entity-level internal controls

Audit results

4.1.25 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.1.6: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	– ^a	1	–	1
Total	–	1	–	1

Note a: The moderate audit finding relating to FMIS Privileged user access management was first reported to the DAWE as part of the 2021–22 financial statements audit. DAFF transferred the administrative responsibility for the SAP Financial Management Information System (FMIS) to DCCEE in February 2023. Prior to February

2023 DAFF was responsible for the FMIS. The finding was not resolved by DAFF and the audit finding was transferred to DCCEEW. Refer to paragraph 4.3.21 to 4.3.24.

Source: ANAO 2022–23 audit results.

4.1.26 For the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that DAFF’s 2022–23 financial statements were not materially misstated.

New moderate audit finding

Removal of user access

4.1.27 The Protective Security Policy Framework (PSPF) helps Australian Government entities to protect their people, information and assets. The PSPF sets out government protective security policy in terms of: security governance; information security; personnel security; and physical security.¹²¹ PSPF Policy 9 *Access to information* and PSPF Policy 14 *Separating personnel* outline security measures to control access to Australian Government information and mitigate risks associated with departing personnel. PSPF Policy 9 requires entities to control access to supporting Information, Communication and Technology (ICT) systems and applications and ensure access to sensitive information is only provided to people on a need-to-know basis.¹²² PSPF Policy 14 requires personnel’s access to be removed upon separation or transfer from the entity.¹²³ Inadequate security measures for timely removal of access from former personnel increase the risk of unauthorised access to sensitive information.

4.1.28 DAFF’s ‘System Access Management Policy’ is consistent with the Protective Security Policy Framework (PSPF), requiring controlled access to systems, networks and applications. This includes removing access from people who no longer have an operational requirement to access systems, networks and applications. However, DAFF does not have a process in place to identify users who had access to systems, applications and data repositories after termination from the entity.

4.1.29 During the 2022–23 audit the ANAO identified users who had accessed the DAFF network and systems supporting the preparation of the financial statements post termination. Unauthorised user access post termination poses a business risk and could potentially impact the integrity of the entity’s financial or other data.

4.1.30 The ANAO recommend that DAFF:

- review the process for user access termination to ensure that terminations are processed in a more timely manner; and
- to design a process that would allow DAFF to ‘look back’ on user activity which occurred post termination to confirm appropriateness.

4.1.31 DAFF agreed with this finding and has commenced addressing the recommendations made by the ANAO. The ANAO will focus on the action taken by DAFF in response to this finding in the 2023–24 audit.

121 Department of Home Affairs, *Protective Security Policy Framework*, available from <https://www.protectivesecurity.gov.au/about> [accessed 26 October 2023].

122 Department of Home Affairs, *Policy 9: Access to information*, available from <https://www.protectivesecurity.gov.au/publications-library/policy-9-access-information> [accessed 26 October 2023].

123 Department of Home Affairs, *Policy 14: Separating personnel*, available from <https://www.protectivesecurity.gov.au/publications-library/policy-14-separating-personnel> [accessed 26 October 2023].

4.2 Attorney-General's portfolio

Portfolio overview

4.2.1 The Attorney-General's portfolio is responsible for: legal services; national security and criminal law; integrity and anti-corruption matters; the Commonwealth justice system including courts, tribunals, justice policy and legal assistance; regulation and reform; protecting and promoting human rights; and support for Commonwealth royal commissions.

4.2.2 Table 4.2.1 identifies material and other entities specifically mentioned in this section.

Table 4.2.1: Attorney-General's portfolio material and other entities discussed in this section

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Attorney-General's Department	Yes	Moderate	✓	28 Sep 23	28 Sep 23	◆ □
Australian Federal Police	Yes	Low	✓	14 Sep 23	14 Sep 23	Nil
High Court of Australia	Yes	Low	✓	15 Aug 23	16 Aug 23	Nil
Administrative Appeals Tribunal	No	Moderate	✓	8 Sep 23	12 Sep 23	□

✓: auditor's report not modified

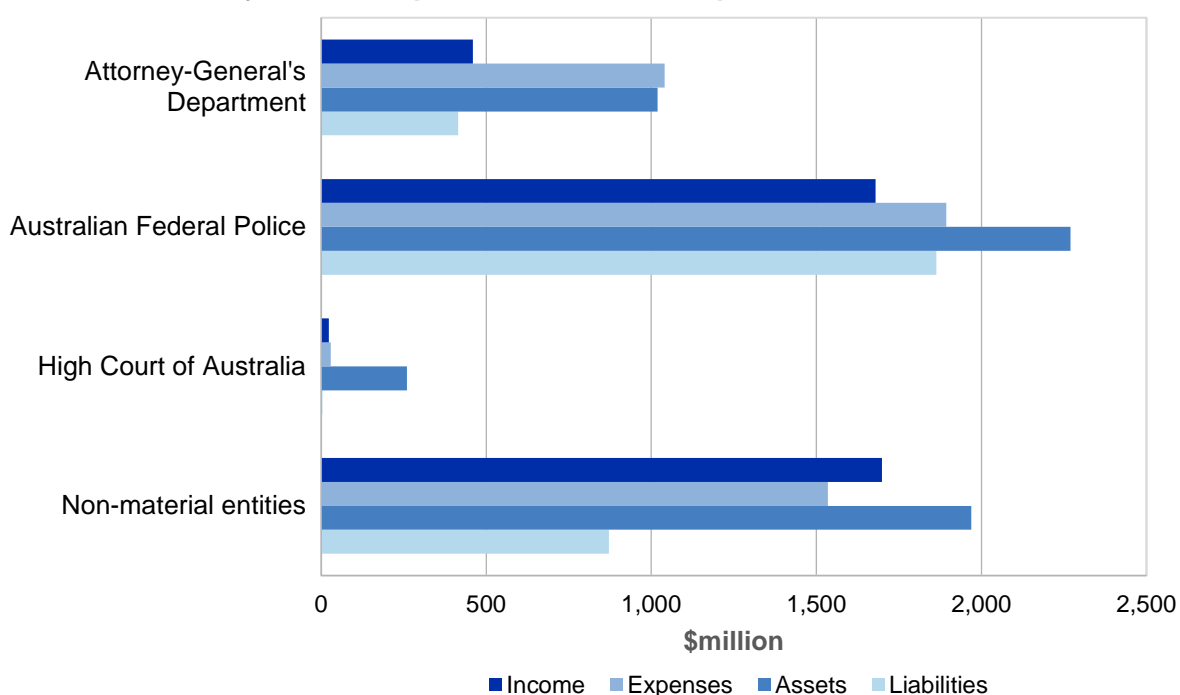
◆: new significant or moderate findings and/or legislative matters noted

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2022–23 interim audit phase, now downgraded or resolved

4.2.3 Figure 4.2.1 shows the Attorney-General's portfolio's income, expenses, assets and liabilities contribution to the Australian Government Consolidated Financial Statements (CFS) for the year ended 30 June 2023.¹²⁴

¹²⁴ This represents the portfolio's contribution to the Australian Government's CFS for the period ending 30 June 2023. It does not include transactions between agencies, such as appropriation revenue, which are not included in the CFS.

Figure 4.2.1: Attorney-General's portfolio's income, expenses, assets and liabilities



Source: ANAO analysis of 2022–23 CFS.

4.2.4 As previously outlined in Chapter 2, paragraphs 2.153 to 2.160, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2022–23 financial statements audits. Table 4.2.2 provides a summary of those audit differences that relate to entities within the Attorney-General's portfolio.

Table 4.2.2: The number of audit differences for entities in the Attorney-General's portfolio

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Attorney-General's Department	2	–	2	2	4	6
Administrative Appeals Tribunal	1	2	3	–	2	2
Australian Commission for Law Enforcement Integrity	4	5	9	1	–	1
Australian Criminal Intelligence Commission	–	–	–	3	–	3
Australian Financial Security Authority	–	1	1	–	–	–
Australian Human Rights Commission	–	2	2	–	2 ^a	2

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Australian Law Reform Commission	1	2 ^a	3	–	–	–
High Court of Australia	1	1	2	–	–	–
Office of the Australian Information Commissioner	2 ^a	–	2	–	–	–
Office of the Inspector-General of Intelligence and Security	–	–	–	1	–	1
Office of the Special Investigator	–	4	4	–	–	–

Note a: The adjustments include adjustments identified in the period that relate to the prior year.

Source: ANAO analysis of audit differences reported to entities in the Attorney-General's portfolio.

4.2.5 The following section provides a summary of the 2022–23 financial statements audit results for the Attorney-General's Department, and findings for other material entities in the portfolio.

Attorney-General's Department

4.2.6 The Attorney-General's Department (AGD) supports the Attorney-General through the provision of expert advice and services on a range of law, justice, integrity and national security issues.

4.2.7 On 1 July 2022, Administrative Arrangements Orders took effect which included changes to the responsibilities of AGD. Industrial relations transferred from AGD to the Department of Employment and Workplace Relations (DEWR). In addition, the following functions were transferred to AGD:

- national security and cybercrime from the Department of Home Affairs;
- national child sexual abuse policy and strategy from the Department of the Prime Minister and Cabinet; and
- copyright from the Department of Infrastructure, Transport, Regional Development, Communications and the Arts.

Summary of financial performance

4.2.8 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by AGD (as outlined in Table 4.2.3 and Table 4.2.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.2.3: Key departmental financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(262.9)	(228.5)
Revenue from government	260.2	233.9
Surplus/(deficit) attributable to the Australian Government	(2.7)	5.5
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss) attributable to the Australian Government	(2.7)	5.5
Total assets	539.7	559.4
Total liabilities	386.0	393.0
Total equity	153.7	166.4

Source: AGD's audited financial statements for the year ended 30 June 2023.

4.2.9 The increase in net cost of services was partly due to higher employee benefit expenses because of increased staffing levels, staff movements between salary increments, and related superannuation expenses.

4.2.10 Revenue from government increased in 2022–23 due to additional funding received in June 2023 for new measures, including Institutional Reform to Australia's System of Federal Administrative Review.

4.2.11 The decrease in total assets is predominantly from depreciation expenses on right-of-use assets and machinery of government transfers to DEWR.

Table 4.2.4: Key administered financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	617.8	818.7
Total income	40.4	235.9
Deficit	(577.4)	(582.9)
Total other comprehensive income/(loss)	13.6	26.0
Total comprehensive income/(loss)	(563.9)	(556.9)
Total assets administered on behalf of Government	478.8	784.9
Total liabilities administered on behalf of Government	29.0	2,042.2
Net assets/(liabilities)	449.8	(1,257.3)

Source: AGD's audited financial statements for the year ended 30 June 2023.

4.2.12 The decrease in total expenses, total income, total assets and total liabilities is a result of MoG transfers as described in paragraph 4.2.7.

Key areas of financial risk

4.2.13 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of AGD's financial statements. The ANAO focused audit effort on those specific areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.2.5.

Table 4.2.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Departmental</i> Revenue from contracts with customers \$155.6 million	Australian Government Solicitor revenue	Moderate	<ul style="list-style-type: none"> the value and timing of revenue recognition is determined with reference to time recorded on various Australian Government Solicitor matters, the completion and recovery of matters and the valuation of work-in-progress at year-end is subject to management judgement.
<i>Departmental and Administered</i> all financial statement line items	Machinery of Government (MoG) changes	Lower	<ul style="list-style-type: none"> significant number of functions and associated resourcing transferred in and out of AGD; and completeness and accuracy of transactions and balances within the financial statements.

Source: ANAO 2022–23 audit results, and AGD's audited financial statements for the year ended 30 June 2023.

4.2.14 Auditor-General Report No.22 2022–23 *Implementation of Parliamentary Committee and Auditor-General Recommendations — Attorney-General's Portfolio* was tabled during 2022–23 and is relevant to the administration of AGD.

4.2.15 While the report did not include recommendations regarding risks to AGD's financial administration as it relates to the financial statements, the observations were considered in designing audit procedures for the financial statements audit.

Audit results

4.2.16 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.2.6: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	1	1	(1)	1
Total	1	1	(1)	1

Source: ANAO 2022–23 audit results.

4.2.17 For each of the findings listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that AGD's 2022–23 financial statements were not materially misstated.

New moderate audit finding

Monitoring of privileged FMIS access

4.2.18 The ANAO identified weaknesses with the monitoring of authorised privileged user access within AGD's Financial Management Information System (FMIS). Inadequate monitoring of privileged user access increases the likelihood that inappropriate activity will not be detected.

4.2.19 Consistent with the ANAO's recommendation, AGD has advised that the monitoring of privileged user access will be reviewed and strengthened, evidence of monitoring will be retained, and policies, plans and procedures specifying the requirements for the access reviews will be developed. The ANAO will review the updated processes implemented by AGD during the 2023–24 audit.

Resolved moderate audit finding

User access removal

4.2.20 The Protective Security Policy Framework (PSPF) requires non-corporate Commonwealth entities to control access to systems, networks, and applications. The requirement includes removing system access from employees and contractors without an operational need for access to IT resources.

4.2.21 During the 2021–22 audit the ANAO identified weaknesses in the process for the removal of user access when employees or contractors separated from AGD. In some instances, access was retained for up to 13 days. User accounts should be removed on the date of separation as there is no longer a business requirement for access after this date.

4.2.22 AGD has reviewed the adequacy of the current processes for removal of user access and controls have been strengthened to ensure that the access is removed in a timely manner. AGD has also implemented a weekly detective control to identify any instances of users who have accessed systems after their cessation date.

4.2.23 The ANAO has reviewed and tested the design and operating effectiveness of the processes AGD has implemented. As a result, this finding has been resolved.

Australian Federal Police

4.2.24 The Australian Federal Police (AFP) is responsible for the provision of police services in relation to laws of the Commonwealth, the provision of policing services to the Australian Capital Territory and external territories, combatting transnational serious organised crime and terrorism, disrupting crime offshore, supporting regional security, and protecting Australian interests and assets.

Summary of financial performance

4.2.25 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by the AFP (as outlined in Table 4.2.7 and Table 4.2.8) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.2.7: Key departmental financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(1,491.4)	(1,366.6)
Revenue from government	1,286.7	1,251.2
Surplus/(deficit) attributable to the Australian Government	(204.7)	(115.4)
Total other comprehensive income/(loss)	60.5	(2.0)
Total comprehensive income/(loss) attributable to the Australian Government	(144.2)	(117.4)
Total assets	2,269.3	1,953.4
Total liabilities	1,863.4	1,548.0
Total equity	405.9	405.4

Source: AFP's audited financial statements for the year ended 30 June 2023.

4.2.26 The net cost of services increased by \$124.8 million mainly attributable to:

- increased employee due to a planned increase of over 200 employees during 2022–23;
- additional travel costs due to the resumption of additional travel following the COVID-19 pandemic; and
- higher depreciation and amortisation expenses due to the increase in total non-financial assets (refer to paragraph 4.2.28).

4.2.27 Total comprehensive income increased by \$62.5 million due to a revaluation of land and buildings and property, plant and equipment which resulted in an increment of \$60.5 million being recognised in comprehensive income.

4.2.28 Total assets increased by \$315.9 million due to entering into a new lease for property in Melbourne for the Southern Command Headquarters.

4.2.29 Total liabilities increased by \$315.4 million primarily due to the right-of-use asset created in the lease created for the Southern Command Headquarters.

Table 4.2.8: Key administered financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	5.0	6.4
Total income	2.1	0.3
Deficit	(2.9)	(6.1)
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss)	(2.9)	(6.1)
Total assets administered on behalf of Government	–	–
Total liabilities administered on behalf of Government	0.3	0.8
Net liabilities	(0.3)	(0.8)

Source: AFP's audited financial statements for the year ended 30 June 2023.

4.2.30 Movements in the AFP's administered balances reflect normal business activities.

Key areas of financial risk

4.2.31 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of AFP's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.2.9.

Table 4.2.9: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Departmental</i> employee benefits \$1.1 billion employee provisions \$348.0 million	Recognition and measurement of payroll expenses including underpayment of superannuation obligations	Higher	<ul style="list-style-type: none"> size and complex nature of the payroll function. Payroll expenses include a large number of sworn personnel, variable and extended work hours (i.e. penalty rates) and a wide variety of allowances; and the identification of an underpayment of superannuation on certain allowances.

Source: ANAO 2022–23 audit results, and AFP's audited financial statements for the year ended 30 June 2023.

4.2.32 Auditor-General Report No.9 2022–23 *Management of Cyber Security Supply Chain Risks* was tabled during 2022–23 and is relevant to the financial management or administration of the AFP.

4.2.33 The observations of this report were considered in designing audit procedures to address areas considered to pose a lower of material misstatement. No significant changes were made to the designed audit procedures for the financial statements audit.

Audit results

4.2.34 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

High Court of Australia

4.2.35 The High Court of Australia (the Court) is responsible for interpreting and applying the law of Australia; and deciding on cases of special federal significance, including challenges to the constitutional validity of laws and hearing appeals, by special leave, from federal, state and territory courts.

Summary of financial performance

4.2.36 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by the Court (as outlined in Table 4.2.10 and Table 4.2.11) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.2.10: Key departmental financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(24.4)	(24.1)
Revenue from government	16.7	16.4
Surplus/(deficit) attributable to the Australian Government	(7.8)	(7.7)
Total other comprehensive income/(loss)	10.5	8.2
Total comprehensive income/(loss) attributable to the Australian Government	2.7	0.5
Total assets	259.2	253.5
Total liabilities	4.1	4.5
Total equity	255.1	248.9

Source: The Court's audited financial statements for the year ended 30 June 2023.

4.2.37 The increase in other comprehensive income and total assets was the result of the annual valuation of the Court's building, to reflect increased construction costs.

Table 4.2.11: Key administered financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	–	–
Total income	1.8	2.0
Surplus	1.8	2.0
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss)	1.8	2.0
Total assets administered on behalf of Government	0.2	0.1
Total liabilities administered on behalf of Government	–	–
Net assets	0.2	0.1

Source: The Court's audited financial statements for the year ended 30 June 2023.

4.2.38 The Court's administered income relates to its filing and hearing fees. The decrease in administered income is due to lower volumes of filings and hearings in 2022–23.

Key areas of financial risk

4.2.39 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of the Court's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.2.12.

Table 4.2.12: Key area of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Departmental</i> land and buildings \$224.8 million	Valuation of land & buildings	Moderate	<ul style="list-style-type: none"> the valuation of land involves the exercise of judgement due to the restricted nature and unique characteristics of the land; and the valuation of buildings is subject to judgement due to the limited availability of observable inputs for the valuation due to the building's special purpose and heritage listing and the volume of individually significant components of the building which have different replacement costs and remaining useful lives.

Source: ANAO 2022–23 audit results, and the Court's audited financial statements for the year ended 30 June 2023.

Audit results

4.2.40 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Comments on non-material entities

Administrative Appeals Tribunal

4.2.41 The Administrative Appeals Tribunal (AAT) conducts independent merits review of administrative decisions made by Australian Government ministers, departments and agencies and, in limited circumstances, state and territory government and non-government bodies.

Audit results

4.2.42 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.2.13: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	1	–	(1)	–
Total	1	–	(1)	–

Source: ANAO 2022–23 audit results.

4.2.43 For the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that AAT's 2022–23 financial statements were not materially misstated.

Resolved moderate audit finding

Lease management

4.2.44 During the 2021–22 financial statements audit, the ANAO identified weaknesses in the review and quality assurance processes in place over lease calculations provided to the AAT by a third-party provider. An error in calculations relating to a lease modification resulted in an understatement of lease related balances.

4.2.45 In line with ANAO's recommendation, the AAT implemented processes to ensure information used for reporting purposes is complete and accurate. The ANAO has reviewed the quality assurance processes put in place by AAT during the 2022–23 financial year and is satisfied that the weaknesses identified in the prior year have been addressed.

4.3 Climate Change, Energy, the Environment and Water portfolio

Portfolio overview

4.3.1 The Climate Change, Energy, the Environment and Water portfolio is responsible for advising the government and implementing programs on: climate change; energy supply efficiency, quality, performance and productivity; the environment, biodiversity; parks and heritage; meteorological services; water resources; and Australia's interests in the Antarctic and Southern Ocean. Table 4.3.1 identifies material and other entities specifically mentioned in this section.

Table 4.3.1: Climate Change, Energy, the Environment and Water portfolio material and other entities discussed in this section

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Climate Change, Energy, the Environment and Water	Yes	High	✓	13 Oct 23	16 Oct 23	▲
Bureau of Meteorology	Yes	Moderate	E	15 Sep 23	18 Sep 23	◆
Clean Energy Finance Corporation	Yes	Moderate	✓	22 Aug 23	22 Aug 23	Nil
Clean Energy Regulator	Yes	Moderate	✓	25 Sep 23	25 Sep 23	▲
Snowy Hydro Limited	Yes	Moderate	✓	4 Sep 23	4 Sep 23	Nil
Great Barrier Reef Marine Park Authority	No	Low	✓	6 Sep 23	6 Sep 23	◆

✓: auditor's report not modified

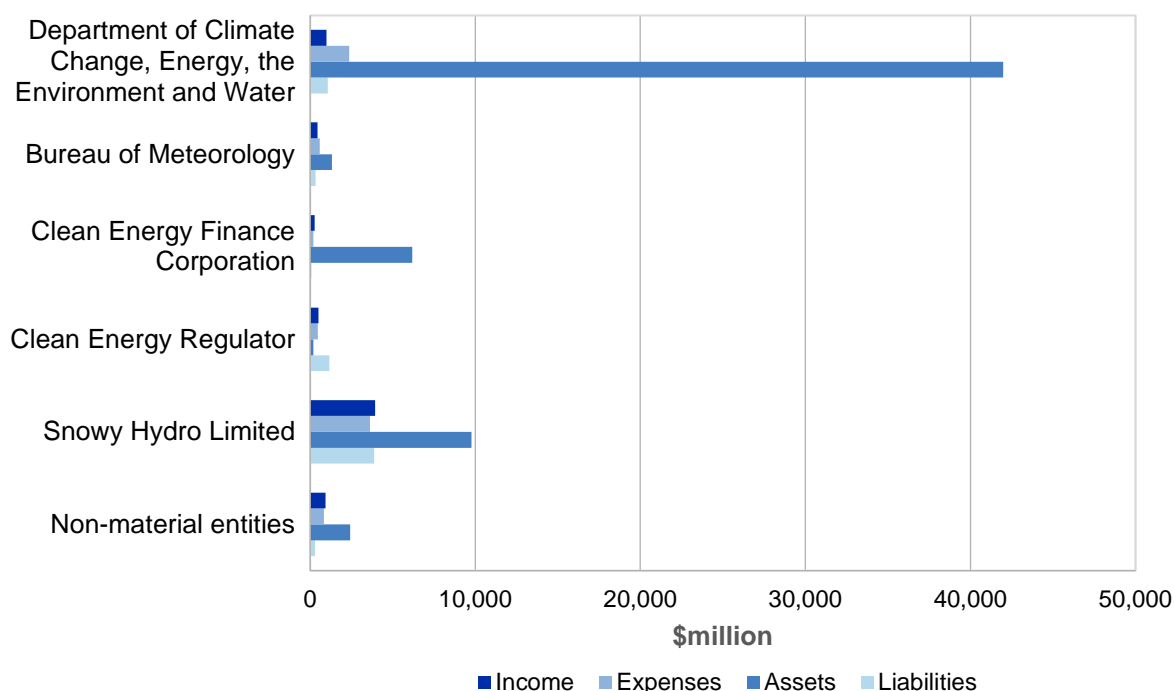
E: auditor's report contains an emphasis of matter

◆: new significant or moderate findings and/or legislative matters noted

▲: significant or moderate findings and/or legislative matters reported previously but not yet resolved

4.3.2 Figure 4.3.1 shows the Climate Change, Energy, the Environment and Water portfolio's income, expenses, assets and liabilities contribution to the Australian Government Consolidated Financial Statements (CFS) for the year ended 30 June 2023.¹²⁵

¹²⁵ This represents the portfolio's contribution to the Australian Government's CFS for the period ending 30 June 2023. It does not include transactions between agencies, such as appropriation revenue, which are not included in the CFS

Figure 4.3.1: Climate Change, Energy, the Environment and Water portfolio's income, expenses, assets and liabilities

Source: ANAO analysis of 2022–23 CFS.

4.3.3 As previously outlined in Chapter 2, paragraphs 2.153 to 2.160, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2022–23 financial statements audits. Table 4.3.2 provides a summary of those audit differences that relate to entities within the Climate Change, Energy, the Environment and Water portfolio.

Table 4.3.2: The number of audit differences for entities in the Climate Change, Energy, the Environment and Water portfolio

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Climate Change, Energy, the Environment and Water	–	6	6			
Australian Institute of Marine Science	1	1	2	1	–	1
Australian Renewable Energy Agency	–	2	2	–	–	–
Bureau of Meteorology	1	–	1	–	3	3
Clean Energy Regulator	–	–	–	2 ^a	1	3

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Climate Change Authority	1	–	1	–	–	–
Director of National Parks	–	–	–	–	1	1
Great Barrier Reef Marine Park Authority	–	–	–	2 ^a	2	4
Murray-Darling Basin Authority	1	–	1	–	–	–
North Queensland Water Infrastructure Authority	2	–	2	1	–	1
Snowy Hydro Limited	2	–	2	1 ^a	1	2
Sydney Harbour Federation Trust	–	–	–	1	–	1

Note a: The adjustments include adjustments identified in period that relate to the prior year.

Source: ANAO analysis of audit differences reported to entities in the Climate Change, Energy, the Environment and Water portfolio.

4.3.4 The following section provides a summary of the 2022–23 financial statements audit results for the Department of Climate Change, Energy, the Environment and Water, and findings for other material entities and non-material entities in the portfolio.

Department of Climate Change, Energy, the Environment and Water

4.3.5 The Department of Climate Change, Energy, the Environment and Water (DCCEEW) is responsible for developing and implementing policies and initiatives across climate change, energy the environment, heritage and water.

4.3.6 On 1 July 2022, an Administrative Arrangements Order took effect which created DCCEEW. DCCEEW received the following functions:

- the water and environment functions from the former Department of Agriculture, Water and the Environment (DAWE);
- the energy and climate change functions from the former Department of Industry, Science, Energy and Resources and the Department of Foreign Affairs and Trade; and
- water infrastructure function from the former Department of Infrastructure, Transport, Regional Development and Communications.

4.3.7 The Administrative Arrangements Order which took effect on 14 October 2022 added Carbon capture utilisation and storage policies and programs to the matters dealt with by DCCEEW.

Summary of financial performance

4.3.8 DCCEEW was established on 1 July 2022 and therefore no comparative financial information is available. The following section provides an overview of the 2022–23 departmental

and administered key financial statements items reported by DCCEEW (as outlined in Table 4.3.3 and Table 4.3.4) and includes commentary on significant items which comprise the balances.

Table 4.3.3: Key departmental financial statements items

Key financial statement items	2022–23 (\$m)
Net (cost of)/contribution by services	(946.7)
Revenue from government	815.3
Surplus/(deficit) attributable to the Australian Government	(131.4)
Total other comprehensive income/(loss)	55.7
Total comprehensive income/(loss) attributable to the Australian Government	(75.7)
Total assets	1,518.6
Total liabilities	928.2
Total equity	590.4

Source: DCCEEW's audited financial statements for the year ended 30 June 2023.

4.3.9 The deficit attributable to the Australian Government of \$131.4 million was mainly due to additional employee costs for further staff recruitment and additional supplier costs relating to hydrogen funding agreements and contributions to international organisations.

4.3.10 Total comprehensive income relates mainly to the revaluation of the research vessel RSV Nuyina and changes in the value of the Antarctic restoration provisions (refer to paragraph 1454.3.12).

4.3.11 Total assets comprised mainly of:

- non-financial assets (including intangibles, buildings, heritage and cultural, vessels and plant and equipment) of \$1.3 billion. The balance of non-financial assets transferred to DCCEEW following machinery of government (MoG) changes was \$1.3 billion. These assets mainly comprise the infrastructure and equipment which supports the Australia Antarctic Division; and
- trade and other receivables of \$239.7 million.

4.3.12 Total liabilities comprised mainly of:

- provisions, particularly for Antarctic solid waste disposal sites and Antarctic regions restoration, of \$463.9 million. The balance of provisions following MoG changes was \$462.3 million; and
- lease liabilities for corporate premises and plant and equipment of \$204.3 million.

Table 4.3.4: Key administered financial statements items

Key financial statement items	2022–23 (\$m)
Total expenses	1,360.1
Total income	234.9
Deficit	(1,125.2)
Total other comprehensive income/(loss)	(769.8)
Total comprehensive income/(loss)	(1,895.0)
Total assets administered on behalf of Government	40,266.4
Total liabilities administered on behalf of Government	128.9
Net assets	40,137.5

Source: DCCEEW's audited financial statements for the year ended 30 June 2023.

4.3.13 Total expenses comprised mainly of:

- grants expenses of \$538.3 million; and
- payments to corporate Commonwealth entities of \$544.5 million; and
- supplier expenses of \$265.5 million.¹²⁶

4.3.14 The total other comprehensive loss of \$769.8 million is mainly due to the revaluation of administered investments (particularly Snowy Hydro Limited).

4.3.15 Total income comprised mainly of:

- water entitlements received free of charge by DCCEEW of \$64.0 million, to which DCCEEW became entitled to as part of the Water Efficiency program;
- dividends from Snowy Hydro Limited of \$84.3 million; and
- fees from regulatory services of \$22.0 million.

4.3.16 Total assets comprised mainly of:

- administered investments of \$16.9 billion. The balance of investments transferred to DCCEEW following MoG changes was \$16.5 billion.
- water entitlement assets, held by DCCEEW or arising from joint ventures in the Murray Darling Basin of \$4.1 billion; and
- cash held in special accounts of \$18.6 billion. The balance of cash transferred for these accounts to DCCEEW following MoG changes was \$6.7 billion. The increase is due to the injection of \$11.5 billion into the Clean Energy Finance Corporation Special Account to fund the 'Rewiring the Nation' program planned investments.

Key areas of financial risk

4.3.17 In light of the key areas of risk and the ANAO's understanding of the operations of DCCEEW, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial

¹²⁶ Supplier expenses are mainly incurred in relation to costs associated with the Natural Heritage Trust of Australia special account. These include the regional land program and implementation costs.

statements audit as high. This risk rating reflects the nature of the maturing system of internal control supporting financial management and the complexity of the preparation of the financial statements following the establishment of DCCEEW on 1 July 2022.

4.3.18 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of DCCEEW's financial statements. The ANAO focused audit effort on those specific areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.3.5 including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.3.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> water entitlements \$4.1 billion	Valuation of water entitlements assets KAM	Higher	<ul style="list-style-type: none"> significant judgement in the estimation of the value and impairment of water entitlements that is impacted by factors including the maturity and assessment of the water market; and reliance on third parties for the provision of information to support the valuation.
<i>Administered</i> Investments in corporate Commonwealth entities – Snowy Hydro \$8.75 billion	Valuation of the Australian Government's investment in Snowy Hydro Limited KAM	Higher	<ul style="list-style-type: none"> complex discounted cash flow models that require significant judgements in the selection of assumptions and inputs, including estimated future cash flows, weighted average cost of capital, terminal values and discount rates that are based on primarily unobservable data; and the significance of the balance of administered investments to the financial statements.
<i>Departmental</i> Antarctic solid waste disposal sites and Antarctic regions provision (a component of other provisions) \$451.3 million	Valuation of the Antarctic restoration provision KAM	Higher	<ul style="list-style-type: none"> nature of the Australian Government's obligations under the Madrid Protocol to maintain and remediate the impact of operations in Antarctica; complex mathematical model with several inputs and data sources; and the provision is subject to increased judgment and estimation, particularly relating to discount rates, escalation factors, asset replacement costs, dismantling costs and useful lives.
<i>Administered</i> grants expenses \$538.3 million	Occurrence and accuracy of grant expenses	Moderate	<ul style="list-style-type: none"> complex, significant and diverse range of grant programs that include several different administrative and legislative arrangements and

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
grants payable \$11.2 million			<ul style="list-style-type: none"> conditions which impact payments; and level of subjectivity and judgement applied in determining whether a recipient meets eligibility and funding milestone requirements.
<i>Departmental and administered</i> Impacts all financial statements line items	Machinery of Government changes, particularly the valuation and reporting of assets and liabilities transferred to DCCEEW as a result of these changes.	Moderate	<ul style="list-style-type: none"> significance of the transfer of assets, liabilities, revenue and expenses from the Department of Agriculture, Fisheries and Forestry (DAFF), Department of Industry, Science and Resources (DISR) and other entities to DCCEEW which will increase the complexity of the financial statements preparation process; timely recognition and alignment of accounting policies for assets, liabilities, revenue and expenses transferred to DCCEEW; and complexity and number of financial management information systems (FMIS) which contain information that will support the preparation of the financial statements.

Source: ANAO 2022–23 audit results, and DCCEEW’s audited financial statements for the year ended 30 June 2023.

Audit results

4.3.19 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.3.6: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	1 ^a	1	–	2
Total	1	1	–	2

Note a: The moderate audit finding relating to FMIS Privileged user access management was first reported to the former Department of Agriculture, Water and the Environment as part of the 2021–22 financial statements audit. DAFF transferred the administrative responsibility for the SAP Financial Management Information System (FMIS) to DCCEEW in February 2023. Prior to February 2023 DAFF was responsible for the FMIS. The finding was not resolved by DAFF and the audit finding was transferred to DCCEEW.

Source: ANAO 2022–23 audit results.

4.3.20 For each of the findings listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that DCCEEW’s 2022–23 financial statements were not materially misstated.

Unresolved moderate audit findings

SAP FMIS privileged user management

4.3.21 This finding was first reported to the former DAWE as part of the ANAO's audit of the DAWE's 2021–22 financial statements. During the 2021–22 audit of DAWE's financial statements, the ANAO identified weaknesses in the effectiveness of monitoring of privileged user activities within the FMIS.

4.3.22 The ANAO identified that audit logs of privileged user activities were not regularly reviewed and that reviews confirming the currency of user access had not been regularly completed. Failure to undertake these reviews increases the risk of erroneous or unauthorised changes to IT systems will not be identified and addressed. The ANAO recommended that DAWE recommence these reviews.

4.3.23 During the 2022–23 interim audit the ANAO identified that reviews of privileged user activities had not been undertaken by DAFF for the period October 2022 to January 2023, or by DCCEEW after February 2023. During this period, reviews confirming the currency of user access were also not fully completed. The ANAO recommended that DCCEEW finalise the outstanding reviews of privileged user activities and embed a formal process that supports the review being performed in a timely manner.

4.3.24 In July 2023 DCCEEW finalised the outstanding reviews of privileged user activities, however, the reviews were not timely. As a result, this finding remains unresolved. The ANAO will focus on DCCEEW's action taken to resolve this finding as part of the 2023–24 audit.

SAP FMIS user access provisioning and removal of user access

4.3.25 The provisioning and removal of access to the FMIS relies on a mix of automated and manual controls that are supported by information provided by DCCEEW's IT shared service provider DAFF. Prior to February 2023 the SAP FMIS was administered by DAFF. The effective operation of these controls would ensure that users only have access to functions and transactions within the FMIS that are appropriate to their role. User accounts should be removed or updated when there is no longer a business requirement for access after this date.

4.3.26 During the 2022–23 interim audit the ANAO identified instances where user access was not removed in a timely manner following a user's termination and where users had access to functions and roles within the SAP FMIS that were not relevant to their position. The ANAO recommended that DCCEEW develop risk-based monitoring controls to confirm user access and role assignments are appropriate and that user access is removed in a timely manner.

4.3.27 During the 2022–23 final audit, the ANAO identified further instances where users' access was not removed from the FMIS in a timely manner. As a result, this finding remains unresolved. The ANAO will focus on DCCEEW's action taken to resolve this finding as part of the 2023–24 audit.

Bureau of Meteorology

4.3.28 The Bureau of Meteorology (the Bureau) is responsible for gathering weather, water and atmospheric observations to provide forecasts, warnings and long-term weather and climatic outlooks.

4.3.29 In light of the key areas of financial statements risk and the identification of material prior period errors impacting the 2021–22 financial statements (refer to paragraph 4.3.42) the ANAO increased the overall risk of material misstatement in the financial statements audit from low to moderate in 2022–23.

Summary of financial performance

4.3.30 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by the Bureau (as outlined in Table 4.3.7) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.7: Key financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 Restated ^a (\$m)
Net (cost of)/contribution by services	(469.7)	(388.6)
Revenue from government	345.5	315.7
Surplus/(deficit) attributable to the Australian Government	(124.2)	(72.9)
Total other comprehensive income/(loss)	49.8	–
Total comprehensive income/(loss) attributable to the Australian Government	(74.4)	(72.9)
Total assets	1,309.0	1,171.3
Total liabilities	327.7	304.8
Total equity	981.3	866.5

Note a: The prior period financial statements were restated with respect to: non-financial assets, contract liabilities, accrued revenue and lease liabilities due to the identification of prior period errors (refer to paragraph 4.3.42).

Source: The Bureau's audited financial statements for the year ended 30 June 2023.

4.3.31 Revenue from Government increased due to additional funding from the Australian Government for programs, including further support for meteorological services for aviation.

4.3.32 The increase in the net cost of services of \$81.1 million is due mainly to:

- an increase in write down and impairment of assets expenses of \$30.0 million following the Bureau's stocktake process and a review of the Bureau's assets under construction; and
- an increase in supplier expenses of \$51.3 million were predominantly due to an increase in external service provider costs for the delivery of certain projects and programs managed by the Bureau.

4.3.33 The increase in total assets of \$137.7 million is predominantly attributable to increases in:

- plant and equipment and buildings of \$53.0 million mainly reflecting the purchase of plant and equipment, the recognition of right-of-use assets and the impact of a comprehensive asset revaluation undertaken during 2022–23. The valuation increment was due to increases in estimated costs of construction, development and replacement technology; and

- computer software of \$76.6 million mainly reflecting the purchase and development of software to support the Bureau's operations.

4.3.34 The change in total other comprehensive income is due to the impact of a comprehensive revaluation of non-financial assets undertaken in 2022–23 (refer to paragraph 4.3.33).

Key areas of financial risk

4.3.35 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of the Bureau's financial statements. The ANAO focused audit effort on those specific areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.3.8.

Table 4.3.8: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Plant and equipment \$452.0 million	Valuation of plant and equipment particularly specialised weather equipment	Higher	<ul style="list-style-type: none"> • involves complex valuation processes that involve significant judgement and estimation by valuation experts; • includes diverse types of assets such as radar and weather stations located across Australia and the external territories; and • identification by the Bureau of material prior period errors relating to the recognition, measurement and treatment of certain plant and equipment balances.
Computer software \$346.4 million	Valuation of computer software	Higher	<ul style="list-style-type: none"> • significant investment in software including meteorological applications, super computer and data management; • high level of complexity involved in capturing costs and confirming these assets can be capitalised in accordance with Australian Accounting Standards; • significant reliance on management's judgements in relation to useful lives and impairment of these assets; and • identification by the Bureau of material prior period errors relating to the recognition, measurement and treatment of certain computer software balances.
Right-of-use assets \$137.7 million amortisation \$25.7 million lease liabilities \$147.6 million	Accounting for leases	Higher	<ul style="list-style-type: none"> • high volume of leases with varying terms and conditions, and a high level of manual input and judgement required to estimate the value of lease liabilities and right-of-use assets at year-end; • identification by the Bureau of material prior period errors relating to the recognition, measurement and treatment of certain lease liabilities and right-of-use assets.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Revenue from contracts with customers \$65.0 million contract liabilities \$16.8 million	Recognition of the Bureau's own-source revenue	Higher	<ul style="list-style-type: none"> the range of contract terms and contract periods apply in the Bureau's contracts with customers; there is increased complexity in determining performance obligations under contracts which determine the method of revenue recognition; identification by the Bureau of material prior period errors relating to the recognition, measurement and treatment of certain revenue.

Source: ANAO 2022–23 audit results, and the Bureau's audited financial statements for the year ended 30 June 2023.

Audit results

4.3.36 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.3.9: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	–	1	–	1
Total	–	1	–	1

Source: ANAO 2022–23 audit results.

4.3.37 For the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that Bureau's 2022–23 financial statements were not materially misstated.

New moderate audit finding

Record keeping

4.3.38 Section 41 of the *Public Governance Performance and Accountability Act 2013* (PGPA Act) requires that 'the accountable authority of a Commonwealth entity must cause accounts and records to be kept that properly record and explain the entity's transactions and financial position'.

4.3.39 During 2022–23 a number of prior period errors were identified in relation to the measurement of property, plant, equipment and intangibles; leases; and revenue. One of the contributing causes for these errors was gaps in records supporting the recognition and measurement of these balances in prior periods. Additionally, the ANAO identified:

- that the Bureau does not have a policy on the retention of records supporting the financial statement; and
- inconsistent record management practices.

4.3.40 The ANAO recommended that the Bureau conduct a stocktake and assessment of the requirements for records supporting the financial statements, establish a policy on retention of

these records and provide instructions and support to officials to meet these requirements. The Bureau agreed with these recommendations.

4.3.41 The ANAO will consider the implementation of the record keeping policy and revised controls by the Bureau as part of the 2023–24 financial statements audit.

Emphasis of matter

4.3.42 The auditor’s report for the Bureau’s 2022–23 financial statements included an emphasis of matter paragraph to draw the attention of users to the Overview note of the financial statements which describes the Bureau’s correction of prior period errors. These errors related to the incorrect recognition and measurement of property, plant, equipment and intangibles; leases; and revenue in the prior year. The auditor’s report was not modified in respect of this matter.

4.3.43 The net impact of the errors to each financial statement line item was to reduce the total equity for the period ending 30 June 2022 by \$46.1 million. Further information on the nature of the errors identified is available in Overview note to the Bureau’s 2022–23 financial statements.

Clean Energy Finance Corporation

4.3.44 The Clean Energy Finance Corporation (CEFC) is responsible for facilitating increased flows of finance into the clean energy sector and facilitating the achievement of Australia’s greenhouse gas emissions reduction targets.

Summary of financial performance

4.3.45 The following section provides a comparison of the 2021–22 and 2022–23 key departmental financial statements items reported by CEFC (as outlined in Table 4.3.10) and includes commentary regarding significant movements between years.

Table 4.3.10: Key financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	164.7	187.1
Revenue from government	12.6	7.1
Share in results of associates and joint ventures	(2.4)	(4.7)
Surplus/(deficit) attributable to the Australian Government	174.9	189.5
Total other comprehensive income/(loss)	6.6	12.4
Total comprehensive income/(loss) attributable to the Australian Government	181.5	201.9
Total assets	6,184.6	6,502.4
Total liabilities	79.4	78.6
Total equity	6,105.2	6,423.8

Source: CEFC’s audited financial statements for the year ended 30 June 2023.

4.3.46 The decrease in the net contribution by services and surplus is mainly as result of offsetting factors.

- A decrease of \$36.6 million in net gains on the fair value of financial instruments (compared with performance in 2021–22) due to changes in industry specific economic factors and investment performance. Fair value gains recognised related mainly to investments in the agriculture and investment sectors, with fair value losses mainly arising for investments in the property sector and for CEFC’s early stage investments.
- An increase of \$31.3 million in interest and loan fee revenue, mainly reflecting increases in prevailing market interest rates.
- A decrease of \$10.8 million in distributions from trusts and equity investments, mainly reflecting a lower level of gains being realised due to changes in industry specific economic factors and investment performance.
- An increase in supplier and employee expenses of \$8.5 million reflecting additional resourcing required by CEFC to establish the ‘Rewiring the Nation’ fund (refer to paragraph 4.3.47).

4.3.47 Revenue from government increased due to funding received by CEFC for the establishment of the ‘Powering Australia Technology Fund’ and ‘Rewiring the Nation’ initiatives.

4.3.48 The decrease in total assets of \$317.8 million is primarily due to the following:

- a decrease in the balance of loans and advances by \$606.3 million, reflecting earlier than expected repayment by borrowers who were able to refinance their loan facilities with other lenders;
- an increase of \$194.9 million in the value of investments in equities and unit trusts of, due to additional investments made during the period and the cumulative impact of fair value increases of existing investments (refer to paragraph 4.3.46); and
- an increase of \$67.1 million in other debt securities primarily related to deployment into new bonds to support small to medium enterprise loan aggregation programs.

4.3.49 The decrease in total equity of \$318.5 million is due mainly to a \$500.0 million return of equity made by the CEFC to the CEFC Special Account.

4.3.50 All other movements were as a result of normal fluctuations in operating conditions.

Key areas of financial risk

4.3.51 The ANAO completed appropriate audit procedures on all material items. The ANAO focused audit effort on those specific areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.3.11.

Table 4.3.11: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Loan and interest fee revenue \$202.0 million	Recognition and measurement of interest and fee income	Higher	<ul style="list-style-type: none"> • calculation of revenue from a diverse set of financial assets, some of which are complex in nature and some of which are concessional; and

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
			<ul style="list-style-type: none"> amounts received for establishment and other fees may be in a form other than cash (for example, shares), raising valuation issues.
Loans and advances (net) \$2.5 billion other debt securities (net) \$957.1 million impairment allowance \$135.7 million provision for concessional investments \$19.9 million	Accounting for complex finance agreements including the adequacy of impairment provisions and concessional loan adjustments	Higher	<ul style="list-style-type: none"> complex lending scenarios to entities undertaking new or emerging technologies in the clean energy sector where a mature track record of results is still to be established and where access to other finance has been challenging; complex agreements with borrowers impacting on fair value assessment, loan modification and concessional loan accounting calculations; obtaining relevant benchmark information for related market data from which concessional loan charges are determined requires significant judgement; and complexity of impairment assessments in relation to forecast future cash flows, security valuation and relevant discount factors, given the nature of the borrowers and their underlying business.
Equities and units in trusts \$1.6 billion distributions from trusts and equity investments \$45.5 million net fair value gain on equities and trusts carried at FVPTL \$28.3 million	Valuation of unlisted equity investments	Moderate	<ul style="list-style-type: none"> complexity in determining the appropriate accounting treatment due to nature of the underlying ownership and/or terms of investments made; and the size of the investments and the inherent subjectivity and significant judgements and estimates required where market data is not available to determine the fair value of these investments. This can include discounted cash flow valuation models, benchmarking or net assets method) and reliance on valuation experts.
Equity accounted investments \$496.0 million	Accounting for investments in associates	Moderate	<ul style="list-style-type: none"> complexity in determining the appropriate accounting treatment due to nature of the underlying ownership and/or terms of investments made in each associate and determining the percentage of ownership held by CEFC; and reliance on each associate to provide appropriate and reliable supporting information to verify ownership arrangements and to calculate investment value and performance at balance date.

Source: ANAO 2022–23 audit results, and CEFC's audited financial statements for the year ended 30 June 2023.

Audit results

4.3.52 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Clean Energy Regulator

4.3.53 The Clean Energy Regulator (CER) is established by the *Clean Energy Regulator Act 2011*. The CER is responsible for the administration of market based mechanisms that incentivise reduction in greenhouse gas emissions and the promotion of additional renewable electricity generation. In achieving these objectives the CER is responsible for the administration of the Emissions Reduction Fund and the programs and regulation supporting the Renewable Energy Target.

Summary of financial performance

4.3.54 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by CER (as outlined in Table 4.3.12 and Table 4.3.13) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.12: Key departmental financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(115.1)	(90.2)
Revenue from government	112.8	86.9
Surplus/(deficit) attributable to the Australian Government	(2.3)	(3.3)
Total other comprehensive income/(loss)	0.2	–
Total comprehensive income/(loss) attributable to the Australian Government	(2.1)	(3.3)
Total assets	77.0	78.6
Total liabilities	51.3	54.1
Total equity	25.7	24.5

Source: CER's audited financial statements for the year ended 30 June 2023.

4.3.55 The increase in the net cost of services and revenue from government related to additional expenditure on supplier and employee expenses to deliver CER's streamlining initiatives, including investment in additional IT platforms.

Table 4.3.13: Key administered financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	338.5	398.1
Total income	387.6	306.0
Surplus/(deficit)	49.1	(92.1)
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss)	49.1	(92.1)
Total assets administered on behalf of Government	119.8	14.8
Total liabilities administered on behalf of Government	1,099.3	1,020.9
Net liabilities	(979.5)	(1,006.1)

Source: CER's audited financial statements for the year ended 30 June 2023.

4.3.56 The \$59.6 million decrease in expenses largely related to a reduction in the purchase of Australian Carbon Credit Units (ACCUs) in the ACCU scheme in 2022–23, due to:

- the fixed delivery contract exit program. From March 2022 contracted parties, with the consent of CER, can buy out their obligation to render ACCUs for purchase by the CER under fixed delivery contracts for a fee (fee is equivalent to the value of the milestone in the contract); and
- a continued transition towards optional delivery contracts in the ACCU scheme. Optional delivery contracts provide the contract holder a right but not an obligation to sell ACCUs to CER. Earlier ACCU scheme contracts mainly comprised fixed delivery contracts obligating the sale of ACCUs to CER.

4.3.57 The increase in total revenue of \$50.5 million relates mainly to the increased collection of ACCU scheme exit fees (refer to paragraph 4.3.56).

4.3.58 The increase in total assets of \$105.0 million relates mainly to the balance of cash and cash equivalents held in Small Scale Technology Certificate Clearing House Special Account administered by CER. During the period there was an increase in small scale technology certificate¹²⁷ purchases by market participants to meet their legislative requirements (deposits in the special account) which were not fully met through sales of certificates from the market.¹²⁸

4.3.59 The increase in liabilities of \$78.4 million is due mainly to the increase in the liability for the funds held on behalf of market participants in the Small Scale Technology Certificate Clearing House Special Account (refer to paragraph 4.3.57).

Key areas of financial risk

4.3.60 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that

127 A small-scale technology certificate is equal to 1 megawatt hour of renewable electricity either generated or displaced by eligible small-scale renewable energy systems such as solar photovoltaic, wind and hydro and solar water heaters and air source heat pumps.

128 There is timing delay where the supply of certificates did not meet demand).

support the preparation of CER’s financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.3.14.

Table 4.3.14: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<p><i>Administered</i></p> <p>Renewable Energy Target refund expenses \$288.6 million</p> <p>Renewable Energy Target shortfall provision \$930.4 million</p> <p>Renewable Energy Target shortfall charge and interest \$306.8 million</p>	Recognition of shortfall charges revenue under the <i>Renewable Energy (Electricity) Act 2000</i> and valuation of shortfall provision	Moderate	<ul style="list-style-type: none"> complexity of the underlying IT environment which supports the administration of the Renewable Energy Target; and the level of professional judgement required to be applied by CER to determine the appropriate recognition and measurement of the Renewable Energy Target shortfall refund provision, including making an assessment of the likelihood of the occurrence of refunds being paid.
<p><i>Administered</i></p> <p>purchase of Australian Carbon Credit Units expenses \$32.9 million</p> <p>purchase of Australian Carbon Credit Units provision \$51.4 million</p>	Occurrence and valuation of the Australian Carbon Credit Units purchase scheme (ACCU scheme) expenditure and liabilities	Moderate	<ul style="list-style-type: none"> complexity of the underlying IT environment which supports the administration of the ACCU scheme; complexity of the legislative framework for assessment underpinning the ACCU scheme, including the verification and compliance activities for ACCUs issued and the contract and auction assessment process which trigger payments; and the level of professional judgement required to be applied by CER to determine the appropriate recognition and measurement of the provision for the purchase of ACCUs under fixed and optional delivery contracts.

Source: ANAO 2022–23 audit results, and CER’s audited financial statements for the year ended 30 June 2023.

Audit results

4.3.61 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.3.15: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	1	–	–	1
Total	1	–	–	1

Source: ANAO 2022–23 audit results.

4.3.62 For the audit finding listed below, the ANAO undertook additional audit procedures to gain assurance that CER's 2022–23 financial statements were not materially misstated.

Unresolved moderate audit finding

Privileged and other user access

4.3.63 Maintaining and supporting IT systems requires some user accounts, both at the network and the application level, to have extensive access rights (privileged access). Privileged user accounts can be used to circumvent security controls to make direct changes, either to system settings or systems data, or to access files and accounts used by others.

4.3.64 During the 2021–22 audit the ANAO identified that there were limited policies, procedures or risk assessments that specified the extent to which activities of privileged users should be monitored across the impacted systems. Further, where CER had a specific policy to undertake monitoring of privileged user and other user access that these had not been performed. The ANAO recommended that CER undertake a review of all privileged user access logs and undertake a risk assessment informing policies and procedures which would regularise these reviews.

4.3.65 During 2022–23 CER commenced the implementation of revised controls to address the weaknesses identified by the ANAO. However, the ANAO's review of these controls indicated that they were not yet fully mature or operating effectively. The ANAO will review CER's progress in addressing this finding as part of the 2023–24 financial statements audit.

Snowy Hydro Limited

4.3.66 Snowy Hydro Limited (Snowy Hydro) is a government business enterprise responsible for energy generation activities to supply the National Electricity Market as well as operating as a retail energy provider.

Summary of financial performance

4.3.67 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by Snowy Hydro (as outlined in Table 4.3.16) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.16: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	(3,627.7)	(3,256.9)
Total revenue	4,259.1	3,677.5
Income tax expense	(189.7)	(125.8)
Profit for the period	441.7	294.8
Other comprehensive income	23.3	319.7
Total comprehensive income/(loss) attributable to the Australian Government	465.0	614.5
Total assets	9,776.8	8,953.8
Total liabilities	3,879.2	5,078.9
Total equity	5,897.6	3,874.9

Source: Snowy Hydro's audited financial statements for the year ended 30 June 2023.

4.3.68 Total revenue increased by \$581.6 million, mainly due to growth in customer numbers, an increase in electricity and gas prices during the year and favourable energy price fluctuations on derivative instruments.

4.3.69 The increase in total expenses is largely due to the higher direct costs of supply of electricity to the National Electricity Market and sales to retail customers.

4.3.70 Total comprehensive income decreased due to the impact of fluctuating market changes on foreign currency exchange and interest rate hedges recorded through other comprehensive income. There was increased volatility in the prior year, which led to a higher other comprehensive income result compared to 2022–23.

4.3.71 The increase in total assets is primarily due to \$2.1 billion of assets under construction costs capitalised during the year. These costs predominantly relate to the Snowy 2.0 and Hunter Power projects. This increase was partially offset by a \$843.2 million reduction in other financial assets as a result of the revaluation of financial assets and a \$149.9 million reduction in trade and other receivables. The reduction was a result of the market returning to electricity generation activity consistent with historical conditions for June 2023 following a large increase in electricity generation and associated receivables in June 2022.

4.3.72 Total liabilities have decreased mainly due to market movements on derivative instruments held and the repayment of some interest bearing liabilities during the year.

Key areas of financial risk

4.3.73 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of Snowy Hydro's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.3.17 including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.3.17: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<p>Other financial assets \$967.7 million</p> <p>Other financial liabilities \$457.2 million</p> <p>Increase in the fair value of financial instruments \$329.0 million</p> <p>Increase in other comprehensive income \$23.1 million</p>	<p>Valuation, existence and completeness of financial instruments – energy derivatives KAM</p>	Higher	<ul style="list-style-type: none"> the judgement and level of estimation applied by Snowy Hydro to determine material inputs into the valuation models for these financial instruments, including: forecast future energy prices and market demand, future generation capacity for solar and wind generators, calculation of discount rates and other market factors. The level of estimation complexity is increased due to the limited observable market data for some contracts that have been entered into by Snowy Hydro as comparable contracts and market data are not readily available. In these cases the inputs are based on unobservable data as estimated and prepared by Snowy Hydro; the arithmetical complexity of the valuation models developed by Snowy Hydro to account for these instruments; and the level of complexity related to the preparation and presentation of financial statement disclosures relating to these financial instruments, particularly when the valuation models are based on unobservable market data.
<p>Property, plant and equipment (a component of \$5.3 billion construction in progress)</p>	<p>Valuation of property, plant and equipment for Snowy 2.0 KAM</p>	Higher	<ul style="list-style-type: none"> Snowy 2.0 is a complex infrastructure project delivered over a number of financial periods; judgement applied by Snowy Hydro in determining which costs associated with project establishment and delivery meet the relevant technical requirements for capitalisation; and judgement and estimation applied by management in assessing the relevant cash generating unit for impairment indicators to support the recoverable amount of property, plant and equipment recognised at balance date.
<p>Trade receivables \$541.7 million (includes unbilled receivable of \$296.9 million)</p> <p>Allowance for doubtful debts \$67.8 million</p>	<p>Completeness and accuracy of the impairment of retail debtors KAM</p>	Higher	<ul style="list-style-type: none"> the level of judgement and estimation involved in measuring the allowance for doubtful debts, which involves complex calculations and an increased level of judgement applied by management in determining the estimate of expected lifetime credit loss on trade and other receivables.

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Unbilled revenue receivable \$296.9 million	Valuation and existence of unbilled retail revenue	Moderate	<ul style="list-style-type: none"> estimation required due to services provided not yet billed arising from timing of electricity meter reads for customers and the date of preparing the financial statements; and estimation process involves increased management judgement underpinned by a complex data model with a number of inputs, significant number of customers and data sources.
Environmental certificate assets \$102.0 million	Valuation of renewable energy certificates	Moderate	<ul style="list-style-type: none"> increased level of judgement applied by Snowy Hydro in determining the appropriate accounting treatment for renewable energy certificates and the valuation at balance date.
Capitalised customer acquisition costs \$57.1 million amortisation expense \$32.5 million	Valuation of customer acquisition costs	Moderate	<ul style="list-style-type: none"> level of management judgement applied in determining which costs outlaid to acquired retail customers meet relevant technical requirements for capitalisation; and complexity of estimation process and judgement applied to determine an appropriate amortisation rate reflective of the expected time a customer will continue to procure services from Snowy Hydro.
Intangible assets – goodwill \$383.2 million	Valuation and impairment of non-financial assets	Moderate	<ul style="list-style-type: none"> the impairment estimation process is complex and judgemental due to the nature of the impairment model which requires assumptions to be made related to future cash flows and discount rates.
Property, plant and equipment (a component of \$5.3 billion construction in progress)	Capitalisation of construction in progress for the Hunter Power project	Moderate	<ul style="list-style-type: none"> judgement applied by Snowy Hydro in determining which costs associated with project establishment and delivery meet the relevant technical requirements for capitalisation.
Bank loans \$2.5 billion (a component of interest bearing liabilities)	Debt facility and covenant compliance	Moderate	<ul style="list-style-type: none"> Snowy Hydro is accessing a mix of private debt funding and equity injections from the Australian Government to fund the construction and delivery of the Snowy 2.0 and Hunter Power projects. Some of these funding arrangements contain covenants that must be complied with.

Source: ANAO 2022–23 audit results, and Snowy Hydro's audited financial statements for the year ended 30 June 2023.

Audit results

4.3.74 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Comments on non-material entities

Great Barrier Reef Marine Park Authority

4.3.75 The Great Barrier Reef Marine Park Authority (the Authority) provides world-leading marine park management to protect reef habitats, strengthen reef resilience, and reduce cumulative impacts in a changing climate. The Authority is structured to meet the following outcome: The long-term protection, ecologically sustainable use, understanding and enjoyment of the Great Barrier Reef for all Australians and the international community, through the care and development of the Marine Park.

Audit results

4.3.76 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.3.18: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	–	1	–	1
Total	–	1	–	1

Source: ANAO 2022–23 audit results.

4.3.77 For the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that Authority's financial statements were not materially misstated.

New moderate audit finding

Privileged access to the FMIS

4.3.78 Maintaining and supporting IT systems requires some user accounts, both at the network and the application level, to have extensive access rights (privileged access). Privileged user accounts can be used to circumvent security controls to make direct changes, either to system settings or systems data, or to access files and accounts used by others. During the 2022–23 audit of IT controls supporting the in the Financial Management Information System (FMIS) the ANAO identified:

- privileged user access was provided to some employees in excess of the required business requirements; and
- there were weaknesses in the design and operating effectiveness of controls supporting privileged access. There were limited policies, procedures or risk assessments that specified the extent to which activities of privileged users should be monitored in the FMIS.

4.3.79 The ANAO recommended that the Authority: review privileged access to the FMIS and remove access no longer required; and review of all privileged user access logs and develop a policy and procedure which would regularise these reviews.

4.3.80 The ANAO will confirm the implementation and effective operation of the and regularised process for monitoring privileged user access as part of the 2023–24 financial statements audit.

4.4 Defence portfolio

Portfolio overview

4.4.1 The Defence portfolio includes a number of entities that together are responsible for the defence of Australia and its national interests. The principal entities within the portfolio are the Department of Defence (Defence), the Department of Veterans' Affairs (DVA), the Australian Signals Directorate, and Defence Housing Australia. DVA and its associated bodies, including the Australian War Memorial (AWM), are administered separately to Defence. DVA is the primary service delivery entity with the responsibility for implementing programs to assist the veteran and ex-service communities, including repatriation, rehabilitation and compensation, and war graves.

4.4.2 Table 4.4.1 identifies material and other entities specifically mentioned in this section.

Table 4.4.1: Defence portfolio material and other entities discussed in this section

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Defence	Yes	High	✓	28 Sep 23	29 Sep 23	▲□
Department of Veterans' Affairs	Yes	Moderate	E	14 Sep 23	15 Sep 23	▲□
Australian Signals Directorate	Yes	Moderate	✓	13 Sep 23	13 Sep 23	Nil
Australian War Memorial	Yes	Low	✓	25 Aug 23	28 Aug 23	Nil
Defence Housing Australia	Yes	Moderate	✓	7 Sep 23	7 Sep 23	Nil
Army and Air Force Canteen Service	No	Moderate	✓	8 Sep 23	12 Sep 23	□
Royal Australian Air Force Veterans' Residences Trust	No	Low	✓	13 Sep 23	15 Sep 23	▲
Royal Australian Air Force Welfare Trust Fund	No	Low	✓	8 Aug 23	9 Aug 23	□
Royal Australian Navy Central Canteens Board	No	High	—	—	—	□

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

⇒: Financial statements not signed as at 30 November 2023.

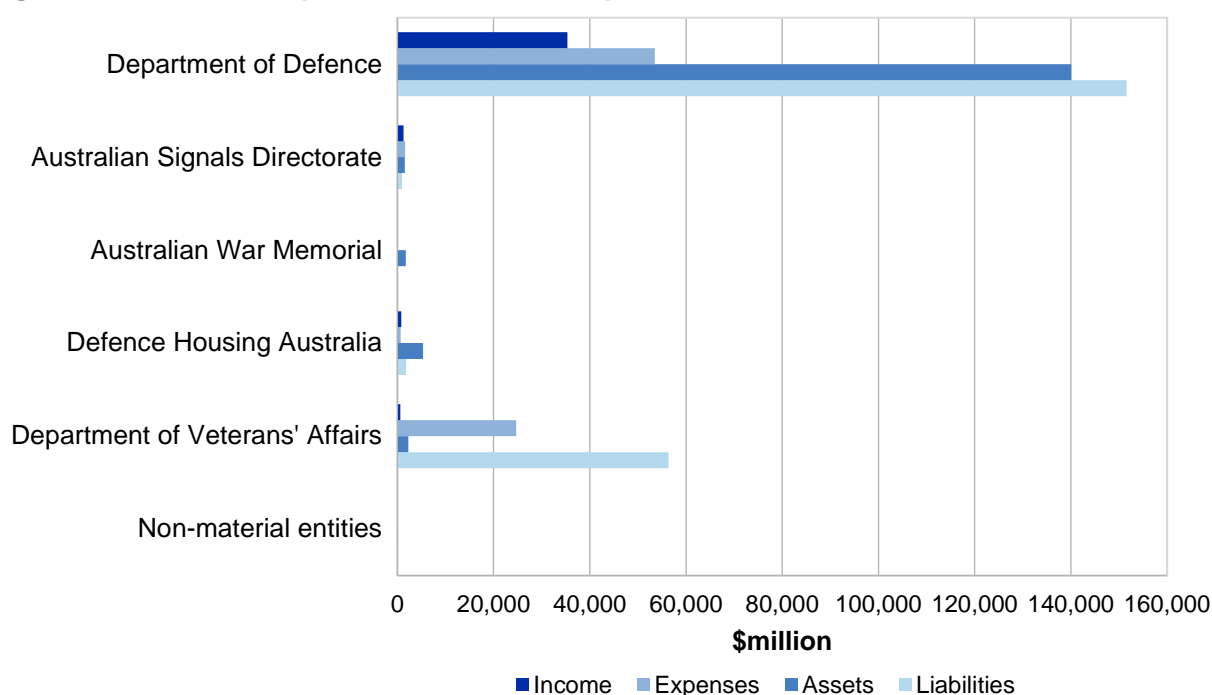
▲: significant or moderate findings and/or legislative matters reported previously but not yet resolved

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2022–23 interim audit phase, now downgraded or resolved

4.4.3 Figure 4.4.1 shows the Defence portfolio's income, expenses, assets and liabilities contribution to the Australian Government Consolidated Financial Statements (CFS) for the year ended 30 June 2023.¹²⁹

¹²⁹ This represents the portfolio's contribution to the Australian Government's CFS for the period ending 30 June 2023. It does not include transactions between agencies, such as appropriation revenue, which are not included in the CFS.

Figure 4.4.1: Defence portfolio's income, expenses, assets and liabilities



Source: ANAO analysis of 2022–23 CFS.

4.4.4 As previously outlined in Chapter 2, paragraphs 2.153 to 2.160, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2022–23 financial statements audits. Table 4.4.2 provides a summary of those audit differences that relate to entities within the Defence portfolio.

Table 4.4.2: The number of audit differences for entities in the Defence portfolio

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Defence	5	1	6	24 ^a	–	24
Army and Air Force Canteen Service	–	1	1	–	2	2
Australian Strategic Policy Institute Limited	1	2 ^a	3	1	1	2
Defence Housing Australia	1	1	2	1	–	1
Department of Veterans' Affairs	1	–	1	1	4	5
Royal Australian Air Force Veterans' Residences Trust	–	1	1	–	1	1
Royal Australian Air Force Welfare Trust Fund	–	1	1	–	–	–

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Royal Australian Navy Central Canteens Board	⇒	⇒	⇒	2	7	9

Note a: The adjustments include adjustments identified in period that relate to the prior year.

⇒: Financial statements not signed as at 2 December 2022.

Source: ANAO analysis of audit differences reported to entities in the Defence portfolio.

4.4.5 The following section provides a summary of the 2022–23 financial statements audit results for the Department of Defence, and findings for other material entities and non-material entities in the portfolio.

Department of Defence

4.4.6 The Department of Defence (Defence) is responsible for protecting and advancing Australia's strategic interests through the promotion of security and stability, the provision of military capabilities to defend Australia and its national interests, and the provision of support for the Australian community and civilian authorities as directed by the Australian Government.

Summary of financial performance

4.4.7 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by Defence (as outlined in Table 4.4.3 and Table 4.4.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.4.3: Key departmental financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Net cost of services	(41,344.4)	(40,884.2)
Revenue from government	32,839.6	29,592.0
Deficit attributable to the Australian Government	(8,504.8)	(11,292.1)
Total other comprehensive income	1,591.6	5,255.7
Total comprehensive loss attributable to the Australian Government	(6,913.3)	(6,036.4)
Total assets	136,259.1	127,325.8
Total liabilities	13,708.6	12,640.1
Total equity	122,550.5	114,685.7

Source: Defence's audited financial statements for the year ended 30 June 2023.

4.4.8 Net cost of services has increased primarily due to increases in supplier expenses and depreciation expenses. Supplier expenses are higher due to greater inventory consumption, higher contractor and project management costs, and higher sustainment costs associated with Defence's specialist military equipment. Depreciation expenses have increased in line with the growth in

Defence's asset base. This has been partially offset by a reduction in the write-down and impairment of assets.

4.4.9 The net cost of services has also been offset by an increase in departmental revenue associated with the reclassification of Defence's special account balance from administered to departmental as at 1 July 2022.

4.4.10 Total other comprehensive income reflects the movement in the asset revaluation reserve as a result of asset valuations. The movement in the valuation during the financial year was lower than the previous year.

4.4.11 Total assets have increased primarily due to purchases of specialist military equipment, investment in Defence's on-base infrastructure, an increase in inventory holdings, and advance payments made in relation to assets purchased from foreign governments.

4.4.12 Total liabilities have increased primarily due to higher supplier payables. This increase is consistent with the increase observed in supplier expenses discussed above.

Table 4.4.4: Key administered financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	9,920.6	10,907.8
Total income	1,214.2	1,650.9
Deficit	(8,706.4)	(9,256.9)
Total other comprehensive income	9,546.5	46,977.0
Total comprehensive income	840.1	37,720.1
Total assets administered on behalf of Government	3,778.9	3,749.1
Total liabilities administered on behalf of Government	137,887.7	141,086.0
Net liabilities	(134,108.8)	(137,336.9)

Source: Defence's audited financial statements for the year ended 30 June 2023.

4.4.13 Total expenses relate to employee contributions into Defence's defined benefit schemes. The decrease primarily relates to a reduction in the net service cost related to administering the defined benefit schemes.

4.4.14 Total income has reduced as a result of the reclassification of Defence's special account balance from administered to departmental as at 1 July 2022.

4.4.15 Total other comprehensive income reflects the movement in the actuarial valuation of the employee provision related to Defence's defined benefit schemes. The prior year decrease was significant due to the increase in the long-term government bond rate. The increase in the long-term government bond rate was smaller in 2022–23 when compared with the prior year and has resulted in a smaller overall movement.

4.4.16 Total liabilities have decreased as a result of the increase in the government bond rate which is used to value the administered employee provision. The employee provision reflects the fair value of future payments expected to be made to current and former Defence personnel in relation to Defence's defined benefit schemes.

Key areas of financial risk

4.4.17 In light of the key areas of risk and the ANAO's understanding of the operations of Defence, the ANAO assessed the overall risk of material misstatement in the 2022–23 financial statements audit as high.

4.4.18 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of Defence's financial statements. The ANAO focused audit effort on those specific areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.4.5 including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.4.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Departmental</i> Specialist military equipment (SME) \$84.3 billion	Accuracy and valuation of SME KAM	Higher	<ul style="list-style-type: none"> the high degree of judgement applied by management and management's valuation expert to measure specialist military equipment at fair value due to the highly specialised nature of these assets; the subjectivity in the valuation assessment due to the difficulty in obtaining the replacement costs of assets with a similar capability in the absence of an active market, the selection and application of appropriate indices, the determination and assessment of appropriate useful lives, and the identification of indicators of impairment; the complexity and high degree of judgement in the cost attribution model that allocates accumulated capitalised costs on large scale acquisition projects between individual platform assets, associated spares and inventory; prior year weaknesses identified in the internal controls for the Asset Valuation Model that allocate costs to assets under construction. The control weaknesses increase the risk that assets rolled out from assets under construction may be recorded at the incorrect value; and the balance being significant relative to Defence's Statement of Financial Position.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> Employee provisions \$137.9 billion	Accuracy, valuation and disclosure of administered employee provisions KAM	Higher	<ul style="list-style-type: none"> the measurement of the provision being complex, requiring significant professional judgement in the selection of key long-term assumptions (including such matters as salary growth and discount rates, pension indexation rate, pension take-up rate and invalidity retirements) to which the valuation of these plans is highly sensitive; and detailed disclosure requirements for the presentation and disclosure of defined benefit plans.
<i>Departmental</i> Inventory including explosive ordnance, (EO) fuel and general stores inventory (GSI) \$8.7 billion	Existence and completeness of inventory balances KAM	Moderate	<ul style="list-style-type: none"> the variety and number of inventory items which are managed differently across a large number of geographically dispersed locations and through a number of IT systems.
<i>Departmental</i> Land \$6.2 billion Buildings \$18.0 billion Infrastructure \$8.3 billion Plant and equipment \$1.7 billion Heritage and cultural \$0.4 billion	Accuracy and valuation of general assets	Moderate	<ul style="list-style-type: none"> the high degree of management judgement required in respect of classifying projects costs as capital or expense and the selection of valuation methods to measure fair value; the valuation of Defence's land, buildings, infrastructure, plant and equipment and heritage and cultural assets being depended on assumptions that require significant management judgement. These include capitalisation rates, current replacement costs, discount rates, and conditions of the assets. Where observable market data is not available, the valuation is subject to a higher level of judgement; and the subjectivity in determining appropriate useful lives and the assessment of the financial impact of indicators of impairment.

Source: ANAO 2022–23 audit results, and Defence's audited financial statements for the year ended 30 June 2023.

4.4.19 The following performance audit reports were tabled during 2022–23 relevant to the financial management or administration of Defence:

- Auditor-General Report No.7 2022–23 *Defence's Administration of the Integrated Investment Program*

- Auditor-General Report No.21 2022–23 *Department of Defence’s Procurement of Hunter Class Frigates*
- Auditor-General Report No.24 2022–23 *Defence’s Management of the Delivery of Health Services to the Australian Defence Force*
- Auditor-General Report No.33 2022–23 *Department of Defence’s Management of General Stores Inventory*
- Auditor-General Report No.45 2022–23 *Australia’s Provision of Military Assistance to the Ukraine*

4.4.20 While the reports did not include recommendations regarding risks to Defence’s financial administration as it relates to the financial statements, the observations were considered in designing the audit procedures to address areas considered to pose a higher risk of material misstatement. No significant changes were made to the designed audit procedures for the financial statements audit.

Audit results

4.4.21 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.4.6: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Significant (A)	–	1 ^a	–	1
Moderate (B)	4	–	(3)	1
Total	4	1	(3)	2

Note a: this finding was reported as a moderate audit finding at the conclusion of the 2022–23 interim audit phase (and as reported in Auditor-General Report No.26 2022–23 *Interim Report on Key Financial Controls of Major Entities*). During the final phase of the 2022–23 audit this finding has been upgraded to a significant audit finding.

Source: ANAO 2022–23 audit results.

4.4.22 For each of the findings listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that Defence’s 2022–23 financial statements were not materially misstated.

New significant audit finding

Removal of user access - Defence personnel and contractors

4.4.23 The Protective Security Policy Framework (PSPF) helps Australian Government entities to protect their people, information and assets. The PSPF sets out government protective security policy in terms of: security governance; information security; personnel security; and physical security. PSPF Policy 9 *Access to information* and PSPF Policy 14 *Separating personnel* outline security measures to control access to Australian Government information and mitigate risks associated with departing personnel. PSPF Policy 9 requires entities to control access to supporting ICT systems and applications and ensure access to sensitive information is only provided to people on a need-to-know basis. PSPF Policy 14 requires personnel’s access to be removed upon separation

or transfer from the entity. Inadequate security measures for timely removal of access from former personnel increase the risk of unauthorised access to sensitive information.

4.4.24 Removing or suspending access to Information and Communication Technology (ICT) systems, applications and data repositories prevents access when there is no longer a legitimate business requirement for their use. System access is removed when personnel change duties or leave an organisation, or on termination of a contractor arrangement. The Australian Government's Information Security Manual (ISM) requires entities to remove or suspend access on the same day personnel (including contractors) no longer have a legitimate business requirement for the access.

4.4.25 The ANAO performed an analysis of users' access to financial significant ICT systems, as well as the broader Defence Network to confirm whether user accounts remained active subsequent to the employee or contractor departing from Defence.

4.4.26 The ANAO identified 1,451 users whose access to the Defence Network was not removed in accordance with Information Security Manual (ISM) requirements. Testing also identified almost 2,000 instances where former employees and/or contractors had logged into and accessed data from Defence systems¹³⁰.

4.4.27 The ANAO also identified that a number of terminated employees continued to receive salary payments, in one case, for more than two months after termination.

4.4.28 In relation to the financial management information system, ROMAN, 215 users retained system access post termination. Defence has confirmed that personnel and contractors who did access the system post termination did not undertake any high-risk transactions that would impact the financial statements.

4.4.29 A number of Defence's inventory management systems did not retain data logs for the full financial period and the ANAO was unable to assess whether employees and/or contractors retained access post termination, or whether data was accessed post termination.

4.4.30 The ANAO also identified that Defence does not have effective controls in place for removing access to the financial management information system when personnel or contractors remain within the department, but their duties change.

4.4.31 Issues concerning user access have previously been reported by Defence's Internal Audit Branch. The internal audit concluded that "Defence does not have sufficient controls in place to prevent, detect and mitigate the risk that staff and/or contractors leaving Defence inappropriately use Defence systems. There are different processes in place across Defence for ADF, APS and contractors, with the audit finding that the processes for the removal of systems access are ineffective, increasing the opportunity for theft of information."

4.4.32 Auditor-General Report No.43 2021–22 *Effectiveness of the Management of Contractors* concluded that Defence's arrangements for the management of contractors was partially fit-for-purpose. The report recommended that Defence establish arrangements to better support compliance with PSPF Policy 14: Separating personnel, as well as monitor the effectiveness of arrangements to obtain assurance that PSPF Policy 14 is being met.

130 Some users accessed the ICT systems multiple times post termination.

4.4.33 The absence of effective of controls over the removal or monitoring of user access post termination increases the risk of inappropriate activity occurring in systems that have significant and sensitive data holdings. Inappropriate access can result in data integrity issues, as well as access to sensitive information.

4.4.34 There is a significant fraud and reputational risk exposure to Defence as a result of the above system access weaknesses. These risks relate to terminated employees as well as contractors.

4.4.35 The ANAO recommended that:

- implement processes to ensure the timely removal of employee and contractor system access;
- implement system changes to capture and record system access and activities completed by users for an appropriate period of time; and
- implement detective controls to identify instances where user access is not removed in a timely manner and monitoring controls to assess activities performed by those users after termination.

4.4.36 Defence has agreed with the recommendations made by the ANAO and has presented a remediation plan to address the issues as a matter of priority.

Unresolved moderate audit finding

Weaknesses around the disposal of assets and inventory

4.4.37 During 2018–19, Defence was unable to provide appropriate documentation in a timely manner in relation to the disposal of buildings. Between 2019–20 and 2022–23, the ANAO continued to identify asset disposals occurring in the IT system significantly after the physical disposal of the asset. Instances were also identified where there was a planned disposal, but the disposal directive was not signed until after the physical disposal had occurred.

4.4.38 Defence has advised that work has been undertaken to address this audit finding, and a range of new controls have been implemented to improve the timeliness of asset disposals.

4.4.39 In addition, an assurance activity was undertaken during 2022–23 which reviewed 12,000 assets and identified 58 assets, totalling \$17.5 million, that have subsequently been removed from the asset register. Defence has advised that final remediation activities are expected to be completed during the 2023–24 financial year.

4.4.40 The ANAO will assess Defence's progress in addressing the weaknesses as part of the 2023–24 audit.

Resolved moderate audit findings

Valuation of SME using the cost attribution model

4.4.41 In 2020–21, the ANAO reported a significant audit finding in relation to weaknesses around the cost attribution model used to capture and allocate costs to components of asset under construction projects. The weaknesses included:

- limited policies and procedures outlining the approach to developing, maintaining, and recording transactions against the cost attribution model;

- the use of excel spreadsheets to record the cost attribution model transactions, which have no evidenced controls or protection to prevent the accidental editing or deletion of data; and
- limited quality assurance mechanisms that could be relied upon to provide assurance over the asset allocations derived from the cost attribution models.

4.4.42 In 2021–22, this finding was downgraded to a moderate audit finding in recognition of the progress made by Defence in remediating weaknesses in the process. Defence has updated its internal policies to include a requirement for compliance activities to be performed annually over asset under construction projects.

4.4.43 During the 2022–23 audit, the ANAO:

- reviewed the compliance activities performed by Defence over a targeted selection of asset under construction projects;
- tested controls in a random selection of asset under construction projects;¹³¹
- tested a sample of transactions relating to projects to confirm the amount had been appropriately capitalised, or expensed; and
- tested the roll-out processes when finalised assets have been rolled out to the fixed asset register.

4.4.44 As a result of the action taken by Defence the ANAO considers this finding to be resolved.

Weaknesses around the governance of Australian Defence Force health services

4.4.45 The provision of health services to Australian Defence Force (ADF) members is managed under a contract with a service provider and includes two broad categories of charges covering off-base and on-base services. As part of the 2020–21 audit, the ANAO identified weaknesses associated with the processes implemented by Defence to confirm the accuracy and validity of the service provider’s monthly invoices.

4.4.46 The ANAO recommended Defence:

- examine and strengthen the design of processes to provide assurance over the accuracy and validity of the health service payments;
- extend assurance activities to include on-base services; and
- complete assurance activities in a timely manner and escalate issues to an appropriate level of management to ensure that issues can be dealt with promptly and recoveries initiated where required.

4.4.47 The management of the ADF health services contract was the subject of a performance audit, which was tabled during the 2022–23 financial year¹³². The performance audit highlighted similar issues to those raised in the financial statements audit.

4.4.48 The ANAO reviewed Defence’s progress in addressing the recommendations and observed that assurance activities have been extended to cover both on-base and off-base services. In

131 The 2022–23 audit is the first time that such a controls-based approach could be undertaken for Defence’s asset under construction projects.

132 Auditor-General Report No.24 2022–23 *Defence’s Management of the Delivery of Health Services to the Australian Defence Force*

addition, system fixes to improve the quality of invoicing were being implemented by the external service provider. The ANAO observed that Defence processes to review periodic invoicing were becoming more timely.

4.4.49 As a result of the action taken by Defence the ANAO considers this finding to be resolved.

Management of privacy data

4.4.50 Management of personally identifiable data is a responsibility of all Australian Government entities subject to the *Privacy Act 1988*. As part of the 2020–21 audit, in reviewing the privacy framework at Defence, the ANAO observed that Defence was unable to provide evidence and assurance that personally identifiable information was being managed appropriately. The ANAO also identified that Defence has limited ability to discover systems that contain information that would be classified as personally identifiable information, as well as no systematic method for tracking changes, access or distribution of personally identifiable information.

4.4.51 The most significant components of the finding which included the need to maintain a register of personally identifiable data, and to have systems and processes for tracking changes, access and distribution of the data have been substantially completed by Defence.

4.4.52 As a result of actions taken by Defence the ANAO considers this finding to be resolved.

Australian Signals Directorate

4.4.53 The purpose of the Australian Signals Directorate (ASD) is to defend Australia from global threats and advance Australia's national interest through the provision of foreign signals intelligence, cybersecurity, and offensive cyber operations, as directed by government. The Australian Cyber Security Centre, which is a part of ASD, provides support to government and the Australian community to improve Australia's cyber resilience.

Summary of financial performance

4.4.54 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by ASD (as outlined in Table 4.4.7 and Table 4.4.8) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.4.7: Key departmental financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(1,582.4)	(1,119.3)
Revenue from government	1,260.6	927.3
Surplus/(deficit) attributable to the Australian Government	(321.8)	(192.0)
Total other comprehensive income/(loss)	1.9	18.9
Total comprehensive income/(loss) attributable to the Australian Government	(319.9)	(173.1)
Total assets	1,526.4	1,238.8
Total liabilities	928.4	821.9
Total equity	598.0	416.9

Source: ASD's audited financial statements for the year ended 30 June 2023.

4.4.55 The increase in revenue from Government is mainly due to the additional funding from the Australian Government for the implementation of various programs and projects, with the most significant being REDSPICE (Resilience, Effects, Defence, Space, Intelligence, Cyber and Enablers). REDSPICE is the largest investment in ASD's history and aims to ensure that Australia is well-prepared to adapt to the evolving strategic and technology landscape.

4.4.56 The increase in the net cost of services was primarily due to the following factors:

- higher operating expenses due to REDSPICE initiatives including growth in employee benefits expenses from increased employee numbers, additional supplier expenses incurred related to the REDSPICE programs; and
- higher depreciation and amortisation expenses reflecting the capitalisation of assets under construction and the recognition of newly acquired lease right-of-use assets during the period.

4.4.57 Total assets increased due to higher non-financial assets driven by the purchase and construction of additional plant, equipment, buildings, and infrastructure.

4.4.58 Total liabilities increased due to supplier payables and employee provisions. These increases were a result of higher supplier and employee benefit expenses (refer to paragraph 4.4.55).

Table 4.4.8: Key administered financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	–	–
Total income	–	–
Surplus/(deficit)	–	–
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss)	–	–
Total assets administered on behalf of Government	19.7	18.5
Total liabilities administered on behalf of Government	19.7	18.5
Net assets/(liabilities)	–	–

Source: ASD's audited financial statements for the year ended 30 June 2023.

4.4.59 Movements in the balance of ASD's administered assets and liabilities reflect normal business activities.

Key areas of financial risk

4.4.60 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of ASD's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.4.9.

Table 4.4.9: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Departmental</i> plant and equipment \$541.8 million buildings and infrastructure \$652.8 million intangibles \$59.8 million depreciation and amortisation expenses \$334.7 million	Measurement and recognition of non-financial assets	Higher	<ul style="list-style-type: none"> significant departmental capital budget to manage a number of projects delivering new capability; complexity due to the compartmentalised nature of some operational assets and the multi-year delivery of projects, which deliver assets progressively over time; level of judgement required to determine whether expenditure on assets, particularly IT software and infrastructure projects, meets the requirements for capitalisation; and risk associated with fair valuing and technological obsolescence considerations for technology due to the specialist nature of some assets.
<i>Departmental</i>	Completeness and accuracy of transactions made	Moderate	<ul style="list-style-type: none"> significance of the transactional processing that is undertaken by Defence, and the reliance on the internal controls

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
all financial statement line items	through ASD's shared service provider (Department of Defence)		implemented by and representations provided by Defence in appropriately managing transactions and risk on behalf of ASD.

Source: ANAO 2022–23 audit results, and ASD's audited financial statements for the year ended 30 June 2023.

Audit results

4.4.61 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Australian War Memorial

4.4.62 The Australian War Memorial (AWM) has responsibility for commemorating, interpreting and understanding the Australian experience of war and its enduring impact through maintaining and developing the national memorial and its collection, and exhibiting historical material, and undertaking commemorative ceremonies and research.

Summary of financial performance

4.4.63 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by AWM (as outlined in Table 4.4.10) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.4.10: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(42.8)	(48.6)
Revenue from government	42.8	46.1
Surplus/(deficit) attributable to the Australian Government	–	(2.5)
Total other comprehensive income/(loss)	(116.0)	0.3
Total comprehensive income/(loss) attributable to the Australian Government	(116.0)	(2.2)
Total assets	1,720.9	1,698.9
Total liabilities	21.6	15.2
Total equity	1,699.3	1,683.7

Source: AWM's audited financial statements for the year ended 30 June 2023.

4.4.64 The total loss attributable to the Australian Government is a result of a decrease in the value of heritage and cultural assets following the AWM undertaking a comprehensive independent revaluation in 2022–23.

4.4.65 Total assets increased following the receipt and investment of redevelopment program funding and the capitalisation of redevelopment related work-in-progress offset by the decrease in the value of heritage and cultural assets.

Key areas of financial risk

4.4.66 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of AWM's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.4.11.

Table 4.4.11: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Heritage and cultural assets \$1.1 billion	Valuation of the collection	Higher	<ul style="list-style-type: none"> valuation is subject to judgement and assumptions, including assessments for impairment; the unique nature and volume of the collection and a lack of market comparability; and judgement is involved in determining what should be capitalised to the collection.
Land and building assets \$349.1 million	Capitalisation of redevelopment costs	Moderate	<ul style="list-style-type: none"> capitalisation of redevelopment related work-in-progress costs into assets under construction requires complex judgement in determining capital costs and achievement of milestones; and significant judgements involved in considering the indicators of impairment.

Source: ANAO 2022–23 audit results, and AWM's audited financial statements for the year ended 30 June 2023.

Audit results

4.4.67 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Defence Housing Australia

4.4.68 The Defence Housing Australia (DHA) is responsible for providing housing and related services to members of the Australian Defence Force and their families, consistent with Defence's operational requirements. To meet these requirements, DHA is responsible for constructing, purchasing and leasing houses for Australian Defence Force personnel.

Summary of financial performance

4.4.69 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by DHA (as outlined in Table 4.4.12) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.4.12: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total income	856.5	918.6
Total expenses	713.5	734.4
Profit before tax	143.0	184.1
Income tax expense	42.8	53.8
Net profit after income tax	100.2	130.3
Other comprehensive income	–	–
Total comprehensive income	100.2	130.3
Total assets	3,496.2	3,371.5
Total liabilities	1,840.6	1,816.1
Total equity	1,655.6	1,555.4

Source: DHA's audited financial statements for the year ended 30 June 2023.

4.4.70 Total expenses decreased by \$20.9 million mainly due to a decrease in the cost of inventories sold (due to lower sales). This decrease was offset by an increase in depreciation and amortisation, as a result of a changes in useful lives for investment properties and acquisitions of investment properties.

4.4.71 Total income decreased by \$62.1 million primarily due to lower sales of inventories. The lower sale of inventories is in line with DHA's business strategy to reduce direct leasing from the market and ongoing acquisition of investment properties.

4.4.72 The increase in total assets of \$124.7 million is due mainly to:

- acquisitions of investment properties throughout the year; and
- changes to the terms of lease right-of-use assets for investment properties due to the economic environment and increased rental charges.

4.4.73 Total liabilities increased by \$24.5 million. The changes in the balance of lease right-of-use assets for investment properties also impacted the lease liabilities balance. These increases were offset by no dividend being declared.

Key areas of financial risk

4.4.74 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of DHA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.4.13.

Table 4.4.13: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Inventories \$179.3 million	Valuation of inventories – management’s assessment of net realisable value	Higher	<ul style="list-style-type: none"> the evaluation of net realisable value requires significant judgement in the determination of market conditions such as rental return and the availability of transactional data of similar properties; and impact of the reduction in property values primarily due to increase in interest rate; depth of detailed judgement in applying the complex technical requirements of the financial framework for presentation and disclosure.
	Classification of inventories	Moderate	<ul style="list-style-type: none"> additional inventory recognised during the period should be classified as investment property as the business intention is not to dispose of the property.
Investment properties \$3.1 billion	Impairment of investment properties	Higher	<ul style="list-style-type: none"> complex valuation method, multiple data sources and assumptions subject to management judgement, including determining impairment; judgement to determine the correct classification of investment properties as either held for sale or non-current assets; and complex calculations and judgements are involved to determine the right-of-use asset value and the corresponding lease liability balance.
Total revenue \$829.5 million	Revenue recognition for services provided to Defence	Higher	<ul style="list-style-type: none"> the nature and number of the revenue streams and complexity of transactions and systems used to capture and record the financial information; the number of revenue streams and volume and complexity of transactions increases the risk around the appropriateness of the recognition of revenue; and determining the classification of revenue under AASB 15 Revenue from Contracts with Customers and leasing income under AASB 16 Leases involves judgements and assumptions.
Lease right-of-use \$1.5 billion lease liabilities \$1.6 billion	Accounting for Leases	Moderate	<ul style="list-style-type: none"> the complexity of the system specification to calculate the leasing data for reporting purposes; the completeness and accurate transfer/communication of leasing data

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
depreciation \$307.4 million			<p>between the existing systems and this lease accounting system; and</p> <ul style="list-style-type: none"> the judgements and estimates applied to the calculation.

Source: ANAO 2022–23 audit results, and DHA's audited financial statements for the year ended 30 June 2023.

Audit results

4.4.75 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Department of Veterans' Affairs

4.4.76 The Department of Veterans' Affairs (DVA) is responsible for developing and implementing programs to assist the veteran and ex-service communities. This includes granting pensions, allowances and other benefits, and providing treatment under the *Veterans' Entitlements Act 1986*; the administration of benefits and arrangements under the *Military Rehabilitation and Compensation Act 2004*; determining and managing claims relating to defence service under the *Safety, Rehabilitation and Compensation (Defence-related Claims) Act 1988*; administering the *Defence Service Homes Act 1918*, the *War Graves Act 1980*; and conducting commemorative programs to acknowledge the service and sacrifice of Australian servicemen and women.

Summary of financial performance

4.4.77 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by DVA (as outlined Table 4.4.14 and Table 4.4.15) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.4.14: Key departmental financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(497.6)	(455.2)
Revenue from government	519.3	404.7
Surplus/(deficit) attributable to the Australian Government	21.7	(50.5)
Total other comprehensive income/(loss)	9.3	–
Total comprehensive income/(loss) attributable to the Australian Government	31.0	(50.5)
Total assets	394.6	350.6
Total liabilities	307.9	312.3
Total equity	86.7	38.4

Source: DVA's audited financial statements for the year ended 30 June 2023.

4.4.78 The net cost of services increased by \$42.4 million mainly due to a \$67.4 million increase in employee benefits as a result of increased staffing to support claims processing. The increase in employee expenses was partially offset by a decrease of contractor costs, shared service expenses and increase in net insurance premium revenue for Defence Services Homes Insurance.

4.4.79 Revenue from government increased by \$114.6 million mainly to fund DVA's increased activity in relation to processing the backlog of claims.

4.4.80 Total assets increased by \$44.0 million mainly due to an increase appropriation receivable.

Table 4.4.15: Key administered financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	24,158.9	10,119.4
Total income	17.7	3,976.2
Deficit	(24,141.2)	(6,143.2)
Total other comprehensive income/(loss)	(116.0)	(2.2)
Total comprehensive income/(loss)	(24,257.2)	(6,145.4)
Total assets administered on behalf of Government	1,909.9	1,956.8
Total liabilities administered on behalf of Government	56,062.6	42,412.5
Net liabilities	(54,152.7)	(40,455.7)

Source: DVA's audited financial statements for the year ended 30 June 2023.

4.4.81 Total expenses increased by \$14.0 billion mainly due to a \$13.5 billion increase in the actuarial assessment of the DVA's future obligations in respect of the Military Compensation Provision (personal benefits and health care) at 30 June 2023. This was mainly due to the changes to the key assumptions and the actuarial modelling to reflect the recent claim experience.

4.4.82 Total liabilities increased mainly due to the actuarial assessment undertaken on the Military Compensation Provision (refer to paragraph 4.4.81).

Key areas of financial risk

4.4.83 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of DVA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.4.16 including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.4.16: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i>	Valuation of military compensation provision	Higher	<ul style="list-style-type: none"> judgements involved in determining the assumptions and calculations underpinning the actuarial assessment of the military

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
personal benefit and healthcare provisions \$55.7 billion	KAM		<ul style="list-style-type: none"> compensation provision, including assumptions relating to future trends in medical costs, permanent incapacity, and inflation rates; increasing value of the provision as an unfunded liability; and completeness of data used to derive the valuation.
<i>Administered</i> personal benefits expense \$6.6 billion health care expenses \$3.9 billion	Accuracy of personal benefits and health care payments	Higher	<ul style="list-style-type: none"> complexity of overseeing and maintaining a large number of IT business systems which are supported by the shared services provider, Services Australia; complexity of legislation applicable to individual claims; reliance on accurate and complete veteran-provided information; and reliance on a risk-based quality assurance program to identify errors and initiate debt recovery arrangements in individual claims.

Source: ANAO 2022–23 audit results, and DVA's audited financial statements for the year ended 30 June 2023.

Audit results

4.4.84 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.4.17: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Significant (A)	1	-	1 ^a	-
Moderate (B)	7	1 ^a	6 ^{b,c}	2
Total	8	1	7	2

Source: ANAO 2022–23 audit results.

Note a: The significant audit finding relating to Military Compensation Scheme Provision Methodology was identified during the 2021–22 audit. This audit finding was downgraded to a moderate audit finding during the 2022–23 interim audit as reported in Auditor-General Report No.26 2022–23 *Interim Report on Key Financial Controls of Major Entities*.

Note b: The moderate audit finding relating to User Revalidations was identified during the 2020–21 audit. This audit finding was downgraded to a minor audit finding during the 2022–23 interim audit as reported in Auditor-General Report No.26 2022–23 *Interim Report on Key Financial Controls of Major Entities*.

Note c: The moderate audit findings relating to Monitoring of high risk activity in IT systems; and QUASARS Claim File Population Reports were resolved during the 2022–23 interim audit as reported in Auditor-General Report No.26 2022–23 *Interim Report on Key Financial Controls of Major Entities*.

4.4.85 For each of the findings listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that DVA's 2022–23 financial statements were not materially misstated.

Resolved moderate audit findings

Military Compensation Scheme provision

4.4.86 The Military Compensation Scheme (MCS) provision is assessed at the end of each financial year and recognises DVA's liability in relation to the *Military Rehabilitation and Compensation Act 2004* (MRCA) and the *Safety, Rehabilitation and Compensation (Defence-related Claims) Act 1988* (SRCA). The calculation of the provision is complex and involves a number of key assumptions and judgements, including assumptions relating to future trends in medical costs, permanent incapacity and inflation rates.

4.4.87 During the 2021–22 audit, the ANAO noted the adjustments made each year to the provision over the previous six years and formed a view that there was a significant risk that DVA's initial valuation of the provision for 2021–22 may again be understated. The ANAO recommended that DVA develop a comprehensive oversight policy and procedures covering risk assessment, data, assumptions, scenario analysis and involvement of key staff who understand the underlining policy and operational matters related to the provision. The ANAO also recommended that DVA undertake further work in relation to the risk adjustment to ensure it maximises DVA's management of the level of uncertainty in the provision

4.4.88 This finding was downgraded to a moderate finding during the 2022–23 interim audit due to the implementation of revised guidelines by DVA outlining the key components of the valuation process. The ANAO undertook further testing of the of the actuarial valuation of the MCS provision as at 30 June 2023 which indicated that DVA management has implemented additional documentation, guidelines and an enhanced project management process to deliver outcomes within the financial statements' project plan.

4.4.89 There were number of key modelling changes embedded into the 2022–23 assessment that facilitated a more accurate projection of future claims based on the present obligations. DVA's actuary used a conservative approach for determining the key assumptions in the provision calculation based on most recent claim experience in addressing the uncertainty of the unprocessed backlog of claims.

4.4.90 DVA included a risk adjustment in the calculation of the provision. This resulted in an increase of the provision of \$6.3 billion in 2022–23. The ANAO concluded that DVA's calculation is in line with the industry risk margins set out for workers compensation and employees' liability classes.

4.4.91 Overall, the 2022–23 MCS provision assessment was conducted considering the key recommendations made by the ANAO during the 2021–22 audit. As a result, the finding is now considered resolved.

User access removal

4.4.92 The Protective Security Policy Framework (PSPF) requires non-corporate Commonwealth entities to control access to systems, networks, and applications. The requirement includes removing system access from employees and contractors without an operational need for access to IT resources.

4.4.93 During the 2020–21 audit, the ANAO identified weaknesses in DVA's controls relating to user access removal.

4.4.94 DVA has provided evidence to the ANAO on how capability to monitor user's access on termination and to ensure the quality of the processes implemented have been enhanced. The ANAO identified that DVA's monitoring process covering all late user terminations identified by Services Australia over the full financial period is effective. On the basis of the evidence provided, the finding is considered resolved.

Personal benefits – incompatible access monitoring

4.4.95 DVA identified a business risk associated with IT users with access (for business reasons) that would allow them to bypass segregation of duties controls. These users are identified via reports generated by DVA to monitor this access. There is a monthly user access revalidation performed by directors and a quarterly user access revalidation that is endorsed by the branch heads. ANAO tested both the monthly and the quarterly revalidations of users with potentially incompatible access in 2021–22. The controls were assessed as unreliable due to the number of errors identified through the ANAO's testing.

4.4.96 Audit procedures performed during the 2022–23 audit identified that DVA's revalidation process has improved. However, further remediation work is required in order for the revalidation process to operate effectively and address all aspects of the identified risks. The finding was downgraded to a minor finding.

Unresolved moderate audit findings

Security governance – monitoring implementation of controls

4.4.97 In the 2021–22 audit, the ANAO noted instances that indicated DVA's governance and monitoring processes were not fully effective to address identified business risks. The ANAO recommended an effective governance and assurance framework be developed over security governance to ensure controls were implemented and operating effectively.

4.4.98 DVA has developed an Agency Security Plan and the Agency Security Risk Assessment, which has been provided to the ANAO (including evidence of remediation activities undertaken to address open audit findings). Audit procedures undertaken by the ANAO identified gaps in certain areas where the underlying supporting evidence or process was not operating as outlined by DVA including documentation having incomplete information, procedures not being followed, and mitigations not implemented at the time of the assessment.

4.4.99 The ANAO will review the assess the status of this finding as part of the 2023–24 audit.

Process Direct security risk management

4.4.100 In the 2020–21 audit, the ANAO identified weaknesses relating to the management of security risks as part of an upgrade to Process Direct implemented in November 2020. The ANAO recommended that DVA address the self-identified security risks when implementing the system.

4.4.101 DVA affirmed that accreditation of Process Direct was finalised in August 2021 and all required security documentation developed. The ANAO's inspection of the accreditation documents, including the Process Direct System Security Plan, identified that two of the three self-identified risks remained untreated. DVA acknowledged that the untreated risks were accepted when the interim approval to operate was issued.

4.4.102 DVA subsequently provided an updated Interim Authority to Operate for Process Direct which included a risk assessment and a targeted risk remediation plan. DVA is also planning to

commission an independent review of Process Direct to help formulate a longer-term remediation pathway and action plan for addressing risks.

4.4.103 The ANAO will review the status of this finding as part of the 2023–24 audit.

Emphasis of matter

4.4.104 An emphasis of matter paragraph has been included in the 2022–23 auditor’s report to draw users’ attention to the accounting policies disclosed in the financial statements that describe the inherent uncertainty associated with a number of the assumptions used in the calculation of the MCS provision and to the sensitivity of the valuation of the provision to changes in these assumptions. This is considered to be a key audit matter (refer to Table 4.4.16) due to the complexity and use of judgement associated with the unique compensation arrangements arising under legislation.

Comments on unsigned non-material entities

Royal Australian Navy Central Canteens Board

4.4.105 The Royal Australian Navy Central Canteens Board (RANCCB) is established as a corporate Commonwealth entity to support Navy members by providing a range of low-cost healthy food and beverage options, where profits are returned through social enterprise programs.

4.4.106 The 2022–23 financial statements were not signed at 30 November 2023. As a result, the ANAO’s audit remained in progress and was not complete. This report provides audit results as reported at the interim phase of the 2022–23 audit.

Audit results

4.4.107 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and at the conclusion of the interim phase of the 2022–23 audit.

Table 4.4.18: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Significant (A)	2	–	(2)	–
Moderate (B)	5	–	(5)	–
Total	7	–	(7)	–

Source: ANAO 2022–23 interim audit results.

Resolved significant audit findings

Process for considering CEO’s remuneration

4.4.108 In 2021–22, the ANAO identified weaknesses in the process for considering the CEOs remuneration. Weaknesses included no evidence that the CEO had developed Key Performance Indicators (KPIs) in accordance with their employment contract on which to base the assessment of pay increments and performance bonuses. During the period assessed, the CEO received approved pay increments and was awarded a performance bonus. Further, management was unable to provide evidence of Board approval for the total CEO remuneration for the assessed period.

Evidence was obtained that captured a number of the discussions but did not capture the approval for the total payment.

4.4.109 In 2022–23, RANCCB implemented formal policies for considering the CEO’s remuneration, including the development of KPIs to be used in assessing the performance of the CEO. The ANAO has reviewed the formal policies and confirmed that discussions and decisions of the Remuneration Committee and Executive Board were appropriately recorded in the minutes of meetings and records maintained in line with records management requirements. As a result, this finding is considered to have been addressed.

Weaknesses in asset management

4.4.110 In 2021–22, the ANAO identified weaknesses in RANCCB’s asset management process, including the absence of a formalised annual asset stocktaking process. Further, the ANAO identified that incorrect and incomplete data was provided to the independent valuer for the purposes of asset valuation.

4.4.111 In 2022–23, RANCCB implemented formal procedures in relation to the asset stocktaking process. The stocktake included a process to improve the level of detail of the asset description and location of assets documented in the fixed assets register, in conjunction with adding stickers and engraving on assets to evidence ownership. RANCCB also undertook a detailed asset valuation process at 30 June 2023, using complete and accurate data to determine the fair value of plant and equipment. The ANAO reviewed asset stocktake procedures and the outcome of the asset stocktake and asset valuation at 30 June 2023 and is satisfied that these matters have been addressed.

4.4.112 One recommendation made by the ANAO remains outstanding relating to confirming ownership of a group of assets with Department of Defence. As a result of the remediation undertaken by RANCCB this finding has been downgraded to a minor audit finding at the interim phase of the audit.

Resolved moderate audit findings

Weaknesses in inventory management

4.4.113 In 2021–22, the ANAO identified weaknesses in RANCCB’s inventory management process. These weaknesses included an out of date inventory policy, no physical count was performed for the Navy merchandise held by a third-party provider and no periodic merchandise inventory reconciliations were prepared. The ANAO also identified that there was no independent process or review to confirm whether the physical count performed by each canteen manager was complete and accurate.

4.4.114 In 2022–23, RANCCB updated their inventory policy and inventory stocktake procedures and performed a physical count of inventory held by third parties at 30 June 2023. RANCCB also implemented periodic inventory reconciliations that were evidenced as prepared and reviewed by independent staff members. As a result, this finding is considered to have been addressed.

Deficiencies in recording and monitoring cost of goods sold

4.4.115 In 2021–22, the ANAO identified weaknesses in RANCCB’s recording and monitoring cost of goods sold. Weaknesses included no formal documented process to ensure that cost of goods sold expenses were being recorded, monitored, and rectified accurately and in a timely manner by key personnel and no formal independent review or approval prior to cost of goods sold adjustments being processed in the financial management information system. The ANAO also

identified there was no independent check to confirm purchased inventory was appropriately recorded in the system and no evidence of processes to monitor and remediate the accuracy of canteen stock recorded by canteen managers.

4.4.116 In 2022–23, RANCCB implemented detective controls to support the accurate processing of inventory purchases in the system, including strengthening the investigations performed by the Inventory Analyst to investigate discrepancies identified during the month end stocktake. The implementation of recommendations to address the weaknesses in the inventory management audit finding also addressed weakness identified in this audit finding. As a result, this finding is considered to have been addressed.

Weaknesses in revenue and receivables

4.4.117 In 2021–22, the ANAO identified weaknesses in RANCCB's revenue and receivables process. These weaknesses included no formal controls in place for revenue received from canteens and no formal controls to confirm completeness of revenue received from other sources. Further, there were no formal monitoring controls over debtor management.

4.4.118 In 2022–23, RANCCB implemented a formalised reconciliation of canteen revenue and revenue received from external sources. RANCCB has also performed a periodic reconciliation of aged debtors and implemented a process to follow-up overdue debt on a timely basis. As a result, this finding is considered to have been addressed.

Records management

4.4.119 In 2021–22, the ANAO observed weaknesses in RANCCB's records management practices. These observations related to appropriate accounts and records to support 2021–22 transactions and balances, along with prior year balances that were carried forward to 2021–22.

4.4.120 In 2022–23, RANCCB has implemented an appropriate records management framework and controls designed to ensure the creation and subsequent capture of accounts and records to support the preparation of the financial statements. The ANAO has not identified records management issues during the 2022–23 interim audit. As a result, this finding is considered to have been addressed.

Weaknesses around manual journal processes

4.4.121 In 2021–22, the ANAO identified weaknesses in the manual journals process. The ANAO identified a number of manual journals processed with no evidence of segregation of duties and a system configuration that allowed specific employees access to edit manual journals which had previously been approved and posted to the general ledger, with no audit trail to identify where this had occurred. There were also unexplained gaps in the sequential numbering of manual journals, indicating a risk that journals had been deleted or voided with no supporting evidence.

4.4.122 In 2022–23, RANCCB implemented processes to ensure appropriate segregation of duties between the preparer and reviewer for manual journals. The ANAO reviewed the revised process and undertook sample testing of manual journals to confirm the revised process was operating effectively. As a result, this finding is considered to have been addressed.

Comments on non-material entities

Army and Air Force Canteen Service

4.4.123 The Army and Air Force Canteen Service (AAFCANS) was established to provide goods, facilities and services to members of the Defence community. AAFCANS operates food services and facilities on 27 Army and Air Force bases and joint ADF facilities throughout Australia.

Audit results

4.4.124 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.4.19: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Significant (A)	1	–	(1)	–
Moderate (B)	1	–	(1)	–
Legislative breach (L1)	1	–	(1)	–
Total	3	–	(3)	–

Source: ANAO 2022–23 audit results.

Resolved significant audit finding

Key management personnel disclosures

4.4.125 During the 2021–22 audit, the ANAO identified a number of issues with the reporting of the prior year’s Key Management Personnel (KMP) note disclosure in accordance with AASB 124 *Related Party Disclosures* and the Financial Reporting Rule (FRR). The errors were considered material to the financial statements and resulted in the inclusion of an emphasis of matter paragraph in the 2021–22 auditor’s report.

4.4.126 To address this finding, AAFCANS:

- restated the prior year’s KMP note in its 2021–22 financial statements;
- prepared a position paper to outline its consideration of personnel to be included in the KMP note;
- updated its remuneration policies to ensure payments are consistent with guidance issued by the Australian Public Service Commission;
- updated the AAFCANS Board’s charter to ensure processes are in place to support compliance with legislative requirements;
- sought formal appointment for the invalid Board appointments from the Chief of the Defence Force; and
- published the executive remuneration tables which had not been included in the Annual Report on the AAFCANS’ website.

4.4.127 In restating the KMP note, it was identified that an overpayment had been made to the former Managing Director under the Remuneration Tribunal Determination. The AAFCANS’ Board

advised that it would not pursue recovery of the overpayment as legal fees were determined to be higher than the amount to be recovered.

4.4.128 The ANAO acknowledged the significant work undertaken by management to address the finding and is satisfied that this issue has been resolved.

Resolved moderate audit finding

Control weaknesses around the asset revaluation reserve

4.4.129 The ANAO identified that AAFCANS did not have a process to reconcile its asset revaluation reserve and was unable to provide a breakdown of the balance by asset class. As a result, AAFCANS did not record its asset valuation adjustments in its general ledger as it was unable to determine whether there was a revaluation reserve against which to offset the revaluation decrement.

4.4.130 During the 2022–23 financial year, AAFCANS transferred the majority of its asset revaluation reserve to retained earnings as there were insufficient records to support the breakdown of the balance by asset class. AAFCANS has also implemented processes to ensure asset revaluation adjustments can be accurately linked to each asset class.

4.4.131 The ANAO accepted the transfer of the balance to retained earnings was the most appropriate course of action, and is satisfied that processes have been established to prevent this issue from re-occurring. As a result, this finding has been closed.

Resolved significant legislative breach

Breach of section 41 of the *Public Governance, Performance and Accountability Act 2013*

4.4.132 The *Public Governance, Performance and Accountability Act 2013* (PGPA Act) confers on accountable authorities various responsibilities and powers to promote high standards of accountability and performance. They are also responsible for the financial management of the entity and compliance with reporting requirements. Section 41 of the PGPA Act requires entities to maintain accounts and records that properly explain the entity's transactions and financial position.

4.4.133 The ANAO identified that AAFCANS was unable to produce accounts and records in relation to its asset revaluation reserve. The ANAO recommended AAFCANS implement appropriate controls designed to ensure compliance with the PGPA Act, the FRR and to enable the preparation of the financial statements using information that can be properly supported with accounts and records.

4.4.134 The ANAO is satisfied that AAFCANS has implemented processes over its asset revaluation reserve to ensure accounts and records are maintained in accordance with section 41 of the PGPA Act. This matter is considered resolved.

Royal Australian Air Force Veterans' Residences Trust

4.4.135 The Royal Australian Air Force Veterans' Residences Trust (the Trust) was established to provide residences to former members of the Air Force and their families who are in need. The Trust has acquired 75 residences throughout Australia and is self-funded.

Audit results

4.4.136 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.4.20: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	1	–	–	1
Total	1	–	–	1

Source: ANAO 2022–23 audit results.

4.4.137 For the finding outlined below, the ANAO undertook additional audit procedures to gain reasonable assurance that the Trust’s 2022–23 financial statements were not materially misstated.

Unresolved moderate audit finding

Governance risk

4.4.138 During the 2021–22 audit, the ANAO identified that the Trust had one Audit Committee member who was a Trustee. Under law, Trustees are responsible for managing the affairs of a Trust. In addition, the Trust does not have employees who are undertaking managerial functions. Instead, the Trust employs staff who perform duties that would be described as clerical or administrative in nature. The staff of the Trust have not been included in the Key Management Personnel note disclosure.

4.4.139 The Trust does not have any independent oversight as it has not established an internal audit function.

4.4.140 The Trust has acknowledged the finding and has included governance risk in its enterprise risk register which is subject to ongoing review by the Trustees. During 2022–23, the Trust commenced processes to replace the Trustee with an independent member. This process has been put on hold pending the outcome of an independent review by the Department of Defence into the Defence portfolio entities (which includes the Trust).

Royal Australian Air Force Welfare Recreational Company

4.4.141 The Royal Australian Air Force (RAAF) Welfare Recreational Company (the Company) was established in 1972 to manage and promote recreational facilities for RAAF members, their families and other eligible persons and to provide financial support to and assist in the provision of recreational amenities and services to RAAF members. As Trustee, the Company achieves its purpose through management of the RAAF Central Welfare Trust Fund. The Company is subject to the *Corporations Act 2001*.

Audit results

4.4.142 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.1.21: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Legislative breach (L1)	1	–	(1)	–

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Total	1	–	(1)	–

Source: ANAO 2022–23 audit results.

4.4.143 For the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that the Company's 2022–23 financial statements were not materially misstated.

Resolved significant legislative breach

Alterations made to the signed financial statements after the auditor's report was issued

4.4.144 During the 2021–22 audit, the ANAO identified that the Company had made changes to its audited 2020–21 financial statements, and had published an altered version of the financial statements, which were re-signed on the 6 October 2021, with the auditor's report that was issued on the 29 September 2021.

4.4.145 The changes made to the financial statements resulted in a breach of section 97 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and section 301 of the *Corporations Act 2001*.

4.4.146 In addition, the directors did not pass a valid resolution to issue the financial statements, and did not lodge its annual report with the Australian Securities and Investments Commission also resulting in breaches of the *Corporations Act 2001*.

4.4.147 The Company has removed the altered version of the 2020–21 financial statements from public access, and has advised the Australian Charities and Not-for-profits Commission and the Australian Securities and Investments Commission (ASIC) of the error.

4.4.148 The Company re-submitted its 2020–21 financial statements for audit and a new audit opinion was issued on 30 November 2022. This matter is considered resolved.

Royal Australian Air Force Welfare Trust Fund

4.4.149 The Royal Australian Air Force Welfare Trust Fund (the Fund) was established to provide financial assistance to Defence service personnel including concessional loans and grants, and a Group Life Insurance Scheme.

Audit results

4.4.150 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.4.22: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	1	–	(1)	–
Legislative breach (L1)	1	–	(1)	–
Total	2	–	(2)	–

Source: ANAO 2022–23 audit results.

Resolved significant legislative breach

Breaches of the Services Trust Funds Act – loan made to dependent of trustee

4.4.151 During the 2021–22 audit, the ANAO identified that a loan had been made to a dependent of a Trustee. The Trustee’s dependent also financially contributed to the Fund’s ‘Group Life Scheme’ which provides a payout for untimely death. The Trustee (and their dependent) were beneficiaries of any payout. Both transactions were in contravention of paragraph 14 of the *Services Trust Funds Act 1947*, which prohibits a person who is a Trustee or a dependant from receiving benefits from the Fund.

4.4.152 During the 2022–23 financial year, the Fund revoked the loan made to the dependent of the Trustee and recovered the outstanding loan amount. The dependent of the Trustee is no longer a financial contributor to the Fund’s Group Life Scheme. The ANAO considers this issue to be resolved.

Resolved moderate audit finding

Governance risk

4.4.153 During the 2021–22 audit, the ANAO identified that the Fund had one Audit Committee member who was a Trustee. Under law, Trustees are responsible for managing the affairs of a Trust. In addition, the Fund does not have employees who are undertaking managerial functions. Instead, the Fund employs staff who perform duties that would be described as clerical or administrative in nature. The staff of the Fund have not been included in the Key Management Personnel note disclosure.

4.4.154 The Fund does not have any independent oversight as it has not established an internal audit function.

4.4.155 The Fund has replaced the Trustee on the Audit Committee with an independent member. The Fund has updated the Audit Committee charter to reflect that Trustees cannot be appointed as members of the Audit Committee. The Fund has accepted the risks relating to independent oversight, and has strengthened processes performed by the Board of Trustees to manage this risk. The ANAO considers this matter to be closed.

4.5 Education portfolio

Portfolio overview

4.5.1 The Education portfolio's purpose is to contribute to Australia's economic prosperity and social wellbeing by creating opportunities and driving better outcomes through access to quality education. The portfolio is comprised of six entities, including the Department of Education. The entities within the portfolio are responsible for policy, program and regulation responsibilities and delivering better outcomes for students, educators and teachers in early learning and care centres, schools and higher education providers.

4.5.2 Table 4.5.1 identifies material entities specifically mentioned in this section.

Table 4.5.1: Education portfolio material and other entities discussed in this section

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Education	Yes	High	✓	13 Sep 23	15 Sep 23	◆▲□
Australian Research Council	Yes	Low	✓	13 Sep 23	14 Sep 23	Nil
Australian Scientific Instruments Pty Ltd	No	Moderate	E ☞	13 Jun 23	13 Jun 23	Nil

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

☞: year-end other than 30 June 2023

◆: new significant or moderate findings and/or legislative matters noted

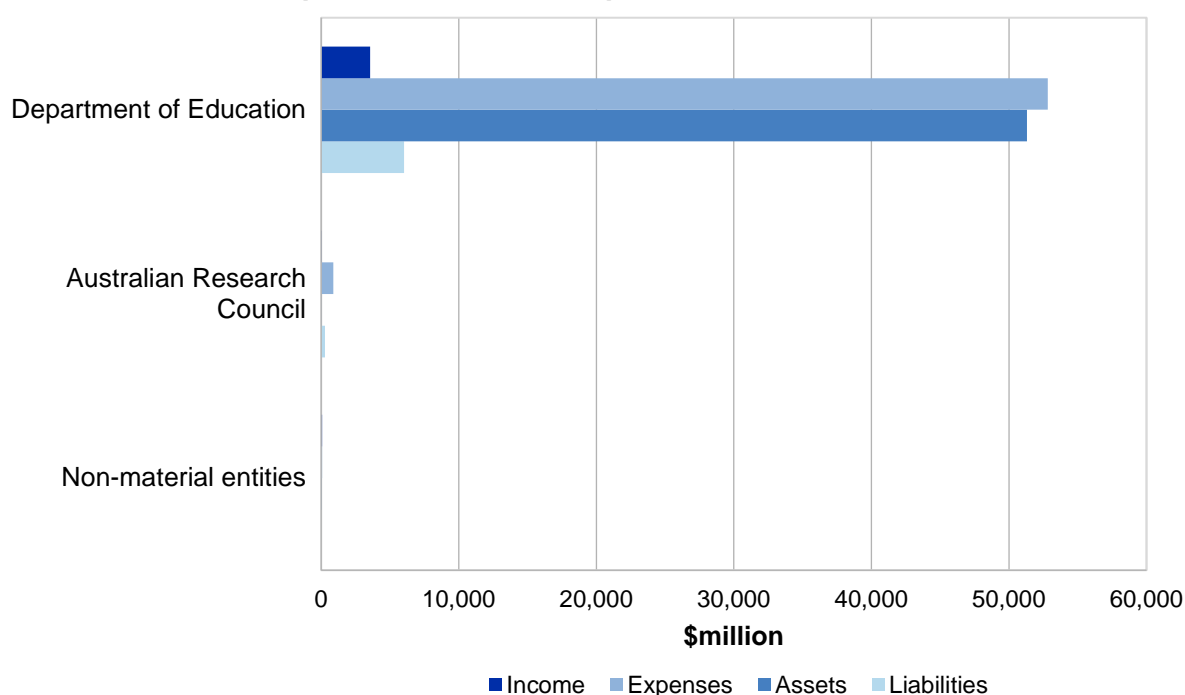
▲: significant or moderate findings and/or legislative matters reported previously but not yet resolved

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2022–23 interim audit phase, now downgraded or resolved

4.5.3 Figure 4.5.1 shows the Education portfolio's income, expenses, assets and liabilities contribution to the Australian Government Consolidated Financial Statements (CFS) for the year ended 30 June 2023.¹³³

¹³³ This represents the portfolio's contribution to the Australian Government's CFS for the period ending 30 June 2023. It does not include transactions between agencies, such as appropriation revenue, which are not included in the CFS.

Figure 4.5.1: Education portfolio's income, expenses, assets and liabilities



Source: ANAO analysis of 2022–23 CFS.

4.5.4 As previously outlined in Chapter 2, paragraphs 2.153 to 2.158, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2022–23 financial statements audits. Table 4.5.2 provides a summary of those audit differences that relate to entities within the Education portfolio.

Table 4.5.2: The number of audit differences for entities in the Education portfolio

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Education ^a	2 ^b	–	2	1	–	1
Australian Curriculum, Assessment and Reporting Authority	–	–	–	–	1	1
Australian Institute for Teaching and School Leadership Limited	–	2	2	–	3	3
Australian National University	–	–	–	–	–	–
• ANU Enterprise Pty Limited	2 ^b	4	6	1	–	1
• Social Research Centre Pty Ltd	1	–	1	–	1	1
Australian Research Council	–	–	–	–	1	1

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Tertiary Education Quality and Standards Agency	–	3	3	–	2	2

Note a: On 1 July 2022 the Department of Education, Skills and Employment was renamed to the Department of Education.

Note b: The adjustments include adjustments identified in the period that relate to the prior year.

Source: ANAO analysis of audit differences reported to entities in the Education portfolio.

4.5.5 The following section provides a summary of the 2022–23 financial statements audit results for the Department of Education and findings for other material and non-material entities in the portfolio.

Department of Education

4.5.6 The Department of Education (Education) is responsible for contributing to Australia’s economic prosperity and social wellbeing by creating opportunities and driving better outcomes through access to quality education.

4.5.7 Following the Administrative Arrangement Orders of 2 June 2022, which came into effect on 1 July 2022, the Department of Education, Skills and Employment was renamed to the Department of Education, with employment and skills functions transferred to the Department of Employment and Workplace Relations (DEWR).

Summary of financial performance

4.5.8 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by Education (as outlined in Table 4.5.3 and Table 4.5.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.5.3: Key departmental financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 Restated ^a (\$m)
Net (cost of)/contribution by services	(317.1)	(987.7)
Revenue from government	294.6	910.2
Surplus/(deficit) attributable to the Australian Government	(22.5)	(77.5)
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss) attributable to the Australian Government	(22.5)	(77.5)
Total assets	212.5	1,188.0
Total liabilities	95.3	554.6
Total equity	117.2	633.4

Note a: The prior period financial statements were restated with respect to: revenue from government, trade and other receivables and equity returns.

Source: Education's audited financial statements for the year ended 30 June 2023.

4.5.9 The decrease in the net cost of services, surplus and total comprehensive loss is largely a result of the Machinery of Government (MoG) changes which saw the employment and workplace relations function transferred to DEWR on 1 July 2022.

4.5.10 The decrease in total assets and liabilities is also mainly due to the impact of these MoG changes. A total of \$954.6 million in assets and \$452.6 million in liabilities were transferred to DEWR on 1 July 2022.

Table 4.5.4: Key administered financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	50,976.3	59,357.0
Total income	1,738.8	2,028.1
Deficit	(49,237.5)	(57,328.9)
Total other comprehensive income/(loss)	642.8	19.9
Total comprehensive income/(loss)	(48,594.7)	(57,309.0)
Total assets administered on behalf of Government	51,095.7	54,859.3
Total liabilities administered on behalf of Government	5,926.0	5,962.3
Net assets	45,169.6	48,897.0

Source: Education's audited financial statements for the year ended 30 June 2023.

4.5.11 The decrease in administered expenses is due to mainly to:

- the impact of MoG changes, particularly a reduction in subsidies expenses of \$4.0 billion due to the transfer of employment programs to DEWR on 1 July 2022; and

- a decrease in fair value losses on Higher Education Loan Program loans due to movements in the discount rate yield curve applied in the actuarial valuation of outstanding loans, movements in repayments and new loans made and the unwinding of concessional loan discounts.

4.5.12 The balance of administered assets (\$47.4 billion) mainly comprises the trade and other receivables for HELP loans (\$46.8 billion). The decrease in administered assets is largely related to impact of MoG Changes particularly the transfer of \$3.65 billion of Vocational Education and Training (VET) student loan program and Trade Support Loans to DEWR on 1 July 2022.

Key areas of financial risk

4.5.13 In light of the key areas of risk and the ANAO's understanding of the operations of Education, the ANAO assessed the overall risk of material misstatement in the 2022–23 financial statements audit as high. The engagement risk was increased from moderate to high for 2022–23 as a result of the machinery of government changes and the ongoing arrangements that Education has in place with DEWR.

4.5.14 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of Education's financial statements. The ANAO focused audit effort on those specific areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.4.5 including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.5.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Departmental and administered</i> all financial statements line items	Completeness, accuracy and classification of transactions and balances resulting from machinery of government changes	Higher	<ul style="list-style-type: none"> • changes to the internal control environment, governance structure and supporting policies, procedures and financial reporting processes; • risks relating to ownership, completeness and accuracy of transactions and balances within the financial statements; • the continuing shared IT infrastructure and operating environment; • interim configuration of the Financial Management Information System and Human Resources Information Management System to support both Education and DEWR.
<i>Departmental and administered</i> all financial statement line items	Completeness and accuracy of financial statements balances impacted by the complexity and	Moderate	<ul style="list-style-type: none"> • large and complex IT environment with business applications processing a high volume of transactions; • many IT systems are bespoke or heavily customised; and

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
	range of IT systems used to maintain information and process payments		<ul style="list-style-type: none"> reliance on customised reports to prepare financial statements balances.
<p><i>Administered</i></p> <p>Higher Education Loan Program (HELP) receivable (a component of trade and other receivables \$47.4 billion)</p> <p>HELP loan fair value losses (a component of fair value losses \$1.1 billion)</p> <p>HELP interest revenue (a component of interest revenue of \$1.7 billion)</p>	<p>The valuation of the outstanding HELP loan receivable</p> <p>KAM</p>	Higher	<ul style="list-style-type: none"> significant and complex judgements about the timing and recoverability of HELP debts which include assumptions about discount factors, future employment and salary rates and future collectability of repayments that contain a significant degree of uncertainty and are influenced by the economic environment; and receivable is subject to an actuarial assessment and relies on the completeness and accuracy of taxation data and information provided by a number of universities.
<p><i>Administered</i></p> <p>Higher Education Superannuation Program (HESP) provision \$5.1 billion</p>	<p>The valuation of the HESP provision</p> <p>KAM</p>	Moderate	<ul style="list-style-type: none"> complex and involves significant judgement about the value of the Commonwealth's superannuation liability in respect of current and former university employees. These judgements include the selection of discount rates and estimation of salary growth rates; and the provision is subject to an actuarial assessment and relies on the completeness and accuracy of data provided by a number of universities and their individual actuaries.
<p><i>Administered</i></p> <p>child Care Subsidy personal benefits expenses (a component of personal benefits expenses of \$11.1 billion)</p> <p>personal benefits payable \$153.5 million</p> <p>personal benefits provision \$591.7 million</p>	<p>Accuracy of 'assistance to families with children' personal benefit expenses</p> <p>KAM</p>	Higher	<ul style="list-style-type: none"> expenses are based on information provided by the payment recipients and the accurate recording of expenses may be significantly impacted by the provision of inaccurate information.

Source: ANAO 2022–23 audit results, and Education's audited financial statements for the year ended 30 June 2023.

Audit results

4.5.15 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.5.6: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Significant (A)	–	1	–	1
Moderate (B)	1	2 ^a	(1)	2
Total	1	3	(1)	3

Note a: The moderate audit finding, relating to Management of Machinery of Government changes, was identified as part of the 2022–23 interim audit. This finding was previously reported in Auditor-General Report No.26 2022–23 *Interim Report on Key Financial Controls of Major Entities*.

Source: ANAO 2022–23 audit results.

4.5.16 For each of the findings listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that Education’s 2022–23 financial statements were not materially misstated.

New significant audit finding

Governance – legal and other matters

4.5.17 As part of the financial statements audit process, the ANAO requests that Education provides access to all information, such as records and documentation and other matters, of which Education is aware of and that is relevant to the financial statements preparation process.

4.5.18 During the audit, the ANAO became aware of legal matters from a source other than the Department that had not been considered in the preparation of the financial statements, nor advised to the ANAO by Education. One of these matters resulted in a late adjustment to the financial statements.

New moderate audit finding

Management of Intangible Assets

4.5.19 Education has implemented a number of intangible assets that support its administered programs, with these systems undergoing continuous enhancements and upgrades to support changes in programs.

4.5.20 As part of the final audit processes, the ANAO noted a number of assets under construction which had not been appropriately assessed for impairment or recognising the assets in use as at 30 June 2023 in accordance with Australian Accounting Standards. As a result, the Education subsequently reviewed these assets and made material adjustments to the financial statements.

Resolved moderate audit finding

Management of Machinery of Government (MoG) changes

4.5.21 During the 2022–23 interim audit, the ANAO noted a number of areas where timeliness and the configuration of the FMIS and HRMIS (in implementing the MoG changes) has impacted on the financial reporting and audit of Education.

4.5.22 Education has undertaken processes to rectify the above audit finding. This included more timely balance sheet reconciliations and a process whereby transactions recorded in the FMIS were assessed to determine whether they related to Education or DEWR.

Unresolved moderate audit finding

Removal of user access

4.5.23 The Protective Security Policy Framework (PSPF) requires non-corporate Commonwealth entities to control access to systems, networks, and applications. The requirement includes removing system access from employees and contractors without an operational need for access to IT resources.

4.5.24 The ANAO identified instances where users had accessed the former Department of Education, Skills and Employment's systems after completion of their employment or contract. The ANAO noted that there were delays in completion of Exit Advice Notification which triggers a number of actions, including the termination access to ICT networks and systems.

4.5.25 During 2022–23 standard operating procedures to review the separation process were implemented. The ANAO identified that these procedures did not fully address the identified risk. These procedures will be reviewed to address identified gaps. The ANAO consider the design and implementation of the revised control during the 2023–24 financial statements audit.

Australian Research Council

4.5.26 The Australian Research Council (ARC) is responsible for administering the National Competitive Grants Program (NCGP), assessing the quality, engagement and impact of research, and providing advice and support on research matters.

Summary of financial performance

4.5.27 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by the ARC (as outlined in Table 4.5.7 and Table 4.5.8) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.5.7: Key departmental financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(26.4)	(27.6)
Revenue from government	23.4	20.2
Surplus/(deficit) attributable to the Australian Government	(3.0)	(7.4)
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss) attributable to the Australian Government	(3.0)	(7.4)
Total assets	27.0	29.9
Total liabilities	13.4	14.6
Total equity	13.6	15.3

Source: ARC's audited financial statements for the year ended 30 June 2023.

4.5.28 The deficit decreased by \$4.4 million mainly due to the increase in revenue from government of \$3.2 million and revenue from contracts with customers for grant administration services of \$1.4 million.

Table 4.5.8: Key administered financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	853.5	802.1
Total income	13.2	14.8
Deficit	(840.3)	(787.3)
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss)	(840.3)	(787.3)
Total assets administered on behalf of Government	2.5	2.5
Total liabilities administered on behalf of Government	256.9	243.4
Net liabilities	(254.4)	(240.9)

Source: ARC's audited financial statements for the year ended 30 June 2023.

4.5.29 The increase in total expenses of \$51.4 million was largely due to the \$45.0 million increase in grant funding during 2022–23 and \$5.9 million increase in supplier expenses. Supplier expenses were in connection to consultation and support services for the grant programs.

4.5.30 The increase in total liabilities of \$13.5 million was due to increase in grants payable which is in line with the increase in grant expenses.

Key areas of financial risk

4.5.31 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of ARC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.5.9.

Table 4.5.9: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> grants expense \$844.9 million grants payable \$256.4 million	Completeness and accuracy of grants payments	Moderate	<ul style="list-style-type: none"> the significance of the grants expense balance and the high volume of grant payments and variations throughout the year; complex systems, processes and regulations exist for approval, payment and acquittal management; and the difference between the financial statements reporting period and the grants program reporting period, being on a calendar year basis, resulting in a material grant liability as of 30 June 2023.

Source: ANAO 2022–23 audit results, and ARC's audited financial statements for the year ended 30 June 2023.

Audit results

4.5.32 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Comments on non-material entities

Australian Scientific Instruments Pty Limited

4.5.33 Australian Scientific Instruments Pty Limited (ASI) was established for the development, manufacture and sale of scientific instruments. ASI is a subsidiary of the Australian National University.

Audit results

4.5.34 There were no significant or moderate audit findings arising from the 2021 or 2022 financial statements audits.

Emphasis of matter

4.5.35 The auditor's report for ASI's financial statements for the year ended 31 December 2022 included an emphasis of matter paragraph to draw the attention of users to the notes of the financial statements which indicate that the financial statements were prepared on a non-going concern basis. The non-going concern basis of preparation is due to the decision of the directors to cease trading by 30 June 2023 and commence winding up the entity by 31 December 2023.

4.6 Employment and Workplace Relations portfolio

Portfolio overview

4.6.1 The Employment and Workplace Relations portfolio and Department of Employment and Workplace Relations were established on 1 July 2022 under the Administrative Arrangements Order issued by the Australian Government on 1 June and 23 June 2022.

4.6.2 The Employment and Workplace Relations portfolio is responsible for: skills, vocational and employment pathways; workplace relations; work health and safety; and rehabilitation and compensation.

4.6.3 Table 4.6.1 identifies material and other entities specifically mentioned in this section.

Table 4.6.1: Employment and Workplace Relations portfolio material and other entities discussed in this section

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Employment and Workplace Relations	Yes	High	✓	21 Sep 23	25 Sep 23	▲ □
Coal Mining Industry (Long Service Leave Funding) Corporation	Yes	Moderate	✓	7 Sep 23	7 Sep 23	Nil
Comcare	Yes	Moderate	✓	18 Sep 23	18 Sep 23	Nil
Seafarers Safety, Rehabilitation and Compensation Authority	No	Low	E	21 Nov 23	21 Nov 23	Nil

✓: auditor's report not modified

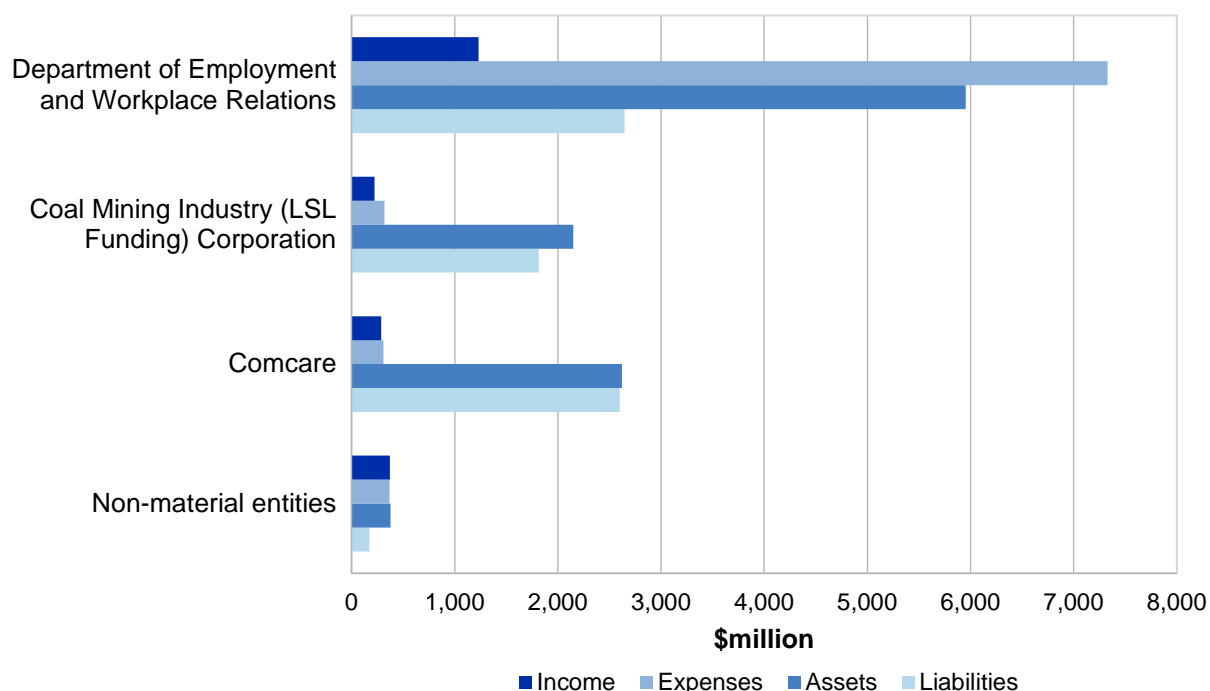
E: auditor's report contains an emphasis of matter

▲: significant or moderate findings and/or legislative matters reported previously but not yet resolved

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2022–23 interim audit phase, now downgraded or resolved

4.6.4 Figure 4.6.1 shows the Employment and Workplace Relations portfolio's income, expenses, assets and liabilities contribution to the Australian Government Consolidated Financial Statements (CFS) for the year ended 30 June 2023.¹³⁴

¹³⁴ This represents the portfolio's contribution to the Australian Government's CFS for the period ending 30 June 2023. It does not include transactions between agencies, such as appropriation revenue, which are not included in the CFS.

Figure 4.6.1: Employment and Workplace Relations portfolio's income, expenses, assets and liabilities


Source: ANAO analysis of 2022–23 CFS.

4.6.5 As previously outlined in Chapter 2, paragraphs 2.153 to 2.160, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2022–23 financial statements audits. Table 4.6.2 provides a summary of those audit differences that relate to entities within the Employment and Workplace Relations portfolio.

Table 4.6.2: The number of audit differences for entities in the Employment and Workplace Relations portfolio

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Employment and Workplace Relations	4	9	13			
Asbestos Safety and Eradication Agency	1	–	1	–	2	2
Australian Skills Quality Authority	–	–	–	1	1	2
Coal Mining Industry (Long Service Leave Funding) Corporation	1	–	1	1	–	1
Fair Work Commission	–	–	–	–	1	1
Office of the Fair Work Ombudsman ^a	–	–	–	–	1	1

Note a: The Fair Work Ombudsman and Registered Organisations Commission was abolished with all functions transferred to the Office of the Fair Work Commission.

Source: ANAO analysis of audit differences reported to entities in the Employment and Workplace Relations portfolio.

4.6.6 The following section provides a summary of the 2022–23 financial statements audit results for the Department of Employment and Workplace Relations, and findings for other material entities and non-material entities in the portfolio.

Department of Employment and Workplace Relations

4.6.7 The Department of Employment and Workplace Relations (DEWR) is responsible for ensuring Australians can experience the social well-being and economic benefits that training, and employment provide. The department is also responsible for workplace relations and work health and safety, rehabilitation, and compensation.

4.6.8 As a result, on 1 July 2022, a Machinery of Government (MoG) change took effect with the following functions transferred to DEWR:

- employment, skills and vocational education from the former Department of Education, Skills;
- workplace relations from the Attorney-General’s Department (AGD);
- Automatic Mutual Recognition (AMR) from the Department of the Prime Minister and Cabinet; and
- Pacific Australia Labour Mobility scheme domestic operations and policy from the Foreign Affairs and Trade (which was agreed in September 2023).

Summary of financial performance

4.6.9 DEWR was established on 1 July 2022 and therefore no comparative financial information is available. The following section provides an overview of the 2022–23 departmental and administered financial statements items reported by DEWR (as outlined in Table 4.6.3 and Table 4.6.4) and includes commentary on significant items which comprise the balances.

Table 4.6.3: Key departmental financial statements items

Key financial statement items	2022–23 (\$m)
Net (cost of)/contribution by services	(752.2)
Revenue from government	667.8
Surplus/(deficit) attributable to the Australian Government	(84.4)
Total other comprehensive income/(loss)	–
Total comprehensive income/(loss) attributable to the Australian Government	(84.4)
Total assets	988.7
Total liabilities	446.4
Total equity	542.3

Source: DEWR’s audited financial statements for the year ended 30 June 2023.

4.6.10 The deficit attributable to the Australian Government of \$84.4 million was primarily due to unfunded depreciation of \$87.9 million.

4.6.11 Total assets comprised mainly:

- non-financial assets (buildings, leasehold improvement, infrastructure, plant and equipment and computer software) of \$655.9 million; and
- trade and other receivables of \$300.4 million (predominantly appropriation receivables).

4.6.12 Total liabilities comprised mainly employee provisions (\$127.1 million) and lease liabilities (\$258.9 million) mainly related to office premises. DEWR has a large and geographically diverse lease portfolio.

Table 4.6.4: Key administered financial statements items

Key financial statement items	2022–23 (\$m)
Total expenses	6,442.0
Total income	1,019.9
Deficit	(5,422.1)
Total other comprehensive income/(loss)	54.6
Total comprehensive income/(loss)	(5,367.5)
Total assets administered on behalf of Government	4,965.4
Total liabilities administered on behalf of Government	2,198.8
Net assets	2,766.6

Source: DEWR's audited financial statements for the year ended 30 June 2023.

4.6.13 Total expenses comprised mainly of subsidies of \$3.9 billion and supplier expenses of \$1.9 billion which primarily related to apprentice program and Workforce Australia program.

4.6.14 Total income primarily comprised:

- interest revenue on Vocational Education Training (VET) loans (\$169.0 million);
- fair value gains on VET and Trade Support loans of \$546.0 million reflecting the impact of an actuarial assessment on the balance of outstanding loans.

4.6.15 Total assets are mainly related to VET and Trade Support loans (\$4.58 billion).

4.6.16 Total liabilities primarily related to the recognition of a payable to Comcare for the administration of Commonwealth workers compensation and other claim liabilities (\$2.0 billion).

Key areas of financial risk

4.6.17 In light of the key areas of risk and the ANAO's understanding of the operations of DEWR, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as high.

4.6.18 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of DEWR's financial statements. The ANAO focused audit effort on those

specific areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.6.5 including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.6.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Departmental and administered</i> all financial statement line items	Completeness, accuracy and classification of transactions and balances resulting from machinery of government changes KAM	Higher	<ul style="list-style-type: none"> the judgement and assumptions applied in determination of opening balances split between the Education and DEWR, including the judgments applied in determining transactions and balances for functions transferred from the Attorney-General's Department, Department of the Prime Minister and Cabinet and Department of Foreign Affairs and Trade; and significant risks identified for the completeness and accuracy of recognition of transactions which are representative of operations between the two departments
<i>Administered</i> Provider services expenses \$1.6 billion (a component of supplier expenses)	Accuracy of 'Workforce Australia' supplier expenses	Higher	<ul style="list-style-type: none"> a new employment service delivered by the DEWR; and new payment arrangements and significant delays in compliance activities have created risks for the accuracy of payments in the initial year of implementation.
<i>Departmental and administered</i> all financial statements line items	Completeness and accuracy of financial statements balances impacted by the complexity and range of IT systems used to maintain information and process payments	Moderate	<ul style="list-style-type: none"> large and complex IT environment with business applications processing a high volume of transactions; many IT systems are bespoke or heavily customised; and reliance on customised reports to prepare financial statements balances.
<i>Administered</i> Vocational Student Loans (VSL) and Trade Support Loans (TSL) receivables (a component of trade and other receivables totalling to \$4.59 billion)	Valuation of the vocational student and trade support loans receivables KAM	Moderate	<ul style="list-style-type: none"> the valuation of the VSL and TSL receivables involves significant and complex judgments about the timing and recoverability of the related debts; the judgments include assumptions about discount factors, future employment and salary rates and future collectability of repayments

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
			<p>that contain a significant degree of uncertainty and are influenced by the economic environment; and</p> <ul style="list-style-type: none"> these receivables are subject to actuarial assessment and rely on the completeness and accuracy of taxation data and information provided from education providers.

Source: ANAO 2022–23 audit results, and DEWR's audited financial statements for the year ended 30 June 2023.

Audit results

4.6.19 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.6.6: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	1 ^a	1 ^b	(1)	1
Total	1	1	(1)	1

Note a: The moderate audit finding related to Removal of user access was first reported to the Department of Education, Skills and Employment (DESE). On 1 July 2022, the Department of Employment and Workplace Relations (DEWR) was created and some functions transferred from DESE. As a result, this finding was also relevant to DEWR.

Note b: The moderate audit finding, relating to Management of Machinery of Government changes, was identified as part of the 2022–23 interim audit. This finding was previously reported in Auditor-General Report No.26 2022–23 *Interim Report on Key Financial Controls of Major Entities*.

Source: ANAO 2022–23 audit results.

4.6.20 For each of the findings listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that DEWR's 2022–23 financial statements were not materially misstated.

Resolved moderate audit finding

Management of Machinery of Government changes

4.6.21 During the 2022–23 interim audit, the ANAO noted a number of areas where timeliness and the configuration of the FMIS and HRMIS (in implementing the MoG changes) impacted on the financial reporting and audit of DEWR.

4.6.22 DEWR has undertaken processes to rectify the above audit finding. This included more timely balance sheet reconciliations and a process whereby transactions recorded in the FMIS were assessed to determine whether they related to DEWR or Department of Education (Education).

Unresolved moderate audit finding

Removal of user access

4.6.23 The Protective Security Policy Framework (PSPF) requires non-corporate Commonwealth entities to control access to systems, networks, and applications. The requirement includes

removing system access from employees and contractors without an operational need for access to IT resources.

4.6.24 The ANAO identified instances where users had accessed the former Department of Education, Skills and Employment’s systems after completion of their employment or contract. The ANAO noted that there were delays in completion of Exit Advice Notification which triggers a number of actions across the department, including the termination access to ICT networks and systems.

4.6.25 During 2022–23 standard operating procedures to review the separation process were implemented. The ANAO identified that these procedures did not fully address the identified risk. These procedures will be reviewed to address identified gaps. The ANAO will consider the design and implementation of the revised control during the 2023–24 financial statements audit.

Coal Mining Industry (Long Service Leave Funding) Corporation

4.6.26 The Coal Mining Industry (Long Service Leave Funding) Corporation (Coal LSL) collects levies from employers to fund long service leave payments made to employees in the Australian black coal mining industry. The levies collected are invested until the employee takes long service leave, at which point the employer makes a payment to the employee and seeks reimbursement from Coal LSL in accordance with legislative arrangements.

Summary of financial performance

4.6.27 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by Coal LSL (as outlined in Table 4.6.7) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.6.7: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(111.2)	(222.3)
Revenue from government	164.1	146.2
Surplus/(deficit) attributable to the Australian Government	52.9	(76.1)
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss) attributable to the Australian Government	52.9	(76.1)
Total assets	2,150.6	2,001.6
Total liabilities	1,814.1	1,718.0
Total equity	336.5	283.6

Source: Coal LSL’s audited financial statements for the year ended 30 June 2023.

4.6.28 The net cost of services decreased by \$111.2 million as a result of favourable movements in the fair value of investments held at 30 June 2023, in conjunction with an increase in net realised gains on sale of investments.

4.6.29 The increase in total assets is attributable to the increase in fair value of investments in unit trusts totalling \$133.9 million at 30 June 2023. The movement in fair value is the result of realised and unrealised gains.

4.6.30 Total liabilities were higher in 2022–23 due to the increase in the provision for reimbursements of \$97.5 million. The increase was largely attributable to a additional provisions recognised during 2022–23 during the period offset by changes in the discount rate and salary growth rates applied in the estimation process.

Key areas of financial risk

4.6.31 The ANAO completed appropriate audit procedures on all material items. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.6.8.

Table 4.6.8: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Unit trusts \$1.9 billion	Valuation of investments	Higher	<ul style="list-style-type: none"> complexity surrounding the valuation of unlisted unit trusts warrants a higher degree of focus than listed equities and fixed interest investments.
Provisions \$1.7 billion	Valuation of provision for reimbursements	Higher	<ul style="list-style-type: none"> Coal LSL makes a provision for the expected reimbursement of employer's long service leave obligations, based on a complex methodology and estimation process.

Source: ANAO 2022–23 audit results, and Coal LSL's audited financial statements for the year ended 30 June 2023.

Audit results

4.6.32 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Comcare

4.6.33 Comcare is the Commonwealth's work health and safety regulator, whose stated purpose is to 'promote and enable safe and healthy work'. It also administers the Commonwealth's workers compensation scheme and acts as an insurer and claims manager. Comcare's enabling role is focused on supporting engagement and better practice approaches to health and safety across its scheme.

Summary of financial performance

4.6.34 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by Comcare (as outlined in Table 4.6.9) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.6.9: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(75.6)	52.4
Revenue from government	51.2	43.9
Available funding from movement in claims provision	26.2	(88.8)
Surplus/(deficit) attributable to the Australian Government	1.8	7.5
Total other comprehensive income/(loss)	–	6.1
Total comprehensive income/(loss) attributable to the Australian Government	1.8	13.6
Total assets	2,622.4	2,702.8
Total liabilities	2,597.9	2,680.1
Total equity	24.5	22.7

Source: Comcare's audited financial statements for the year ended 30 June 2023.

4.6.35 The change in net (cost of)/contribution by services was due to changes in actuarial and economic assumptions impacting the valuation of workers' compensation claims provision and common law asbestos-related disease claims provision (refer to paragraph 4.6.38). There was a loss resulting from the movement in workers' compensation claims provision of \$31.0 million in 2022–23 compared to a gain of \$10.3 million in 2021–22. There was a gain from the movement in common law asbestos-related disease claims provision of \$52.0 million in 2022–23 compared to a gain of \$140.0 in 2021–22.

4.6.36 Comcare has arrangements for special appropriations funding for claims to be returned to the Commonwealth when it is surplus to Comcare's requirements, after third-party recoveries. This is reflected in the movement in the available funding from movement in claims provision.

4.6.37 Total assets decreased by \$80.4 million due to:

- a reduction in Comcare's cash position of \$62.0 million;
- a reduction in third-party claims recoveries receivable of \$51.1 million, in line with movements in the provisions (refer to paragraph 4.6.38); and
- partly offset by an increase in appropriations receivable of \$36.4 million.

4.6.38 The \$82.2 million reduction in total liabilities:

- reflects a decrease in common law asbestos-related disease claims provision of \$100.6 million due to updated claims experience and risk margins; and
- is partly offset by an increase in the workers' compensation claims provision of \$28.6 million due to increased claims administration expenses, higher claim duration for psychological disease claims and higher inflation expectations, offset by higher investment return expectations and lower claim frequency.

Key areas of financial risk

4.6.39 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of Comcare's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.6.10.

Table 4.6.10: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Workers' compensation claims provision \$2.0 billion common law asbestos related disease claims provision \$595.0 million workers' compensation claims expense \$186.8 million common law asbestos related disease claims expense \$19.5 million	Valuation of workers' compensation and asbestos related disease management claims provisions	Higher	<ul style="list-style-type: none"> complex nature of the valuation of the provisions, including: the use of actuarial valuation models; the reliance on the accuracy of underlying assumptions including claims frequency and size, discount factors and establishment of procedure through case law, judgements and data; and the inherent difficulties in reflecting macro-economic trends in the valuation model.
Revenue from contracts with customers \$216.9 million	Accuracy of revenue collection and recognition	Moderate	<ul style="list-style-type: none"> complex nature of the legislative requirements due to the variety of criteria underpinning premium calculations.

Source: ANAO 2022–23 audit results, and Comcare's audited financial statements for the year ended 30 June 2023.

4.6.40 The following performance audit report was tabled during 2022–23 relevant to the financial management or administration of Comcare: Auditor-General Report No.40 2022–23 *Comcare's Administration of its Workers' Compensation Scheme Claims*.

4.6.41 While this report did not include recommendations regarding risks to Comcare's financial administration as it relates to the financial statements, the observations were considered in designing the audit procedures. No significant changes were made to the designed audit procedures for the financial statements audit.

Audit results

4.6.42 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Comments on non-material entities

Seafarers Safety, Rehabilitation and Compensation Authority

4.6.43 Seafarers Safety, Rehabilitation and Compensation Authority (Seacare Authority) oversees a national scheme of occupational health and safety and worker's compensation arrangements for defined seafarers. Seacare Authority administers the Seafarers Safety Net Fund that acts in the place of an employer if a default event occurs, enabling employees to lodge a claim event when there is no employer to lodge against.

Audit results

4.6.44 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Emphasis of matter

4.6.45 The auditor's report for Seacare Authority's 2022–23 financial statements included an emphasis of matter paragraph to draw the attention of users to the notes to the financial statements. The *Overview – Insurance coverage and review of the Seacare Scheme* note states that Seacare Authority has not been able to negotiate insurance for the Seafarers Safety Net Fund (the Fund) from an authorised insurer beyond 31 March 2022 in accordance with the requirements of section 102(1) of the *Seafarers Act 1992* (Seafarers Act).

4.6.46 As stated in the Overview note, along with other matters set forth in the note, if Seacare Authority does not hold insurance for the Fund but the Fund becomes liable to pay compensation under the Seafarers Act, of any quantum:

- Seacare Authority will be required to pay the compensation from the available assets of the Fund; and
- any liability that cannot be met from the available assets of the Fund, Seacare Authority will be responsible for coordinating the settlement of the remaining liability.

4.6.47 The note also states that because Seacare Authority does not have a legal personality separate to the Commonwealth, any liability to pay compensation will ultimately be the Commonwealth's liability.

4.7 Finance portfolio

Portfolio overview

4.7.1 The Finance portfolio is responsible for a range of finance-related functions, including providing the Australian Government with budget policy advice, superannuation arrangements for government employees, deregulation policy, data and digital policy and services and asset sales.

4.7.2 Table 4.7.1 identifies material and other entities specifically mentioned in this section.

Table 4.7.1: Finance portfolio material and other entities discussed in this chapter

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Finance	Yes	Moderate	✓	7 Sep 23	7 Sep 23	□
ASC Pty Ltd	Yes	Moderate	✓	31 Aug 23	31 Aug 23	Nil
Australian Naval Infrastructure Pty Ltd	Yes	Moderate	✓	5 Sep 23	5 Sep 23	Nil
Future Fund Management Agency and the Board of Guardians	Yes	Moderate	✓	26 Sep 23	27 Sep 23	Nil
Commonwealth Superannuation Corporation	No	Moderate	✓	19 Sep 23	19 Sep 23	◆

✓: auditor's report not modified

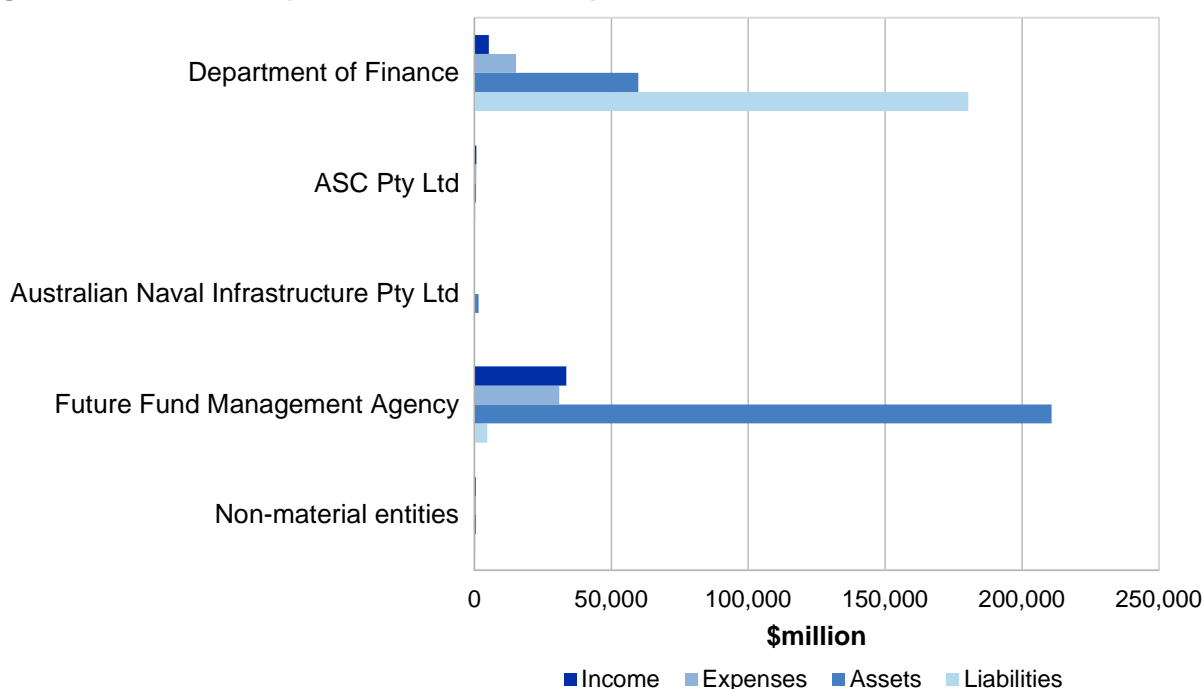
◆: new significant or moderate findings and/or legislative matters noted

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2022–23 interim audit phase, now downgraded or resolved

4.7.3 Figure 4.7.1 shows the Finance portfolio's income, expenses, assets and liabilities contribution to the Australian Government Consolidated Financial Statements (CFS) for the year ended 30 June 2023.¹³⁵

¹³⁵ This represents the portfolio's contribution to the Australian Government's CFS for the period ending 30 June 2023. It does not include transactions between agencies, such as appropriation revenue, which are not included in the CFS.

Figure 4.7.1: Finance portfolio's income, expenses, assets and liabilities



Source: ANAO analysis of 2022–23 CFS.

4.7.4 As previously outlined in Chapter 2, paragraphs 2.153 to 2.160, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2022–23 financial statements audits. Table 4.7.2 provides a summary of those audit differences that relate to entities within the Finance portfolio.

Table 4.7.2: The number of audit differences for entities in the Finance portfolio

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Finance	2	–	2	–	1	1
ASC Pty Ltd	–	–	–	–	1	1
Australian Naval Infrastructure Pty Ltd	5 ^a	2	7	–	1	1
Australian Electoral Commission	–	1	1	–	–	–
Future Fund Management Agency and the Board of Guardians	1	–	1	2	–	2
Independent Parliamentary Expenses Authority	–	–	–	2	–	2

Note a: The current year adjustments include adjustments identified in 2022–23 that relate to the prior year.

Source: ANAO analysis of audit differences reported to entities in the Finance portfolio.

4.7.5 The following section provides a summary of the 2022–23 financial statements audit results for the Department of Finance, and findings for other material entities and non-material entities in the portfolio.

Department of Finance

4.7.6 The Department of Finance (Finance) is responsible for supporting the government’s budget process and the development and implementation of the government’s regulatory frameworks for public sector resource management, governance and accountability. Finance is also responsible for the preparation of the consolidated financial statements of the Australian Government, which includes the whole-of-government and the general government sector financial statements and the Australian Government’s financial outcome. Finance provides shared services through the Service Delivery Office.

Summary of financial performance

4.7.7 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by Finance (as outlined in Table 4.7.3 and Table 4.7.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.7.3: Key departmental financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(574.1)	(314.6)
Revenue from government	339.9	278.9
Income tax equivalent	(3.1)	(3.1)
Surplus/(deficit) attributable to the Australian Government	(237.2)	(38.7)
Total other comprehensive income/(loss)	62.7	65.5
Total comprehensive income/(loss) attributable to the Australian Government	(174.5)	26.7
Total assets	5,305.6	5,448.5
Total liabilities	2,043.0	1,992.6
Total equity	3,262.6	3,455.9

Source: Finance’s audited financial statements for the year ended 30 June 2023.

4.7.8 The \$259.5 million increase in Finance’s net cost of services is partly due to the write down of non-financial assets of \$106.1 million due to the downward revaluation of investment properties during 2022–23. In addition, there were increases in the following items in 2022–23 compared to 2021–22.

- Employee benefits expenses increased by \$29.4 million, primarily due to the machinery of government changes (MoG) from 1 July 2022 with Deregulation, the Office of the National Data Commissioner and Data and Digital policy functions transferred to Finance from the Department of the Prime Minister and Cabinet (PM&C).

- Supplier expenses increased by \$47.4 million, primarily due to the recognition of the Perth Centre of National Resilience potable water pipeline project and other costs incurred, such as preliminary work for the National Security Office Precinct (NSOP).
- Insurance claims expenses increased by \$24.3 million. Comcover is the Australian Government's self-managed general insurance fund and is reported by Finance. The increase is attributable to changes in claims experience and increases in key economic assumptions such as higher inflation forecasts and delays in the settlement of some claims.
- Depreciation and amortisation expenses increased by \$20.6 million, attributable to the commencement of depreciation on the three Centres of National Resilience.

4.7.9 The increase in revenue from government of \$60.9 million is primarily due to additional funding related to the MoG transfer of functions from PM&C (\$39.1 million), Comcover interest equivalency indexation (\$20.1 million) and various budget measures, including for the NSOP project.

4.7.10 Total other comprehensive income primarily relates to land and buildings valuation increases of \$62.7 million, attributable to increased costs of specialised assets such as the Centres of National Resilience and the Post-Entry Quarantine Facility, due to increases in estimated construction costs.

4.7.11 The decrease in total assets of \$142.9 million reflects the impact of the following significant movements:

- decrease of \$272.6 million relating to special account cash held within the official public account (OPA), primarily due to the completion of property projects, including the Centres of National Resilience;
- increase of \$215.3 million in land and buildings, reflecting the completion of the Centres of National Resilience and valuation increases; and
- decrease of \$95.1 million in investment property, reflecting the valuation decreases.

4.7.12 Total liabilities increased by \$50.4 million as a result of the following significant movements:

- decrease of \$70.5 million in trade creditors and accruals, which were higher in 2021–22 due to the stage of construction of the Centres of National Resilience; and
- increase of \$124.7 million due to a higher Comcover insurance claims provision, reflecting the factors described in paragraph 4.7.8.

Table 4.7.4: Key administered financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	11,795.3	11,636.4
Total income	3,177.0	1,772.6
Deficit	(8,618.3)	(9,863.9)
Total other comprehensive income/(loss)	7,786.1	47,171.0
Total comprehensive income/(loss)	(832.2)	37,307.1
Total assets administered on behalf of Government	54,547.6	52,628.1
Total liabilities administered on behalf of Government	178,331.2	185,082.5
Net liabilities	(123,783.6)	(132,454.4)

Source: Finance's audited financial statements for the year ended 30 June 2023.

4.7.13 Total expenses were \$158.9 million higher mainly due an increase in the superannuation expense of \$819.7 million, due to a higher interest expenses for 2022–23 compared to 2021–22. This increase was offset by:

- no losses on financial investments compared to \$610.0 million of losses expensed in 2021–22, reflecting market returns; and
- lower investment fund distributions incurred by Finance of \$113.6 million, reflecting market returns.

4.7.14 Total income increased by \$1.4 billion mainly due to gains on investment funds compared to no gains in 2021–22, reflecting improved market returns.

4.7.15 The increase in total assets of \$1.9 billion mainly relates to an increase in investment funds arising from increased valuations which reflect market returns.

4.7.16 Total liabilities decreased by \$6.7 billion primarily due to a reduction in the superannuation provision of \$6.0 billion driven by an increase in the discount rates applied to the valuation of the provision.

Key areas of financial risk

4.7.17 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of Finance's financial statements. The ANAO focused audit effort on those specific areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.7.5 including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.7.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Departmental</i>	Valuation of the outstanding claims liability	Higher	<ul style="list-style-type: none"> • complex calculation of the liability that involves significant judgement over key assumptions including claim

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
outstanding insurance claims provision \$1.4 billion	under the Australian Government's self-managed general insurance fund KAM		ratios, expected frequency of claims, severity of claims and discount rates.
<i>Administered</i> superannuation provision \$175.0 billion	Valuation of the non-defence superannuation provision KAM	Higher	<ul style="list-style-type: none"> complex calculation requiring significant judgement in the selection of long-term assumptions, including economic assumptions and demographics of the schemes' members, to which the valuation of these provisions is highly sensitive; and detailed disclosure requirements for the presentation and disclosure of defined benefit plans.
<i>Departmental</i> land, buildings and investment properties \$3.3 billion	Valuation of properties KAM	Moderate	<ul style="list-style-type: none"> the valuations are dependent on assumptions that require judgement relating to fair market rents, discount rates, condition and use of the properties.
<i>Administered</i> investments – collective investment vehicles \$12.6 billion	Valuation of private market investments KAM	Higher	<ul style="list-style-type: none"> the size of the investments and the inherent subjectivity and significant judgements and estimates required where market data is not available to determine the fair value of these investments.
<i>Administered</i> (a component of employee expenses of \$391.4 million) (a component of employee provisions of \$240.0 million) (a component of supplier expenses of \$122.9 million)	Accuracy of employee expenses and valuation of provisions relating to members of Parliament and their staff	Moderate	<ul style="list-style-type: none"> variable entitlements payable to members of Parliament and their staff including a range of allowances subject to a number of conditions; multiple IT systems which process payroll and expenditure claims.

Source: ANAO 2022–23 audit results, and Finance's audited financial statements for the year ended 30 June 2023.

Audit results

4.7.18 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.7.6: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	–	1 ^a	(1)	–
Total	–	1	(1)	–

Note a: The moderate audit finding relating to User terminations was identified as part of the 2022–23 interim audit. This finding was previously reported in Auditor-General Report No.26 2022–23 *Interim Report on Key Financial Controls of Major Entities*.

Source: ANAO 2022–23 audit results.

4.7.19 For the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that Finance’s 2022–23 financial statements were not materially misstated.

Resolved moderate audit finding

Removal of user access

4.7.20 The Protective Security Policy Framework (PSPF) requires non-corporate Commonwealth entities to control access to systems, networks, and applications. The requirement includes removing system access from employees and contractors without an operational need for access to IT resources.

4.7.21 During the 2022–23 interim audit, the ANAO identified a number of user accounts that retained access after the user’s termination date, including users that are *Members of Parliament (Staff) Act 1984* (MoP(S) Act) employees and contractors. Finance advised this was due to late notification from business areas. The ANAO found instances where users accessed the system after the termination date that were undetected by Finance. Finance performs monthly checks to detect, and investigate, if users have accessed the system after their employment cessation. However, this procedure did not include all user groups.

4.7.22 The ANAO recommended that Finance implement controls to improve the timeliness of the notification from business areas and extend existing controls to detect and investigate any post termination access for all user groups.

4.7.23 In June 2023, Finance leveraged the existing internal control framework, which was designed to detect and correct post-termination logons, to target the two user groups involved in the ANAO’s audit finding: MoP(S) Act staff and contractors. The ANAO tested the design and implementation of the revised controls. As a result of the action taken by Finance this finding has been downgraded to a minor audit finding at the conclusion of the 2022–23 final audit.

Other matters

Costs of the legal dispute concerning the Commonwealth and Dr Monique Ryan MP

4.7.24 The Auditor-General responded on 6 April 2023 to correspondence from Senator Andrew Bragg dated 8 March 2023, requesting that the Auditor-General conduct an investigation into the costs of the legal dispute concerning the Commonwealth and Dr Monique Ryan MP, relating to an employment matter under the MoP(S) Act.

4.7.25 The Auditor-General advised that “payments made by the Commonwealth, including in relation to legal matters, are subject to financial audit by the ANAO. In the course of our 2022–23

financial statements audit of the Department of Finance, we will make enquiries regarding the matters identified in your letter. The Department of Finance's responses will inform my consideration of whether to conduct further audit or assurance activity."

4.7.26 Further correspondence was received from Senator Bragg dated 18 April 2023, requesting a timeline for finalisation of the 2022–23 financial statements audit of the Department of Finance. The Auditor-General responded on 11 May 2023 to advise that the results of the financial statements audits of all Australian Government Entities, including the Department of Finance, will be in this report to the Parliament.

4.7.27 The ANAO undertook enquiries and performed testing over selected transactions relating to this matter. The ANAO confirmed the relevant requirements and processes that apply to these types of matters include.

- Finance manages Comcover, a self-managed scheme, that provides insurance cover to General Government Sector Commonwealth entities, for all normally insurable risks (excluding Comcare worker's compensation) and other specific risks.
- Comcover covers workplace claims brought against the Commonwealth by Commonwealth staff, including staff employed under the *Members of Parliament (Staff) Act 1984* (MoP(S) Act).
- Finance's Comcover claims management processes are governed by the *Legal Services Directions 2017*, *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and other relevant laws. As part of the management of claims, external legal advice and representation is sought from legal service providers procured from the Whole of Government Legal Services Panel.
- If required, members' representation is managed and funded separately via insurance cover provided under the Parliamentary Business Resources (PBR) framework including the *Parliamentary Business Resources Act 2017*. The Ministerial & Parliamentary Services branch within Finance arrange that separate parliamentarian insurance cover using the approved, whole of government insurance broker.

4.7.28 Based on the testing performed by the ANAO, the payments made by the Commonwealth were in accordance with the relevant legislative frameworks and no control deficiencies or instances of non-compliance were identified.

Waiver of debts owed to the Commonwealth by certain current and former members of the Parliamentary Standing Committee on Petitions

4.7.29 During 2021–22 Finance was informed by the Department of the House of Representatives of non-compliance with statutory conditions on the payment of allowances to certain members of the Parliamentary Standing Committee on Petitions (the Committee).

4.7.30 The non-compliance arose due to the Committee members being incorrectly paid allowances as position holders under the *Remuneration Tribunal (Members of Parliament) Determination 2022* (the Determination), and previous Remuneration Tribunal Determinations. Legal advice obtained by Finance found that the Committee does not fall under Schedule A of the Determination and as such, payment of allowances to the Chairs and Deputy Chairs was not authorised. The advice also provided that all such payments since the commencement of the Committee, made under previous determinations, are similarly affected. The non-compliance

related to four current and five former members of the Committee, over a period commencing in 2008. As a result, a debt of \$432,295.97 to the Commonwealth was calculated and recognised in Finance's administered financial statements at 30 June 2022.

4.7.31 During 2022–23, the Department of the House of Representatives advised that it was not economical to pursue the debts and instead wrote the Department of Finance seeking a waiver under section 63 of the *Public, Governance Performance and Accountability Act 2013*. Finance supported this request in the recommendation made to the Special Minister of State. The recommendation to authorise the waiver was based on the following considerations:

(a) The amounts paid to members were based on the Department of the House of Representatives' incorrect understanding that the Petitions Committee came within the Determination. Advice from the Remuneration Tribunal was that the Department administering the payments would be best placed to assess whether the Committee fell within the Determination.

- i. Given the above advice, it is not obvious the MPs [members of Parliament] should have known that they were not entitled to the allowances they have been paid.
- ii. As it was the responsibility of the Department of the House of Representatives to determine whether the Committee fell within the Determination, it is not apparent that the MPs should have taken action to clarify their entitlement to the allowance.
- iii. Payment of allowances was ceased following the receipt of the legal advice.

(b) There is no dispute that the MPs engaged with the work of the Committee, and that they did so in good faith on the understanding such work attracted the allowance.

(c) Pursuit of the debts is likely to have an inequitable impact on individual MPs as:

- i. Debts go back to the commencement of the Petitions Committee in 2008, which is beyond most state and territory statutory limitation periods meaning only some of the debts are likely to be legally recoverable.
- ii. The legal advice notes that superannuation funds strongly resist action to recover overpaid contributions.

4.7.32 In June 2023, the Special Minister of State agreed to the waiver of the debt under section 63(1) of the PGPA Act.

4.7.33 The nine individuals were advised of the decision in writing in August 2023. The Department of the House of Representatives and Finance advised the ANAO that only two individuals were advised verbally of the debts and their subsequent waiver prior to the written correspondence.

ASC Pty Ltd

4.7.34 ASC Pty Ltd (ASC) supports Australia's naval capabilities. ASC was the builder of Australia's fleet of Collins class submarines for the Royal Australian Navy and is responsible for the ongoing design enhancements, maintenance and support of the submarines through the In Service Support Contract (ISSC).

4.7.35 ASC is part of the Alliance Based Target Incentive Agreement (ABTIA) that delivered three Air Warfare Destroyers for the Royal Australian Navy. The other members of ABTIA include the Commonwealth of Australia represented by the Department of Defence and Raytheon Australia as the mission systems integrator

4.7.36 ASC is contracted to the Australian Government to deliver the Sovereign Shipbuilding Talent Pool to retain, grow and develop the shipbuilding workforce impacted by the Attack Class submarine decision.

Summary of financial performance

4.7.37 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by ASC (as outlined in Table 4.7.7 and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.7.7: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	737.0	546.6
Total income	767.8	575.7
Income tax expense	9.3	8.8
Profit/(loss) after income tax	21.5	20.3
Total other comprehensive income/(loss) after tax	(0.3)	0.3
Total comprehensive income/(loss)	21.3	20.6
Total assets	603.7	535.8
Total liabilities	402.5	350.7
Total equity	201.3	185.1

Source: ASC's audited financial statements for the year ended 30 June 2023.

4.7.38 The \$192.1 million increase in revenue is primarily due to changes in the scope of some of the contracts ASC has in relation to the Collins Class Submarine and related activities.

4.7.39 The \$194.4 million increase in expenses relates to a combination of increase in the employees, material and sub-contractor expenditure due to the changes in scope of contracts held by ASC (refer to paragraph 4.7.38).

4.7.40 The increase in total assets attributable to the:

- increased level of operations of ASC in undertaking its contract works for the Collins Class Submarines during 2022–23; and
- an increase capitalisation of intangible costs due to ASC's digital transformation project.

4.7.41 The increase in total liabilities is commensurate with the increase in operations during 2022–23 (refer to paragraph 4.7.40).

Key areas of financial risk

4.7.42 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of ASC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.7.8.

Table 4.7.8: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Revenue from contracts with customers \$767.8 million	Revenue and profit recognition in relation to the Offshore Patrol Vessel projects and the Collins Class submarine contracts	Higher	<ul style="list-style-type: none"> significant judgements are required in relation to the assumptions and estimates for revenue recognition, for example, revenue recognised against performance targets.
Employee entitlement liability (a component of provisions for employee benefits, including on costs \$62.6 million)	Recognition of employee entitlement liability	Moderate	<ul style="list-style-type: none"> accounting and recognition of employee entitlement liability is complex due to the judgements applied due to the complex agreements involved in estimating the liability for the program.
Capitalisation of intangible costs \$42.1 million	Capitalisation of costs associated with the Digital Transformation Project (DTP) program	Moderate	<ul style="list-style-type: none"> accounting for costs associated with DTP projects involves judgement to determine the extent of the capitalisation of costs.

Source: ANAO 2022–23 audit results, and ASC's audited financial statements for the year ended 30 June 2023.

Audit results

4.7.43 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Australian Naval Infrastructure Pty Ltd

4.7.44 Australian Naval Infrastructure Pty Ltd (ANI) was established to acquire, hold, manage and develop the infrastructure and related facilities used for the Commonwealth's ongoing Naval Shipbuilding Plan. The infrastructure held by ANI at Osborne in South Australia is used by Luerssen Australia Pty Ltd for the construction of two offshore patrol vessels, BAE Systems Maritime Australia for the Hunter Class Frigate program, and ASC Pty Ltd for maintenance of the Collins class submarines under contract arrangements with the Commonwealth, represented by the Department of Defence.

4.7.45 ANI is a proprietary company limited by shares registered under the *Corporations Act 2001*. The Commonwealth represented by the Minister for Finance and Minister for Defence as Shareholder Ministers, wholly own all of ANI's share capital.

Summary of financial performance

4.7.46 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by ANI (as outlined in Table 4.7.9 and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.7.9: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	73.5	393.5
Total income	47.8	41.8
Income tax benefit/(expense)	34.6	78.4
Profit/(loss) after income tax	10.7	(273.2)
Total other comprehensive income/(loss) after income tax	86.9	65.1
Total comprehensive income/(loss) after income tax	97.7	(208.1)
Total assets	1,560.4	1,456.7
Total liabilities	23.1	17.1
Net assets	1,537.3	1,439.6

Source: ANI's audited financial statements for the year ended 30 June 2023.

4.7.47 Total expenses decreased by \$320.0 million primarily due to the inclusion of impairment loss of \$307.0 million in 2021–22. The impairment related to ANI's Osborne North Development Project following the Australian Government's decision not to proceed with the Attack Class Submarine Program. During 2022–23, ANI realised cash flows of \$1.3 million relating to assets that were previously impaired during 2021–22. This reversal of impairment is reflected in ANI's Profit or Loss for 2022–23.

4.7.48 The \$103.7 million increase in total assets was primarily due to the assessments undertaken by the independent valuer in the change in the useful lives of the assets and increased costs of construction.

Key areas of financial risk

4.7.49 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of ANI's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.7.10.

Table 4.7.10: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Property, plant and equipment	Valuation of PPE	Higher	<ul style="list-style-type: none"> ANI holds a large amount of property, plant and equipment which is measured at fair value using the depreciated replacement

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
(excluding capital work in progress) \$1,441.3 million			cost method which requires significant judgements and estimates.
Capital work in progress \$31.8 million	Completeness and accuracy of capital work in progress	Higher	<ul style="list-style-type: none"> complex projects which involves the application of judgement in relation to capitalisation of work in progress.

Source: ANAO 2022–23 audit results, and ANI's audited financial statements for the year ended 30 June 2023.

Audit results

4.7.50 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Future Fund Management Agency

4.7.51 The Future Fund Board of Guardians, supported by the Future Fund Management Agency (together the Future Fund), is responsible for investing the assets of the Future Fund under the *Future Fund Act 2006*, and other investment funds, managed on behalf of the Department of Finance. The investment of the funds is managed under the *Disability Care Australia Fund Act 2013*; the *Medical Research Future Fund Act 2015*; the *Aboriginal and Torres Strait Islander Land and Sea Future Fund Act 2018*; the *Future Drought Fund Act 2019*; and the *Emergency Response Fund Amendment (Disaster Ready Fund) Act 2022* as a means to provide financing sources for substantial future investments in the Australian economy.

Summary of financial performance

4.7.52 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by the Future Fund (as outlined in Table 4.7.11 and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.7.11: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	418.2	372.5
Total income/(loss)	12,255.5	(1,998.8)
Income tax expense	126.8	75.5
Surplus/(deficit)	11,710.5	(2,446.8)
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss)	11,710.5	(2,446.8)
Total assets	210,437.9	200,626.2
Total liabilities	4,414.7	6,313.5
Total equity	206,023.2	194,312.7

Source: Future Fund's audited financial statements for the year ended 30 June 2023.

4.7.53 The surplus for 2022–23 was primarily due to fair value gains on financial instruments totalling \$6.3 billion, compared to fair value losses of \$10.3 billion on financial instruments in the previous year.

4.7.54 The fair value gain was driven by increased earnings on interest-bearing securities as a result of higher interest rates. Public and private market investments also improved due to improved investment performance which also contributed to the fair value gain.

4.7.55 The improved investment performance is also the primary driver of the \$9.8 billion increase in total assets.

4.7.56 The \$1.9 billion decrease in total liabilities was due to a reduction in value of currency contracts held by the Future Fund for hedging movements in foreign exchange rates.

Key areas of financial risk

4.7.57 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of the Future Fund's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.7.12 including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.7.12: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered investments — collective investment vehicles</i>	Valuation of private market investments KAM	Higher	<ul style="list-style-type: none"> the size of the investments and the inherent subjectivity and significant judgements and estimates required where market data is not available to determine the fair value of these investments.

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
\$103.4 billion			
Administered investments — other (excludes collective investment vehicles) \$99.5 billion	Valuation of public market investments	Moderate	<ul style="list-style-type: none"> the size of the investments and the reliance on the valuation undertaken by the custodian.

Source: ANAO 2022–23 audit results, and Future Fund’s audited financial statements for the year ended 30 June 2023.

Audit results

4.7.58 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Comments on non-material entities

Commonwealth Superannuation Corporation

4.7.59 The objective of Commonwealth Superannuation Corporation (CSC) is to provide retirement and insurance benefits for scheme members and beneficiaries, including past, present and future employees of the Australian Government and other eligible employers and members of the Australian Defence Force, through investment and administration of their superannuation funds and schemes.

New moderate audit finding

User access review

4.7.60 During our testing of user access the ANAO noted the user listings being reviewed were not complete; instances where responses regarding access were not received from business areas, instances of where individuals reviewed their own access; and instances of corrective amendments not being performed. The failure to effectively perform periodic comprehensive reviews of user access increases the risk of users retaining inappropriate access to systems and potentially performing unauthorised transactions.

4.7.61 The ANAO has recommended implementing a control where listings used in the review are checked, enhancing existing controls for management to verify that reviews are performed and signed-off for all users included in the review, ensuring the review is performed with proper segregation of duties and implementing a control for management to assess the exposure risk for accounts identified for revocation or amendments in addition to attending to the access amendments. CSC has agreed with the finding and proposed a set of actions to strengthen their internal controls.

4.8 Foreign Affairs and Trade portfolio

Portfolio overview

4.8.1 The Foreign Affairs and Trade portfolio is responsible for delivering a global network of embassies and missions and international affairs policy capability to support Australia’s interests and influence abroad. The portfolio is comprised of five entities in addition to the Department of Foreign Affairs and Trade and works in partnership across government to promote a stable and prosperous regional and global environment.

4.8.2 Table 4.8.1 identifies material entities specifically mentioned in this chapter.

Table 4.8.1: Foreign Affairs and Trade portfolio material entities discussed in this section

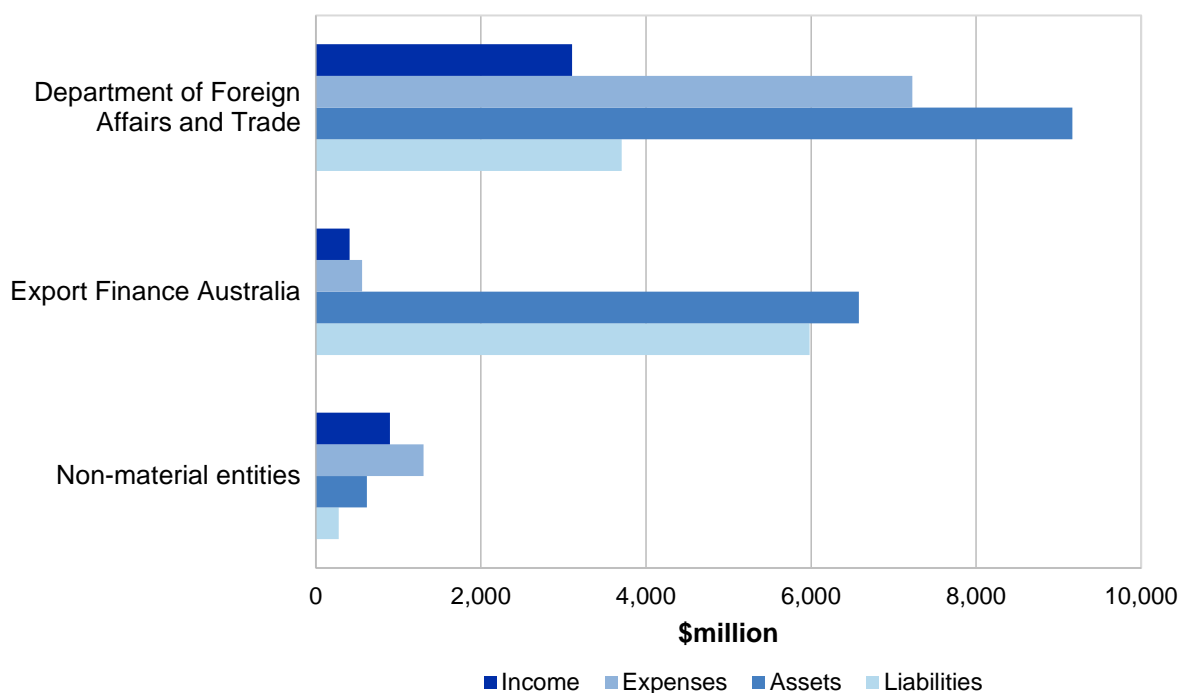
Reporting entity	Material entity	Audit risk rating	Type of auditor’s report	Date financial statements signed	Date auditor’s report issued	Audit findings identified
Department of Foreign Affairs and Trade	Yes	Moderate	✓	13 Sep 2023	13 Sep 2023	◆
Export Finance Australia	Yes	Moderate	✓	24 Aug 2023	24 Aug 2023	Nil

✓: auditor’s report not modified

◆: new significant or moderate findings and/or legislative matters noted

4.8.3 Figure 4.8.1 shows the Foreign Affairs and Trade portfolio’s income, expenses, assets and liabilities contribution to the Australian Government Consolidated Financial Statements (CFS) for the year ended 30 June 2023.¹³⁶

136 This represents the portfolio’s contribution to the Australian Government’s CFS for the period ending 30 June 2023. It does not include transactions between agencies, such as appropriation revenue, which are not included in the CFS.

Figure 4.8.1: Foreign Affairs and Trade portfolio's income, expenses, assets and liabilities

Source: ANAO analysis of 2022–23 CFS.

4.8.4 As previously outlined in Chapter 2, paragraphs 2.153 to 2.160, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2022–23 financial statements audits. Table 4.8.2 provides a summary of those audit differences that relate to entities within the Foreign Affairs and Trade portfolio.

Table 4.8.2: The number of audit differences for entities in the Foreign Affairs and Trade portfolio

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Foreign Affairs and Trade	–	–	–	2	2	4
Australian Centre for International Agricultural Research	–	1	1	–	1	1
Australian Trade and Investment Commission	–	–	–	1 ^a	5	6
Tourism Australia	–	1	1	–	1	1

Note a: The adjustments include adjustments identified in period that relate to the prior year.

Source: ANAO analysis of audit differences reported to entities in the Foreign Affairs and Trade portfolio.

4.8.5 The following section provides a summary of the 2022–23 financial statements audit results for the Department of Foreign Affairs and Trade, and findings for other material entities in the portfolio.

Department of Foreign Affairs and Trade

4.8.6 The Department of Foreign Affairs and Trade (DFAT) is responsible for the administration of Australia’s foreign, trade, international development and international security policies.

Summary of financial performance

4.8.7 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by DFAT (as outlined in Table 4.8.3 and Table 4.8.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.8.3: Key departmental financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(2,104.8)	(1,789.9)
Revenue from government	1,922.0	1,642.3
Surplus/(deficit) attributable to the Australian Government	(182.8)	(147.6)
Total other comprehensive income/(loss)	134.5	119.1
Total comprehensive income/(loss) attributable to the Australian Government	(48.3)	(28.5)
Total assets	6,400.9	6,319.0
Total liabilities	1,670.0	1,681.5
Total equity	4,730.9	4,637.5

Source: DFAT’s audited financial statements for the year ended 30 June 2023.

4.8.8 Total expenses have increased due to:

- an increase in staffing levels at DFAT’s overseas posts and employee-related expenses as international staff postings returned to pre-COVID levels; and
- increased passport expenses as the volume of passports processed increased during the year.

4.8.9 Total revenue has increased due to additional appropriation funding received to fund the increase in the volume of passport applications.

Table 4.8.4: Key administered financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	4,954.2	4,176.3
Total income	1,019.9	716.1
Deficit	(3,934.3)	(3,460.2)
Total other comprehensive income/(loss)	(334.8)	(392.1)
Total comprehensive income/(loss)	(4,269.1)	(3,852.3)
Total assets administered on behalf of Government	2,764.7	2,993.4
Total liabilities administered on behalf of Government	2,035.0	1,838.8
Net assets	729.7	1,154.6

Source: DFAT's audited financial statements for the year ended 30 June 2023.

4.8.10 The increase in expenses is primarily attributed to \$218.6 million of additional funding received to administer new and existing international development assistance payments and multilateral grant replenishments.

4.8.11 Total income has increased due to an increase in the volume of passports processed during the year.

4.8.12 Assets decreased largely due to a downwards revaluation of \$330.0 on multilateral investments due to substantial increases in the discount rate and foreign exchange rates applied in deriving the fair value of investments at reporting date.

4.8.13 Liabilities have increased primarily due to the revaluation of multilateral payables, largely due to new commitments to the International Development Assistance and Asian Development Fund multilateral contributions.

Key areas of financial risk

4.8.14 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of DFAT's financial statements. The ANAO focused audit effort on those specific areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.8.5 including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.8.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Departmental</i> land and buildings \$4,690.1 million	Valuation of overseas properties KAM	Higher	<ul style="list-style-type: none"> significant value of the assets; large number of properties across a number of geographic locations; variety of valuation methodologies applied; and

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
			<ul style="list-style-type: none"> the degree of subjectivity applied in determining the fair value of the properties.
<i>Administered</i> international development assistance \$3,709.6 million	Accuracy of international development assistance KAM	Moderate	<ul style="list-style-type: none"> the significant value of the expenses incurred through DFAT's programs; and a broad range of agreements in place that cover a variety of geographical areas with many third parties including international organisations, emergency and humanitarian programs, contributions to non-government organisations and volunteer programs.
<i>Departmental and Administered</i> various financial statement line items	Financial information associated with overseas posts	Moderate	<ul style="list-style-type: none"> large volume and value of financial transactions processed across the highly decentralised international post network

Source: ANAO 2022–23 audit results, and DFAT's audited financial statements for the year ended 30 June 2023.

4.8.15 Auditor-General Report No.9 2022–23 *Management of Cyber Security Supply Chain Risks* was tabled during 2022–23 relevant to the administration of DFAT.

4.8.16 While this report did not include recommendations regarding risks to DFAT's financial administration as it relates to the financial statements, the observations were considered in designing the audit procedures.

Audit results

4.8.17 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.8.6: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	–	1	–	1
Total	–	1	–	1

Source: ANAO 2022–23 audit results.

4.8.18 For the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that DFAT's 2022–23 financial statements were not materially misstated.

New moderate audit finding

Administration of international development assistance payments

4.8.19 The international development assistance funding is highly decentralised across numerous geographies, covering various industry sectors. Operating across different geographic and legal jurisdictions increases the complexity of the program governance, as different programs and

regions present unique challenges and risks, including potentially increased risks of fraud, bribery and corruption.

4.8.20 DFAT has a centralised framework in place that underpins the Official Development Assistance (ODA) program, which includes the international development assistance programs. This is supplemented by additional processes and controls that are implemented at a post or program level that are designed to specifically respond to the risks and circumstances affecting that particular region, industry sector or program.

4.8.21 During the audit, it was identified that there is an inconsistent application of DFAT's centralised framework for administering international development assistance payments across individual programs. Specifically, there are varying degrees of validation conducted by DFAT staff with respect to payments for cost reimbursements. This increased the risk that payments may be made for goods or services not received.

4.8.22 ANAO recommended that DFAT revise its guidelines and implement additional controls to mitigate the identified risks to an acceptable level. Management has agreed with ANAO's recommendations.

Export Finance Australia

4.8.23 Export Finance Australia (EFA) provides financing solutions for Australian exporters and interests, including overseas infrastructure development that delivers benefits to Australia.

Summary of financial performance

4.8.24 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by EFA. These have been split to provide detail on the commercial account (see Table 4.8.7) and the National Interest Account (NIA, as outlined in Table 4.8.8) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.8.7: Key financial statements items (Commercial account)

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net interest income	20.4	14.7
Total other income	56.3	44.4
Total other expenses	52.4	40.8
Net profit/(loss) before tax equivalent	24.3	18.3
Income tax equivalent	7.3	5.5
Net profit/ (loss) available to the Commonwealth	17.0	12.8
Total other comprehensive income/(loss)	–	37.0
Total comprehensive income/(loss) attributable to the Australian Government	17.0	49.8
Total assets	3,621.6	3,389.6
Total liabilities	3,024.1	2,802.7
Total equity	597.5	586.9

Source: EFA's audited financial statements for the year ended 30 June 2023.

4.8.25 The increase in net interest income of \$5.7 million is largely due higher interest rates on the investment of EFA's capital reserves.

4.8.26 The \$11.9 million increase in other income is largely due to increased activity in loans and guarantees provided by EFA.

4.8.27 The increase in other expenses relates primarily to additional operating costs such as salaries and leave of \$6.7 million and professional fees of \$3.0 million.

4.8.28 The other comprehensive income in the prior year relates to the revaluation of property plant and equipment which is undertaken every three years.

Table 4.8.8: Key financial statements items (National Interest Account)

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net interest income/ (expense)	(64.8)	(6.8)
Total other income	77	34.9
Total other expenses	72	19.5
National interest account attributable to the Australian Government	(59.8)	8.6
Total assets administered on behalf of the Government	2,959.3	3,067.7
Total liabilities administered on behalf of the Government	2,959.3	3,067.7
Net assets	–	–

Source: EFA's audited financial statements for the year ended 30 June 2023.

4.8.29 The movement from a surplus to a deficit is due to net interest income losses increasing by \$58.0 million. The Australian Government provided a financing package to support Telstra's acquisition of Digicel Pacific in July 2022. The financing package provided to Telstra by the NIA is fully funded by debt held by the NIA for which the interest expenses are recorded. NIA holds a portion of the financing package as convertible notes from Digicel Pacific which does not attract interest income

Key areas of financial risk

4.8.30 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of the EFA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.8.9.

Table 4.8.9: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Commercial account</i> loans and receivables \$1.2 billion	Impairment of loans and receivables	Moderate	<ul style="list-style-type: none"> • complex measurement, classification and disclosure requirements; and • subject to estimation and judgement including the credit risk exposure.
<i>Commercial account</i> financial assets \$3.5 billion financial liabilities \$3.0 billion	Valuation and classification of financial instruments	Moderate	<ul style="list-style-type: none"> • complex measurement which involves derivatives, financial instruments, borrowings and loans and receivables; and • subject to estimation and judgement in assessing the reasonableness of the valuation assumptions and inputs to independent sources.
<i>Commercial account</i> net interest income \$20.4 million <i>National interest account</i> Net interest expense \$64.8 million	Completeness and accuracy of interest income recognised	Moderate	<ul style="list-style-type: none"> • multiple loans with different terms, conditions and counterparties; • reliance on the loan management system to correctly calculate interest due; • accuracy of inputs recorded in the system for new loans; and • completeness and accuracy of data transfer from the loan management system to the Financial Management Information System.

Source: ANAO 2022–23 audit results, and EFA's audited financial statements for the year ended 30 June 2023.

Audit results

4.8.31 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

4.9 Health and Aged Care portfolio

Portfolio overview

4.9.1 The Health and Aged Care portfolio works towards achieving better health and wellbeing for all Australians, now and for future generations.

4.9.2 Table 4.9.1 identifies material entities specifically mentioned in this section.

Table 4.9.1: Health and Aged Care portfolio material and other entities discussed in this section

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Health and Aged Care	Yes	High	✓	18 Sep 2023	18 Sep 2023	◆□
National Blood Authority	Yes	Low	✓	11 Oct 2023	12 Oct 2023	◆
National Health and Medical Research Council	Yes	Low	✓	30 Aug 2023	31 Aug 2023	Nil

✓: auditor's report not modified

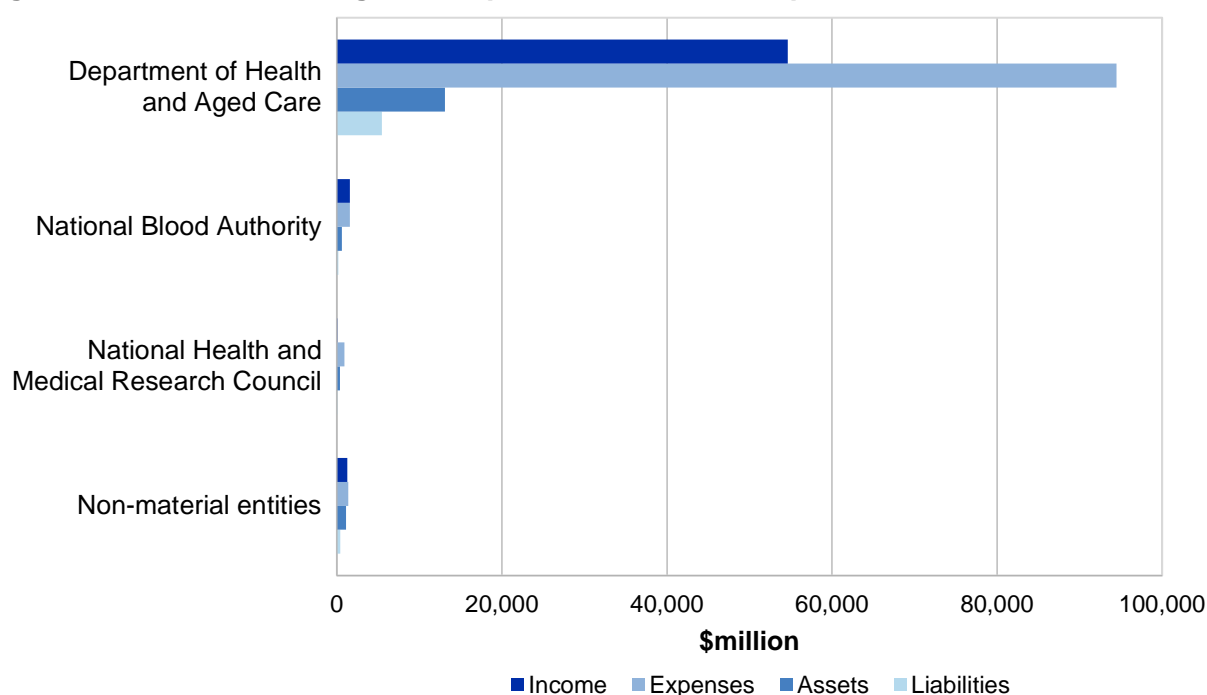
◆: new significant or moderate findings and/or legislative matters noted

▲: significant or moderate findings and/or legislative matters reported previously but not yet resolved

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2022–23 interim audit phase, now downgraded or resolved

4.9.3 Figure 4.9.1 shows the Health and Aged Care portfolio's income, expenses, assets and liabilities contribution to the Australian Government Consolidated Financial Statements (CFS) for the year ended 30 June 2023.¹³⁷

¹³⁷ This represents the portfolio's contribution to the Australian Government's CFS for the period ending 30 June 2023. It does not include transactions between agencies, such as appropriation revenue, which are not included in the CFS.

Figure 4.9.1: Health and Aged Care portfolio's income, expenses, assets and liabilities

Source: ANAO analysis of 2022–23 CFS.

4.9.4 As previously outlined in Chapter 2, paragraphs 2.153 to 2.158, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2022–23 financial statements audits. Table 4.9.2 provides a summary of those audit differences that relate to entities within the Health and Aged Care portfolio.

Table 4.9.2: The number of audit differences for entities in the Health and Aged Care portfolio

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Health and Aged Care	4 ^a	1	5	3	3	6
Aged Care Quality and Safety Commission	–	3 ^a	3	–	1	1
Australian Digital Health Agency	–	–	–	1	1	2
Australian Institute of Health and Welfare	2	2	4	–	1	1
Australian National Preventive Health Agency	–	–	–	–	1	1
Australian Organ and Tissue Donation and Transplantation Authority	–	–	–	–	1 ^a	1

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Australian Radiation Protection and Nuclear Safety Agency	–	–	–	–	1	1
Australian Sports Commission	–	–	–	1	–	1
Australian Sports Foundation Limited	–	–	–	–	1	1
Food Standards Australia New Zealand	–	–	–	–	2 ^a	2
Independent Hospital and Aged Care Pricing Authority	–	1 ^a	1	–	–	–
National Blood Authority	–	2 ^a	2	–	–	–
National Health Funding Body	–	–	–	1	–	1
National Mental Health Commission	1	–	1	2	–	2
Professional Services Review	–	–	–	1	–	1

Note a: The adjustments include adjustments identified in period that relate to the prior year.

Source: ANAO analysis of audit differences reported to entities in the Health and Aged Care portfolio.

4.9.5 The following section provides a summary of the 2022–23 financial statements audit results for the Department of Health and Aged Care, and findings for other material entities in the portfolio.

Department of Health and Aged Care

4.9.6 The Department of Health and Aged Care (DoHAC) is responsible for achieving the Australian Government’s health outcomes in the areas of health system policy, design and innovation; health access and support services; sport and recreation; individual health benefits; regulation, safety and protection; and ageing and aged care. This includes administering programs and services, such as Medicare and the Pharmaceutical Benefits Scheme, and forming partnerships with the states and territories, as well as other stakeholders.

Summary of financial performance

4.9.7 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by the DoHAC (as outlined in Table 4.9.3 and Table 4.9.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.9.3: Key departmental financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(1,104.2)	(1,055.2)
Revenue from government	1,066.6	1,019.4
Surplus/(deficit) attributable to the Australian Government	(37.6)	(35.7)
Total other comprehensive income/(loss)	4.6	(1.6)
Total comprehensive income/(loss) attributable to the Australian Government	(33.0)	(37.3)
Total assets	1,343.8	1,211.5
Total liabilities	958.3	928.8
Total equity	385.5	282.7

Source: DoHAC's audited financial statements for the year ended 30 June 2023.

4.9.8 The increase in total assets was primarily due to additions of \$179.4 million to internally generated computer software in 2022–23. The additions included software supporting aged care programs including the star rating for residential aged care, risk based targeting and information sharing system and the government provider management system.

Table 4.9.4: Key administered financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	93,123.6	91,610.2
Total income	53,322.8	50,509.5
Deficit	(39,800.8)	(41,100.7)
Total other comprehensive income/(loss)	15.5	(23.8)
Total comprehensive income/(loss)	(39,785.3)	(41,124.5)
Total assets administered on behalf of Government	11,758.2	8,430.3
Total liabilities administered on behalf of Government	4,491.4	4,533.4
Net assets	7,266.8	3,896.9

Source: DoHAC's audited financial statements for the year ended 30 June 2023.

4.9.9 Total expenses increased by \$1.5 billion largely due to the increase in aged care subsidies. The increase in subsidies is a result of the implementation of recommendations from the *Royal Commission into Aged Care Quality and Safety* and the indexation of subsidies and supplements.

4.9.10 Total income increased by \$2.8 billion largely due to higher revenue appropriated via the Medicare Guarantee Fund (Health) Special Account to facilitate payments for medical and pharmaceutical benefits.

4.9.11 The increase in total assets of \$3.3 billion is primarily due to a \$2.4 billion increase in cash and cash equivalents due to a difference in the timing between the availability of funds and the payment of claims from the Medicare Guarantee Fund (Health) Special Account.

Key areas of financial risk

4.9.12 In light of the key areas of risk and the ANAO's understanding of the operations of DoHAC, the ANAO assessed the overall risk of material misstatement in the 2022–23 financial statements audit as high.

4.9.13 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of the DoHAC's financial statements. The ANAO focused audit effort on those specific areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.9.5 including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.9.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> personal benefits' expenses \$59.3 billion	Accuracy of personal benefits KAM	Higher	<ul style="list-style-type: none"> the payments are calculated by multiple, complex information technology systems; and the payments are based on the information provided by the recipients and may be significantly impacted by delays in recipients providing correct or updated information and/or the provision of incorrect information resulting in invalid payments.
<i>Administered</i> aged care subsidies expenses \$16.1 billion	Accuracy of subsidies KAM	Higher	<ul style="list-style-type: none"> there was a transition to a new Aged Care funding reform from 1 October 2022, the transition being supported by the implementation of a new payment management system; the payments are based on complex regulatory requirements which are calculated by complex information technology systems; and weaknesses were identified in relation to the internal controls over the information technology environmenta
<i>Administered</i> personal benefits' provisions \$1.1 billion	Valuation of personal benefits' provisions KAM	Higher	<ul style="list-style-type: none"> significant actuarial assumptions and judgements are involved in estimating the personal benefits' provisions; the significant judgements relate to the amount and timing of future claims, estimating the period over which these provisions are expected to be settled; and the judgements rely on the completeness and accuracy of the

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
			underlying historical data used in the estimation process.
<i>Administered</i> inventories \$3.1 billion	Valuation of inventories KAM	Higher	<ul style="list-style-type: none"> judgement applied by management in determining the estimate of current cost and service potential; and prior year weaknesses identified in the inventory controls for inventory management.
<i>Administered</i> grant expenses \$12.8 billion	Accuracy and occurrence of grants expenses	Moderate	<ul style="list-style-type: none"> diversity of the grant programs administered by DoHAC with differing eligibility and reporting requirements.

Note a: Further information regarding these weaknesses can be found in Paragraph 4.15.70 to 4.15.75 relation to Services Australia.

Source: ANAO 2022–23 audit results, and DoHAC's audited financial statements for the year ended 30 June 2023.

4.9.14 The following performance audit reports were tabled during 2022–23 relevant to the financial management and administration of DoHAC:

- Auditor-General Report No.3 2022–23 *Australia's COVID-19 Vaccine Rollout*
- Auditor-General Report No.10 2022–23 *Expansion of Telehealth Services*
- Auditor-General Report No.31 2022–23 *Administration of the Community Health and Hospitals Program*

4.9.15 Auditor-General Report No.10 2022–23 *Expansion of Telehealth Services* reported the failure of DoHAC to identify and manage the legal risks associated with the temporary policy measure. The ANAO recommended DoHAC develop procedures that ensure proposed material changes to the Medicare Benefits Schedule are subject to a structured and documented risk assessment that covers implementation, integrity and other risks.

4.9.16 The observations in this report were considered in designing audit procedures to address the risk associated with the accuracy of personal benefits. A significant legislative breach has been reported by the ANAO in relation to DoHAC's compliance with Section 83 of the Constitution. Further information regarding this finding is detailed at paragraph 4.9.21 below.

4.9.17 Auditor-General Report No.31 2022–23 *Administration of the Community Health and Hospitals Program* found that DoHAC's administration of the Community Health and Hospitals Program (CHHP) was ineffective and fell short of ethical requirements. The report also found DoHAC did not develop grant opportunity guidelines for seven of 108 CHHP grants, and in at least three instances this represented a deliberate decision by senior management to not comply with finance law. DoHAC have disclosed the significant non-compliance with finance law in the Annual Report for 2022–23.

4.9.18 The observations in this report were considered in designing audit procedures to address the risk associated with the occurrence and accuracy of grants expenses.

Audit results

4.9.19 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.9.6: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Significant (A)	–	1	–	1
Moderate (B)	1 ^a	1	(1)	1
Legislative breach (L1)	–	1	–	1
Total	1	3	(1)	3

Note a The moderate audit finding, relating to Impairment of administered inventory, was identified as part of the 2021–22 final audit. This finding was previously reported in Auditor-General Report No.8 2022–23 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2022*.

Source: ANAO 2022–23 audit results.

4.9.20 For each of the findings listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that the DoHAC’s 2022–23 financial statements were not materially misstated.

New significant legislative breach

Legislative compliance – potential breaches of section 83 of the Constitution

4.9.21 Section 83 of the Constitution provides that no money shall be drawn from the Treasury of the Commonwealth except under an appropriation made by the law.

4.9.22 DoHAC has primary responsibility for administering legislation related to health care. In 2022–23 payments totalling approximately \$76.2 billion were authorised against special appropriations, including special accounts, by DoHAC in accordance with a range of complex legislation.

4.9.23 The financial statements for DoHAC for the year ended 30 June 2023 make reference in the Overview section to potential breaches of section 83 of the Constitution in relation to:

- payments of the residential aged care subsidies in accordance with the *Aged Care Act 1997*;
- Medicare Easyclaims processed in accordance with the *Health Insurance Act 1973*;
- the assignment of Medicare benefit process, including verbal assignment of Medicare benefits, for payment of benefits in accordance with the *Health Insurance Act 1973*; and
- services rendered by midwives that did not meet statutory requirements to provide, or make referrals for, services eligible for Medicare benefit in accordance with *Health Insurance Act 1973*.

4.9.24 DoHAC has included in its Annual Report a statement of the significant issues reported to the Minister for Health and Aged Care during the reporting period that relate to the significant non-compliance with the finance law.

New significant audit finding

Governance – legislative compliance, legal matters and legal advice

4.9.25 As part of the financial statements audit process, the ANAO requests that DoHAC provides access to all information, such as records and documentation and other matters, of which DoHAC is aware that is relevant to the preparation of the financial statements and additional information that the ANAO requests from DoHAC for the purpose of the audit.

4.9.26 The request includes that DoHAC has disclosed to the ANAO all known instances of non-compliance or suspected non-compliance with laws and regulations, whose effects should be considered in the preparation of DoHAC's financial statements. This includes all known potential and actual breaches of section 83 of the Constitution.

4.9.27 The ANAO was provided with evidence that legal advice was sought by Services Australia and DoHAC regarding the payment of residential aged care subsidies in August 2022. This advice was not considered by DoHAC in the preparation of the 2021–22 financial statements. The ANAO was not advised that this advice had been sought by Services Australia on behalf of DoHAC.

4.9.28 Potential breaches of the Constitution have been reported in the 2022–23 financial statements in relation to this program.

4.9.29 This weakness in internal control increases the risk that matters that may affect the financial statements are not appropriately considered in the preparation of the financial statements.

4.9.30 In relation to legislative requirements, DoHAC should:

- conduct a risk assessment of programs in relation to compliance with legislative requirements, including section 83 breaches;
- for those programs identified at higher risk of non-compliance with legislative requirements, conduct further work to ensure payments to recipients are compliant;
- improve the system of control to identify, assess and report on non-compliance with legislative requirements including reporting of significant breaches to the Minister in accordance with Resource Management Guide 214 *Notification of significant non-compliance with the finance law*; and
- identify and develop further legislative changes to address situations where amendment to relevant legislation is the most appropriate response to a particular circumstance.

4.9.31 In relation to broader legal matters and legal advice, DoHAC should:

- implement a requirement on departmental officers to advise DoHAC's Legal and Assurance Division when advice is received about Health and Aged Care's portfolio legislation from another Commonwealth entity;
- formalise regular meetings between DoHAC and Service Australia to ensure DoHAC is made aware of all legal matters and advice received relating to areas of portfolio responsibility;
- improve systems of control to ensure legal matters and legal advice received is communicated to the Chief Financial Officer and is assessed for impact on the financial statements; and

- communicate legal matters and legal advice received to the ANAO on a regular basis.

New moderate audit finding

Commonwealth Home Support Programme – Compliance Program

4.9.32 The Commonwealth Home Support Programme (CHSP) supports older Australians with complex needs to stay at home and access affordable and coordinated care services such as light gardening, bathing, nursing, health therapies and meal preparation. At 30 June 2023, the subsidies reported in connection with home care packages totalled \$5.2 billion.

4.9.33 There are three parties involved in the delivery of the CHSP:

- DoHAC reviews the program to ensure that it continues to meet the changing needs of Australia;
- Services Australia administers payments to providers, adjusting fee, subsidy and supplement rates and provides online claiming services for providers; and
- the Aged Care Quality and Safety Commission assesses and monitors home care services to make sure they meet quality standards and resolves complaints concerning these services.

4.9.34 In 2021–22, the ANAO reported a minor audit finding in relation to the CHSP compliance program. The ANAO recommended that DoHAC, in conjunction with the other entities involved in the delivery of the CHSP, agree and document the roles and responsibilities of each entity in relation to the CHSP.

4.9.35 As part of the 2022–23 audit the ANAO continued to assess the processes implemented by management in response to the minor audit finding raised. Sufficient progress had not been made by DoHAC to address the weaknesses identified. As a result, the ANAO upgraded this finding.

4.9.36 In the absence of effective monitoring controls, there is an increased risk that payments made are not appropriate and are not in accordance with the *Aged Care Act 1997*.

4.9.37 DoHAC has advised that the roles and responsibilities are expected to be baselined by 31 December 2023. The ANAO will assess the progress made as part of the 2023–24 financial statements audit.

Resolved moderate audit finding

Impairment of administered inventory

4.9.38 During the stocktaking conducted for the National Medical Stockpile (NMS) during 2021–22, DoHAC identified errors associated with the expiry date of NMS items. Due to the errors identified, management completed additional assurance activities to confirm the appropriateness of the carrying value of inventory as at 30 June 2022.

4.9.39 The ANAO recommended that DoHAC implement an activity to provide assurance that the impairment status of inventory is accurate and to incorporate expiry date adjustments as part of the cycle count process. The ANAO also recommended that DoHAC consider developing an allowance for impairment based on a consumption forecast model, focusing on inventory categories that are likely to expire before they are consumed.

4.9.40 During 2022–23 DoHAC completed a remediation program to verify the accuracy of expiry date data across the NMS. The activity included the inspection of the physical expiry dates on

national medical stockpile packaging to comparing this against the data recorded for each item, to either verify the accuracy of existing data.

4.9.41 DoHAC also considered the development of an allowance for impairment based on a consumption forecast model, focusing on inventory categories that are likely to expire before they are consumed. DoHAC also investigated the feasibility of developing an impairment model but concluded that there is insufficient detail to create a model based on a consumption forecast approach.

4.9.42 As a result of the actions taken by DoHAC during 2022–23 this finding is now considered to be resolved.

National Blood Authority

4.9.43 The National Blood Authority (NBA) is responsible for securing the supply of safe and affordable blood products, including through national supply arrangements and coordination of best practice standards within agreed funding policies under the national blood arrangements.

Summary of financial performance

4.9.44 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by the NBA (as outlined in Table 4.9.7 and Table 4.9.8 and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.9.7: Key departmental financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(8.0)	(6.0)
Revenue from government	5.5	5.5
Surplus/(deficit) attributable to the Australian Government	(2.5)	(0.5)
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss) attributable to the Australian Government	(2.5)	(0.5)
Total assets	13.7	14.7
Total liabilities	7.1	6.2
Total equity	6.6	8.5

Source: NBA's audited financial statements for the year ended 30 June 2023.

4.9.45 The increase of \$2.0 million in the net cost of services and deficit primarily relates to:

- higher employee expenses of \$1.3 million due to the recruitment of additional employees; and
- an increase of \$0.7 million in supplier expenses due to increasing IT and contract costs.

Table 4.9.8: Key administered financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	1,549.7	1,399.5
Total income	1,558.7	1,470.6
Surplus	9.0	71.1
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss)	9.0	71.1
Total assets administered on behalf of Government	598.4	549.5
Total liabilities administered on behalf of Government	187.5	147.7
Net assets	410.9	401.8

Source: NBA's audited financial statements for the year ended 30 June 2023.

4.9.46 The increase of \$150.2 million in total expenses and of \$88.1 million in total income is due to a rise in demand for blood products.

4.9.47 The increase in total assets of \$48.9 million and liabilities of \$39.8 million reflects higher cash reserves and supplier payables at year end due to a change in the timing of payments made at the end of the financial year.

Key areas of financial risk

4.9.48 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of the NBA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.9.9.

Table 4.9.9: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered inventories</i> \$112.6 million	Existence and valuation of inventory	Moderate	<ul style="list-style-type: none"> judgements and assumptions involved in the valuation of blood and blood products; and the geographical spread of inventory and reliance on service providers to manage the inventory holdings.

Source: ANAO 2022–23 audit results, and the NBA's audited financial statements for the year ended 30 June 2023.

Audit results

4.9.49 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.9.10: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	–	1	–	1
Total	–	1	–	1

Source: ANAO 2022–23 audit results.

4.9.50 For the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that the NBA's 2022–23 financial statements were not materially misstated.

New moderate audit finding

Departmental and administered – classification and reporting

4.9.51 Since 2019–20, the NBA has been transferring monies from administered to departmental funds. The NBA advised the ANAO that the funds are transferred to recover costs for administered programs in relation to the delivery of the National Supply Plan that were borne by departmental funds. The incorrect classification or allocation of funding and expenditure between administered and departmental poses a risk to the integrity of the NBA's financial statements

4.9.52 The ANAO has recommended that the NBA should prepare an accounting paper outlining its position for the transfer of funds, including seeking formal approval as required.

National Health and Medical Research Council

4.9.53 The National Health and Medical Research Council (NHMRC) is the Australian Government's key entity for managing investment in, and integrity of, health and medical research. NHMRC is also responsible for developing health advice for the Australian community, health professionals and governments, and for providing advice on ethical practice in health care and in the conduct of health and medical research.

Summary of financial performance

4.9.54 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by the NHMRC (as outlined in Table 4.9.11 and Table 4.9.12 and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.9.11: Key departmental financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(43.3)	(39.7)
Revenue from government	36.3	36.9
Surplus/(deficit) attributable to the Australian Government	(7.0)	(2.8)
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss) attributable to the Australian Government	(7.0)	(2.8)
Total assets	44.2	51.3
Total liabilities	29.8	30.1
Total equity	14.4	21.2

Source: NHMRC's audited financial statements for the year ended 30 June 2023.

4.9.55 The \$3.6 million increase in the net cost of services is mainly due to:

- an increase in employee expenses of \$2.5 million due to the conversion of labour hire contractors to internal staff; and
- a decrease in revenue from contracts with customers of \$1.6 million due to fewer health programs operating.

4.9.56 Total assets decreased by \$7.1 million due to a:

- reduction in trade and other receivables of \$3.2 million; and
- decrease in property, plant and equipment and intangibles balance of \$3.6 million due to depreciation and amortisation exceeding new additions.

Table 4.9.12: Key administered financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	845.1	836.0
Total income	14.0	10.1
Deficit	(831.1)	(825.9)
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss)	(831.1)	(825.9)
Total assets administered on behalf of Government	331.5	275.4
Total liabilities administered on behalf of Government	13.5	19.4
Net assets	318.0	256.0

Source: NHMRC's audited financial statements for the year ended 30 June 2023.

4.9.57 Total assets increased by \$56.1 million mainly due to additional cash and cash equivalents of \$55.5 million attributable to delays in grant rounds.

Key areas of financial risk

4.9.58 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of the NHMRC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.9.13.

Table 4.9.13: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> grant expenses \$842.4 million	Management and accounting of grant expenditure	Moderate	<ul style="list-style-type: none"> management of, and accounting for, a range of grants payments that constitute a significant expense reported in NHMRC's financial statements; and complexities associated with the indexing of grant payments.
<i>Departmental</i> intangible assets \$25.1 million	Management and valuation of intangible assets	Moderate	<ul style="list-style-type: none"> significant judgements involved in considering the indicators of impairment to estimate the value of intangible assets; and judgements involved in estimating the capitalisation of the staff and other costs attributed to developing the software applications.

Source: ANAO 2022–23 audit results, and the NHMRC's audited financial statements for the year ended 30 June 2023.

Audit results

4.9.59 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

4.10 Home Affairs portfolio

Portfolio overview

4.10.1 The Home Affairs portfolio brings together the functions of: counter-terrorism; cyber security policy and coordination; countering foreign interference; transport security; emergency management and critical infrastructure protection; border protection and the facilitation of legitimate trade and travel; immigration, citizenship and multicultural affairs; and natural disaster response and mitigation.

4.10.2 Table 4.10.1 identifies material entities specifically mentioned in this section.

Table 4.10.1: Home Affairs portfolio material and other entities discussed in this section

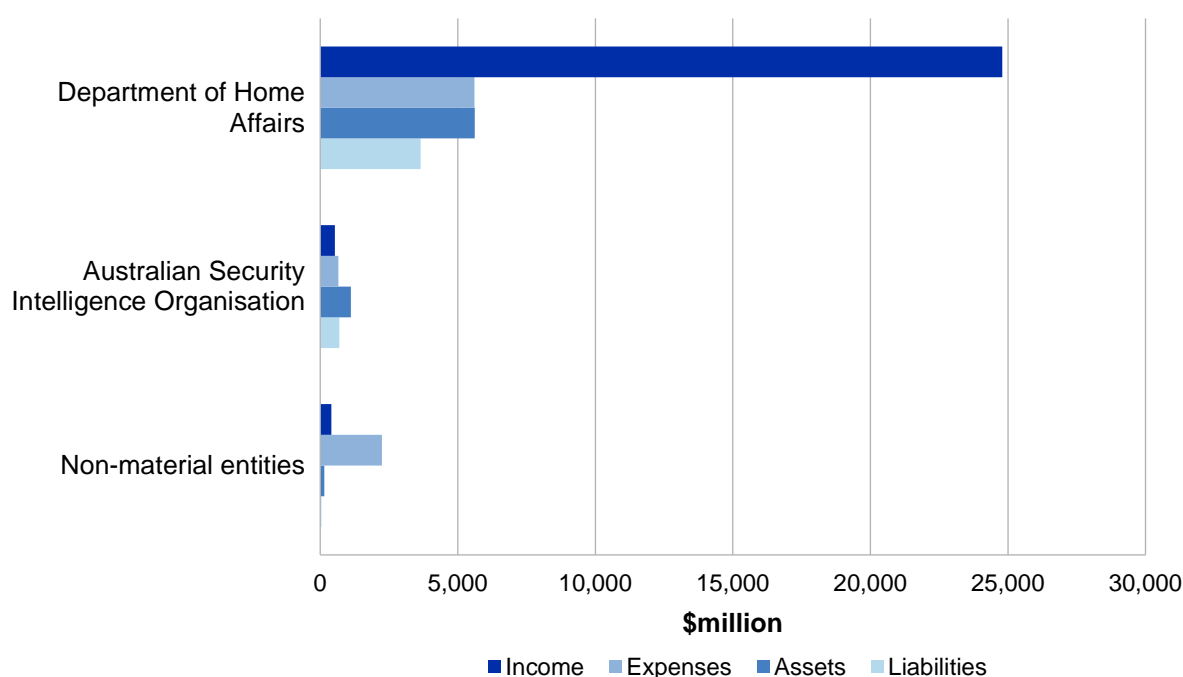
Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Home Affairs	Yes	High	✓	12 Sep 2023	12 Sep 2023	□
Australian Security Intelligence Organisation	Yes	Moderate	✓	17 Aug 2023	17 Aug 2023	Nil

✓: auditor's report not modified

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2022–23 interim audit phase, now downgraded or resolved

4.10.3 Figure 4.10.1 shows the Home Affairs portfolio's income, expenses, assets and liabilities contribution to the Australian Government Consolidated Financial Statements (CFS) for the year ended 30 June 2023.¹³⁸

¹³⁸ This represents the portfolio's contribution to the Australian Government's CFS for the period ending 30 June 2023. It does not include transactions between agencies, such as appropriation revenue, which are not included in the CFS.

Figure 4.10.1: Home Affairs portfolio's income, expenses, assets and liabilities

Source: ANAO analysis of 2022–23 CFS.

4.10.4 As previously outlined in Chapter 2, paragraphs 2.153 to 2.160, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2022–23 financial statements audits. Table 4.10.2 provides a summary of those audit differences that relate to entities within the Home Affairs portfolio.

Table 4.10.2: The number of audit differences for entities in the Home Affairs portfolio

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Home Affairs	1	–	1	1	–	1
Australian Security Intelligence Organisation	1	–	1	1	–	1
National Emergency Management Agency	1	–	1			

Note a: The current year adjustments include adjustments identified in 2022–23 that relate to the prior year.

Source: ANAO analysis of audit differences reported to entities in the Home Affairs portfolio.

4.10.5 The following section provides a summary of the 2022–23 financial statements audit results for the Department of Home Affairs and for other material entities in the portfolio.

Department of Home Affairs

4.10.6 The Department of Home Affairs is the lead entity in the portfolio and is responsible for central coordination, strategy and policy in relation to: cyber and critical infrastructure resilience

and security; immigration, border security and management; and counter-terrorism. It also deals with the management and delivery of the migration, humanitarian and refugee programs, along with multicultural programs, citizenship and settlement services. The department includes the Australian Border Force, which is responsible for border, investigatory, compliance, detention (facilities and centres) and enforcement functions, as well as Australia's customs functions. Considering the portfolio's focus on national security, maintaining a high-integrity culture, including compliance, is critical.

4.10.7 On 1 June 2022, an Administrative Arrangements Order was issued by the Australian Government. As a result, a Machinery of Government (MoG) change occurred for Home Affairs, resulting in responsibility for law enforcement policy and cybercrime functions being transferred to the Attorney-General's Department effective from 1 July 2022.

4.10.8 Following a letter from the Prime Minister on 30 June 2022, emergency management functions were transferred to the National Emergency Management Agency (NEMA). This was completed on 1 September 2022 following the order by the Governor-General to establish NEMA on 18 August 2022.

Summary of financial performance

4.10.9 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by Home Affairs (as outlined in Table 4.10.3 and Table 4.10.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.10.3: Key departmental financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(3,364.8)	(3,100.2)
Revenue from government	2,884.2	2,771.2
Surplus/(deficit) attributable to the Australian Government	(480.6)	(329.0)
Total other comprehensive income/(loss)	51.9	29.9
Total comprehensive income/(loss) attributable to the Australian Government	(428.7)	(299.1)
Total assets	4,188.5	4,630.2
Total liabilities	3,307.8	3,450.5
Total equity	880.7	1,179.7

Source: Home Affairs' audited financial statements for the year ended 30 June 2023.

4.10.10 The increase in the net cost of services is primarily the result:

- higher employee expenses due to the increases the staffing levels to increase visa processing capacity and salary increases in accordance with Home Affairs' enterprise agreement; and
- increased supplier expenses largely due to higher costs of fuel and maintenance costs for vessels and the costs of offshore surveillance.

4.10.11 The increase was partially offset by an increase in revenue from contracts with customers including the recovery of costs for provision of corporate and IT services to other entities (\$19.3 million), electronic travel approvals (\$15.7 million), recovery of credit card merchant fees (\$8.6 million) and document verification services (\$8.6 million).

4.10.12 The decrease in total assets is primarily due to:

- a reduction in appropriation receivable of \$245.7 million, which is consistent with Home Affairs' increase in expenditure, transfer of prior year funding through Machinery of Government changes and use of prior year appropriations for capital expenditure; and
- a decrease in non-financial assets of \$208.2 million. This decrease in non-financial assets is a result of depreciation expense of \$578.6 million partly offset by computer software additions of \$109.3 million, plant and equipment additions of \$94.6 million and capitalisation of fit-out costs of \$62.6 million associated with new leases, including a significant new office lease in Melbourne.

Table 4.10.4: Key administered financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	1,937.1	2,371.2
Total income	21,634.5	19,700.1
Surplus	19,697.4	17,328.9
Total other comprehensive income/(loss)	29.3	56.0
Total comprehensive income/(loss)	19,726.7	17,384.9
Total assets administered on behalf of Government	1,434.7	1,374.8
Total liabilities administered on behalf of Government	346.5	418.9
Net assets	1,088.2	955.9

Source: Home Affairs' audited financial statements for the year ended 30 June 2023.

4.10.13 Total income has increased due to Australia's borders being open to international visitors for the full 2022–23 financial year and the increased processing of the visa backlog. As a result, passenger movement charge revenue has increased by \$648.5 million and visa application charge revenue has increased by \$1.2 billion.

4.10.14 The decrease in administered expenses was largely driven by reductions in contract costs associated with offshore regional processing. During 2022–23, Home Affairs entered into a new service provider arrangement on Nauru whereby charges are determined based on activity levels.

Key areas of financial risk

4.10.15 In light of the key areas of risk and the ANAO's understanding of the operations of Home Affairs, the ANAO assessed the overall risk of material misstatement in the 2022–23 financial statements audit as high.

4.10.16 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that

support the preparation of Home Affairs' financial statements. The ANAO focused audit effort on those specific areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.10.5 including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.10.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> Customs duty revenue \$17.1 billion	Accuracy of customs duty KAM	Higher	<ul style="list-style-type: none"> the significant value of customs duty revenue and the geographically dispersed revenue collection points; and the complexity of the information technology (IT) environment and processes, and inputs used to manage and calculate customs duty.
<i>Administered</i> Visa application charges \$3.2 billion	Accuracy of visa application charges KAM	Higher	<ul style="list-style-type: none"> the significant value of visa application charges and the complexity of the IT environment used to collect those charges.
<i>Administered</i> Services rendered – detention (component of suppliers expenses) \$1.6 billion	Accuracy and occurrence of expenses incurred in the management of the detention and regional processing network	Moderate	<ul style="list-style-type: none"> the complexity of contracts associated with managing the detention and regional processing centres, which include variability based on detainee numbers and escalation and abatement provisions.
<i>Departmental</i> non-financial assets (excluding right-of-use assets) \$1.4 billion <i>Administered</i> non-financial assets (excluding right-of-use assets) \$826.3 million	Accuracy, valuation and allocation of non-financial assets	Moderate	<ul style="list-style-type: none"> the significance of assets and the complexity of valuation judgements applied to geographically dispersed and specialised assets which in some cases may have limited market activity; and high level of judgement required for capitalisation decision for internally generated intangibles.

Source: ANAO 2022–23 audit results, and Home Affairs' audited financial statements for the year ended 30 June 2023.

Audit results

4.10.17 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.10.6: Status of audit findings

Category	Closing Position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	–	1 ^a	(1)	–
Total	–	1	(1)	–

Note a: The moderate audit finding, relating to User access removal, was identified as part of the 2022–23 interim audit. This finding was previously reported in Auditor-General Report No.26 2022–23 Interim Report on Key Financial Controls of Major Entities.

Source: ANAO 2022–23 audit results.

4.10.18 For the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that Home Affairs' 2022–23 financial statements were not materially misstated.

Resolved moderate audit finding

User Access Removal

4.10.19 The Protective Security Policy Framework (PSPF) requires non-corporate Commonwealth entities to control access to systems, networks, and applications. The requirement includes removing system access from employees and contractors without an operational need for access to IT resources.

4.10.20 During the 2022–23 interim audit, the ANAO identified weaknesses in Home Affairs' processes for reviewing and monitoring staff access and user activities performed by staff after they had ceased employment with Home Affairs. The weaknesses resulted in some contractors having access to Home Affairs' systems, networks, and applications after ceasing employment with Home Affairs.

4.10.21 Home Affairs implemented controls in June 2023 to identify and investigate instances of unauthorised access where users have accessed the department's networks after their exit date. As a result of the actions taken by Home Affairs the finding has been downgraded to a minor finding at the conclusion of the 2022–23 audit.

Australian Security Intelligence Organisation

4.10.22 The Australian Security Intelligence Organisation (ASIO) is responsible for protecting Australia, its people and its interest from threats to security through intelligence collection, assessment and advice to the government.

Summary of financial performance

4.10.23 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by ASIO (as outlined in Table 4.10.7) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.10.7: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(642.5)	(574.4)
Revenue from government	519.9	480.3
Surplus/(deficit) attributable to the Australian Government	(122.6)	(94.1)
Total other comprehensive income/(loss)	49.5	–
Total comprehensive income/(loss) attributable to the Australian Government	(73.1)	(94.1)
Total assets	1,113.7	1,044.2
Total liabilities	698.6	672.5
Total equity	415.1	371.7

Source: ASIO's audited financial statements for the year ended 30 June 2023.

4.10.24 Revenue from government and net cost of services have both increased due to the impacts of additional funding for delivery of programs and projects.

4.10.25 Other comprehensive income and the total assets increased due to the revaluation of non-financial assets that occurred during the year.

Key areas of financial risk

4.10.26 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of ASIO's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.10.8.

Table 4.10.8: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Employee benefits expenses employee leave provisions	Accuracy and completeness of employee benefits	Moderate	<ul style="list-style-type: none"> limitations in the payroll system mean that some entitlements require manual calculation increasing the risk of error.
Non-financial assets	Valuation of non-financial assets	Moderate	<ul style="list-style-type: none"> there is complexity and judgement required in determining the fair value of non-financial assets due to the specialised nature of the assets.

Source: ANAO 2022–23 audit results, and ASIO's audited financial statements for the year ended 30 June 2023.

Audit results

4.10.27 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

4.11 Industry, Science and Resources portfolio

Portfolio overview

4.11.1 The Industry, Science and Resources portfolio is responsible for supporting a productive, resilient, and sustainable economy that is enriched by science and technology. It does this by growing innovative and competitive businesses, industries and regions, investing in science and technology and supporting a strong resources sector.

4.11.2 Table 4.11.1 identifies material entities specifically mentioned in this section.

Table 4.11.1: Industry, Science and Resources portfolio material and other entities discussed in this section

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Industry, Science and Resources	Yes	Moderate	✓	4 Sep 23	5 Sep 23	Nil
Australian Nuclear Science and Technology Organisation	Yes	Moderate	✓	12 Sep 23	13 Sep 23	◆ □
ANSTO Nuclear Medicine Pty Ltd	Yes	Moderate	E	11 Sep 23	12 Sep 23	Nil
Commonwealth Scientific and Industrial Research Organisation	Yes	Moderate	✓	7 Sep 23	11 Sep 23	◆
Geoscience Australia	Yes	Low	✓	4 Sep 23	4 Sep 23	Nil

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

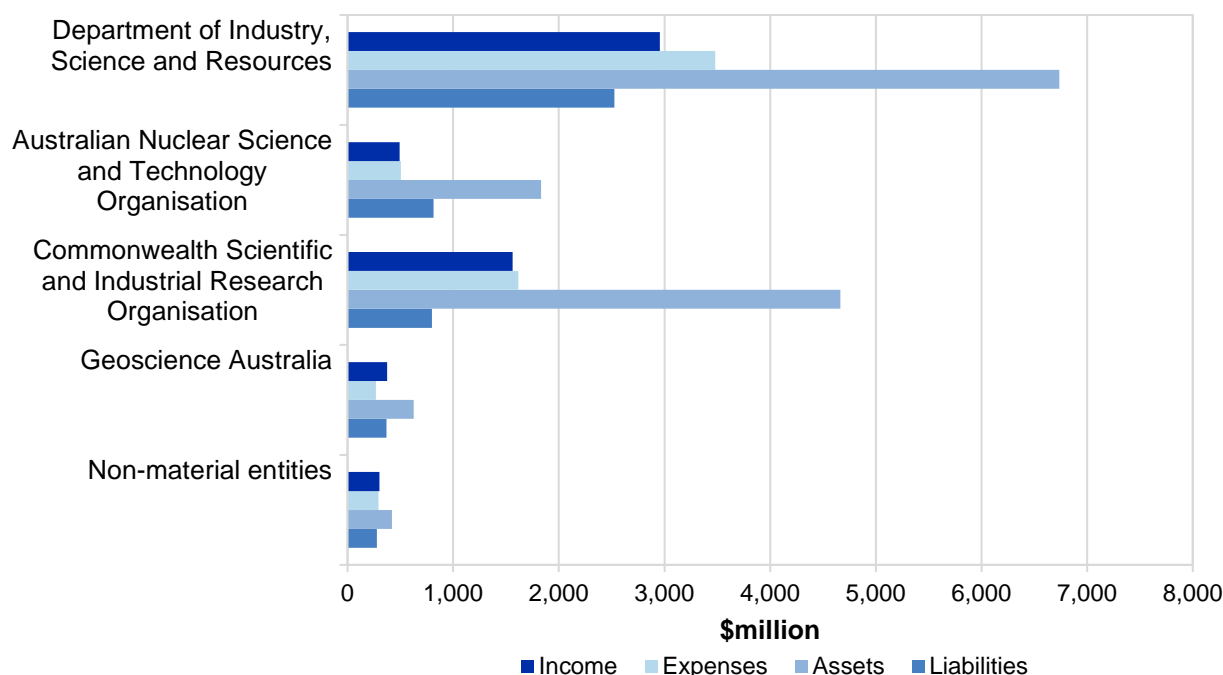
◆: new significant or moderate findings and/or legislative matters noted

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2022–23 interim audit phase, now downgraded or resolved

4.11.3 Figure 4.11.1 shows the Industry, Science and Resources portfolio's income, expenses, assets and liabilities contribution to the Australian Government Consolidated Financial Statements (CFS) for the year ended 30 June 2023.¹³⁹

¹³⁹ This represents the portfolio's contribution to the Australian Government's CFS for the period ending 30 June 2023. It does not include transactions between agencies, such as appropriation revenue, which are not included in the CFS.

Figure 4.11.1: Industry, Science and Resources portfolio’s income, expenses, assets and liabilities



Source: ANAO analysis of 2022–23 CFS.

4.11.4 As previously outlined in Chapter 2, paragraphs 2.153 to 2.160, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2022–23 financial statements audits. Table 4.11.2 provides a summary of those audit differences that relate to entities within the Industry, Science and Resources portfolio.

Table 4.11.2: The number of audit differences for entities in the Industry, Science and Resources portfolio

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Industry, Science and Resources	–	3	3	–	2	2
Commonwealth Scientific and Industrial Research Organisation	6	–	6	2	1	3
• CSIRO Custodial Services Pty Ltd	–	–	–	–	1	1
• CSIRO Financial Services Pty Ltd	–	–	–	–	1	1
• CSIRO Innovation Fund 1	3	–	3	1	–	1

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
• CSIRO Innovation Follow-on Fund 1	2	–	1	–	–	–
• CSIRO Innovation Fund 2	1	–	1	–	–	–
• National ICT Australia Ltd	1	–	1	–	–	–
Geoscience Australia	–	–	–	–	1	1
IP Australia	–	2	2	4	2	6
National Offshore Petroleum Safety and Environmental Management Authority	–	2	2	1	–	1

Note a: The adjustments include adjustments identified in the period that relate to the prior year.

Source: ANAO analysis of audit differences reported to entities in the Industry, Science and Resources portfolio.

4.11.5 The following section provides a summary of the 2022–23 financial statements audit results for the Department of Industry, Science and Resources and for other material entities in the portfolio.

Department of Industry, Science and Resources

4.11.6 The Department of Industry, Science and Resources (Industry) is responsible for supporting a productive, resilient, and sustainable economy that is enriched by science and technology. It does this by growing innovative and competitive businesses, industries and regions, investing in science and technology and supporting a strong resources sector.

4.11.7 Industry offers a grants hub and shared services centre which provides other Commonwealth entities with administrative support including grants administration and payments processing; human resources and financial transactions processing and the provision of management information systems supporting these processes.

4.11.8 The Administered Arrangements Order (AAO) of 1 June 2022, transferred responsibility for climate change and energy from the Department of Industry, Science, Energy and Resources to the newly formed Department of Climate Change, Energy, the Environment and Water (DCCEEW). A subsequent AAO of 13 October 2022, transferred responsibilities for the Office of Supply Chain Resilience, the Critical Technologies Hub and the Digital Technology Taskforce from the Department of the Prime Minister and Cabinet to Industry.

Summary of financial performance

4.11.9 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by Industry (as outlined in Table 4.11.3 and Table 4.11.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.11.3: Key departmental financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(549.4)	(672.6)
Revenue from government	560.7	664.5
Surplus/(deficit) attributable to the Australian Government	11.2	(8.1)
Total other comprehensive income/(loss)	7.7	(1.1)
Total comprehensive income/(loss) attributable to the Australian Government	18.9	(9.2)
Total assets	717.8	735.4
Total liabilities	412.1	474.6
Total equity	305.7	260.8

Source: Industry's audited financial statements for the year ended 30 June 2023.

4.11.10 The reduction in net cost of services is primarily due to:

- decreases in employee benefit and supplier expenses relating to the transfer of employees, the associated expenses for contractors and consultants, and services and maintenance activities relating to functions that were transferred to DCCEEW;
- increase in revenue from contracts with customers related to Industry's provision of shared services to other Australian Government entities;
- increases in revenue arising from the National Measurement Institute's measurement services; and
- increases in Questacon membership and subscription fees due to the easing of restrictions associated with the COVID-19 pandemic.

4.11.11 Revenue from government decreased largely due to the transfer of funding to DCCEEW as a result of the machinery of government changes.

Table 4.11.4: Key administered financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	(2,796.8)	(4,458.6)
Total income	2,262.6	2,499.6
Deficit	(534.2)	(1,959.0)
Total other comprehensive income/(loss)	556.9	(2,491.8)
Total comprehensive income/(loss)	22.7	(4,450.7)
Total assets administered on behalf of Government	6,019.2	25,683.4
Total liabilities administered on behalf of Government	2,113.5	2,121.4
Net assets	3,905.7	23,562.0

Source: Industry's audited financial statements for the year ended 30 June 2023.

4.11.12 The reduction in administered expenses of \$1.7 billion was primarily due to decreases in:

- payments to three corporate Commonwealth entities that had been transferred to DCCEEW; and
- rehabilitation activity expenses that largely related to the remeasurement of the Northern Endeavour and Ranger uranium mine rehabilitation provisions which included reductions for payments made during the year. The prior year provision included the Northern Endeavour provision which was recognised for the first time in 2021–22.

4.11.13 The increase in other comprehensive income is driven by movements in the fair value of administered investments. The other comprehensive loss reported in 2021–22 related to the revaluation of the investment in Snowy Hydro Limited, which was transferred to DCCEEW in 2022–23 as part of the machinery of government changes and so did not occur this year.

4.11.14 The reduction of total assets was primarily due to administered investments relating to the transfer of portfolio entities and cash held in special accounts to DCCEEW due to MoG changes.

Key areas of financial risk

4.11.15 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of Industry's financial statements. The ANAO focused audit effort on those specific areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.11.5 including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.11.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> royalties revenue \$2.1 billion	Completeness and accuracy of royalty revenue KAM	Higher	<ul style="list-style-type: none"> • reliance on data reporting and administrative functions performed by third parties, including state governments and other federal government agencies; and • calculations are dependent on information provided by taxpayers in a self-assessment regime.
<i>Administered</i> rehabilitation provisions \$2.1 billion	Valuation of the rehabilitation provision KAM	Higher	<ul style="list-style-type: none"> • complexity of the valuation as the provisions are calculated using estimated rehabilitation cost information, including estimates derived by third parties and are underpinned by key assumptions including the cost and scope of the rehabilitation activities, discount rates, indexation and inflation rates and the estimated timing of cash outflows.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> grant expenses \$738.6 million	Accuracy, occurrence and completeness of grant payments	Moderate	<ul style="list-style-type: none"> significant number of individual grant programs which operate under separate grant agreements and are subject to different eligibility criteria; and reliance on third party acquittals to confirm validity of grant payments.

Source: ANAO 2022–23 audit results, and Industry’s audited financial statements for the year ended 30 June 2023.

4.11.16 The following performance audit reports were tabled during 2022–23 relevant to the financial management or administration of Industry:

- Auditor-General Report No.1 2022–23 *Award of Funding under the Building Better Regions Fund*
- Auditor-General Report No.19 2022–23 *Procurement Complaints Handling*

4.11.17 While the reports did not include recommendations regarding risks to Industry’s financial administration as it relates to the financial statements, the observations were considered in designing the audit procedures. No significant changes were made to the designed audit procedures for the financial statements audit.

Audit results

4.11.18 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Australian Nuclear Science and Technology Organisation

4.11.19 The Australian Nuclear Science and Technology Organisation (ANSTO) is Australia’s national nuclear research and development organisation. ANSTO operates Australia’s only multi-purpose nuclear reactor and the Australian Synchrotron, contributes to radiopharmaceutical production and supply, and conducts research into related areas of national priority, including human health, the environment and the nuclear fuel cycle. ANSTO also provide advice to government and other stakeholders on matters relating to nuclear science, technology and engineering.

Summary of financial performance

4.11.20 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by ANSTO (as outlined in Table 4.11.6) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.11.6: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(222.1)	(82.2)
Revenue from government	289.0	279.5
Surplus/(deficit) attributable to the Australian Government	66.9	197.3
Income tax benefit/(expense)	(0.3)	0.3
Total other comprehensive income/(loss)	169.0	(22.5)
Total comprehensive income/(loss) attributable to the Australian Government	235.6	175.1
Total assets	1,829.0	1,598.7
Total liabilities	772.2	823.3
Total equity	1,056.8	775.4

Source: ANSTO's audited financial statements for the year ended 30 June 2023.

4.11.21 The net cost of services increased by \$139.9 million mainly attributable to the valuation of the nuclear waste management and decommissioning provisions. In 2021–22 there were gains of approximately \$212.3 million attributable to the remeasurement of these provisions due to changes in discount rates applied in the valuation (decrease in provisions), compared to gains of approximately \$83.1 million in 2022–23. The valuation of these provisions are particularly sensitive to changes in underlying discount rates (refer to paragraph 4.11.23).

4.11.22 The change in total other comprehensive income and in total assets is due to the impact of a revaluation of non-financial assets undertaken in 2022–23. The result was to record a fair valuation increment in buildings and plant and equipment of \$169.0 million. The fair valuation is undertaken periodically in accordance with ANSTO's valuation policy and the relevant accounting standards. Given the specialist nature of ANSTO's non-financial assets (nuclear medicine production and research facilities; and equipment) the valuation is undertaken on a depreciated replacement cost basis. The valuation increment was due to increases in estimated costs of construction, technological equipment and raw materials.

4.11.23 The decrease in total liabilities of \$51.1 million mainly represented the changes in the value of nuclear waste management and decommissioning provisions which were remeasured at 30 June 2023:

- decommissioning costs of \$502.9 million, representing the discounted present value of the expected costs to decommission ANSTO's plant and equipment involved in nuclear processes. ANSTO estimate that the provision will be settled over the next 55 years.
- processing and storage of nuclear waste costs of \$130.2 million related to the discounted present costs to handle the waste generated by ANSTO. ANSTO estimate that the provision will be settled over the next 16 years.

4.11.24 The decrease in the balance of these provisions reflects the impact of economic assumptions applied in the calculation, particularly the changes in the value of the discount rate applied in the calculation, which increased in line with Australian Government bond rates. An

increase in the discount rate applied has the impact of decreasing the present value of liabilities. These provisions are assessed annually for financial reporting purposes, including a revision to nominal costs and other financing factors. Whilst the present value of the provision has decreased during the period due to the discount rate, the nominal cost of the activities was estimated to have increased by \$7.2 million due to updated price and volume assumptions.

Key areas of financial risk

4.11.25 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of ANSTO's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.11.7.

Table 4.11.7: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Decommissioning provision \$502.9 million nuclear waste management provision \$130.2 million	Valuation of the decommissioning and nuclear waste management provision	Higher	<ul style="list-style-type: none"> complexity of the calculation and reliance upon the exercise of significant judgement relating to the decommissioning of unique assets and material; and liability settled over a long period, as a result the provision calculation is sensitive to small changes in factors in the calculation such as discount rates, price indexes and inflation assumptions.
Property, plant and equipment \$1,427.5 million intangible assets \$57.8 million depreciation and amortisation \$92.4 million impairment losses \$24.8 million	Valuation and subsequent depreciation of property, plant and equipment and intangibles	Moderate	<ul style="list-style-type: none"> valuation of non-financial assets is subjective and requires significant judgement particularly given the unique nature of assets held for scientific and nuclear production purposes; and judgement in determining value of the Molybdenum 99 (Mo-99) facility, considering the nature of the operating environment for the sale of Mo-99, cash flow forecasts and assumptions related to global demand for nuclear medicine products.
Financial statements disclosure	Cash flow and going concern of the ANSTO Nuclear Medicine Pty Ltd (ANM) subsidiary	Moderate	<ul style="list-style-type: none"> cash flow issues were identified in ANM in 2021–22 casting doubt on the ability of this entity to continue as a going concern with reliance on ANSTO to provide financial support; in May 2023, the Australian Government decided to wind up ANM by 1 July 2024 and transfer all operations, assets and liabilities to ANSTO.

Source: ANAO 2022–23 audit results, and ANSTO's audited financial statements for the year ended 30 June 2023.

Audit results

4.11.26 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.11.8: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	1	1	(1) ^a	1
Total	1	1	(1)	1

Note a: The moderate audit finding, relating to Removal of user access was first reported in Auditor-General Report No.14 2020–21 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2021*.

Source: ANAO 2022–23 audit results.

4.11.27 For each of the findings listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that ANSTO’s 2022–23 financial statements were not materially misstated.

New moderate audit finding

FMIS DEBUG privileged user access and monitoring of audit logs

4.11.28 Privileged user accounts can be used to circumvent security controls to make direct changes, either to system settings or systems data, or to access files and accounts used by others during the 2022–23 interim audit the ANAO identified weaknesses in ANSTO’s controls relating to the granting and monitoring of privileged user access to the Financial Management Information System (FMIS) in respect of DEBUG roles.

4.11.29 The ANAO identified that there were users with permanent access to the DEBUG role and there was no regular monitoring of logs of activities of these privileged users. The ANAO recommended that ANSTO remove permanent access to the DEBUG role, develop a policy to provide formalised temporary access to the role as a need arises and develop a monitoring and logging process.

4.11.30 ANSTO advised the ANAO that all permanent access to the debug role was removed for users in July 2023 and that existing policies and procedures for logging and monitoring of privileged users would be updated to include the DEBUG role.

4.11.31 The ANAO will confirm the implementation and effective operation of the monitoring of privileged user with access to the DEBUG role as part of the 2023–24 financial statements audit.

Resolved moderate audit finding

Removal of user access

4.11.32 During the 2020–21 audit the ANAO identified weaknesses in ANSTO’s controls relating to terminated users being removed. One employee’s user account was accessed after the termination date.

4.11.33 The ANAO identified a further instance of a user logging on post termination date during the 2021–22 audit. In response to this finding, ANSTO implemented a cessation process to track deactivation cases, particularly around year-end shut down or other periods of extended leave.

4.11.34 During 2022–23 ANSTO implemented further controls to identify terminated users and where retrospective user terminations may have been processed to confirm no systems were accessed during the intervening period before system access was ceased. The ANAO tested the design and operating effectiveness of these controls and identified no recurrence of users logging on post termination date.

4.11.35 Based on the implementation of the additional controls, this finding was considered resolved and closed during the 2022–23 interim audit phase.

ANSTO Nuclear Medicine Pty Ltd

4.11.36 ANSTO Nuclear Medicine Pty Ltd (ANM) is a subsidiary of ANSTO. ANM was established to own and operate two facilities at ANSTO’s Lucas Heights campus: the Molybdenum 99 (Mo-99) production facility and the Synroc waste management facility, which is under construction.

Audit results

4.11.37 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Emphasis of matter

4.11.38 The auditor’s report for ANM’s 2022–23 financial statements included an emphasis of matter paragraph to draw the attention of users to the notes of the financial statements which indicate that the financial statements were prepared on a non-going concern basis. The non-going concern basis of preparation is due to a decision of the Australian Government to transfer all operations, assets and liabilities of ANM to ANSTO and wind up ANM by 1 July 2024.

Commonwealth Scientific and Industrial Research Organisation

4.11.39 The primary functions of the Commonwealth Scientific and Industrial Research Organisation (CSIRO), as set out in the *Science and Industry Research Act 1949*, are to carry out scientific research and facilitate the application or utilisation of the results of such research. CSIRO is responsible for delivering innovative scientific and technology solutions to benefit industry, the environment and the community through scientific research and capability development, services and advice.

4.11.40 CSIRO has established an Innovation Fund, which consists of 28 subsidiaries, to invest in the development of early stage technology opportunities. CSIRO reports \$771.1 million of investments from the twenty-eight entities that comprise the Innovation Fund. These entities include discretionary and unit trusts established to distribute returns, entities established as trustees or general partners of the trusts and entities that provide fund management and other services.

4.11.41 In addition to the Innovation Fund, the CSIRO also includes:

- the Science and Industry Endowment Fund (SIEF), which is a fund established under the *Science and Industry Endowment Act 1926* for the purposes of providing assistance to

students and persons engaged in scientific research, international subsidiaries in Chile and the United States of America; and

- the National ICT Australia Group, which includes a number of companies established to hold intellectual property and commercialise research.

Summary of financial performance

4.11.42 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by CSIRO (as outlined in Table 4.11.9) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.11.9: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(898.0)	(668.6)
Revenue from government	991.1	949.0
Surplus/(deficit) attributable to the Australian Government	93.1	280.5
Total other comprehensive income/(loss)	107.1	22.8
Total comprehensive income/(loss) attributable to the Australian Government	200.2	303.2
Total assets	4,286.5	3,819.5
Total liabilities	797.9	703.8
Total equity	3,488.5	3,115.8

Source: CSIRO's audited financial statements for the year ended 30 June 2023.

4.11.43 The increase of \$229.4 million in net cost of services is primarily due to:

- an increase in wages and salaries of \$58.0 million and an increase in leave expense of \$59.9 million. The increase in wages and salaries were driven by increased recruitment. In 2022–23 CSIRO recruited an additional 647 full time equivalent staff. Increases in leave expense are driven by the increase in employees and actuarial adjustments resulting from changes in bond rates and salary growth expectations; and
- an increase in supplier expenditure of \$89.0 million, mainly due to an increase of \$26.6 million in research and development performed under contract and an increase of \$16.5 million in domestic travel.

4.11.44 The increase in total assets of \$467.0 million is primarily attributable to increases in:

- cash and cash equivalents of \$119.7 million, due the increase in CSIRO's surplus and an underspend on capital projects;
- other investments of \$214.7 million, due to movements in fair value of investments; and
- land and buildings of \$93.9 million, mainly as a result of a revaluation which resulted in a valuation increment of \$107.0 million due to increase in replacement costs.

Key areas of financial risk

4.11.45 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation CSIRO's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.11.10.

Table 4.11.10: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Revenue from contracts with customers \$497.6 million suppliers – contract liabilities \$280.0 million	Completeness and accuracy of research and associated measurement of work-in-progress and unearned revenue	Higher	<ul style="list-style-type: none"> revenue is recorded with reference to contracted milestones or elapsed time for research projects; and significant judgement is required to determine the appropriate revenue recognition method in accordance with Australian Accounting Standards for CSIRO's many contracts, revenue streams and the variety of sources and funding models.
Unlisted companies and Innovation Fund (components of other investments) unlisted companies \$124.8 million Innovation Fund \$771.1 million (investment funds, comprising investments in unlisted equity instruments and other instruments)	Valuation of unlisted equity instruments	Higher	<ul style="list-style-type: none"> fair value of early-stage entities requires significant estimation and judgement as by its nature the entities are not publicly listed and require alternate valuation techniques; and CSIRO applies the International Private Equity Valuation and Venture Capital (IPEV) guidelines to value these entities in accordance with AASB 13 Fair Value Measurement.
Plant and equipment \$563.2 million investment properties \$46.1 million	Valuation of plant and equipment and investment properties	Moderate	<ul style="list-style-type: none"> investment property and plant and equipment valuations require estimates and judgements and is complex due to: <ul style="list-style-type: none"> determination of the most appropriate valuation technique; the specialised or restricted nature of use for some property assets; and identifying the principal market and assessing the applicability of recent market transactions and ensuring the appropriate selection of observable

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
			inputs (where applicable) to support the valuation.

Source: ANAO 2022–23 audit results, and CSIRO's audited financial statements for the year ended 30 June 2023.

Audit results

4.11.46 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.11.11: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	–	1	–	1
Total	–	1	–	1

Source: ANAO 2022–23 audit results.

4.11.47 For each the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that CSIRO's 2022–23 financial statements were not materially misstated.

New moderate audit finding

Privileged user access management

4.11.48 Privileged user accounts can be used to circumvent security controls to make direct changes, either to system settings or systems data, or to access files and accounts used by others.

4.11.49 During the 2022–23 interim audit the ANAO identified weaknesses in CSIRO's controls relating to the granting and monitoring of privileged user access to the Financial Management Information System (FMIS) in respect of DEBUG roles. Privileged user accounts can be used to circumvent security controls to make direct changes, either to system settings or systems data, or to access files and accounts used by others

4.11.50 The ANAO identified that there were users with permanent access to the DEBUG role and there was no regular monitoring of logs of activities of these privileged users. The ANAO recommended that CSIRO remove permanent access to the DEBUG role.

4.11.51 CSIRO reviewed and made immediate changes to the DEBUG access and deleted permanent access for any user prior to 30 June 2023. CSIRO has also reviewed its policy and controls over DEBUG access requests and management. The ANAO will confirm implementation of monitoring controls in 2023–24. The ANAO will confirm the implementation as part of the 2022–23 financial statements audit.

4.11.52 The ANAO will confirm the implementation and effective operation of the monitoring of privileged users with access to the DEBUG role as part of the 2023–24 financial statements audit.

Geoscience Australia

4.11.53 Geoscience Australia delivers information and advice on Australia’s geology and geography to support faster and smarter decision-making. Geoscience Australia develops applications and solutions in response to Australia’s challenges by bringing together observations, data and knowledge from across geoscience disciplines.

Summary of financial performance

4.11.54 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by Geoscience Australia (as outlined in Table 4.11.12) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.11.12: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(238.3)	(209.9)
Revenue from government	344.6	260.1
Surplus/(deficit) attributable to the Australian Government	106.3	50.2
Total other comprehensive income/(loss)	2.9	4.2
Total comprehensive income/(loss) attributable to the Australian Government	109.2	54.3
Total assets	627.5	490.3
Total liabilities	369.2	358.4
Total equity	258.3	131.9

Source: Geoscience Australia’s audited financial statements for the year ended 30 June 2023.

4.11.55 The increase in the net cost of services is mainly due to:

- an increase of \$15.2 million in contractor expenses and foreign exchange losses as activity on the Satellite-Based Augmentation System, the Southern Positioning Augmentation Network (SouthPAN project) which commenced in 2022–23;
- an increase of \$4.1 million in employee benefits due to a 3 per cent increase in salaries and uplift in provisions associated with higher salaries;
- a decrease of \$3.7 million in revenue from contracts due to a focus on SouthPAN and the deferral on revenue recognition for other projects; and
- a decrease of \$2.1 million in other revenue due to reduction in the provision of IT service resources.

4.11.56 Revenue from government increased as a result of the additional funding for the SouthPAN project and a funding supplementation of \$12.7 million for foreign exchange losses relating to the SouthPAN project.

4.11.57 The increase in total assets is mainly due to:

- additions for the purchase or internally developed assets amounting of \$165.3 million (of which \$148.7 million represented the carrying value of the service concession assets relating to SouthPAN); and
- offset by the depreciation on all categories of non-financial assets of \$38.9 million.

Key areas of financial risk

4.11.58 The ANAO completed appropriate audit procedures on all material items. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.11.13.

Table 4.11.13: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Land \$3.1 million buildings \$242.6 million leasehold improvements \$21.7 million plant and equipment \$85.9 million heritage and cultural \$7.4 million	Valuation of property, plant and equipment and heritage and cultural assets (mineral and fossil collections)	Moderate	<ul style="list-style-type: none"> • the valuation of non-financial assets is subjective and requires significant judgement particularly given the unique nature of collection assets held.
Other payables – unearned income from contracts with customers \$46.8 million	Deferred revenue and related contract income	Moderate	<ul style="list-style-type: none"> • recognition of revenue related to long-term contracts and the relevant deferred revenue balances at 30 June 2023 is a relatively complex process and requires judgement due to the nature of the contracts.
Supplier expenses \$13.5 million (a component of the balance of supplier expenses) foreign exchange losses \$1.6 million plant and equipment \$29.7 million (a component of the balance of plant and equipment) computer software \$119.0 million (a component of the balance of computer software)	SouthPAN contract – accounting treatment and disclosures	Moderate	<ul style="list-style-type: none"> • complexity of the accounting treatment and recognition of the service concession arrangement of the SouthPAN project as a joint operation between Geoscience Australia and the New Zealand Government; and • treatment of assets and deferred amounts including the financial statement disclosures associated with the SouthPAN contract.

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
supplier payables \$2.5 million (a component of the balance of supplier payables) other interest bearing liabilities \$10.2 million			

Source: ANAO 2022–23 audit results, and Geoscience Australia’s audited financial statements for the year ended 30 June 2023.

Audit results

4.11.59 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

4.12 Infrastructure, Transport, Regional Development, Communications and the Arts portfolio

Portfolio overview

4.12.1 The Infrastructure, Transport, Regional Development, Communications and the Arts portfolio covers a number of policy areas, including safety across the civil aviation, maritime and transport sectors; air navigation services; developing and administering the national capital; road, rail and freight transport systems; communication services; digital technologies; and public access to the arts and culture.

4.12.2 Table 4.12.1 identifies material and other entities specifically mentioned in this section.

Table 4.12.1: Infrastructure, Transport, Regional Development, Communications and the Arts portfolio material and other entities discussed in this section

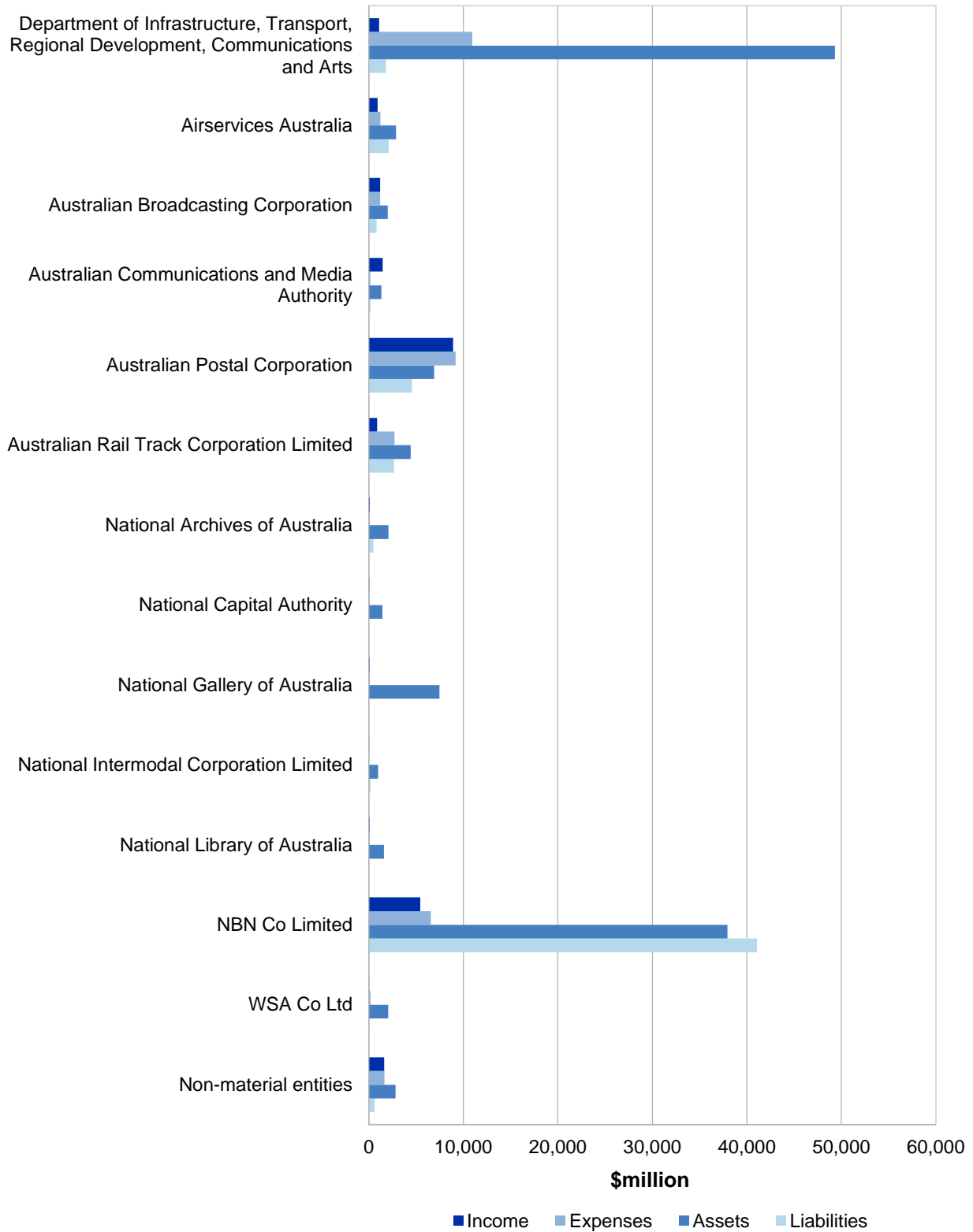
Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Infrastructure, Transport, Regional Development, Communications and the Arts	Yes	Moderate	✓	15 Sep 23	18 Sep 23	◆▲
Airservices Australia	Yes	Moderate	✓	20 Sep 23	21 Sep 23	Nil
Australian Broadcasting Corporation	Yes	Moderate	✓	22 Aug 23	22 Aug 23	Nil
Australian Communications and Media Authority	Yes	Low	✓	14 Sep 23	14 Sep 23	◆
Australian Postal Corporation	Yes	Moderate	✓	29 Aug 23	29 Aug 23	Nil
Australian Rail Track Corporation Ltd	Yes	High	✓	19 Sep 23	20 Sep 23	Nil
National Archives of Australia	Yes	Moderate	✓	16 Nov 23	17 Nov 23	◆
National Capital Authority	Yes	Low	✓	29 Aug 23	29 Aug 23	Nil
National Gallery of Australia	Yes	Moderate	✓	16 Aug 23	16 Aug 23	Nil
National Intermodal Corporation Limited	Yes	High	✓	29 Aug 23	29 Aug 23	Nil
National Library of Australia	Yes	Moderate	✓	21 Aug 23	21 Aug 23	Nil
NBN Co Limited	Yes	High	✓	7 Aug 23	7 Aug 23	Nil
WSA Co Limited	Yes	Moderate	✓	18 Aug 23	18 Aug 23	Nil
Bundanon Trust	No	High	—	—	—	▲
Creative Partnerships Australia	No	Low	E	21 Aug 23	22 Aug 23	Nil

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
✓: auditor's report not modified						
E: auditor's report contains an emphasis of matter						◆: new significant or moderate findings and/or legislative matters noted
⇒: financial statements not signed as at 30 November 2023						▲: significant or moderate findings and/or legislative matters reported previously but not yet resolved

4.12.3 Figure 4.12.1 shows the Infrastructure, Transport, Regional Development, Communications and the Arts portfolio's income, expenses, assets and liabilities contribution to the Australian Government Consolidated Financial Statements (CFS) for the year ended 30 June 2023.¹⁴⁰

140 This represents the portfolio's contribution to the Australian Government's CFS for the period ending 30 June 2023. It does not include transactions between agencies, such as appropriation revenue, which are not included in the CFS.

Figure 4.12.1: Infrastructure, Transport, Regional Development, Communications and the Arts portfolio’s income, expenses, assets and liabilities



Source: ANAO analysis of 2022–23 CFS.

4.12.4 As previously outlined in Chapter 2, paragraphs 2.153 to 2.160, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2022–23 financial statements audits. Table 4.12.2 provides a summary of those audit differences that relate to entities within the Infrastructure, Transport, Regional Development, Communications and the Arts portfolio.

Table 4.12.2: The number of audit differences for entities in the Infrastructure, Transport, Regional Development, Communications and the Arts portfolio

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Infrastructure, Transport, Regional Development, Communications and the Arts	4	1	5	1	–	1
Australian Broadcasting Corporation	–	1	1	1	–	1
Australian Maritime Safety Authority	–	–	–	1 ^a	–	1
Australian National Maritime Museum	1	2	3	1	1	2
Bundanon Trust	–	–	–	4	–	4
Creative Partnerships Australia Ltd	–	–	–	2	1	3
National Archives of Australia	3	3	6	–	2	2
National Capital Authority	2	–	2	1	–	1
National Faster Rail Agency	2	–	2	–	–	–
National Film and Sound Archive of Australia	–	–	–	–	1	1
National Intermodal Corporation Limited	2 ^a	–	2	–	–	–
National Library of Australia	–	–	–	–	1	1
National Museum of Australia	–	–	–	1	–	1
National Portrait Gallery of Australia	1	2	3	1	2	3

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
National Transport Commission	1	–	1	–	2	2
Northern Australia Infrastructure Facility	–	–	–	1	–	1
Old Parliament House	3 ^a	1	4	–	1	1
Screen Australia	1	3	4	–	–	–
WSA Co Limited	–	2	2	–	2	2

Note a: The current year adjustments include adjustments identified in 2022–23 that relate to the prior year.

⇒: financial statements not signed as at 30 November 2023

Source: ANAO analysis of audit differences reported to entities in the Infrastructure, Transport, Regional Development, Communications and the Arts portfolio.

4.12.5 The following section provides a summary of the 2022–23 financial statements audit results for the Department of Infrastructure, Transport, Regional Development, Communications and the Arts and other material entities and non-material entities in the portfolio.

Department of Infrastructure, Transport, Regional Development, Communications and the Arts

4.12.6 The Department of Infrastructure, Transport, Regional Development, Communications and the Arts (Infrastructure) is responsible for improving infrastructure across Australia through funding coordination of transport and other infrastructure; providing an efficient, sustainable, competitive and safe transport system for all transport users; strengthening the sustainability, capacity and diversity of regional economies; providing advice on population policy; implementing the national policy on cities; and promoting an innovative and competitive communications sector. Infrastructure also promotes participation in and access to Australia’s arts and culture through developing and supporting cultural expression and supports governance arrangements in the Australian territories.

Summary of financial performance

4.12.7 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by Infrastructure (as outlined in Table 4.12.3 and Table 4.12.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.3: Key departmental financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(454.3)	(409.1)
Revenue from government	428.4	414.3
Surplus/(deficit) attributable to the Australian Government	(26.0)	5.2
Total other comprehensive income/(loss)	10.8	4.6
Total comprehensive income/(loss) attributable to the Australian Government	(15.1)	9.8
Total assets	409.7	419.5
Total liabilities	203.7	210.8
Total equity	206.0	208.7

Source: Infrastructure's audited financial statements for the year ended 30 June 2023.

4.12.8 The \$45.2 million increase in net cost of service is mainly due to an increase in salaries and wages expenses as a result of increases in staffing levels and pay rises in accordance with a new enterprise agreement.

Table 4.12.4: Key administered financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	(10,478.8)	(11,534.5)
Total income	661.3	854.8
Deficit	(9,817.5)	(10,679.7)
Total other comprehensive income/(loss)	(2,740.6)	1,451.8
Total comprehensive income/(loss)	(12,558.1)	(9,227.9)
Total assets administered on behalf of Government	48,899.9	48,847.1
Total liabilities administered on behalf of Government	1,601.6	1,621.3
Net assets	47,298.3	47,225.7

Source: Infrastructure's audited financial statements for the year ended 30 June 2023.

4.12.9 The decrease in total expenses is attributed to:

- the ceasing of COVID-19 subsidy payments related to the aviation sector during 2022–23; and
- a reduction in grants expenses of \$461.7 million mainly as a result of the completion of the NBN Fixed Wireless and Satellite upgrade program in 2021–22.

4.12.10 Total income decreased by \$193.5 million as a result of:

- no dividend being paid from the Australian Rail Track Corporation Ltd during 2022–23; and
- lower interest income due to the reduction of the balance of the loan to NBN Co Limited.

4.12.11 The increase in the total comprehensive loss is due to losses on the valuation of administered investments, including:

- the Australian Rail Track Corporation Ltd has declined in value by \$862.9 million due to continued challenges to the long-term cash flows of the Hunter Valley Coal Network as key consumer countries move to reduce their reliance on coal powered energy. The impact of significant weather events on the Hunter Valley and Interstate networks, in addition to changes in discount rates, have also contributed to the decline in value; and
- Australian Postal Corporation has declined in value by \$332.8 million due to forecast financial losses driven by the expected decline in letters volumes due to customer migration away from letters products and over-the-counter service offerings.

Key areas of financial risk

4.12.12 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of Infrastructure’s financial statements. The ANAO focused audit effort on those specific areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.12.5 including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.12.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<p><i>Administered</i> investments accounted for using the discounted cash flow method \$22.0 billion</p>	<p>Valuation of Administered investments accounted for using the discounted cash flow method KAM</p>	<p>Higher</p>	<ul style="list-style-type: none"> • the complexity in determining the estimated fair value include the following inputs which have a significant impact on the estimation of the fair value of the investments: <ul style="list-style-type: none"> – the estimated future cash flow of the investments. This primarily relates to revenue, capital and operating expenditure forecasts. The complexity of estimating these cash flows is increased for NBN Co Limited due to further upgrade of the NBN network which will connect additional premises to fibre to the node technology and is estimated by Infrastructure to contribute to increased revenue growth; – the estimation of the terminal value, including estimates of the amount of debt, gearing structure and associated financing assumptions included in the calculation; – assumptions relating to whether the use of accumulated tax losses of investments should be included

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
			<p>in the cash flow forecast, given there is uncertainty as to whether these losses would be available to a hypothetical purchaser;</p> <ul style="list-style-type: none"> – the determination of a discount rate and weighted average cost of capital, particularly whether the rate has been appropriately adjusted to reflect any specific risk and market premiums; and – the level of complexity related to the preparation and presentation of financial statement disclosures relating to these financial instruments because the valuation models are based on unobservable market data.
<p><i>Administered</i> advances and loans \$8.8 billion (a component of trade and other receivables) impairment allowance \$236.6 million loan interest revenue \$382.1 million</p>	<p>Valuation of Administered advances and loans KAM</p>	Moderate	<ul style="list-style-type: none"> • advances and loans are complex as they are required to be assessed by Infrastructure for impairment based on an expected credit loss model. • the model requires Infrastructure to make judgements and assumptions about the likelihood that advances and loans will not be recovered. These judgements are predominantly based on expected cash flow forecasts, credit ratings and probabilities of default events occurring.
<p><i>Administered</i> grants expense \$6.3 billion</p>	<p>Occurrence of grant expenses</p>	Moderate	<ul style="list-style-type: none"> • complex, significant and diverse range of programs that include various different administrative and legislative arrangements and conditions which impact payments; and • level of subjectivity and judgement applied in determining whether a recipient meets eligibility and funding milestone requirements.

Source: ANAO 2022–23 audit results, and Infrastructure’s audited financial statements for the year ended 30 June 2023.

4.12.13 The following performance audit reports were tabled during 2022–23 relevant to the financial management or administration of Infrastructure:

- Auditor-General Report No.1 2022–23 *Award of Funding under the Building Better Regions Fund*; and
- Auditor-General Report No.18 2022–23 *Acquisition, Management and Leasing of Artworks by Artbank*.

4.12.14 The observations of these reports were considered in designing audit procedures to address areas considered to pose a higher risk of material misstatement. No significant changes were made to the designed audit procedures for the financial statements audit.

Audit results

4.12.15 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.12.6: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	1	1	–	2
Total	1	1	–	2

Source: ANAO 2022–23 audit results.

4.12.16 For each of the findings listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that Infrastructure’s 2022–23 financial statements were not materially misstated.

New moderate audit finding

Departmental internally developed software

4.12.17 Infrastructure’s balance of internally developed software was \$58.8 million as at 30 June 2023. The capitalisation of costs attributed to internally developed software requires management to exercise judgement in determining whether the costs are expense or capital in nature (in accordance with the requirements of the relevant accounting standards).

4.12.18 During the 2022–23 final audit the ANAO identified that Infrastructure had recognised internally developed software that did not meet the criteria for recognition as an intangible asset which resulted in adjustments to the financial statements.

4.12.19 The ANAO recommended that Infrastructure undertake a review of all intangible asset balances to confirm they meet the definition of intangible assets.

4.12.20 Infrastructure agreed to the recommendation made by the ANAO and is in the process of undertaking a review of all intangible assets and remediation on those balances where necessary.

Unresolved moderate audit finding

Removal of user access

4.12.21 The Protective Security Policy Framework (PSPF) requires non-corporate Commonwealth entities to control access to systems, networks, and applications. The requirement includes removing system access from employees and contractors without an operational need for access to IT resources.

4.12.22 During the 2021–22 audit, the ANAO identified that Infrastructure did not have sufficient controls in place to identify and investigate in a timely manner access by users post cessation of their employment or contract.

4.12.23 During the 2022–23 interim audit Infrastructure advised the ANAO that weaknesses in the processes have been addressed and all access post cessation are now properly identified and investigated.

4.12.24 During the final audit the ANAO identified an instance of users accessing Infrastructure’s systems post cessation. The ANAO will review the remediation action taken by Infrastructure during the 2023–24 audit.

Airservices Australia

4.12.25 Airservices Australia (Airservices) is responsible for the provision of air navigation services across Australian and oceanic airspace, and the provision of aviation rescue firefighting services at major Australian airports. Supported by a national network of communications, surveillance and navigation facilities and infrastructure, Airservices is funded through domestic charges levied on its customers and borrowings from debt markets. Airservices also received funding from government through:

- a financial assistance grant in 2021–22 and 2020–21; and
- an equity injection in 2022–23.

4.12.26 This funding was in lieu of charges from external customers to cover the reduction in revenues due to the COVID-19 related downturn in aviation traffic and to fund future operating expenses in 2021–22 and 2022–23.

Summary of financial performance

4.12.27 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by Airservices (as outlined in Table 4.12.7) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.7: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	1,212.0	1,089.6
Total income	918.9	593.0
Income tax expense	87.3	149.0
Profit/(loss) after income tax	(205.8)	(347.6)
Total other comprehensive income/(loss) after tax	(36.7)	78.9
Total comprehensive income/(loss)	(242.4)	(268.6)
Total assets	2,879.5	2,450.0
Total liabilities	2,087.6	1,858.1
Total equity	791.9	591.9

Source: Airservices’ audited financial statements for the year ended 30 June 2023.

4.12.28 Total expenses increased by \$122.4 million mainly due to:

- an increase in supplier infrastructure costs for modernisation projects as a result of the relaxation of border restrictions from December 2021; and
- higher compliance costs for Aviation Rescue Fire Fighting Services provision, reflecting increased site inspection and land remediation costs.

4.12.29 Airways revenue increased by \$311.8 million due to the increases in both domestic and international air travel post the impacts of the COVID-19 pandemic. Airway revenue contributes to 93.9 per cent of Airservices' total income in 2022–23.

4.12.30 The increase in total assets is attributed to the following offsetting movements:

- a \$258.8 million increase in cash and cash equivalents as a result of increased borrowings and the receipt of \$495.0 million equity funding from the Australian Government to cover the reduction in revenues due to the COVID-19 related downturn in aviation traffic and to fund future operating expenses;
- a \$128.9 million increase in infrastructure, plant and equipment for capitalised costs primarily associated with the OneSky project;
- a \$100.7 million increase in deferred tax assets, reflecting the operating loss for 2022–23; and
- a \$148.1 million decrease in defined benefit fund assets, attributed to a greater than expected number of superannuation exits during the year, the repatriation of surplus fund assets paid to Airservices of \$77.5 million and the impact the fund valuation due to an increase in the discount rate.

4.12.31 Total liabilities have increased mainly due to:

- an increase in borrowings of \$248.8 million; and
- an increase in compliance costs for Aviation Rescue Fire Fighting Services provision, reflecting increased site inspection and land remediation costs of \$51.2 million.

Key areas of financial risk

4.12.32 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of Airservices' financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.12.8.

Table 4.12.8: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Various line items and disclosures	Impact of the COVID-19 pandemic	Higher	<ul style="list-style-type: none"> • in response to the pandemic and the impact on the aviation industry, the Australian Government had provided financial assistance grants for 2021–22 and 2020–21 and an equity injection in 2022–23. Airservices has undertaken a number of

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
			steps in response to the new operating environment.
Airways revenue \$862.6 million	Completeness and accuracy of airways revenue	Higher	<ul style="list-style-type: none"> complexity of the flight traffic data captured that is used as the basis for customer billing; and dependence on multiple integrated IT systems.
Property, plant and equipment \$775.6 million assets under construction \$968.2 million intangibles \$52.1 million	Management, recognition and valuation of assets under construction, and existing, completed property, plant and equipment and intangibles	Higher	<ul style="list-style-type: none"> sensitivity of the valuation of completed asset property, plant and equipment to changes in the assumptions used in valuation models including technical obsolescence; significant judgements involved in considering the indicators of impairment to estimate the value of intangible assets; and judgements involved in estimating the capitalisation of the staff and other costs attributed to developing the software applications.
Fair value of defined benefit plan assets \$581.6 million present value of the defined benefit obligation \$466.8 million	Valuation of defined benefit superannuation obligations	Moderate	<ul style="list-style-type: none"> complexity associated with the valuation of the defined benefit asset requiring the use of an actuary; and judgement required in estimating future liabilities and the sensitivities of the fund to economic and demographic assumptions, such as salary growth, discount and inflation rates supporting the estimate.
Aviation Rescue and Fire Fighting Services (ARFFS) decontamination provision \$129.0 million	Calculation of provisions for legal obligations and related contingencies	Moderate	<ul style="list-style-type: none"> complexity of the underlying event that gave rise to a potential legal obligation associated with ARFFS decontamination; and significant judgement required in the selection and application of assumptions related to discount rates, inflation and payment pattern assumptions used when valuing the ARFFS decontamination provision and contingent liability
Other financial assets and liabilities \$14.9 million borrowings \$1.4 billion unused credit facilities \$1,190 million	Management of, and accounting for, a range of financial instruments	Moderate	<ul style="list-style-type: none"> complex nature of financial instruments held by Airservices, including interest rate swaps and forward exchange contracts; and extensive and complex presentation and disclosure requirements, including foreign currency and interest rate exposures and the fair value of complex financial instruments.

Source: ANAO 2022–23 audit results, and Airservices' audited financial statements for the year ended 30 June 2023.

Audit results

4.12.33 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Australian Broadcasting Corporation

4.12.34 The Australian Broadcasting Corporation (ABC) is primarily responsible for providing innovative and comprehensive broadcasting and digital media services of a high standard that contribute to a sense of national identity, inform and entertain audiences, and foster the performing arts.

Summary of financial performance

4.12.35 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by ABC (as outlined in Table 4.12.9 and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.9: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(1,107.3)	(1,070.0)
Revenue from government	1,107.2	1,070.1
Surplus/(deficit) attributable to the Australian Government	(0.2)	0.1
Total other comprehensive income/(loss)	61.1	55.2
Total comprehensive income/(loss) attributable to the Australian Government	61.0	55.3
Total assets	1,994.6	1,921.1
Total liabilities	822.7	810.1
Total equity	1,171.9	1,111.0

Source: ABC's audited financial statements for the year ended 30 June 2023.

4.12.36 The increase in net cost of services is primarily due to increased employee costs from wage increases in line with the enterprise agreement and restructuring expenses which were recognised as a provision as at 30 June 2023.

Key areas of financial risk

4.12.37 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of ABC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2022–23 is provided below in Table 4.12.10.

Table 4.12.10: Key area of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Total ABC owned land and buildings \$677.3 million	Valuation and accuracy of land and buildings	Moderate	<ul style="list-style-type: none"> valuations are sensitive to changes in the assumptions used in the valuation models and contain specialised components.

Source: ANAO 2022–23 audit results, and ABC's audited financial statements for the year ended 30 June 2023.

Audit results

4.12.38 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Australian Communications and Media Authority

4.12.39 The Australian Communications and Media Authority (ACMA) is responsible for the regulation communications infrastructure, content and services for Australia including broadcasting, radio communications (spectrum management), telecommunications and online content.

Summary of financial performance

4.12.40 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by ACMA (as outlined in Table 4.12.11 and Table 4.12.12 and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.11: Key departmental financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(129.5)	(117.6)
Revenue from government	130.8	121.4
Surplus/(deficit) attributable to the Australian Government	1.3	3.8
Total other comprehensive income/(loss)	0.8	–
Total comprehensive income/(loss) attributable to the Australian Government	2.1	3.8
Total assets	125.6	154.8
Total liabilities	59.3	96.4
Total equity	66.3	58.3

Source: ACMA's audited financial statements for the year ended 30 June 2023.

4.12.41 The \$11.9 million increase in net cost of services primarily relates to additional supplier expenses of \$8.5 million and additional employee benefits expenses of \$7.8 million, reflecting new budget measures to address online violence against women and children, spectrum management enhancement and terrestrial television transmission.

4.12.42 The increase in revenue from government of \$9.4 million reflects funding provided for the new measures described in paragraph 4.12.41.

4.12.43 Total assets decreased by \$29.2 million and total liabilities decreased by \$37.1 million, primarily due to the derecognition of the extension option on ACMA’s Canberra office lease, which was accounted for as a reduction of the right-of-use asset and associated lease liability. During 2022–23, ACMA made the decision to not exercise the lease option.

Table 4.12.12: Key administered financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	8.3	11.8
Total income	1,321.5	1,945.5
Surplus	1,313.2	1,933.7
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss)	1,313.2	1,933.7
Total assets administered on behalf of Government	1,205.0	1,327.6
Total liabilities administered on behalf of Government	124.4	98.9
Net assets	1,080.6	1,228.7

Source: ACMA’s audited financial statements for the year ended 30 June 2023.

4.12.44 The decrease in total income of \$624.0 million is primarily due to the sale of 26 GHz spectrum licenses, that were recognised as resource received free of charge of \$652.5 million in 2021–22, compared to no sale activity in 2022–23. Taxation revenue was consistent between years and includes the Regional Broadband Scheme (RBS) charge, broadcasting licence charges, radio communications taxes, telecommunication numbering charges and industry contributions.

Key areas of financial risk

4.12.45 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of ACMA’s financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.12.13.

Table 4.12.13: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> income \$1,321.5 million receivables and accrued revenue \$1,204.0 million	Recognition and measurement of administered income, receivables and unearned income	Higher	<ul style="list-style-type: none"> application of professional judgement is required in determining when to recognise revenue, in particular the RBS tax levy charge which is based on a carrier’s relevant internet connections per month, reported as part of an annual return to ACMA for assessment; and spectrum management which is technically complex

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
payables — unearned income \$124.4 million			and involves licensing, auctions and trading.

Source: ANAO 2022–23 audit results, and ACMA's audited financial statements for the year ended 30 June 2023.

4.12.46 The following performance audit report was tabled during 2022–23 relevant to the financial management or administration of ACMA: Auditor-General Report No.19 2022–23 *Procurement Complaints Handling*.

4.12.47 While this report did not include recommendations regarding risks to ACMA's financial administration as it relates to the financial statements, the observations were considered in designing the audit procedures. No significant changes were made to the designed audit procedures for the financial statements audit.

Audit results

4.12.48 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.12.14: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	–	1	–	1
Total	–	1	–	1

Source: ANAO 2022–23 audit results.

4.12.49 For the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that ACMA's 2022–23 financial statements were not materially misstated.

New moderate audit finding

Removal of user access

4.12.50 The PSPF helps Australian Government entities to protect their people, information and assets. The PSPF sets out government protective security policy in terms of: security governance; information security; personnel security; and physical security. PSPF Policy 9 Access to information and PSPF Policy 14 Separating personnel outline security measures to control access to Australian Government information and mitigate risks associated with departing personnel. PSPF Policy 9 requires entities to control access to supporting ICT systems and applications and ensure access to sensitive information is only provided to people on a need-to-know basis. PSPF Policy 14 requires personnel's access to be removed upon separation or transfer from the entity. Inadequate security measures for timely removal of access from former personnel increase the risk of unauthorised access to sensitive information

4.12.51 During 2022–23 the ANAO assessed the design and implementation of ACMA's termination controls. The ANAO found control weaknesses at the network and application levels, including users that had access to and had accessed their network accounts following their

departure date. In addition, ACMA does not have monitoring controls to detect and investigate post termination access to the network and applications.

4.12.52 User accounts should be removed upon termination date as they no longer have a legitimate requirement to access ACMA’s network or applications. The ANAO recommended that ACMA implement controls to improve the timeliness of the initiation of the termination process, at both the network and application levels and establish monitoring controls.

Australian Postal Corporation

4.12.53 The Australian Postal Corporation (Australia Post) is a government business enterprise responsible for supplying postal services to Australia, including the distribution of letters and parcels in Australia and internationally.

Summary of financial performance

4.12.54 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by Australia Post (as outlined in Table 4.12.15 and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.15: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total revenue and income	8,965.2	8,973.9
Total expenses	9,120.6	8,880.8
Profit/(loss) before income tax	(200.3)	55.3
Income tax benefits/(expenses)	65.7	(5.8)
Net profit/(loss) for the year	(134.6)	49.5
Total other comprehensive income/(loss)	(81.1)	76.1
Total comprehensive income/(loss) for the year	(215.7)	125.6
Total assets	6,353.5	6,293.4
Total liabilities	4,013.8	3,716.2
Total equity	2,339.7	2,577.2

Source: Australia Post’s audited financial statements for the year ended 30 June 2023.

4.12.55 Australia Post reported a total comprehensive loss of \$215.7 million. This was largely attributable to an increase in employee expenses due to redundancy payments.

4.12.56 The movement in other comprehensive income is the result of remeasurements of the defined benefit plans relating to Australia Post’s net superannuation assets and liabilities.

4.12.57 The increase in total liabilities of \$297.6 million is largely attributable to Australia Post issuing two \$100.0 million loans during 2022–23.

Key areas of financial risk

4.12.58 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of Australia Post's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.12.16 including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.12.16: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Goods and services income \$8,864.8 million unearned postage revenue (a component of trade and other payables \$304.8 million)	Valuation of unearned revenue liability KAM	Higher	<ul style="list-style-type: none"> judgement is applied by management in estimating the amount of postage products sold which are still unused at balance sheet date; and complexity in estimating the expected timing and amount of future utilisation of those unused postage products.
Intangible assets goodwill (a component of intangible assets \$501.6 million)	Valuation of goodwill KAM	Higher	<ul style="list-style-type: none"> the estimation process is complex and involves the exercise of significant judgement in relation to the selection of assumptions such as the discount rate and cash flow forecasts.
Net superannuation asset \$800.5 million	Valuation of the net superannuation asset KAM	Higher	<ul style="list-style-type: none"> the valuation is sensitive to movements in the long-term assumptions; and judgement is applied by management in relation to the selection of long-term assumptions such as salary growth, discount, and inflation rates.

Source: ANAO 2022–23 audit results, and Australia Post's audited financial statements for the year ended 30 June 2023.

Audit results

4.12.59 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Australian Rail Track Corporation Ltd

4.12.60 The Australian Rail Track Corporation Ltd (ARTC) is responsible for the development, maintenance, management and delivery of some of Australia's major rail networks, including the national interstate rail network, the Hunter Valley coal rail network, and the construction of the Inland Rail network. In May 2017, the Australian Government announced it would invest substantial equity funding into ARTC for the company to deliver the Inland Rail network. A commitment of further equity funding to deliver the project was announced by the Australian Government in

October 2020. Inland Rail is a 1,700-kilometre rail line that will link Brisbane and Melbourne through regional Australia.

4.12.61 Following a Senate Inquiry into the management of the Inland Rail project by ARTC the Australian Government announced an independent review to assess governance and program delivery approaches of the project.¹⁴¹ The outcome of this review was published in April 2023. One of the review recommendations to improve the delivery of Inland Rail was to create a subsidiary entity to deliver the project. Inland Rail Pty Ltd (IRPL) was established on 10 July 2023 and is a 100% owned subsidiary of ARTC

Summary of financial performance

4.12.62 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by ARTC and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.17: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	(2,710.5)	(1,574.1)
Total revenue and other income	865.7	902.1
Income tax expense/(benefit)	44.6	45.6
Profit/(loss) attributable to the Australian Government	(1,889.5)	(717.7)
Total other comprehensive income/(loss)	(4.3)	(31.3)
Total comprehensive income/(loss) attributable to the Australian Government	(1,893.8)	(749.0)
Total assets	4,352.9	4,770.8
Total liabilities	2,569.9	2,125.0
Total equity	1,783.0	2,645.9

Source: ARTC's audited financial statements for the year ended 30 June 2023.

4.12.63 The increase in the total comprehensive loss of \$1,144.8 million in 2022–23 is primarily attributable to the impairment expenses incurred during the period of \$1,795.4 million. Impairment expenses are largely attributable to:

- the impairment of the Inland Rail assets. The construction of these assets are funded by the Australian Government through equity contributions. ARTC has made a judgement that the income likely to be generated from the Inland Rail line on commencement of operations will not offset the significant cost of development of the line and as a result records impairment on the costs of assets constructed under the project each year. Impairment expenses amount to \$866.5 million in 2022–23; and

¹⁴¹ Schott K, *The Delivery of Inland Rail: An Independent Review*, January 2023, available at: <https://www.inlandrail.gov.au/understanding-inland-rail/publications-and-reports/delivery-inland-rail-independent-review> [accessed on 1 December 2023].

- impairment of Interstate and Hunter Valley rail networks amounting to \$748.2 million and \$179.6 million respectively due to changes in the risk free interest rate and cash flow forecasts.

4.12.64 Total assets decreased by \$417.8 million mainly due to the impact of the impairment expenses recorded in the Interstate and Hunter Valley rail networks (refer to paragraph 4.12.62).

4.12.65 Total liabilities increased by \$444.9 million due mainly to:

- a \$274.0 million increase is the draw down of the syndicated loan debt facility to supplement the funding of development of inland rail; and
- an increase in deferred government grants of \$161.9 million. \$114.8 million of these grants related to the Infrastructure Investment Program to improve the efficiency and safety of the National Land Transport Network. The grants have been treated as deferred income as the assets they create are capital in nature and grant income is only recognised when depreciation is charged to the income statement over the useful life of the constructed assets.

Key areas of financial risk

4.12.66 In light of the key areas of risk and the ANAO’s understanding of the operations of ARTC, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as high.

4.12.67 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of ARTC’s financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.12.18.

Table 4.12.18: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Property, plant and equipment \$3.7 billion	Fair value of infrastructure assets	Higher	<ul style="list-style-type: none"> • the fair value of infrastructure assets is estimated using a complex discounted cash flow model; and • the fair value model is subject to high degree of judgement and is sensitive to changes in assumptions, including forecasts of business performance, cash flows in future years and discount rates.
Impairment expenses (a component of impairment expenses for construction in progress of 866.5 million)	Impairment of Inland Rail assets	Higher	<ul style="list-style-type: none"> • judgement and estimation required by ARTC in apportioning capital and operating costs across the whole-of-term construction of the Inland Rail given the nature of the project, significance of the investment value and expected future returns on investment; and • judgement and estimation applied in determining whether assets for Inland Rail

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
			are impaired. ARTC estimate impairment on these assets, using several methods, most significantly a complex discounted cash flow model which incorporates management's judgements on future cash flows, revenue and discount rates.
Access Revenue \$747.9 million Trade receivables \$49.0 million	Recognition and measurement of access revenue	Higher	<ul style="list-style-type: none"> subject to management estimates and judgement to determine the amount of revenue recognised due to impact of regulatory access undertakings; and complexity of underlying processes for recognition of access revenue from rail operators.
Other Provisions – Incidents \$45.4 million	Estimate of provision for incidents	Moderate	<ul style="list-style-type: none"> the process of determining the value of the provision for incident related claims requires a significant level of judgement by management due to the increase in frequency and severity of severe weather events.
Deferred tax assets (net) \$81.2 million Income tax expense \$44.6 million	Recognition and measurement of taxation related balances	Moderate	<ul style="list-style-type: none"> complexity in the calculation of ARTC's tax positions, including judgement required by management to ensure compliance with Division 58 of the <i>Income Tax Assessment Act 1997</i>.

Source: ANAO 2022–23 audit results, and ARTC's audited financial statements for the year ended 30 June 2023.

Audit results

4.12.68 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

National Archives of Australia

4.12.69 The National Archives of Australia (National Archives) is an Australian Government entity established under the *Archives Act 1983*. It sets information and data management policy and standards for Australian Government entities to meet in creating, retaining, maintaining, securing, preserving, appropriately disposing of, and providing appropriate access to trusted government information and data. The National Archives collects records of government decisions and actions.

Summary of financial performance

4.12.70 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by National Archives (as outlined in Table 4.12.19) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.19: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(80.2)	(84.5)
Revenue from government	86.4	70.7
Surplus/(deficit) attributable to the Australian Government	6.2	(13.8)
Total other comprehensive income/(loss)	–	0.6
Total comprehensive income/(loss) attributable to the Australian Government	6.2	(13.2)
Total assets	2,065.7	2,054.7
Total liabilities	471.5	485.4
Total equity	1,594.2	1,569.3

Source: National Archive's audited financial statements for the year ended 30 June 2023.

4.12.71 Net cost of services decreased mainly due to an increase in own-source revenue of \$8.2 million. The increase relates to National Archive's recognition of new archive records and the associated gain. The increase in total assets of \$31.0 million reflects the fair value of the intake of records collected during 2022–23, recognised as heritage and cultural assets.

Key areas of financial risk

4.12.72 In light of the key areas of risk and the ANAO's understanding of the operations of the National Archives, the ANAO reassessed the overall risk rating of material misstatement in the 2022–23 financial statements to moderate. This increase in the risk rating was a result of the identification of the deficiencies in internal control identified.

4.12.73 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of National Archive's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.12.20.

Table 4.12.20: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Heritage and cultural assets \$1,554.0 million	Valuation of archival collection	Higher	<ul style="list-style-type: none"> The complex and unique nature of the archival collection.

Source: ANAO 2022–23 audit results, and National Archive's audited financial statements for the year ended 30 June 2023.

4.12.74 Auditor-General Report No.44 2022–23 *Management of Information Assets* was tabled during 2022–23 relevant to the financial management or administration of National Archives.

4.12.75 While this report did not include recommendations regarding risks to National Archive’s financial administration as it relates to the financial statements, the observations were considered in designing the audit.

Audit results

4.12.76 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.12.21: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Significant (A)	–	1	–	1
Moderate (B)	–	1	–	1
Total	–	2	–	2

Source: ANAO 2022–23 audit results.

4.12.77 For each of the findings listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that National Archive’s 2022–23 financial statements were not materially misstated.

New significant audit finding

Ineffective IT general controls

4.12.78 IT general controls are essential to support effective processes, policies and procedures for managing information systems, securing sensitive information, and ensuring the integrity and availability of data to support the preparation of financial statements. Ineffective IT general controls, in particular monitoring and reviewing privilege user activity, increases the risk of erroneous or unauthorised transactions or changes to IT systems not being identified and addressed.

4.12.79 In 2022–23 the ANAO assessed the IT general controls that support the preparation of National Archives financial statements. The ANAO assessed that the design and implementation of IT general controls was ineffective. Weaknesses were noted in relation to:

- insufficient oversight and documentation of review of privilege user access and activity logs.
- no formalised or documented periodic review of user access.
- inconsistent mapping of roles and responsibility configurations, including workflow approvers and inconsistent chart of accounts mapping configurations.

4.12.80 The ANAO recommended National Archives undertake a detailed review of IT general controls to confirm controls are designed, implemented and operating effectively to support the preparation of National Archive’s financial statements. This should include:

- developing and implementing a process to monitor and review privilege user activity.
- formalising a documented periodic user access review.

- undertaking a review of the mapping of roles and responsibility configuration, including workflow approvers and chart of accounts mapping to confirm it is appropriate.

4.12.81 National Archives agreed with the recommendations made by the ANAO.

New moderate audit finding

Financial statements preparation process

4.12.82 In 2022–23 the ANAO identified weaknesses in National Archive’s financial statements preparation process. The weaknesses included:

- a deficiency in the timely preparation of workpapers to support the financial statements and associated notes, including the timely preparation and review of key reconciliations during the year.
- a lack of review and approval of year-end adjusting journals by an independent reviewer who had an appropriate understanding of the financial implications of the journal.
- an inability to provide sufficient supporting documentation to validate certain year-end transactions.
- the identification of a number of adjusted and unadjusted audit differences.

4.12.83 The ANAO recommended National Archive’s develop a robust financial statements close process. This should include:

- detailed timelines for the completion of key tasks and the responsible officer.
- identification of risks associated with the financial statements close process and controls management requires to mitigate and manage the risk.
- a level of management oversight and review to support the preparation of timely and quality financial statements.

4.12.84 National Archives agreed with the recommendations made by the ANAO.

National Capital Authority

4.12.85 The National Capital Authority (NCA) performs the role of trustee and manager of areas in Canberra and the Australian Capital Territory that are designated as National Land for the special purpose of Canberra as Australia’s National Capital. The NCA shapes the future of Canberra for all Australians through the National Capital Plan and related planning and development work. The NCA also manages much of the National Estate such as Lake Burley Griffin, the National Triangle and Anzac Parade and encourages citizens and visitors to explore Canberra’s unique characteristics and special roles as the National Capital.

Summary of financial performance

4.12.86 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by NCA (as outlined Table 4.12.22 and Table 4.12.23) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.22: Key departmental financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(10.8)	(11.0)
Revenue from government	10.3	10.4
Surplus/(deficit) attributable to the Australian Government	(0.5)	(0.6)
Total other comprehensive income/(loss)	1.9	0.1
Total comprehensive income/(loss) attributable to the Australian Government	1.4	(0.5)
Total assets	35.0	32.5
Total liabilities	13.7	13.2
Total equity	21.3	19.3

Source: NCA's audited financial statements for the year ended 30 June 2023.

4.12.87 Total comprehensive income and total assets increased due to the revaluation of non-financial assets which resulted in a revaluation gain of \$1.9 million.

Table 4.12.23: Key administered financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	59.4	44.6
Total income	24.4	19.1
Deficit	(35.0)	(25.5)
Total other comprehensive income/(loss)	197.0	231.5
Total comprehensive income/(loss)	162.0	206.0
Total assets administered on behalf of Government	1,390.0	1,218.8
Total liabilities administered on behalf of Government	26.3	23.5
Net assets	1,363.7	1,195.3

Source: NCA's audited financial statements for the year ended 30 June 2023.

4.12.88 Total expenses have increased due to:

- an additional \$8.3 million of depreciation expenses due to a higher non-financial asset base as a result of asset additions in the current and prior year; and
- the recognition of an impairment expense of \$5.2 million for non-financial assets as a result of asset deterioration along with asset decommissioning to enable construction works on national land.

4.12.89 The increase in total income is attributed to an increase in parking revenue, with activity returning to business-as-usual levels following a temporary decline in the prior year due to the impacts of COVID-19 pandemic.

4.12.90 Total assets have increased due mainly to the \$194.6 million revaluation of non-financial assets.

Key areas of financial risk

4.12.91 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of NCA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.12.24.

Table 4.12.24: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> Other payables \$19.0 million Assets under construction (a component of non-financial assets of \$1.4 billion)	Classification and valuation of the construction activities relating to NCA's responsibility to develop, enhance and replace assets on national land.	Moderate	<ul style="list-style-type: none"> complexity in determining the value of work in progress at balance date as works are often between defined construction milestones and professional judgement is required in determining the value of work completed at reporting date where project status is in between defined construction milestones.
<i>Administered</i> Non-financial assets \$1.4 billion	Valuation of land, buildings and infrastructure located within the National Capital Estate	Moderate	<ul style="list-style-type: none"> complexities in determining the fair value of land, buildings, infrastructure and related capital works deemed for the special purpose of Canberra as the national capital, due to the specialised nature of the assets held requires a higher level of professional judgement.

Source: ANAO 2022–23 audit results, and NCA's audited financial statements for the year ended 30 June 2023.

Audit results

4.12.92 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

National Gallery of Australia

4.12.93 The National Gallery of Australia (the Gallery) is responsible for developing and maintaining a national collection of works of art to exhibit or to make available for others to exhibit and making the most advantageous use of the national collection in the national interest.

Summary of financial performance

4.12.94 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by the Gallery (as outlined in Table 4.12.25) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.25: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(63.8)	(64.6)
Revenue from government	48.7	49.9
Surplus/(deficit) attributable to the Australian Government	(15.1)	(14.7)
Total other comprehensive income/(loss)	(2.0)	772.7
Total comprehensive income/(loss) attributable to the Australian Government	(17.1)	757.9
Total assets	7,481.2	7,482.5
Total liabilities	12.7	14.0
Total equity	7,468.5	7,468.5

Source: The Gallery’s audited financial statements for the year ended 30 June 2023.

4.12.95 The decrease in total other comprehensive income is due predominantly to a revaluation of the heritage and cultural collection in the prior year resulting in a revaluation increment of \$772.7 million. In accordance with the Gallery’s policy no revaluation was required in 2022–23.

Key areas of financial risk

4.12.96 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of the Gallery’s financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.12.26.

Table 4.12.26: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Departmental</i> Heritage and cultural assets \$6.9 billion	Valuation of items in the heritage and cultural collection	Higher	<ul style="list-style-type: none"> the judgement required in valuing the unique and iconic artwork using observable market inputs; and the complexity of the valuation model applied to the general collection.
<i>Departmental</i> Land and buildings \$477.6 million	Valuation and subsequent depreciation of non-financial assets	Moderate	<ul style="list-style-type: none"> the judgement required in selecting the assumptions used in determining the fair value, given the restricted and specialised nature of the buildings; and the assessment of impairment.

Source: ANAO 2022–23 audit results, and the Gallery’s audited financial statements for the year ended 30 June 2023.

Audit results

4.12.97 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

National Intermodal Corporation Limited

4.12.98 National Intermodal Corporation Limited (National Intermodal) was originally established to oversee the development and future operation of the Moorebank Intermodal Precinct in Sydney's south-west. Once completed, the Moorebank Intermodal Precinct will have an import and export rail terminal with a direct link to Port Botany, and also an interstate and regional facility to connect to the national rail freight network. The warehousing at the precinct is being developed and operated by the LOGOS Consortium (comprised of Australian Super, NSW TCorp, LOGOS, AXA and Ivanhoe Cambridge). The rail terminals are being developed by Qube Holdings Limited with Qube operating the completed import and export rail terminal. The interstate terminal will be operated by a joint venture of Qube, LOGOS and National Intermodal when it is completed in 2024.

4.12.99 In February 2022, National Intermodal's mandate was expanded to include the planning, delivery and operation of open access intermodal freight precincts in Melbourne and Brisbane in support of the Australian Government's Inland Rail project with the objective of facilitating the development and operation of a modern and efficient freight network that improves productivity.

Summary of financial performance

4.12.100 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by National Intermodal (as outlined in Table 4.12.27) and includes commentary regarding significant movements between years.

Table 4.12.27: Key financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	(21.5)	(39.0)
Total revenue	31.0	6.9
Income tax benefit/ (expense)	(5.2)	(2.0)
Share of profit / (loss) from equity accounted investments	29.4	46.8
Profit/ (loss) attributable to the Australian Government	33.8	12.8
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss) for the year	33.8	12.8
Total assets	980.4	620.4
Total liabilities	178.5	238.0
Total equity	801.9	382.4

Source: National Intermodal's audited financial statements for the year ended 30 June 2023.

4.12.101 Total expenses have decreased by \$17.5 million. This is mainly due to the impact of accounting for the changes in the provision for land and site costs relating to the Moorebank Intermodal Precinct. National Intermodal recognise a provision in advance of construction being undertaken to reflect the contractual commitments held by National Intermodal to deliver of the associated land preparation works, upgrades to Moorebank Avenue to support the precinct and voluntary planning contributions. National Intermodal conducted a comprehensive review of the

provision in 2021–22. Assumptions related to cost increases were less significant than 2021–22 resulting in a decrease in expenses charged to the provision of \$20.4 million.

4.12.102 Total revenue increased mainly as a result of:

- a remeasurement of the receivable for rail access rights of \$9.3 million to take account of changes in the consumer price index which form a component of the rail access charges.
- a \$10.0 million contribution received by National Intermodal from the LOGOS Consortium and Qube Holdings in respect of the Moorebank Intermodal Precinct.

4.12.103 Total assets have increased by \$360.0 million mainly due to:

- an increase in the balance of property, plant and equipment of \$319.2 million, reflecting the purchase of 1,100 hectares of land at Beveridge in Victoria in support of the planned Beveridge Interstate Freight Terminal which will be developed by National Intermodal;
- the increase in the fair value of National Intermodal’s equity accounted investment in the Moorebank Precinct Land Trust (The Trust) of \$29.2 million. National Intermodal holds a 65.63 per cent unitholding in the Trust which holds the land at the Moorebank Intermodal Precinct owned by the Commonwealth and the LOGOS Consortium via 99-year leases. The fair value of the Trust’s assets have been determined by applying a discounted cash flow valuation methodology undertaken by the Trust which increased due to changes in estimated cash flows and economic assumptions applied in the valuation; and
- an increase in the balance of assets under construction of \$15.0 million related to the construction of rail lines undertaken as part of ‘Rail Access Works Stage 2’ at the Moorebank interstate rail terminal. This rail line will connect the Moorebank Intermodal Precinct to the Southern Sydney Freight Line.

4.12.104 Total liabilities have decreased by \$59.5 million due mainly to a reduction in the provision for land and site costs (refer to paragraph 4.12.100) reflecting the delivery of preparation works during 2022–23 (\$51.1 million).

Key areas of financial risk

4.12.105 In light of the key areas of risk and the ANAO’s understanding of the operations of National Intermodal, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as high.

4.12.106 The ANAO completed appropriate audit procedures on all material items. The ANAO focused audit effort on those specific areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.12.28.

Table 4.12.28: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Non-financial liabilities - provisions	Valuation of the land preparation; Moorebank Avenue works and	Higher	<ul style="list-style-type: none"> • judgements and estimates involved in capturing land preparation and road relocation costs, including assessing the

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
\$169.2 million	voluntary planning contributions		<ul style="list-style-type: none"> level of work required for the completion of these works; and sensitivity of key inputs (particularly cost factors) into the provision calculation and resultant impact on the calculation.
Non-financial assets – equity accounted investments \$309.4 million	Recognition and disclosure of the value of National Intermodal's investment in the Precinct Land Trust	Moderate	<ul style="list-style-type: none"> complexity of the investment structure; and valuation of National Intermodal's investment in the Precinct Land Trust is subject to judgements and estimates associated with a discounted cash flow methodology, including future cash flows, rates of return and discounting.
Assets under construction \$17.1 million	Capitalisation and recoverability of assets under construction for Moorebank Intermodal Precinct	Moderate	<ul style="list-style-type: none"> the significance of the judgements involved in the assessment of recoverability of assets under construction against future forecast revenue streams.
Deferred tax assets \$68.9 million	Valuation of deferred tax assets	Moderate	<ul style="list-style-type: none"> the significance of the judgements involved in the assessment of recoverability of deferred tax assets against future forecast profits; and the significance of the judgements involved in the apportionment of deductible costs for the derivation of the deferred tax asset.
All financial statement items	Going concern and funding – available funding is insufficient to cover remaining project costs	Moderate	<ul style="list-style-type: none"> judgements involved in the identification of going concern indicators; and judgements involved in going concern assessment including the impact of any project changes.

Source: ANAO 2022–23 audit results, and National Intermodal's audited financial statements for the year ended 30 June 2023.

Audit results

4.12.107 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

National Library of Australia

4.12.108 The National Library of Australia (NLA) is responsible for developing and maintaining a national collection of library material, including a comprehensive collection of material relating to Australia and the Australian people, and for making this material available to the public.

Summary of financial performance

4.12.109 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by NLA (as outlined in Table 4.12.29 and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.29: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(49.5)	(43.3)
Revenue from government	60.9	57.5
Surplus/(deficit) attributable to the Australian Government	11.5	14.1
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss) attributable to the Australian Government	11.5	14.1
Total assets	1,583.2	1,561.9
Total liabilities	25.9	25.7
Total equity	1,557.3	1,536.2

Source: NLA's audited financial statements for the year ended 30 June 2023.

4.12.110 The increase in net cost of services is primarily as a result of an increase in supplier expenses due to:

- completion of projects which had been paused due to COVID-19 pandemic; and
- increase in repairs and maintenance expenses to address asbestos matters.

4.12.111 The increase in net cost of services was offset by an increase in other revenue primarily due to monies received from insurance claims due to hail damage to the Library's main library building that occurred in 2021.

Key areas of financial risk

4.12.112 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of NLA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.12.30.

Table 4.12.30: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Heritage and Cultural Assets \$1.1 billion	Valuation of the national collection	Higher	<ul style="list-style-type: none"> • significant judgement and expertise required to assess the value of items in the collection, due to the unique nature of the collection assets and lack of a market of comparable assets.

Source: ANAO 2022–23 audit results, and NLA's audited financial statements for the year ended 30 June 2023.

Audit results

4.12.113 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

NBN Co Limited

4.12.114 The primary objective of NBN Co Limited (NBN Co) is to provide wholesale services to internet service providers. NBN Co is a government business enterprise incorporated under the *Corporations Act 2001*.

Summary of financial performance

4.12.115 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by NBN Co (as outlined in Table 4.12.31) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.31: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total income	5,440.0	5,176.0
Total expenses	6,549.0	7,043.0
Profit/(loss) before income tax	(1,109.0)	(1,867.0)
Income tax benefit / (expense)	(10.0)	399.0
Net profit/ (loss for the year)	(1,119.0)	(1,468.0)
Total other comprehensive income/ (loss)	(21.0)	929.0
Total comprehensive loss for the year	(1,140.0)	(539.0)
Total assets	37,943.0	36,777.0
Total liabilities	41,057.0	39,056.0
Total equity	(3,114.0)	(2,279.0)

Source: NBN's audited financial statements for the year ended 30 June 2023.

4.12.116 Total income increased by \$232.0 million, mainly driven by a combination of higher activations of internet connections and a steady improvement in residential average revenue per user.

4.12.117 Total expenses decreased mainly due to lower depreciation and amortisation costs as a result of changes in useful lives associated with NBN Co's assets, offset by an increase in net finance costs as a result of higher average debt levels and rising market interest rates.

4.12.118 The change from the previous year's total other comprehensive income position (which arose from a significant increase in foreign exchange rates and interest) to a smaller loss in 2022–23 reflective of a more stable market environment.

4.12.119 NBN Co reported total assets of \$37.9 billion, an increase of \$1.2 billion, primarily due to following offsetting factors:

- an increase in property plant and equipment of \$3.0 billion as a result of investment in the nbn network;
- a further \$0.7 billion increase in property, plant and equipment due to an increase in right-of-use assets (with a corresponding increase in lease liabilities) due to the remeasurement of right-of-use licenses associated with access to Telstra’s network infrastructure;
- offset by depreciation of existing assets of \$2.6 billion.

4.12.120 Total liabilities increased by \$2.0 billion due to increased borrowings and an increase in lease liabilities arising from the remeasurement of Telstra right-of-use licenses (refer to paragraph 4.12.119).

Key areas of financial risk

4.12.121 In light of the key areas of risk and the ANAO’s understanding of the operations of NBN Co, the ANAO assessed the overall risk of material misstatement in the 2022–23 financial statements audit as high.

4.12.122 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of NBN Co’s financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.12.32 including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.12.32: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Telecommunications revenue \$5.1 billion	Accuracy and occurrence of telecommunications revenue KAM	Higher	<ul style="list-style-type: none"> • high volume of transactions; and • multiple information technology (IT) systems and tools utilised in the initiation, processing and recording of transactions, including the application of product pricing, credits and rebates.
Derivative financial assets \$1,635.0 million derivative financial liabilities \$319.0 million	Valuation and disclosure of derivatives KAM (valuation)	Higher	<ul style="list-style-type: none"> • the judgements involved in determining the fair value of the derivative financial instruments, including the application of appropriate models and assumptions, such as the forward interest rate curves and credit risks; and • significant value of the hedged items and the corresponding derivative financial instruments and the complexity in applying hedge accounting (including the disclosure requirements) under the Australian Accounting Standards.
Depreciation and amortisation	Accuracy and completeness of	Higher	<ul style="list-style-type: none"> • calculation of the depreciation and amortisation expense, including the

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
\$3.1 billion	depreciation and amortisation KAM		<p>estimation of useful lives and cost allocations in the depreciation and amortisation calculations involves significant judgement; and</p> <ul style="list-style-type: none"> the use of complex manual depreciation models by NBN,

Source: ANAO 2022–23 audit results, and NBN's audited financial statements for the year ended 30 June 2023.

Audit results

4.12.123 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23.

WSA Co Limited

4.12.124 WSA Co Limited (WSA) was established to construct and operate Western Sydney International (Nancy-Bird Walton) Airport in Badgerys Creek, in south-western Sydney, to the functional specifications by the Australian Government. WSA is a government business enterprise wholly owned by the Australian Government, represented by the Minister for Finance and the Minister for Infrastructure, Transport, Regional Development and Local Government as shareholder ministers.

4.12.125 The Australian Government's original plan was to invest up to \$5.3 billion of equity funding into WSA to build the Western Sydney International Airport. This investment covered WSA's work on the earthworks and construction of the airport (runway and terminal infrastructure) in accordance with the conditions of the project deed agreed by the Australian Government and WSA. During 2021–22 the Australian Government decided to also fund WSA's development of the aviation fuel farm infrastructure assets, and to support the NSW Government delivery of Sydney Metro – Western Sydney Airport integration. During 2022–23, the Australian Government committed additional funding to support the delivery of Commonwealth border agency facilities necessary for airport operations.

4.12.126 At the conclusion of the 2022–23 financial year, the project reached 50 per cent completion, including:

- completion of bulk earthworks;
- substantial completion of the design works for the terminal, airside civil and pavements (airside) and landside civil and buildings (landside) packages;
- advancement of terminal works, airside works and landside works; and
- commencement of the design and implementation of the technology delivery program.

Summary of financial performance

4.12.127 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by WSA (as outlined in Table 4.12.33) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.33: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	181.5	206.2
Total income	6.5	5.8
Income tax benefit	–	–
Income/(loss) for the year	(175.0)	(200.4)
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss)	(175.0)	(200.4)
Total assets	2,047.9	1,005.1
Total liabilities	62.3	26.1
Total equity	1,985.6	979.0

Source: WSA's audited financial statements for the year ended 30 June 2023.

4.12.128 Total expenses decreased mainly due to the stage of construction of the airport. During 2022–23, WSA recognised \$37.0 million less in site preparation expenses, consistent with the completion of these works during the year and transition to peak construction activity. Expenditure on construction of the airport terminal, airside and landside works is capitalised in accordance with WSA's capitalisation policy.

4.12.129 The total comprehensive loss reflects the nature of funding available to WSA. WSA has entered into an equity subscription agreement with the Commonwealth to fund the development and construction of the airport to meet the Commonwealth's functional specifications. During 2022–23 WSA received \$1.2 billion of this funding from the Commonwealth. These funds are recorded as share capital and were not recognised in the statement of comprehensive income.

4.12.130 The increase of \$1,042.8 million in total assets mainly relates to:

- the capitalisation of assets under construction in accordance with WSA's capitalisation policy. During 2022–23 construction continued at the airport site, particularly relating to the airport terminal and runway, resulting in \$861.3 million capitalised as airport construction in progress; and
- an increase in cash and cash equivalents of \$166.6 million, in line with drawdown against the equity subscription agreement and increase in trade and other payables (refer paragraph 4.12.130).

4.12.131 The increase of \$36.2 million in total liabilities mainly relates to trade and other payables, reflecting the timing of contract payments and the stage of project works particularly in relation to Sydney Metro rail integration works, terminal works and pavement works.

Key areas of financial risk

4.12.132 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of WSA's financial statements. The ANAO focused audit effort on those

areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.12.34.

Table 4.12.34: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Assets under construction \$1.6 billion	Recognition of capital work in progress for airport construction activities	Higher	<ul style="list-style-type: none"> judgement and estimation required by WSA in apportioning capital and operating costs across the whole of term construction of the airport given the nature of the project and method of project delivery; and quantum of expenditure and attribution of expenditure that will be incurred in the construction of the airport.
Multiple financial statements line items	Procurement policies and processes	Moderate	<ul style="list-style-type: none"> significance of the funding available for construction, including procurement and contract management for the delivery and cost management of runway, terminal and landside works packages.

Source: ANAO 2022–23 audit results, and WSA's audited financial statements for the year ended 30 June 2023.

Audit results

4.12.133 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Comments on non-material entities

Bundanon Trust

4.12.134 Bundanon Trust Limited supports arts practice and engagements with the arts through its residency, education, exhibition, and performance programs. The Trust was incorporated on 22 March 1993 as a public company limited by guarantee to manage artworks, landscape and heritage infrastructure gifted by Arthur and Yvonne Boyd to the Australian Government. The Trust's mission is to operate the Bundanon properties as a centre for creative arts and education, to support the development of arts practice across all disciplines and to enable public access to the arts and to the landscape.

Audit results

4.12.135 The 2022–23 financial statements audit was still in progress as at 30 November 2023. The Auditor-General's 2023–24 *Interim Report on Key Financial Controls of Major Entities* is expected to be tabled in June 2024 and will include a summary of the results for this audit, including the status of audit findings identified during the 2021–22 audit.

Creative Partnerships Australia

4.12.136 Creative Partnerships Australia (Creative Partnerships) was a Commonwealth company limited by guarantee. The role of Creative Partnerships was to create a culture of private sector support for the arts. It aimed to grow the culture of giving, investment, partnership, and

volunteering, bringing donors, businesses, artists and arts organisations together to foster a more sustainable and vibrant arts sector for the benefit of all Australians.

4.12.137 Key provisions of the *Australia Council Amendment (Creative Australia) Act 2023* have effect from 1 July 2023. Pursuant to the legislation, at this date, Creative Partnerships ceased to exist and for the purposes of the *Corporations Act 2001*, the entity was taken to be deregistered. Schedule 2 of this Act outlined that Creative Partnership's operations, asset and liabilities would transfer to the Australia Council.

Audit results

4.12.138 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Emphasis of matter

4.12.139 The auditor's report for Creative Partnership's 2022–23 financial statements included an emphasis of matter paragraph to draw the attention of users to the notes of the financial statements which indicate that the financial statements were prepared on a non-going concern basis. The financial statements have been prepared on a non-going concern basis due to a decision of the Australian Government to transfer all operations, assets and liabilities of Creative Partnerships to the Australia Council.

4.13 Parliamentary Departments

Overview

4.13.1 The Parliamentary Departments support the operation of the Parliament of Australia, its committees and members. There are four parliamentary entities: the Department of Parliamentary Services; the Department of the Senate; the Department of the House of Representatives; and the Parliamentary Budget Office. Table 4.13.1 identifies material entities specifically mentioned in this section.

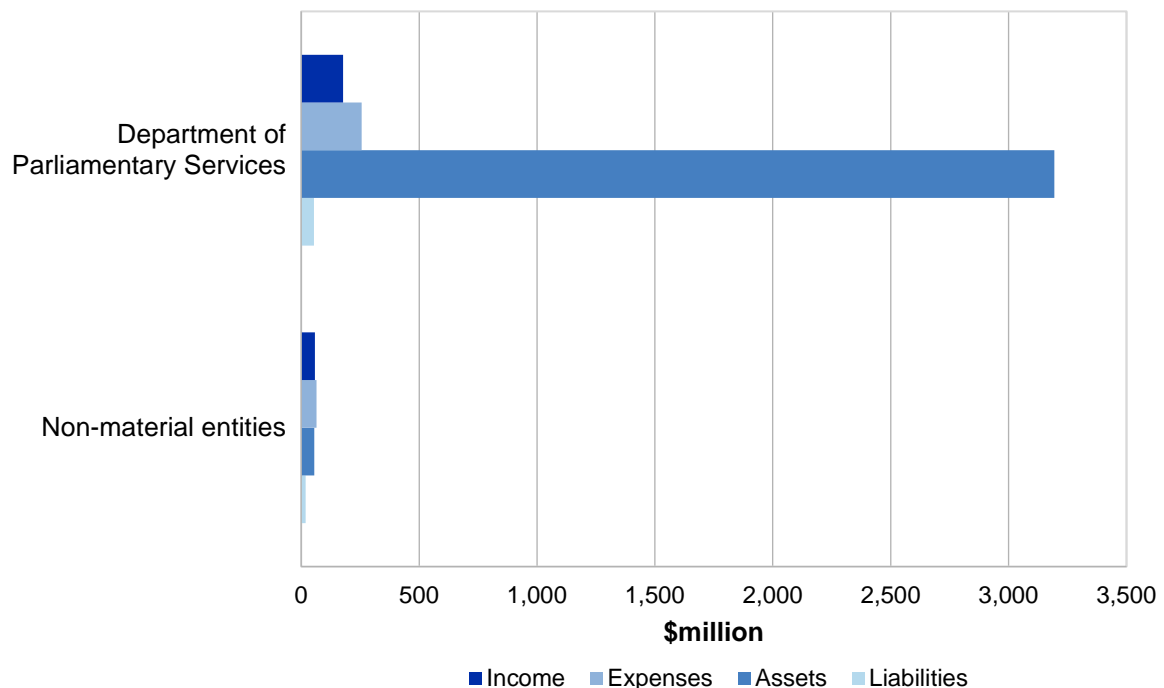
Table 4.13.1: Parliamentary Departments

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Parliamentary Services	Yes	Low	✓	22 Sep 23	26 Sep 23	Nil

✓: auditor's report not modified

4.13.2 Figure 4.13.1 shows the Parliamentary Departments' income, expenses, assets and liabilities contribution to the Australian Government Consolidated Financial Statements (CFS) for the year ended 30 June 2023.¹⁴²

Figure 4.13.1: Parliamentary Departments' income, expenses, assets and liabilities



Source: ANAO analysis of 2022–23 CFS.

¹⁴² This represents the portfolio's contribution to the Australian Government's CFS for the period ending 30 June 2023. It does not include transactions between agencies, such as appropriation revenue, which are not included in the CFS.

4.13.3 As previously outlined in Chapter 2, paragraphs 2.153 to 2.160, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2022–23 financial statements audits. Table 4.13.2 provides a summary of those audit differences that relate to entities within the Parliamentary Departments.

Table 4.13.2: The number of audit differences for entities in the Parliamentary Departments

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Parliamentary Services	–	–	–	2 ^a	–	2
Department of the House of Representatives	–	1	1	–	–	–

Note a: The adjustments include adjustments identified in the period that relate to the prior year.

Source: ANAO analysis of audit differences reported to entities in the Parliamentary Departments.

4.13.4 The following section provides a summary of the 2022–23 financial statements audit results for the Department of Parliamentary Services.

Department of Parliamentary Services

4.13.5 The Department of Parliamentary Services (DPS) is responsible for supporting the Parliament through the provision of a range of services, including library, research, Hansard, broadcasting, telecommunications, central computing, food and beverages, and building security and maintenance.

Summary of financial performance

4.13.6 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by DPS (as outlined in Table 4.13.3 and Table 4.13.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.13.3: Key departmental financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(179.7)	(182.3)
Revenue from government	156.9	154.1
Surplus/(deficit) attributable to the Australian Government	(22.8)	(28.2)
Total other comprehensive income/(loss)	1.4	–
Total comprehensive income/(loss) attributable to the Australian Government	(21.4)	(28.2)
Total assets	130.1	134.9
Total liabilities	44.4	46.3
Total equity	85.7	88.6

Source: DPS' audited financial statements for the year ended 30 June 2023.

4.13.7 All movements in balances are as the result of fluctuations in the normal operating cycle.

Table 4.13.4: Key administered financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	59.3	52.3
Total income	3.6	–
Deficit	(55.7)	(52.3)
Total other comprehensive income/(loss)	130.1	186.4
Total comprehensive income/(loss)	74.4	134.1
Total assets administered on behalf of Government	3,064.6	2,928.6
Total liabilities administered on behalf of Government	10.3	1.7
Net assets	3,054.3	2,926.9

Source: DPS' audited financial statements for the year ended 30 June 2023.

4.13.8 The increase in total assets of \$136.0 million is primarily due to the revaluation adjustment for Parliament House. DPS undertook a desktop asset valuation for land and buildings during 2022–23 that resulted in no valuation change for land (\$26.6 million in 2021–22) and an increment for buildings of \$128.9 million (\$159.8 million in 2021–22).

Key areas of financial risk

4.13.9 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of DPS's financial statements. The ANAO focused audit effort on those specific areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.13.5 including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.13.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> buildings \$2.7 billion	Valuation of buildings KAM	Higher	<ul style="list-style-type: none"> the valuation is complex due to the unique nature of each building component that comprises Parliament House; and significant judgement is exercised in making the estimation, which is based on current replacement cost and useful life.

Source: ANAO 2022–23 audit results, and DPS' audited financial statements for the year ended 30 June 2023.

Audit results

4.13.10 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

4.14 Prime Minister and Cabinet portfolio

Portfolio overview

4.14.1 The Prime Minister and Cabinet portfolio is responsible for providing advice and support to the Prime Minister, the Cabinet, portfolio ministers and assistant ministers on matters that are at the forefront of public policy and government administration, and providing stewardship of the Australian Public Service (APS).

4.14.2 The Department of the Prime Minister and Cabinet (PM&C) is responsible for supporting the Prime Minister as the head of the Australian Government and the Cabinet, and providing advice on major domestic policy and international and national security matters.

4.14.3 Table 4.14.1 identifies material and other entities specifically mentioned in this section.

Table 4.14.1: Prime Minister and Cabinet portfolio material and other entities discussed in this section

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of the Prime Minister and Cabinet	Yes	Moderate	✓	12 Sep 23	13 Sep 23	◆
Indigenous Business Australia	Yes	Moderate	✓	21 Sep 23	22 Sep 23	Nil
National Indigenous Australians Agency	Yes	Moderate	✓	14 Sep 23	15 Sep 23	Nil
Anindilyakwa Land Council	No	Moderate	✓	28 Sep 23	29 Sep 23	□
Northern Land Council	No	Moderate	✓	29 Sep 23	29 Sep 23	▲□
Tiwi Land Council	No	Moderate	✓	29 Sep 23	29 Sep 23	▲
Voyages Indigenous Tourism Australia Pty Ltd	Yes	High	✓	6 Sep 23	6 Sep 23	Nil
Wreck Bay Aboriginal Community Council	No	High	⇒	⇒	⇒	⇒

✓: auditor's report not modified

⇒: financial statements not signed as at 30 November 2023

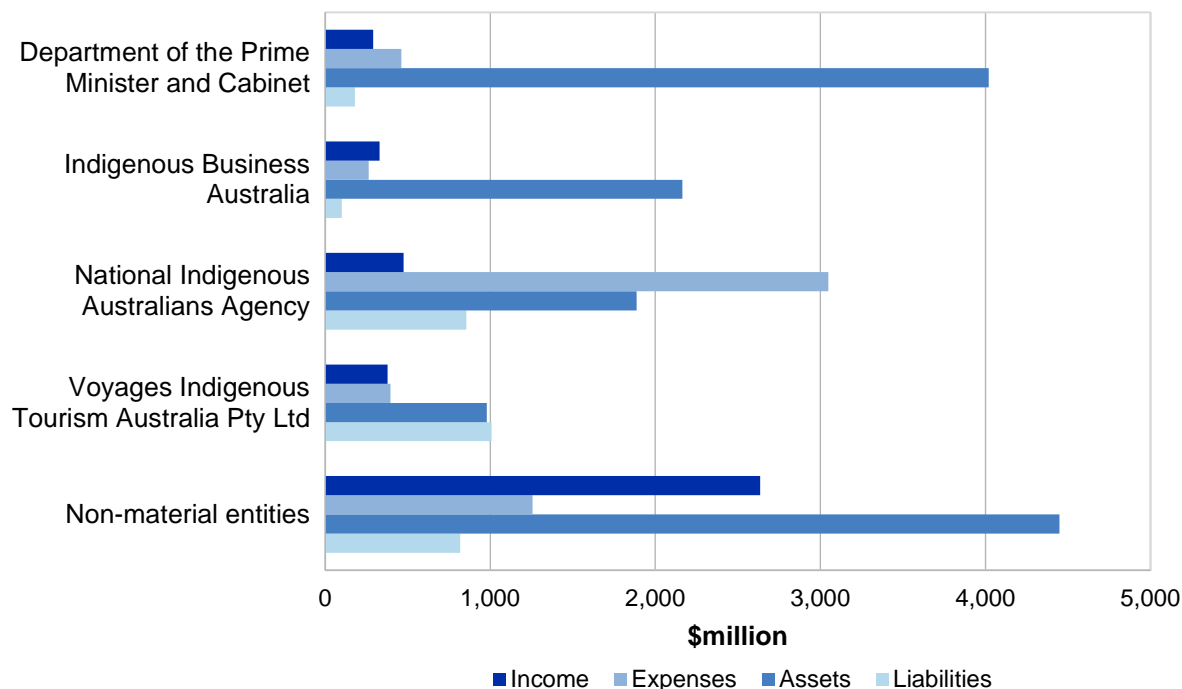
◆: new significant or moderate findings and/or legislative matters noted

▲: significant or moderate findings and/or legislative matters reported previously but not yet resolved

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2022–23 interim audit phase, now downgraded or resolved

4.14.4 Figure 4.14.1 shows the Prime Minister and Cabinet portfolio's income, expenses, assets and liabilities contribution to the Australian Government Consolidated Financial Statements (CFS) for the year ended 30 June 2023.¹⁴³

Figure 4.14.1: Prime Minister and Cabinet portfolio's income, expenses, assets and liabilities



Source: ANAO analysis of 2022–23 CFS.

4.14.5 As previously outlined in Chapter 2, paragraphs 2.153 to 2.160, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2022–23 financial statements audits. Table 4.14.2 provides a summary of those audit differences that relate to entities within the Prime Minister and Cabinet portfolio.

Table 4.14.2: The number of audit differences for entities in the Prime Minister and Cabinet portfolio

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of the Prime Minister and Cabinet	1	–	1	–	–	–
Anindilyakwa Land Council	–	2	2	–	10	10
Central Land Council	–	1	1	–	3	3

143 This represents the portfolio's contribution to the Australian Government's CFS for the period ending 30 June 2023. It does not include transactions between agencies, such as appropriation revenue, which are not included in the CFS.

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Indigenous Business Australia	–	–	–	1	–	1
• Gagudju Crocodile Hotel Trust				–	1	1
• Indigenous Economic Development Trust	–	1	1	–	–	–
• Kakadu Tourism (GCH) Pty Ltd				–	1	1
• Kakadu Tourism (GLC) Pty Ltd	–	–	–	–	2	2
• Northam Solar Project Partnership (IBA Northam Solar Pty Ltd)				3	1	4
• Performance Bond Fund	–	1	1	–	–	–
• Tennant Food Barn	–	1	1	–	1	1
National Indigenous Australians Agency	–	–	–	–	1	1
• National Centre of Indigenous Excellence Ltd	1	–	1	–	–	–
Northern Territory Aboriginal Investment Corporation	–	1	1	–	–	–
Office of the Official Secretary to the Governor-General	–	–	–	–	1	1
• Primary Partners Pty Ltd	–	–	–	2	–	2
Tennant Food Barn	–	1	1	–	–	–
Tiwi Land Council	2	–	2	–	–	–
Torres Strait Regional Authority	1	–	1	–	5	5
Workplace Gender Equality Agency	–	2	2	–	–	–

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Wreck Bay Aboriginal Community Council	⇒	⇒	⇒	–	–	–

⇒: financial statements not signed as at 30 November 2023

Note a: The current year adjustments include adjustments identified in 2022–23 that relate to the prior year.

Source: ANAO analysis of audit differences reported to entities in the Prime Minister and Cabinet portfolio.

4.14.6 The following section provides a summary of the 2022–23 financial statements audit results for the Department of the Prime Minister and Cabinet, and findings for other material entities and non-material entities in the portfolio.

Department of the Prime Minister and Cabinet

4.14.7 The Department of the Prime Minister and Cabinet (PM&C) is responsible for providing advice to the Prime Minister, the Cabinet, portfolio ministers, and assistant ministers to improve the lives of all Australians, including through coordination of government activities, effective policy advice and development, and program delivery.

Summary of financial performance

4.14.8 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by PM&C (as outlined in Table 4.14.3 and Table 4.14.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.14.3: Key departmental financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(231.9)	(261.3)
Revenue from government	232.8	223.2
Surplus/(deficit) attributable to the Australian Government	0.9	(38.1)
Total other comprehensive income/(loss)	1.3	0.2
Total comprehensive income/(loss) attributable to the Australian Government	2.2	(37.9)
Total assets	221.4	228.7
Total liabilities	164.1	172.8
Total equity	57.3	55.9

Source: PM&C's audited financial statements for the year ended 30 June 2023.

4.14.9 The decrease in net cost of services is largely due to a \$26.2 million decrease in grant expenses as a result of changes in National Australia Day Council (NADC) funding arrangements. In 2021–22, these were partly funded by prior year departmental appropriations that became available to the NADC.

4.14.10 Revenue from Government increased by \$9.6 million to fund new measures including \$18.4 million for the Quad Leaders' Summit, \$11.1 million for the Plan for National Disability Insurance Scheme, \$6.9 million for the Net Zero Economy Taskforce and \$6.6 million for APS Reform activities offset by appropriations transferred to other agencies as a result of MoG changes.

4.14.11 Total liabilities decreased by \$8.7 million primarily due to a reduction in lease liabilities associated with PMC's corporate premises.

Table 4.14.4: Key administered financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	168.7	161.5
Total income	1.3	0.1
Deficit	(167.4)	(161.4)
Total other comprehensive income/(loss)	724.3	140.7
Total comprehensive income/(loss)	556.9	(20.7)
Total assets administered on behalf of Government	3,798.4	3,147.2
Total liabilities administered on behalf of Government	16.3	15.4
Net assets	3,782.1	3,131.8

Source: PM&C's audited financial statements for the year ended 30 June 2023.

4.14.12 Total other comprehensive income and total administered assets increased primarily due to the establishment of the Northern Territory Aboriginal Investment Corporation.

Key areas of financial risk

4.14.13 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of PM&C's financial statements. The ANAO focused audit effort on those specific areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.14.5.

Table 4.14.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> investments in Commonwealth entities \$3.7 billion	Valuation of investments	Moderate	<ul style="list-style-type: none"> judgment is required in the selection of valuation techniques and underlying assumptions applied by PM&C to determine the fair value of the department's investments in Commonwealth entities.

Source: ANAO 2022–23 audit results, and PM&C's audited financial statements for the year ended 30 June 2023.

Audit results

4.14.14 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.14.6: Status of audit findings

Category	Closing Position (2021–22)	New Findings (2022–23)	Findings Resolved (2022–23)	Closing position (2022–23)
Moderate (B)	–	1	–	1
Total	–	1	–	1

Source: ANAO 2022–23 audit results.

4.14.15 For the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that PM&C's 2022–23 financial statements were not materially misstated.

New moderate audit finding

Removal of user access

4.14.16 The PSPF helps Australian Government entities to protect their people, information and assets. The PSPF sets out government protective security policy in terms of: security governance; information security; personnel security; and physical security. PSPF Policy 9 Access to information and PSPF Policy 14 Separating personnel outline security measures to control access to Australian Government information and mitigate risks associated with departing personnel. PSPF Policy 9 requires entities to control access to supporting ICT systems and applications and ensure access to sensitive information is only provided to people on a need-to-know basis. PSPF Policy 14 requires personnel's access to be removed upon separation or transfer from the entity. Inadequate security measures for timely removal of access from former personnel increase the risk of unauthorised access to sensitive information.

4.14.17 The ANAO identified instances where users had accessed the PM&C's systems after completion of their employment or contract. The ANAO noted that investigation of post termination access was not always timely.

4.14.18 PM&C is developing a standard operating procedure (SOP) to support more timely investigation of user access post termination. PM&C will update its risk assessment and policy once the SOP is finalised. The effectiveness of these processes will be assessed by the ANAO as part of 2023–24 financial statements audit.

Indigenous Business Australia

4.14.19 Under its enabling legislation, the *Aboriginal and Torres Strait Islander Act 2005*, Indigenous Business Australia's (IBA's) purposes are to assist and enhance Aboriginal and Torres Strait Islander self-management and economic self-sufficiency, and to advance the commercial and economic interests of Aboriginal and Torres Strait Islander peoples by accumulating and using a substantial capital base for their benefit. IBA has 14 actively trading subsidiaries which are audited by the ANAO.

Summary of financial performance

4.14.20 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by IBA (as outlined in Table 4.14.7) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.14.7: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	69.7	73.2
Revenue from government	9.4	9.5
Surplus/(deficit) attributable to non-controlling interest	15.0	2.4
Surplus/(deficit) attributable to the Australian Government	63.9	79.3
Total other comprehensive income/(loss)	0.5	(1.2)
Total comprehensive income/(loss) attributable to the Australian Government	64.3	78.1
Total assets	2,163.7	2,040.7
Total liabilities	100.9	99.2
Total equity	2,062.8	1,941.5

Source: IBA's audited financial statements for the year ended 30 June 2023.

4.14.21 Total assets increased by \$123.0 million mainly due to:

- an increase in other investments of \$82.7 million relating to enhanced returns from longer term investments, investment of cash reserves, and mark to market valuation increases to Indigenous Prosperity Funds; and
- an increase in loan receivables of \$63.2 million due to a significant decline in IBA customers switching to commercial lenders in comparison to last year resulting in a rebuild of the loan portfolio.

4.14.22 These increases were partially offset by a \$36.0 million decrease in cash and cash equivalents relating to cash management initiatives to invest available cash into longer term investments generating better returns.

Key areas of financial risk

4.14.23 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of IBA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.14.8.

Table 4.14.8: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Loan receivables – Home Ownership program	Valuation of loan portfolio	Moderate	<ul style="list-style-type: none"> • fair value calculations are based on a combination of variable market inputs and internally generated estimates and judgements;

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
\$941.4 million Loan receivables – Business Development and Assistance program \$32.6 million	Valuation of expected credit losses relating to the loan portfolio		<ul style="list-style-type: none"> the fair value methodology is complex and requires regular review to ensure continued reliability; and application of an amortised cost basis after initial recognition involves manual processes that are subject to the risk compilation and calculation error.
Investment properties \$189.0 million Property, plant and equipment \$27.5 million Investment in associates and joint ventures \$12.9 million Other investments including managed funds \$736.5 million	Valuation of investments	Moderate	<ul style="list-style-type: none"> acquisitions and disposals of investments can be complex and are subject to risk of error in complying with accounting standards requirements; fair value calculations include forecast earnings and capitalisation rates derived for regional areas, which are subject to judgement; assets subject to revaluation are in regional areas that have limited observable inputs; complex accounting requirements associated with investments in associate entities and assessment of impairment and gains on revaluation; and unaudited management accounts are used for valuation of unlisted investments in associated entities.

Source: ANAO 2022–23 audit results, and IBA's audited financial statements for the year ended 30 June 2023.

Audit results

4.14.24 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

National Indigenous Australians Agency

4.14.25 The National Indigenous Australians Agency (NIAA) is responsible for leading and coordinating Commonwealth policy development, program design and implementation and service delivery for Aboriginal and Torres Strait Islander peoples. The primary functions of the NIAA are:

- providing advice on whole-of-government priorities for Aboriginal and Torres Strait Islander people to the Minister for Indigenous Australians, the Assistant Minister for Indigenous Australians, and the Special Envoy for the Reconciliation and the implementation of the Uluru Statement from the Heart;

- leading and coordinating the implementation of Australia’s Closing the Gap targets in partnership with First Nations peoples and communities; and
- building and maintaining effective partnerships with Aboriginal and Torres Strait Islander people, state and territory governments and other stakeholders.

Summary of financial performance

4.14.26 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by NIAA (as outlined in Table 4.14.9 and Table 4.14.10) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.14.9: Key departmental financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(363.9)	(274.0)
Revenue from government	339.6	268.5
Surplus/(deficit) attributable to the Australian Government	(24.3)	(5.5)
Total other comprehensive income	3.6	8.0
Total comprehensive income/(loss) attributable to the Australian Government	(20.7)	2.5
Total assets	277.4	287.1
Total liabilities	(179.6)	(175.9)
Total equity	97.8	111.2

Source: NIAA’s audited financial statements for the year ended 30 June 2023.

4.14.27 The net cost of services increased by \$89.9 million was mainly attributable to:

- a \$53.2 million litigation settlement for Stolen Generations class actions;
- a \$25.0 million increase in employee expenses due to an increase in staffing levels arising from the transition of some shared services functions from the Department of the Prime Minister and Cabinet into the NIAA, and the conversion of contractors to APS officials in line with the Australian Government direction; and
- a \$13.2 million increase in supplier expenses for consultants, contractors and secondees, and for travel.

4.14.28 Revenue from Government increased by \$71.1 million largely due to additional funding received for anticipated legal settlement expenditure.

4.14.29 Total assets decreased by \$9.7 million mainly due to a reduction in the value of property, plant and equipment, and lower appropriations receivable at year end. This was partially offset by an increase in intangibles following the capitalisation of internally developed software.

Table 4.14.10: Key administered financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	(2,666.7)	(1,881.2)
Total income	120.6	80.1
Deficit	(2,546.1)	(1,801.1)
Total other comprehensive income	–	–
Total comprehensive income/(loss)	(2,546.1)	(1,801.1)
Total assets administered on behalf of Government	1,609.0	1,497.9
Total liabilities administered on behalf of Government	(675.7)	(41.6)
Net assets	933.3	1,456.3

Source: NIAA's audited financial statements for the year ended 30 June 2023.

4.14.30 Total administered expenses increased by \$785.5 million mainly due to:

- an increase of \$687.5 distribution from the Aboriginals Benefit Account to the newly established Northern Territory Aboriginal Investment Corporation.
- a \$72.1 million increase in grants expense due to an increase in the demand-driven Community Development Program; and
- a \$29.2 million increase in expenses associated with the Territories Stolen Generations Redress Scheme which operated for the full 12 months during financial year ended 30 June 2023.

4.14.31 Total administered assets increased by \$111.1 million mainly due to:

- an increase of \$46.5 million in cash due to additional appropriation contributions made to the Indigenous Remote Service Delivery special account for projects in remote communities; and
- an increase of \$41.0 million in term deposit investments and an associated \$18.6 million increase in interest receivable at year-end.

4.14.32 Total administered liabilities increased by \$634.1 million mainly due to the recognition of a \$500.0 million provision and \$117.6 million payable for statutory payments to be made to the Northern Territory Aboriginal Investment Corporation under *The Aboriginal Land Rights Act 1976*.

Key areas of financial risk

4.14.33 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of NIAA's financial statements. The ANAO focused audit effort on those specific areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.14.11, including the areas which were considered a key audit matter (KAM) by the ANAO.

Table 4.14.11: Key areas of financial statements risk

Relevant financial statement line item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Departmental</i> Property, plant and equipment \$191.8 million	Valuation of property, plant and equipment	Moderate	<ul style="list-style-type: none"> property, plant and equipment is held in various geographic locations across Australia is required to be valued accordance with the Financial Reporting Rule.
<i>Departmental</i> Shared services (a component of supplier expenses)	Reliance on third parties for transaction processing	Moderate	<ul style="list-style-type: none"> reliance on third parties for services including payroll and financial transaction processing for which NIAA is accountable.
<i>Administered</i> Grants expenses \$1.6 billion	Performance of grantees in meeting grant conditions KAM	Higher	<ul style="list-style-type: none"> significant number and value of grants paid; complexity of grants management in remote areas across Australia; and payments rely on several IT systems operated by different Australian Government entities.
<i>Administered</i> compliance for Community Development Program (CDP) (a component of grants expenses of \$1.6 billion)	Compliance by CDP providers	Moderate	<ul style="list-style-type: none"> reliance on data submitted by providers, including varying controls for systems operated by other departments.

Source: ANAO 2022–23 audit results, and NIAA’s audited financial statements for the year ended 30 June 2023.

Audit results

4.14.34 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Voyages Indigenous Tourism Australia Pty Ltd

4.14.35 Voyages Indigenous Tourism Australia Pty Ltd (Voyages) is a wholly owned subsidiary of the Indigenous Land and Sea Corporation (ILSC). Voyages owns and operates Ayres Rock Resort (ARR) in the Northern Territory. It also operates Mossman Gorge Centre located in North Queensland. These businesses operate tourism and hospitality training and employment initiatives to benefit indigenous people.

Summary of financial performance

4.14.36 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by Voyages (as outlined in Table 4.14.12) includes commentary regarding significant movements between years contributing to overall performance.

Table 4.14.12: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	197.6	143.5
Total income	188.7	109.7
Income tax benefit (expense)	2.6	10.1
Profit/(loss) after income tax	(6.3)	(23.7)
Total other comprehensive income/(loss) after tax	(8.2)	29.6
Total comprehensive income/(loss)	(14.5)	5.9
Total assets	489.2	480.6
Total liabilities	504.1	481.0

Source: Voyages audited financial statements for the year ended 30 June 2023.

4.14.37 The \$54.1 million increase in total income was mainly as a result of lifting of travel restrictions associated with the COVID-19 pandemic. This resulted in an increased number of tourists visiting Ayers Rock Resort and Mossman Gorge Cultural Centre which contributed to higher sales for tours, accommodation, food and beverage and retail operations.

4.14.38 The \$79.0 million increase in total expenses was mainly due to the increased number of tourists identified at paragraph 4.14.37. This contributed to higher expenditure, including on additional staff and expenditure on utilities, repairs and maintenance and the cost of sales.

4.14.39 Total liabilities increased mainly due to a new loan facility for the purpose of funding the Wintjiri Wiru project, a modern indigenous cultural experience at Ayers Rock Resort developed by Voyages alongside the Anangu community.

Key areas of financial risk

4.14.40 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of Voyages' financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.14.13.

Table 4.14.13: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Property, plant and equipment \$429.7 million intangible assets \$5.3 million	Valuation of Ayers Rock Resort	Higher	<ul style="list-style-type: none"> complexity in valuing Ayers Rock Resort due to the judgements and assumptions involved in determining future cash inflows driven by occupancy and room rates, as well as factors relevant to post-COVID-19 recovery of the tourism sector.

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Borrowings \$443.4 million interest expense \$19.2 million	Financing of Ayers Rock Resort	Moderate	<ul style="list-style-type: none"> significant value of loans; a concessional loan which is a variable rate loan based on the weighted average cost of borrowing for future issuance of Treasury bonds and needs to be reassessed each year; and exposure to movements in market interest rates.
Total revenue \$182.1 million total expenses \$197.6 million	Revenue and expenditure	Moderate	<ul style="list-style-type: none"> varying revenue and purchasing streams with differing processes and controls; and separation of front and back-office operations which are in different locations.
Income tax benefit \$2.6 million deferred tax liability \$0.1 million	Tax effect accounting and tax loss recognition	Moderate	<ul style="list-style-type: none"> complexities in the calculation of tax balances.
Property, plant and equipment – assets under construction \$14.5 million	Recognition of expenditure on the Wintjiri Wiru project	Moderate	<ul style="list-style-type: none"> significant value of expenditure on the project and the judgements involved in classifying that expenditure as either operating or capital in nature.

Source: ANAO 2022–23 audit results, and Voyages' audited financial statements for the year ended 30 June 2023.

Audit results

4.14.41 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Comments on non-material entities

Anindilyakwa Land Council

4.14.42 The Anindilyakwa Land Council (ALC) was formed by the *Aboriginal Land Rights (Northern Territory) Act 1976* (ALRA). Under subsection 23(1) of the ALRA, ALC undertakes the following activities:

- management of the land to protect traditional owners' interests;
- protection of sacred sites;
- consultation regarding proposals relating to lands and seas in the Groote Archipelago;
- provision of assistance to traditional owners to engage in commercial activities and economic development;
- supervision and administration of land trusts;

- control of visits by all non-indigenous people through monitoring and permits; and
- protection and preservation of culture, including intellectual property, copyright and reproduction of cultural products to safeguard against illegal or improper use of research, digital images, designs, stories, bio-cultural information, artefacts and art.

Audit results

4.14.43 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.14.14: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	1	–	(1)	–
Total	1	–	(1)	–

Source: ANAO 2022–23 audit results.

4.14.44 For the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that ALC’s 2022–23 financial statements were not materially misstated.

Resolved moderate audit finding

Financial statements preparation

4.14.45 Subsection 41 (2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) requires the accountable authority of a Commonwealth entity to ensure that the accounts and records are kept in a way that allows those financial statements to be conveniently and properly audited.

4.14.46 In 2019–20, the ANAO identified areas where ALC had limited quality assurance checks performed by management to ensure that the draft versions of the financial statements were of an appropriate standard. The ANAO recommended ALC develop a detailed financial statements preparation process that included preparation of appropriate working papers, position papers and quality assurance processes.

4.14.47 In the 2020–21 audit, the ANAO performed a follow-up on the recommendations made in 2019–20 and noted that there had been no significant improvement to ALC’s financial statements preparation process. During the 2021–22 audit, the ANAO continued to identify issues in ALC’s financial statements preparation process. The minor audit finding originally raised in 2019–20 was reclassified to a moderate risk finding.

4.14.48 As part of the 2022–23 final audit, the ANAO noted improvements in ALC’s financial statements preparation process, including the provision of the majority of information required for the audit within a reasonable timeframe, resulting in an improvement in overall timing and completion of the audit.

4.14.49 As a result of the actions taken by ALC, the ANAO has downgraded this to a minor finding.

Northern Land Council

4.14.50 The Northern Land Council (NLC) is a corporate Commonwealth entity formed under section 21 of the *Aboriginal Land Rights (Northern Territory) Act 1976* (ALRA Act). The NLC is responsible for assisting Aboriginal peoples in the top end of the Northern Territory to acquire and manage their traditional lands and seas.

Audit results

4.14.51 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.14.15: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	1	–	(1)	–
Legislative breach (L1)	1	–	–	1
Total	2	–	(1)	1

Source: ANAO 2022–23 audit results.

4.14.52 For each of the findings listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that NLC's 2022–23 financial statements were not materially misstated.

Resolved moderate audit finding

Payroll exceptions

4.14.53 Since 2014–15, the ANAO has identified and reported to the NLC management a number of minor findings and weaknesses in relation to the internal controls and processes within the NLC for payroll. In 2018–19, the ANAO continued to identify a number of internal control weaknesses and identified a number of non-material errors in payments to staff and upgraded the existing minor finding to a moderate finding. The identified control weakness, together with a lack of implementation of recommendations from prior years to improve the internal control processes for payroll, increased the likelihood that inaccurate or inappropriate payments are made and not detected.

4.14.54 In 2021–22, the ANAO noted some improvement during the final audit where the number of exceptions decreased.

4.14.55 During 2022–23 NLC implemented new and amended casual employee recruitment guidance to clarify processes. The updated processes were tested by the ANAO and no further exceptions were identified. As a result of the actions taken by NLC the ANAO considers this finding to be resolved.

Unresolved significant legislative breach

Management of Royalty Trust Account

4.14.56 The ALRA Act establishes the Council's responsibilities for payments in respect of Aboriginal land, requiring payment of an amount equal to amounts received to, or for the benefit of, the traditional owners of the land, within six months after that amount is received through the

Royalty Trust Account. Previous audits have identified non-compliance with this requirement of the ALRA Act.

4.14.57 NLC commenced a royalty reform project in 2016–17 to address the legislative requirements. The project was aimed at reducing incidents of non-compliance with the ALRA and reconciling outstanding balances in the royalty trust account to identify the appropriate owners for distribution. The NLC also established a Benefits Distribution Unit and strategies have been undertaken to expedite the distribution of payments to traditional owners. The NLC has sought to vary the terms with beneficiaries to allow for payments to be accelerated.

4.14.58 During the 2022–23 audit, the ANAO found additional contracts where the distribution of royalty monies to traditional owners during the period were not made within six months as specified in subsection 35 (3) and subsection 35 (4) of the Act. The ANAO recommended NLC management continue tracking the timing of monies receipted and ensure procedures are in place to support distributions being made within six months in accordance with the Act.

4.14.59 NLC has advised the ANAO that it had filed an application for directions and orders concerning the unallocated monies by way of an Originating Motion with the Supreme Court of the Northern Territory on 26 July 2022. The matter had its first hearing on 7 September 2022. The Court has reserved its judgment and at 30 June 2023 the NLC is unable to take any further steps until a judgement is made by the Court.

Tiwi Land Council

4.14.60 The Tiwi Land Council (TLC) was established on 18 August 1978, following representation by the Tiwi people to the Australian Government for recognition of their distinct geographic and cultural identity. TLC was instituted by the Minister for Aboriginal Affairs at a special gathering on Bathurst Island on 7 September 1978. TLC is the only body with authority and capacity to direct and administer the Tiwi Aboriginal Land Trust established under the *Aboriginal Land Rights (Northern Territory) Act 1976*.

Audit results

4.14.61 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.14.16: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Legislative breach (L1)	1	–	–	1
Total	1	–	–	1

Source: ANAO 2022–23 audit results.

4.14.62 For the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that TLC's 2022–23 financial statements were not materially misstated.

Unresolved significant legislative breach

Risk management activities

4.14.63 Section 16 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) requires the accountable authority of a Commonwealth entity to establish and maintain an appropriate system of risk oversight and management. This would normally include the development of a risk management policy and framework, including a risk plan and a risk register and monitoring activities over the implementation of the control activities identified in the risk register.

4.14.64 During the 2021–22 final audit, the ANAO noted that TLC did not have in place a formal risk management policy nor a formal risk management framework. It was also noted that TLC updated the design of its risk register in 2021–22 but not the substantive contents which were last updated in 2020. There was no evidence of monitoring activities over the implementation of the control activities identified in the risk register. There was also no documented evidence to support that an appropriate system of risk oversight and management is in place for TLC.

4.14.65 The ANAO recommended that TLC develop a formal risk management policy and framework to ensure compliance with the PGPA Act, implement a process whereby the risk register is updated regularly to ensure that identified risks are appropriately managed and develop reporting tools to evidence ongoing monitoring activities over the implementation of the control activities identified in the risk register.

4.14.66 During 2022–23 TLC commenced reviewing findings raised in a review of TLC’s governance initiated by the NIAA and as well as previous ANAO performance and financial statement audits in order to facilitate enhancement of risk and governance processes.

4.14.67 The finding remains unresolved at the conclusion of the 2022–23 audit as there is no formal system of risk oversight and management in place. TLC has advised the ANAO it expects to have implemented a risk management framework and related policies and procedures before the commencement of the ANAO’s 2023–24 interim audit.

4.15 Social Services portfolio

Portfolio overview

4.15.1 The Social Services portfolio is responsible for achieving the Australian Government’s social policy outcomes and delivering social security priorities through policy advice, program administration and research.

4.15.2 Table 4.15.1 identifies material and other entities specifically mentioned in this section.

Table 4.15.1: Social Services portfolio material and other entities discussed in this section

Reporting entity	Material entity	Audit risk rating	Type of auditor’s report	Date financial statements signed	Date auditor’s report issued	Audit findings identified
Department of Social Services	Yes	High	✓	10 Oct 23	10 Oct 23	◆▲
Australian Hearing Services	Yes	Low	✓	18 Aug 23	18 Aug 23	Nil
National Disability Insurance Agency	Yes	Moderate	✓	15 Sep 23	18 Sep 23	▲□
Services Australia	Yes	High	✓	8 Sep 23	12 Sep 23	◆▲
NDIS Quality and Safeguards Commission	No	Low	✓	28 Sep 23	28 Sep 23	□

✓: auditor’s report not modified

◆: new significant or moderate findings and/or legislative matters noted

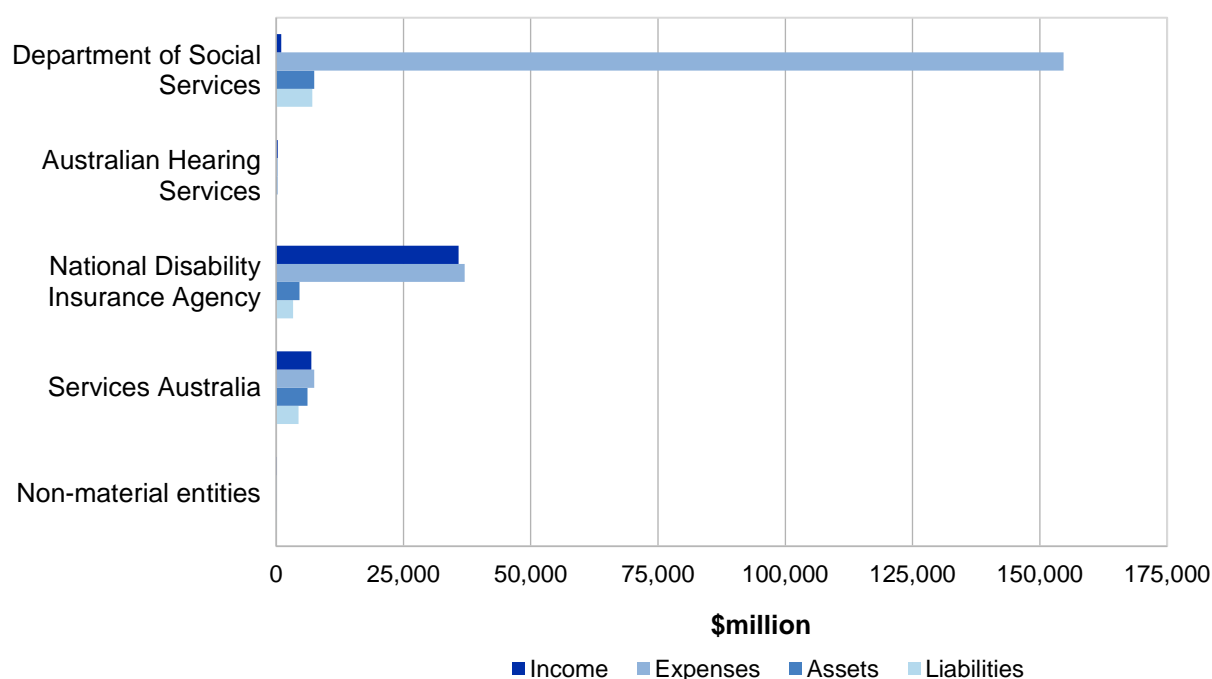
▲: significant or moderate findings and/or legislative matters reported previously but not yet resolved

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2022–23 interim audit phase, now downgraded or resolved

4.15.3 Figure 4.15.1 shows the Social Services portfolio’s income, expenses, assets and liabilities contribution to the Australian Government Consolidated Financial Statements (CFS) for the year ended 30 June 2023.¹⁴⁴

¹⁴⁴ This represents the portfolio’s contribution to the Australian Government’s CFS for the period ending 30 June 2023. It does not include transactions between agencies, such as appropriation revenue, which are not included in the CFS.

Figure 4.15.1: Social Services portfolio’s income, expenses, assets and liabilities



Source: ANAO analysis of 2022–23 CFS.

4.15.4 As previously outlined in Chapter 2, paragraphs 2.153 to 2.160, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2022–23 financial statements audits. Table 4.15.2 provides a summary of those audit differences that relate to entities within the Social Services portfolio.

Table 4.15.2: The number of audit differences for entities in the Social Services portfolio

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of Social Services	3 ^a	–	3	2	1	3
Australian Hearing Services	–	2 ^a	2	–	1	1
Services Australia	–	–	–	1	–	1
National Disability Insurance Agency	1	–	1	–	–	–
Australian Institute of Family Studies	1	1	2	–	–	–

Note a: The adjustments include adjustments identified in the period that relate to the prior year.

Source: ANAO analysis of audit differences reported to entities in the Social Services portfolio.

4.15.5 The following section provides a summary of the 2022–23 financial statements audit results for the Department of Social Services and other material entities and findings for non-material entities in the portfolio.

Department of Social Services

4.15.6 The Department of Social Services (DSS) is responsible for social security, families and communities, disability and carers, and housing. DSS works in partnership with other government and non-government organisations on a range of policies, programs and services focused on improving the wellbeing of people and families in Australia.

Summary of financial performance

4.15.7 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by DSS (as outlined in Table 4.15.3 and Table 4.15.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.15.3: Key departmental financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(469.1)	(441.2)
Revenue from government	442.9	426.9
Surplus/(deficit) attributable to the Australian Government	(26.2)	(14.3)
Total other comprehensive income/(loss)	(0.1)	9.7
Total comprehensive income/(loss) attributable to the Australian Government	(26.3)	(4.6)
Total assets	644.0	681.7
Total liabilities	663.4	677.2
Total equity	(19.4)	4.5

Source: DSS' audited financial statements for the year ended 30 June 2023.

4.15.8 The net cost of services increased by \$27.9 million mainly due to the increase in average staffing levels from 2 356 in 2022 to 2 624 in 2023.

4.15.9 Total assets decreased by \$37.7 million due mainly to amortisation of right-of-use of assets.

Table 4.15.4: Key administered financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	154,038.5	145,759.7
Total income	447.9	328.3
Deficit	(153,590.6)	(145,431.4)
Total other comprehensive income/(loss)	28.4	242.5
Total comprehensive income/(loss)	(153,562.2)	(145,188.9)
Total assets administered on behalf of Government	6,827.5	6,543.7
Total liabilities administered on behalf of Government	6,444.8	6,165.8
Net assets	382.7	377.9

Source: DSS' audited financial statements for the year ended 30 June 2023.

4.15.10 Administered expenses increased by \$8.3 billion as a result of:

- higher payments to the National Disability Insurance Agency (NDIA) due to an increase in participation plan payments; and
- higher personal benefits Income Support payments of \$5.0 billion due to indexation, partly offset by a reduction of \$2.0 billion for Working Age payments due to a stronger labour market in Australia.

4.15.11 Administered liabilities increased by \$279.0 million mainly due to a \$218.0 million increase in claims and an increase in backlog for claims to be processed.

4.15.12 The increase of \$119.6 million for administered income is due to:

- a \$52.2 million movement in fair value gains related to the valuation of receivables for the Student Financial Supplement Scheme and the Home Equity Access Scheme; and
- an increase in recoveries receivable of \$52.7 million due to a higher number of applications being processed for the National Redress Scheme.

4.15.13 Administered assets increased by \$283.8 million mainly due to:

- an increase in Family Tax Benefit receivable, due to reduced entitlements and families transitioning off Family Tax Benefits as a result of the stronger labour market; and
- new loans issued for Home Equity Access Scheme and Student Start-Up Loans.

Key areas of financial risk

4.15.14 In light of the key areas of risk and the ANAO's understanding of the operations of DSS, the ANAO assessed the overall risk of material misstatement in the 2022–23 financial statements audit as high. This assessment was a result of heightened public scrutiny and interest that both Services Australia and the Department of Social Services are under as a result of the Robo-Debt Royal Commission, particularly concerns around governance and oversight within the portfolio.

4.15.15 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of DSS' financial statements. The ANAO focused audit effort on those

specific areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.15.5 including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.15.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> personal benefits expenses \$125.8 billion	Accuracy and occurrence of personal benefits expenses KAM	Higher	<ul style="list-style-type: none"> reliance on the correct self-disclosure of personal circumstances by a large number of diverse recipients; and reliance on the Services Australia's complex information technology system for the processing of a high volume of payments across numerous personal benefit types with varying conditions for determining payment amount.
<i>Administered</i> personal benefits provisions \$4.0 billion personal benefits receivables (component of receivables) \$5.4 billion	Valuation of personal benefits provisions, and personal benefits receivables KAM	Higher	<ul style="list-style-type: none"> provisions and receivables involve estimation models which require significant judgements and assumptions, and are dependent on a number of factors. These factors include, but are not limited to, new budget measures affecting benefit programs, timing of payments, personal circumstances of recipients and the economic environment; and the accuracy and completeness of the source data used by the actuary in developing the estimation of the provisions and receivables is also a key component of the valuation process.
<i>Administered</i> grant expenses \$2.5 billion	Validity of grant expenses KAM	Moderate	<ul style="list-style-type: none"> a large number of grants programs with differing legislative and policy requirements which make the management of grant processes complex and this has the potential to impact the validity of grant expenses.
<i>Administered</i> grants expenses (component of grant expenses) \$2.5 billion	Disability Employment Services (DES) payments	Lower	<ul style="list-style-type: none"> a large volume of financial records relating to DES claims are processed through multiple supporting systems.

Source: ANAO 2022–23 audit results, and DSS' audited financial statements for the year ended 30 June 2023.

Audit results

4.15.16 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.15.6: Status of audit findings

Category	Closing Position (2021–22)	New Findings (2022–23)	Findings Resolved (2022–23)	Closing position (2022–23)
Significant (A)	–	1	–	1
Moderate (B)	1	–	–	1
Total	1	1	–	2

Source: ANAO 2022–23 audit results.

4.15.17 For each of the findings listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that DSS’ 2022–23 financial statements were not materially misstated.

New significant audit finding

Governance of legal and other matters

4.15.18 In the course of the financial statements audit, the ANAO made requests for information relating to known or suspected instances of non-compliance with laws and regulations including legal matters, whose effects should be considered in the preparation of DSS’ financial statements. In July 2023, the ANAO became aware of a legal matter being managed by DSS that was the subject of an own-motion investigation by the Commonwealth Ombudsman into the practice of income apportionment for personal benefit payments. DSS had been aware of this legal matter for at least two years prior.

4.15.19 This increased the risk that matters that may affect the financial statements are not appropriately considered in the preparation of the financial statements.

4.15.20 This matter is considered to pose a significant financial, business and reputational risk to DSS. The ANAO recommended:

- that DSS design, implement and document a process to ensure legal or other matters are identified for consideration for their impact on the financial statements, and that all matters identified for consideration are communicated to the ANAO. DSS agreed to the recommendation; and
- provide regular updates, in a suitable reporting format, to keep the DSS Audit and Risk Committee informed of continuing and emerging legal matters.

4.15.21 DSS agreed with the ANAO’s recommendations.

Unresolved moderate audit finding

Removal of user access

4.15.22 The Protective Security Policy Framework (PSPF) requires non-corporate Commonwealth entities to control access to systems, networks, and applications. The requirement includes removing system access from employees and contractors without an operational need for access to IT resources.

4.15.23 During the 2020–21 interim audit the ANAO identified weaknesses in user access termination processes in relation to the Human Resources Management Information System. The ANAO identified a number of instances where users continued to access systems for up to five days following separation from DSS.

4.15.24 During the 2022–23 audit, the ANAO identified eight instances where users had a last logon date after their termination date, with no evidence of the actions taken by DSS.

4.15.25 DSS' detective control processes did identify these terminations as having potentially accessed the DSS ICT environment post-termination, however there was no clear documentation that investigation had occurred at the time of the access.

Australian Hearing Services

4.15.26 Australian Hearing Services (Hearing Australia) is a corporate Commonwealth entity established under the *Australian Hearing Services Act 1991*. Hearing Australia is responsible for the provision of research and hearing services through a network of 185 hearing centres and 330 visiting sites. Services provided include subsidised hearing services to eligible clients under the Australian Government's Hearing Services Program.

Summary of financial performance

4.15.27 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by Hearing Australia (as outlined in Table 4.15.7) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.15.7: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total revenue	284.0	267.9
Total expenses	289.1	267.7
Income tax equivalent benefit	1.3	0.3
Surplus/(deficit) after income tax equivalent expense	(3.8)	0.5
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss) attributable to the Australian Government	(3.8)	0.5
Total assets	219.1	228.5
Total liabilities	132.1	137.7
Total equity	87.0	90.8

Source: Hearing Australia's audited financial statements for the year ended 30 June 2023.

4.15.28 The increase in total revenue of \$16.1 million in 2022–23 is due mainly to increases in sales in both the voucher and non-voucher market due to an extended advertising campaign in a post COVID-19 environment.

4.15.29 Expenses increased by \$21.4 million mainly due to the higher cost of goods sold (\$10.8 million) associated with increased hearing aid device sales as well as higher employee expenses as a result of an increased number of employees and salary advancements.

Key areas of financial risk

4.15.30 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of Hearing Australia's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.15.8.

Table 4.15.8: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Revenue from contracts with customers \$258.9 million	Completeness and accuracy of revenue	Higher	<ul style="list-style-type: none">• complexity around the timing and recognition of numerous revenue streams and delivery performance obligations, including risk of non-compliance with Department of Health and Aged Care program rules; and• application of judgement by management in determining revenue balances.

Source: ANAO 2022–23 audit results, and Hearing Australia's audited financial statements for the year ended 30 June 2023.

Audit results

4.15.31 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

National Disability Insurance Agency

4.15.32 The National Disability Insurance Agency (NDIA) was established under the *National Disability Insurance Scheme Act 2013*. The NDIA is responsible for delivering the National Disability Insurance Scheme (the Scheme). The Scheme is designed to provide individual control and choice in the delivery of reasonable and necessary supports; to improve the independence, and social and economic participation, of eligible people with disability, their families and carers; and to provide associated referral services and activities.

4.15.33 The NDIA has established arrangements with Services Australia for facilitating the information technology platforms for provider and participant payments, supplier payments and payroll processing under a service agreement.

Summary of financial performance

4.15.34 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by the NDIA (as outlined in Table 4.15.9) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.15.9: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(1,430.5)	(990.2)
Revenue from government	1,445.4	1,263.4
Surplus/(deficit) attributable to the Australian Government	14.9	273.2
Total other comprehensive income/(loss)	17.3	(1.1)
Total comprehensive income/(loss) attributable to the Australian Government	32.2	272.1
Total assets	4,602.9	4,684.3
Total liabilities	3,326.7	3,440.3
Total equity	1,276.3	1,244.1

Source: NDIA's audited financial statements for the year ended 30 June 2023.

4.15.35 Net cost of services increased by \$440.2 million due to an increase in participant plan expenses. This reflects the ongoing expansion of the Scheme and increasing number of participants. The funding of participant plan expenses is provided by the Commonwealth and the States and Territories. As at 30 June 2023, the Scheme had 610 502 active participants with approved plans compared to 534 655 at 30 June 2022.

Key areas of financial risk

4.15.36 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of the NDIA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.15.10 including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.15.10: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Participant plan expenses \$35.2 billion	Accuracy and occurrence of participant plan expenses KAM	Higher	<ul style="list-style-type: none"> continued growth in participant numbers entering the Scheme; the high volume of transactions; and decisions as to the appropriate level of support and therefore the associated expenses are complex as the Scheme participants have varying needs.
Participant plan provision \$1.9 billion	Valuation of participants' plan provisions KAM	Higher	<ul style="list-style-type: none"> significant judgements and assumptions about the timing and amount of cashflows need to be made due to the complexity of estimating the pattern of support claimed by participants or providers.

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Contributions in-kind from state and territory governments revenue \$1.1 billion in kind expenses (component of participant expenses) \$1.1 billion	Completeness, occurrence and accuracy of contributions of in-kind services from state and territory governments KAM	Higher	<ul style="list-style-type: none"> reliance on third party data from state and territory governments; and in-kind revenue and expenses may be misstated if services provided directly to eligible participants by states and territories are not reported to the NDIA in line with bilateral agreements.

Source: ANAO 2022–23 audit results, and the NDIA's audited financial statements for the year ended 30 June 2023.

Audit results

4.15.37 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.15.11: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	1	2 ^a	(1)	2
Total	1	2	(1)	2

Note a: The two new moderate audit findings, relating to change management – PACE and privileged user monitoring – PACE, were identified as part of the 2022–23 interim audit. These findings were previously reported in Auditor-General Report No.26 2022–23 *Interim Report on Key Financial Controls of Major Entities*.

Source: ANAO 2022–23 audit results.

4.15.38 For each of the findings listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that the NDIA's 2022–23 financial statements were not materially misstated.

Resolved moderate audit finding

Change management – PACE

4.15.39 The NDIA rolled out a pilot of their new Customer Relationship Management (CRM) system during 2022–23. The CRM system, known as PACE, will replace the existing CRM system.

4.15.40 As part of the interim phase of the 2022–23 audit, the ANAO recommended that the NDIA should introduce controls in the PACE system to either remove the ability for staff to both create code changes and implement these into the production environment, or monitor the activity performed by these users to ensure that code deployments are authorised and appropriate. The ANAO also recommended that the NDIA perform a 'look-back' of code changes made to ensure previously implemented code changes were authorised and approved.

4.15.41 In June 2023 the NDIA introduced a system-based control that prevents a single employee from developing and deploying their own code and completed a retrospective review of changes made. As a result, this finding was closed during the final phase of the 2022–23 audit.

Unresolved moderate audit findings

Removal of user access

4.15.42 As part of the interim phase of the 2020–21 audit, the ANAO's testing of user access found weaknesses in user access terminations processes. User accounts should be removed upon termination date as they no longer have a legitimate requirement to access the NDIA's network.

4.15.43 The NDIA moved to a new ICT operating environment and created a new process to address this finding during the 2022–23 audit, however there were weaknesses with the reporting used to detect potentially inappropriate activity. The ANAO will review the status of this audit finding as part of the 2023–24 audit.

Privileged User Activity Monitoring - PACE

4.15.44 As part of the interim phase of the 2022–23 audit, the ANAO found that the NDIA did not have a formal process to review privileged user activity in the PACE system. The ANAO recommended that the NDIA should assess whether the current real-time alert system meets the underlying business risks relating to privileged user access and implement a formal process to document the outcomes of alerts raised.

4.15.45 NDIA has commenced remediation of the finding. The ANAO will review the status of the audit finding as part of the 2023–24 audit.

Services Australia

4.15.46 Services Australia is the Australian Government's primary payment and service delivery provider. Services Australia delivers a range of payments and services to support individuals, families and communities, as well as providers and businesses. These include income support payments and services, aged care payments, Medicare payments and services, child support services and a range of ICT functionalities for Australian Government departments and agencies.

4.15.47 Social and health-related payments and services delivered by Services Australia on behalf of other entities in 2022–23 was \$217.7 billion. These expenses are recognised within each of the individual policy agencies' financial statements.

Summary of financial performance

4.15.48 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by Services Australia (as outlined in Table 4.15.12 and Table 4.15.13) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.15.12: Key departmental financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(5,289.1)	(5,616.2)
Revenue from government	4,645.5	5,381.5
Surplus/(deficit) attributable to the Australian Government	(643.6)	(234.7)
Total other comprehensive income/(loss)	38.1	28.4
Total comprehensive income/(loss) attributable to the Australian Government	(605.5)	(206.3)
Total assets	4,928.4	5,180.4
Total liabilities	3,222.2	3,201.3
Total equity	1,706.2	1,979.1

Source: Services Australia's audited financial statements for the year ended 30 June 2023.

4.15.49 The decrease in net cost of services of \$327.1 million is due mainly to the following offsetting factors:

- a reduction in expenses incurred in relation to the administration of emergency response activities associated with extreme weather events and the COVID-19 pandemic compared with the prior period; and
- an increase of \$216.9 million in expenses for write down and impairment assets, primarily associated with software assets for the Welfare Payment Infrastructure Entitlement Transformation Programme Calculation Engine Programme, due to decisions by Services Australia to discontinue the project.

4.15.50 Revenue from government decreased due to less funding provided for the emergency response activities (refer to paragraph 4.15.49).

4.15.51 The decrease in total assets of \$252.0 million is attributable to:

- the write-down and impairment of software assets (refer to paragraph 4.15.49); and
- the reduction in appropriation receivable, largely reflecting income compliance settlement payments and capital acquisitions funded from prior year appropriations.

Table 4.15.13: Key administered financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	1,924.5	1,816.1
Total income	1,988.7	1,860.1
Surplus	64.1	44.0
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss)	64.1	44.0
Total assets administered on behalf of Government	1,220.9	1,286.4
Total liabilities administered on behalf of Government	1,196.0	1,262.1
Net assets	24.9	24.3

Source: Services Australia's audited financial statements for the year ended 30 June 2023.

4.15.52 The key activity within Services Australia's administered functions relates to the child support program. Child support maintenance receivables and provisions have decreased by \$36.8 million. These decreases were primarily due to an impairment rate increase in 2022–23 reflecting the interest rate impacts on the debt repayments as part of the current year valuation. The resulting decrease in child support receivables and liabilities has increased associated child support expenses and revenue for 2022–23.

Key areas of financial risk

4.15.53 In light of the key areas of risk and the ANAO's understanding of the operations of Services Australia, the ANAO assessed the overall risk of material misstatement in the 2022–23 financial statements audit as high. This assessment was a result of heightened public scrutiny and interest that both Services Australia and the Department of Social Services are currently under as a result of the Robo-Debt Royal Commission, particularly concerns around governance and oversight within the portfolio.

4.15.54 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of Services Australia's financial statements. Services Australia has a highly complex IT environment made up of numerous systems hosted across different IT platforms. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.15.14 including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.15.14: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> child support receivables \$988.9 million	Valuation of child support receivables that are yet to be paid by non-custodial parents at	Moderate	<ul style="list-style-type: none"> significant judgements and assumptions around the collection rates of child support obligations are applied in determining the valuation of child support receivables and require the involvement of an actuary.

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
	the end of the financial year. KAM		<p>These judgements rely on the quality of the underlying data used in the estimation process; and</p> <ul style="list-style-type: none"> a large volume of child support financial transactions are processed using bespoke IT application under the complex Child Support (Registration and Collection) Act 1988. This complexity increases the judgements and estimates associated with the child support receivable valuation.
<i>Departmental</i> intangible assets \$894.3 million	Valuation of intangible assets KAM	Moderate	<ul style="list-style-type: none"> significant judgements involved in considering the indicators of impairment to estimate the value of intangible assets; and judgements involved in estimating the capitalisation of the staff and other costs attributed to developing the software applications.
<i>Departmental</i> right-of-use assets (a component of land and buildings, and plant and equipment \$1.9 billion) lease liabilities \$2.0 billion	Valuation of right-of-use assets KAM	Moderate	<ul style="list-style-type: none"> judgements associated with right-of-use valuations, particularly the treatment of lease options as well as the assurance processes for identifying and recognising changes in individual lease contracts, particularly modifications, new or terminated leases.

Source: ANAO 2022–23 audit results, and Services Australia’s audited financial statements for the year ended 30 June 2023.

4.15.55 The following performance audit reports were tabled during 2022–23 relevant to the financial management or administration of Services Australia:

- Auditor-General Report No.28 2022–23 *Debt Management and Recovery in Services Australia*; and
- Auditor-General Report No.37 2022–23 *Procurement of Office Furniture*.

4.15.56 While the reports did not include recommendations regarding risks to Services Australia’s financial administration as it relates to the financial statements, the observations of these reports were considered in designing the audit procedures.

Audit results

4.15.57 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.15.15: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Significant (A)	–	2	–	2
Moderate (B)	–	5 ^a	–	5
Total	–	7	–	7

Note a: Two new moderate audit findings, relating to New Residential Aged Care System Access Management and New Residential Aged Care System Change Management were identified as part of the 2022–23 interim audit. These findings were previously reported in Auditor-General Report No.26 2022–23 *Interim Report on Key Financial Controls of Major Entities*.

Source: ANAO 2022–23 audit results.

4.15.58 For each of the findings listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that Services Australia’s 2022–23 financial statements were not materially misstated.

New significant audit findings

Governance of legal and other matters

4.15.59 In the course of the financial statements audit, the ANAO made requests for information relating to known or suspected instances of non-compliance with laws and regulations including legal matters, Commonwealth Ombudsman or other Commonwealth reviews and Administrative Appeals Tribunals rulings. Evidence identified by the ANAO did not accord with management representations and additional audit work was required to be undertaken by the ANAO. A number of the matters identified impacted either Services Australia’s (child support) or other agencies’ financial statements including income apportionment (Department of Social Services), child care subsidy (Department of Education), aged care and Medicare issues (Department of Health and Aged Care).

4.15.60 Both the number of matters identified and the number of adjustments made to Services Australia’s and other agencies’ financial statements highlight a significant governance failure in the assessment and reporting of these matters by Services Australia.

4.15.61 This matter is considered to pose a significant financial, business and reputational risk to Services Australia. The ANAO recommended that Services Australia design, implement and document a process to ensure legal or other matters are identified for consideration for their impact on the financial statements, and that all matters identified for consideration are communicated to the ANAO. Services Australia has agreed to the recommendation.

IT Governance

4.15.62 As part of the financial statements audit the ANAO examined controls around significant information technology (IT) systems used to support the preparation of the financial statements. This examination identified a significant audit risk in relation to the increasing number of issues in IT governance within Services Australia. In particular, the ANAO identified weaknesses in IT controls in the implementation of a large-scale IT roll-out for residential aged care and the re-emergence of a large number of individual control issues affecting change and access management and business operations. The volume of these issues indicates that Services Australia’s IT governance and

monitoring processes are not providing appropriate assurance to management that policy requirements have been implemented and are operating effectively.

4.15.63 This matter is considered to pose a significant financial, business and reputational risk to Services Australia. The ANAO recommended that Services Australia's IT governance and monitoring processes be reviewed to ensure they are fit for purpose and that identified deficiencies are appropriately reported and responded to. Services Australia has agreed to the recommendation.

New moderate audit findings

FMIS and HRMIS Privileged User Management

4.15.64 Maintaining and supporting IT systems requires some user accounts, both at the network and the application level, to have extensive access rights (privileged access). Privileged user accounts can be used to circumvent security controls to make direct changes, either to system settings or systems data, or to access files and accounts used by others. During 2022–23 the ANAO identified weaknesses in the effectiveness of Services Australia's monitoring of privileged user activities within the Financial Management Information System (FMIS) and Human Resource Management Information System (HRMIS).

4.15.65 At the conclusion of the 2022–23 audit, an effective logging and monitoring process that reviews and assesses risk at the activity level had not been implemented by Services Australia. Services Australia has agreed to the recommendation.

Medicare, Child Support and Health IT Mainframe Privileged User Management

4.15.66 Maintaining and supporting IT systems requires some user accounts, both at the network and the application level, to have extensive access rights (privileged access). Privileged user accounts can be used to circumvent security controls to make direct changes, either to system settings or systems data, or to access files and accounts used by others. During 2022–23 the ANAO identified weaknesses in the effectiveness of Services Australia's monitoring of privileged user activities within the Medicare, Child Support and Health IT mainframes.

4.15.67 At the conclusion of the 2022–23 audit, an effective logging and monitoring process that reviews and assesses risk at the activity level had not been implemented by Services Australia. Services Australia has agreed to the recommendation.

Centrelink IT Mainframe Privileged User Management

4.15.68 Maintaining and supporting IT systems requires some user accounts, both at the network and the application level, to have extensive access rights (privileged access). Privileged user accounts can be used to circumvent security controls to make direct changes, either to system settings or systems data, or to access files and accounts used by others. During 2022–23 the ANAO identified weaknesses in the effectiveness of Services Australia's monitoring of privileged user activities within the Centrelink IT mainframes.

4.15.69 At the conclusion of the 2022–23 audit, an effective logging and monitoring process that reviews and assesses risk at the activity level had not been implemented by Services Australia. Services Australia has agreed to the recommendation.

Unresolved moderate audit findings

New Residential Aged Care System Access Management

4.15.70 In August 2022, Services Australia implemented a new residential aged care system, which replaced the previous payments system, in advance of transitioning into the new Aged Care funding reform from 1 October 2022. Maintaining and supporting IT systems requires some user accounts to have extensive access rights (privileged access). Privileged user accounts can be used to circumvent security controls to make direct changes, either to system settings or systems data, or to access files and accounts used by others.

4.15.71 During the 2022–23 interim audit, the ANAO identified that there were weaknesses in the design and operating effectiveness of controls supporting privileged and other user access. More broadly, the ANAO has observed a break-down in Services Australia’s re-established security governance control framework, particularly the lack of formal system accreditation or other supporting system security risk assessments that would identify and allow system and project owners to formally analyse, understand and mitigate and/or accept key security governance risks prior to the implementation of the new system.

4.15.72 The ANAO recommended that Services Australia strengthen privileged user access and logging and monitoring processes. Services Australia’s look-back remediation procedures did not adequately address the risk associated with these control weaknesses, requiring additional alternate procedures to be performed by the audit team for the 2022–23 financial year.

New Residential Aged Care System Change Management

4.15.73 In August 2022, Services Australia implemented a new residential aged care system. IT change management provides a disciplined approach to making changes to the IT environment. It includes controls to prevent unauthorised changes being made and reduce the likelihood that normal business operations are interrupted with the implementation of authorised changes.

4.15.74 During the 2022–23 interim audit, the ANAO identified that there were weaknesses in segregation of duties controls associated with key change management processes, with Services Australia developers having access to release and deploy changes directly into the system.

4.15.75 The ANAO recommended that Services Australia strengthen change management processes to address the identified control weakness. Services Australia retrospective remediation procedures did not adequately address the risk associated with the control issues, requiring additional alternate procedures to be performed by the audit team for the 2022–23 financial year.

Comments on non-material entities

NDIS Quality and Safeguards Commission

4.15.76 The NDIS Quality and Safeguards Commission (NDIS Commission) is an independent agency established to improve the quality and safety of NDIS supports and services nationally. It is a statutory body established under the *National Disability Insurance Scheme Amendment (Quality and Safeguards and Other Measures) Act 2017*.

4.15.77 The NDIS Commission activities are defined under the NDIS Act and guided by the NDIS Quality and Safeguarding Framework, which establishes the work with people with disability, workers and providers in terms of three types of responsibility:

- Development – building capability and support systems.
- Preventative – preventing harm and promoting quality.
- Corrective – responding if things go wrong.

4.15.78 The NDIS Commission works with NDIS participants, service providers, workers and the community through a nationally consistent approach to quality and safeguarding so participants can access services and supports that promote choice, control and dignity.

Audit results

4.15.79 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.15.16: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	1	–	(1)	–
Total	1	–	(1)	–

Source: ANAO 2022–23 audit results.

4.15.80 For the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that NDIS QSC’s 2022–23 financial statements were not materially misstated.

Resolved moderate audit finding

IT Shared Services Governance

4.15.81 In February 2020 the NDIS Commission's IT services transferred to Services Australia through a Machinery of Government change. There was no signed memorandum of understanding (MoU) in place providing a framework for NDIS Commission to prioritise deliverables with Services Australia and to clarify the tolerances for ICT related risk.

4.15.82 The NDIS Commission signed a Statement of Intent with Services Australia on 14 May 2021 that outlined the service to be delivered and established an interim governance structure (ICT Joint Services Management Committee) that would allow monitoring of services delivered while negotiations were underway for the finalised MoU in 2021–22. The NDIS Commission finalised an ICT Shared Services Schedule (MoU) with Services Australia on 29 September 2022.

4.15.83 The ICT Shared Services Schedule sets out the requirements for the provision of services, provides a governance framework for those arrangements and outlines principles for ICT risk management between the agencies. It also includes a reporting and performance measures schedule to ensure performance against the Schedule can be monitored. Based on the assessment performed by the ANAO, this finding was resolved at the conclusion of the final audit.

4.16 Treasury portfolio

Portfolio overview

4.16.1 The Treasury Portfolio is responsible for a range of activities aimed at achieving strong sustainable economic growth for the good of Australians.

4.16.2 Table 4.16.1 identifies material and other entities specifically mentioned in this section.

Table 4.16.1: Treasury portfolio material and other entities discussed in this section

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of the Treasury	Yes	Moderate	✓	15 Sep 23	15 Sep 23	□
Australian Bureau of Statistics	Yes	Low	✓	1 Sep 23	1 Sep 23	Nil
Australian Office of Financial Management	Yes	Moderate	✓	24 Aug 23	25 Aug 23	Nil
Australian Prudential Regulation Authority	Yes	Low	✓	15 Aug 23	15 Aug 23	Nil
Australian Reinsurance Pool Corporation	Yes	Moderate	✓	20 Sep 23	20 Sep 23	Nil
Australian Securities and Investments Commission	Yes	Moderate	E	17 Aug 23	17 Aug 23	◆
Australian Taxation Office	Yes	High	✓	13 Sep 23	14 Sep 23	◆▲
National Housing Finance and Investment Corporation	Yes	Moderate	✓	24 Aug 23	24 Aug 23	Nil
Reserve Bank of Australia	Yes	Moderate	✓	6 Sep 23	6 Sep 23	Nil
Royal Australian Mint	No	Low	✓	22 Sep 23	22 Sep 23	◆

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

◆: new significant or moderate findings and/or legislative matters noted

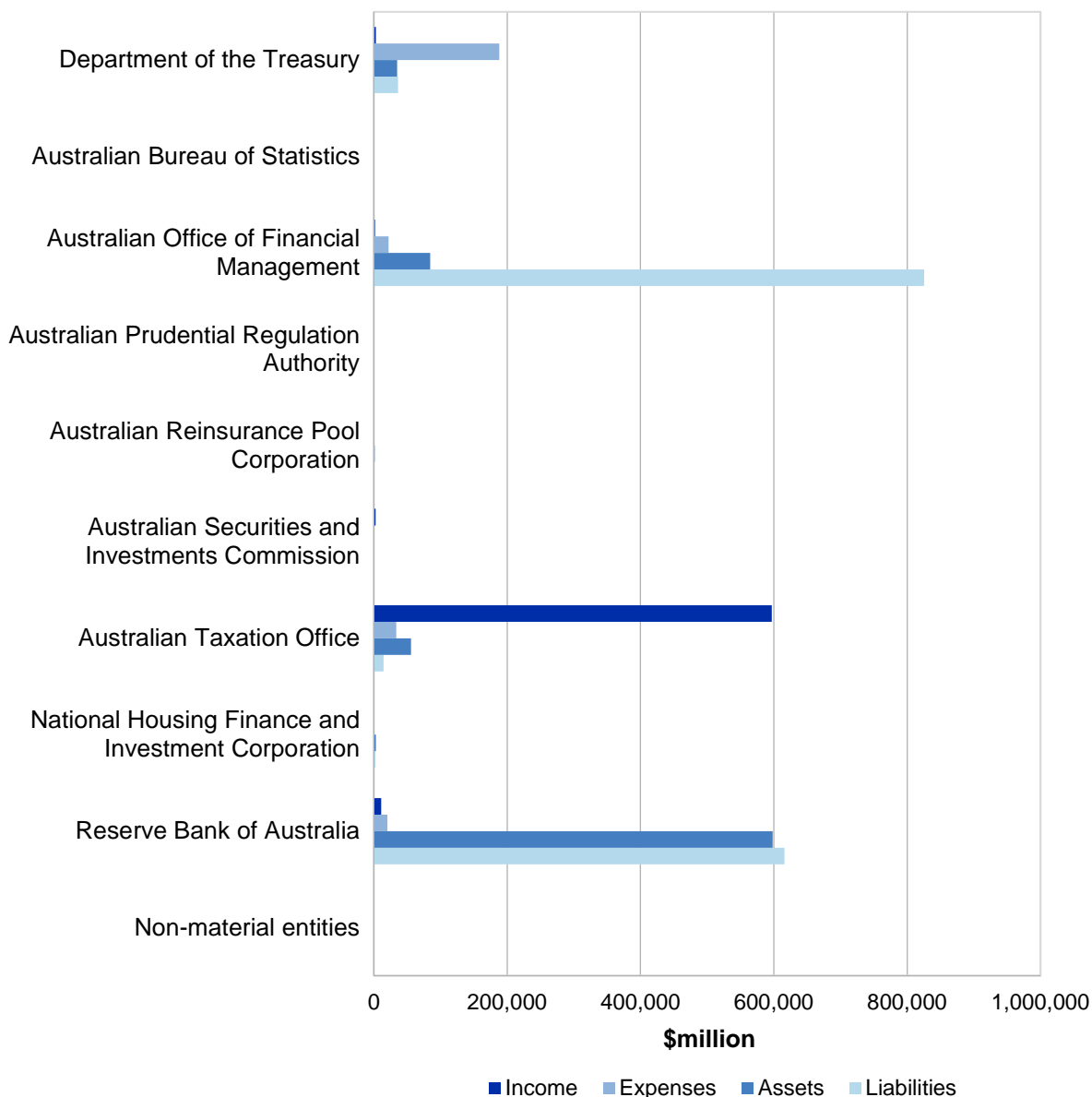
▲: significant or moderate findings and/or legislative matters reported previously but not yet resolved

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2022–23 interim audit phase, now downgraded or resolved

4.16.3 Figure 4.16.1 shows the Treasury portfolio's income, expenses, assets and liabilities contribution to the Australian Government Consolidated Financial Statements (CFS) for the year ended 30 June 2023.¹⁴⁵

¹⁴⁵ This represents the portfolio's contribution to the Australian Government's CFS for the period ending 30 June 2023. It does not include transactions between agencies, such as appropriation revenue, which are not included in the CFS.

Figure 4.16.1: Treasury portfolio's income, expenses, assets and liabilities



Source: ANAO analysis of 2022–23 CFS.

4.16.4 As previously outlined in Chapter 2, paragraphs 2.153 to 2.160, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2022–23 financial statements audits. Table 4.16.2 provides a summary of those audit differences that relate to entities within the Treasury portfolio.

Table 4.16.2: The number of audit differences for entities in the Treasury portfolio

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Department of the Treasury	3	1	4	–	2	2

	2022–23			2021–22		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Australian Bureau of Statistics	1	–	1	–	1	1
Australian Prudential Regulation Authority	–	1	1	–	2	2
Australian Taxation Office	6 ^a	2	8	2	–	2
Commonwealth Grants Commission	–	–	–	–	1	1
Inspector-General of Taxation	–	–	–	1	–	1
Office of the Auditing and Assurance Standards Board	–	–	–	–	2	2
Office of the Australian Accounting Standards Board	–	–	–	–	3	3
Productivity Commission	–	–	–	–	2	2
Royal Australian Mint	2	8	10	1	2	3

Note a: The adjustments include adjustments identified in the period that relate to the prior year.

Source: ANAO analysis of audit differences reported to entities in the Treasury portfolio.

4.16.5 The following section provides a summary of the 2022–23 financial statements audit results for the Department of the Treasury and other material entities and findings for non-material entities in the portfolio.

Department of the Treasury

4.16.6 The Department of the Treasury (the Treasury) provides policy advice, analysis and the delivery of economic policies and programs, including legislation, administrative payments and regulatory functions, which support the effective management of the Australian economy.

Summary of financial performance

4.16.7 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by Treasury (as outlined in Table 4.16.3 and Table 4.16.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.16.3: Key departmental financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(356.7)	(339.2)
Revenue from government	343.8	325.7
Surplus/(deficit) attributable to the Australian Government	(12.9)	(13.5)
Total other comprehensive income/(loss)	0.0	(0.3)
Total comprehensive income/(loss) attributable to the Australian Government	(12.9)	(13.8)
Total assets	289.7	292.3
Total liabilities	245.0	238.4
Total equity	44.7	53.9

Source: Treasury's audited financial statements for the year ended 30 June 2023.

4.16.8 All movements in balances between periods are as the result of the normal fluctuations in the Treasury's operations.

Table 4.16.4: Key administered financial statements items

Key financial statement items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	187,565.0	180,643.3
Total income	2,622.2	2,447.0
Deficit	(184,942.8)	(178,196.3)
Other comprehensive income/(loss)	285.0	(22,308.8)
Total comprehensive income/(loss)	(184,657.8)	(200,505.1)
Total assets administered on behalf of Government	34,682.3	32,447.8
Total liabilities administered on behalf of Government	36,047.7	34,491.4
Net liabilities	(1,365.4)	(2,043.6)

Source: Treasury's audited financial statements for the year ended 30 June 2023.

4.16.9 Total expenses have increased by \$6.9 billion due to increases in:

- Medicare Guarantee Fund of \$1.6 billion; and
- payments to the State and Territories of \$4.5 billion. This includes Goods and Services Tax (GST), Payments to the States and Territories consistent with GST collected.

4.16.10 The change in the other comprehensive loss to a small surplus in 2022–23 is due to the impact of a \$22.5 billion revaluation decrement incurred on the valuation the of administered investment in the Reserve Bank of Australia during 2021–22.

4.16.11 Total liabilities have increased by \$1.6 billion due to :

- an increase in International Monetary Fund and other payables largely due to exchange rate movements; and

- an increase in the Disaster Recovery Funding Arrangements provision as a result of natural disasters which occurred from September 2022 to June 2023.

Key areas of financial risk

4.16.12 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of Treasury's financial statements. The ANAO focused audit effort on those specific areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.16.5 including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.16.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> provisions \$6.5 billion	Completeness and valuation of the Disaster Recovery Funding Arrangements (DRFA) Provision KAM	Higher	<ul style="list-style-type: none"> • reliance on information provided by state and territory governments to estimate the provision; and • complexities in judgements relating to the timing of future payments and the estimation of future costs to restore infrastructure to its condition at the time of the natural disaster.
<i>Administered</i> grants expense \$118.9 billion	Accuracy and occurrence of payments to states and territories under the Federal Financial Relations Act 2009 KAM	Moderate	<ul style="list-style-type: none"> • the significance of the value of grants paid and the complex eligibility criteria for a number of grants; and • reliance on other government entities to provide information to support payments and confirm the eligibility criteria have been met.

Source: ANAO 2022–23 audit results, and Treasury's audited financial statements for the year ended 30 June 2023.

4.16.13 Auditor-General Report No. 29 2022–23 *Implementation of the Government response to the Black Economy Taskforce Report* was tabled during 2022–23 and was relevant to the financial management and administration of Treasury.

4.16.14 While the report did not include recommendations regarding risks to Treasury's financial administration as it relates to the financial statements, the observations were considered in designing the audit procedures

Audit results

4.16.15 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.16.6: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	1	–	(1)	–
Total	1	–	(1)	–

Source: ANAO 2022–23 audit results.

4.16.16 For the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that Treasury’s 2022–23 financial statements were not materially misstated.

Resolved moderate audit finding

Governance over the Federal Payments Management System

4.16.17 The Federal Payments Management System (FPMS) is a key system that streamlines the certification and collation of information for payments to states and territories. During the 2021–22 audit, the ANAO identified deficiencies in the FPMS IT general control environment. These included issues with Treasury’s user access management policies and procedures, management of privileged user access and monitoring processes and controls. The ANAO recommended that Treasury revise its risk assessment of the FPMS system and ensure appropriate processes are in place to mitigate the identified risks.

4.16.18 During the 2022–23, Treasury undertook and endorsed a FPMS risk assessment. In addition, Treasury provided a standard operating procedure for FPMS data base administrator activity logging and monitoring which addressed key risks including accurate and complete logs, risk rated alerts, monitoring, escalation and exceptions handling.

Australian Bureau of Statistics

4.16.19 The Australian Bureau of Statistics (ABS) provides independent and trusted official statistics on a range of economic, social, population and environmental matters of importance to governments, industry, and the wider Australian community. The ABS plays a central role in developing statistical standards, including through liaison with international organisations.

Summary of financial performance

4.16.20 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by ABS (as outlined in Table 4.16.7) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.16.7: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(406.7)	(600.6)
Revenue from government	368.6	579.5
Surplus/(deficit) attributable to the Australian Government	(38.1)	(21.1)
Total other comprehensive income/(loss)	0.5	1.8
Total comprehensive income/(loss) attributable to the Australian Government	(37.6)	(19.3)
Total assets	296.0	365.8
Total liabilities	273.7	308.6
Total equity	22.3	57.2

Source: ABS' audited financial statements for the year ended 30 June 2023.

4.16.21 The decrease in net cost of services is mainly due the Census being delivered during 2021–22. The ABS' costs increase significantly when conducting a Census.

4.16.22 The decrease in total equity is related to the deficit.

4.16.23 The decrease in total assets reflects the:

- reduction in surplus cash and appropriations receivable to fund the deficit incurred during 2022–23; and
- lower unearned income in the current year with completion of many of the performance obligations for larger programs.

Key areas of financial risk

4.16.24 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of ABS' financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.16.8.

Table 4.16.8: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Revenue from contracts with customers \$78.3 million	Recognition of revenue from rendering of services	Higher	<ul style="list-style-type: none"> • a risk that revenue is recorded at a point in time when it should have been recorded over time; • a risk that revenue is not recognised accurately across the period of the contract/service; and • a risk in relation to the maintenance of appropriate documentation to support the

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
			recognition of revenue on the basis concluded.
Intangible assets \$60.1 million	Valuation and impairment of non-financial assets	Moderate	<ul style="list-style-type: none"> indicators of impairment may not be adequately identified as a result of business reorganisation or restructuring; and increasing transition to cloud-based platforms which have different accounting treatments.

Source: ANAO 2022–23 audit results, and ABS' audited financial statements for the year ended 30 June 2023.

Audit results

4.16.25 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Australian Office of Financial Management

4.16.26 The Australian Office of Financial Management (AOFM) is responsible for managing Australian Government debt and financial assets. AOFM issues Treasury Bonds, Treasury Indexed Bonds and Treasury Notes, manages the government's cash balances and invests in high quality financial assets under the Australian Business Securitisation Fund and the Structured Finance Support Fund.

Summary of financial performance

4.16.27 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by AOFM (as outlined in Table 4.16.9 and Table 4.16.10) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.16.9: Key departmental financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(13.8)	(13.2)
Revenue from government	16.4	16.5
Surplus/(deficit) attributable to the Australian Government	2.6	3.3
Total other comprehensive income/(loss)	0.4	–
Total comprehensive income/(loss) attributable to the Australian Government	3.0	3.3
Total assets	40.4	39.1
Total liabilities	8.7	8.4
Total equity	31.7	30.7

Source: AOFM's audited financial statements for the year ended 30 June 2023.

4.16.28 The increase in other comprehensive income and assets is attributed to the revaluation of non-financial assets that occurred during the year.

Table 4.16.10: Key administered financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	(22,241.0)	(18,551.0)
Total income	1,839.0	232.0
Re-measurement gain/(loss)	13,435.0	115,931.0
Surplus/(deficit)	(6,967.0)	97,612.0
Total comprehensive income/(loss)	(6,967.0)	97,612.0
Total assets administered on behalf of Government	84,412.0	90,765.0
Total liabilities administered on behalf of Government	825,548.0	848,457.0
Net liabilities	(741,136.0)	(757,692.0)

Source: AOFM's audited financial statements for the year ended 30 June 2023.

4.16.29 The deficit is primarily a result of:

- significantly lower re-measurement gains on Australian Government Securities when compared with the re-measurements in 2021–22. The lower re-measurement gain was a result of a smaller increase in interest rates compared with 2021–22. The higher interest rates in this period have reduced the value of the securities held; and
- an increase of \$3.7 billion in interest expenses due to interest rate rises (and thus the effective interest paid) on securities issued as well as the impact of inflation which contributed to higher accretion costs on treasury bonds.

4.16.30 Total liabilities decreased due to a \$26.1 billion decrease in the fair value of bonds due mainly to increasing interest rates.

Key areas of financial risk

4.16.31 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of AOFM's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.16.11 including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.16.11: Key area of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Australian Government securities	Valuation and disclosure of Australian	Moderate	<ul style="list-style-type: none"> • the fair value movement has a material impact on the financial statements due to the significant value of the liability and significant volume of instruments issued;

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
\$825.5 billion	Government Securities KAM		<ul style="list-style-type: none"> • fair value is subject to price changes in local and global money and capital markets; and • complex financial statements disclosure requirements for financial liabilities measured at fair value through profit and loss.

Source: ANAO 2022–23 audit results, and AOFM's audited financial statements for the year ended 30 June 2023.

Audit results

4.16.32 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Australian Prudential Regulation Authority

4.16.33 The Australian Prudential Regulation Authority (APRA) is responsible for the prudential regulation of the Australian financial services industry through the oversight of authorised deposit-taking institutions (such as banks, building societies and credit unions), general insurers, life insurers, friendly societies, private health insurers, reinsurance companies, and superannuation funds (other than self-managed funds). APRA is funded largely by the industries that it regulates.

Summary of financial performance

4.16.34 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by APRA (as outlined in Table 4.16.12 and Table 4.16.13) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.16.12: Key departmental financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net cost of services	223.8	209.1
Revenue from government	213.7	226.5
(Deficit)/surplus attributable to the Australian Government	(10.1)	17.4
Total other comprehensive loss	–	(0.2)
Total comprehensive (loss)/income attributable to the Australian Government	(10.1)	17.2
Total assets	156.8	181.3
Total liabilities	95.5	109.9
Total equity	61.3	71.4

Source: APRA's audited financial statements for the year ended 30 June 2023.

4.16.35 The \$14.7 million increase in the net cost of services was primarily driven by increased employee costs (indexation and headcount) and supplier expenses such as consulting, contractor and other expenditure.

4.16.36 The \$12.8 million decrease in revenue from government was the result of entity mergers, licence revocations and below-projection growth in superannuation industry assets. The 2021–22 over-collection was returned in the 2022–23 year. These factors contributed to a reduction in supervisory levies by APRA (refer to paragraph 4.16.39) and a corresponding reduction in APRA's departmental appropriations.

4.16.37 Total assets decreased by \$24.5 million due to:

- reduced levies collected, which resulted in reduced cash balances; and
- the continued depreciation of existing non-financial assets.

4.16.38 The reduction in total liabilities of \$14.4 million was mainly due to APRA's cessation of performance bonuses following Australian Government policy guidance (the last bonus was accrued at 30 June 2022).

Table 4.16.13: Key administered financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	418.9	400.0
Total income	675.1	665.1
Surplus	256.2	265.1
Total other comprehensive income	–	–
Total comprehensive income	256.2	265.1
Total assets administered on behalf of Government	4.9	3.2
Total liabilities administered on behalf of Government	2.0	2.0
Net assets	2.9	1.2

Source: APRA's audited financial statements for the year ended 30 June 2023.

4.16.39 The \$8.9 million decrease in the surplus mainly due to a decrease in supervisory levies by APRA relating to entity mergers, licence revocations and below-projection growth in superannuation industry assets.

Key areas of financial risk

4.16.40 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of APRA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.16.14.

Table 4.16.14: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Departmental</i> intangibles \$46.4 million	Recognition and valuation of internally developed software	Moderate	<ul style="list-style-type: none"> complexities in assessing the nature and extent of costs that can be capitalised under Australian accounting standards and subject to management judgement
<i>Administered</i> levy revenue \$673.4 million	Accuracy of administered levy revenue	Moderate	<ul style="list-style-type: none"> complex calculations that are prescribed in a number of acts and rules.

Source: ANAO 2022–23 audit results, and APRA's audited financial statements for the year ended 30 June 2023.

4.16.41 Auditor-General Report No.30 2022–23 *Probity Management in Financial Regulators – Australian Prudential Regulation Authority* was tabled during 2022–23. The observations and recommendations of this report were considered during the audit to determine whether audit procedures planned to address areas considered to pose a lower risk of material misstatement remained appropriate, including key management personnel remuneration. No significant changes were made to the designed audit procedures conducted during the audit.

Audit results

4.16.42 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Australian Reinsurance Pool Corporation

4.16.43 The Australian Reinsurance Pool Corporation (ARPC), established by the *Terrorism and Cyclone Insurance Act 2003*, is responsible for administering:

- the Terrorism Reinsurance Pool, providing primary insurers with reinsurance for commercial property and associated business interruption losses arising from a declared terrorist incident; and
- the Cyclone Reinsurance Pool, providing insurers with reinsurance for household, strata and small business property insurance for losses arising from cyclone and cyclone related flooding for declared cyclone events. This pool commenced operations on 1 July 2022 and is backed by a Commonwealth guarantee.

Summary of financial performance

4.16.44 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by ARPC (as outlined in Table 4.16.15) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.16.15: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	(88.5)	(82.4)
Contribution to Commonwealth	(90.0)	(90.0)
Own-source income	424.1	284.6
Surplus/(deficit) attributable to the Australian Government	245.6	112.2
Total assets	1,260.9	885.7
Total liabilities	307.7	178.0
Total equity	953.2	707.7

Source: ARPC's audited financial statements for the year ended 30 June 2023.

4.16.45 Own-source income increased as a result of the increase in Terrorism premiums of \$50.0 million and \$63.0 million in new premiums for the Cyclone Reinsurance Pool following establishment on 1 July 2022. The additional income has led to an increase in the surplus and an increase in assets held. Retaining surpluses in ARPC reduces the likelihood of calling on a Commonwealth guarantee in the event of a Terrorism Incident or Cyclone Event.

4.16.46 The increase in liabilities is largely due to the growth in unearned premiums (\$130.0 million).

Key areas of financial risk

4.16.47 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of ARPC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.16.16.

Table 4.16.16: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Premium revenue \$394.3 million unearned premium liability \$270.5 million	Accuracy of insurance premium	Moderate	<ul style="list-style-type: none"> judgements and complexities in the calculation of premium revenue; insurers may calculate and remit incorrect premium reviews; and incorrect calculation of unearned premium.
Outward retrocession premium expense \$65.6 million	Accuracy of retrocession cost and deferral	Moderate	<ul style="list-style-type: none"> inaccurate calculations and payments of retrocession premium; and deterioration in credit worthiness of reinsurance counterparties may affect the recoverability of reinsurance receivables.

Source: ANAO 2022–23 audit results, and ARPC's audited financial statements for the year ended 30 June 2023.

Audit results

4.16.48 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Australian Securities and Investments Commission

4.16.49 The Australian Securities and Investments Commission (ASIC) is Australia’s integrated corporate, financial services, markets and consumer credit regulator, supporting a fair, strong and efficient financial system for all Australians. ASIC’s core responsibility is to maintain and facilitate the performance of Australia’s financial system and promote confident and informed participation by investors and consumers.

Summary of financial performance

4.16.50 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by ASIC (as outlined in Table 4.16.17 and Table 4.16.18) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.16.17: Key departmental financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 Restated (\$m)
Net cost of services	(509.9)	(424.1)
Revenue from government	426.3	422.0
Deficit attributable to the Australian Government	(83.6)	(2.1)
Total other comprehensive income/(loss)	(0.4)	3.6
Total comprehensive income/(loss) attributable to the Australian Government	(84.0)	1.5
Total assets	443.4	513.4
Total liabilities	320.5	333.0
Total equity	122.9	180.4

Source: ASIC’s audited financial statements for the year ended 30 June 2023.

4.16.51 The increase in net cost of services is due to:

- an increase in employee costs of \$31.0 million. Employee costs have risen mainly due to a 3 per cent salary increase and redundancy costs;
- an increase in depreciation and amortisation of \$12.6 million mainly due to ASIC’s review of software useful lives leading to a reduction in useful lives and larger amortisation expense; and
- a decrease in own-source revenue of \$35.5 million related to a \$22.3 million reduction in funding from other Australian Government entities, as a result of projects ending and \$16.6 million in lower cost recoveries on investigation and litigation matters.

4.16.52 Total assets decreased by \$70.0 million mainly due to the recognition of prior period and current year expenses previously classified as computer software assets, as well as a review of useful lives on software. Building assets have also decreased with ongoing depreciation of lease of use assets.

Table 4.16.18: Key administered financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	282.4	145.7
Total income	2,176.4	1,964.8
Total comprehensive income	1,894.0	1,819.1
Total assets administered on behalf of Government	611.1	477.4
Total liabilities administered on behalf of Government	572.2	507.3
Net assets/(liabilities)	38.9	(29.9)

Source: ASIC's audited financial statements for the year ended 30 June 2023.

4.16.53 The increase in expenses of \$136.7 million is mainly due to increasing claims on unclaimed monies and an increase in the liability due to monies received.

4.16.54 The increase in income of \$211.6 million is due to:

- larger unclaimed monies lodgements;
- indexation of fees and fines;
- the removal of fee relief for financial advisors; and
- an increase in court awarded fines.

4.16.55 The increase in total assets of \$133.7 million is due mainly to increases in fees recoverable and court awarded costs not yet recovered.

Key areas of financial risk

4.16.56 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of ASIC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.16.19.

Table 4.16.19: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> Unclaimed monies provisions \$519.0 million	Valuation of the provisions for future payments of unclaimed monies	Higher	<ul style="list-style-type: none"> • the actuarial model used to calculate the provision relies on a legislative framework that can be subject to change; and • the calculation is sensitive to movements in general market conditions such as the growth rate, claims history and discount

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
			rate which are subject to management judgement.
<i>Administered</i> Taxation revenue \$1.1 billion Non-taxation revenue \$1.1 billion	Completeness and accuracy of administered revenue	Moderate	<ul style="list-style-type: none"> corporate fees and fines revenue is reliant on the completeness of data in subsidiary IT systems which is transferred to the Financial Management Information System (FMIS); taxation revenue arising from the supervisory cost recovery levies is estimated in advance of invoicing, and subject to management judgement; and complexities in the point at which unclaimed monies revenue is recognised in accordance with AASB 15 <i>Revenue from Contracts with Customers</i> and AASB 1058 <i>Income of Not-for-Profit Entities</i>.
<i>Departmental</i> Computer software \$29.9 million	Appropriate capitalisation of software	Higher	<ul style="list-style-type: none"> this risk was elevated during the 2022–23 audit due to a prior period error identified by ASIC during the audit process (refer to emphasis of matter and new moderate audit finding at paragraph 4.16.58); ASIC’s increasing move to cloud-based systems and lower capitalisation rate of assets; and Result of the independent review of Modernisation of Business Register program (released subsequent to financial statements).

Source: ANAO 2022–23 audit results, and ASIC’s audited financial statements for the year ended 30 June 2023.

Audit results

4.16.57 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.16.20: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	–	1	–	1
Total	–	1	–	1

Source: ANAO 2022–23 audit results.

4.16.58 For the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that ASIC’s 2022–23 financial statements were not materially misstated.

New moderate audit finding

Work in progress capitalisation and asset management framework

4.16.59 As identified in paragraph 4.16.52, ASIC undertook a review of computer software and ASIC's asset management framework.

4.16.60 The review identified a number of control weaknesses and improvements required to the asset management framework, including limited consideration of the required accounting treatment during the planning and build phases of projects, resulting in the incorrect accounting treatment often being applied. These items have largely been adjusted as prior period errors.

4.16.61 ASIC has commenced rectifying these weaknesses and completed a number of the higher priority items. The ANAO will review ASIC's progress against addressing this finding during the 2023–24 audit.

Emphasis of matter

4.16.62 An emphasis of matter paragraph has been included in the 2022–23 auditor's report to draw users' attention to the prior period error in relation to the capitalisation of software assets given its impact on the prior year operating result.

4.16.63 During 2022–23 ASIC undertook reviews of work in progress for software and plant and equipment assets and ASIC's asset management framework.

4.16.64 The review identified that ASIC had incorrectly capitalised software development expenses. This constituted a material financial misstatement in the prior period and potential misstatement in the 2022–23 financial statements which was rectified by management through adjustments to the work in progress balances.

4.16.65 The ANAO risk assessment for computer software was increased to higher as a result of the prior period error.

Australian Taxation Office

4.16.66 The Australian Taxation Office (ATO) is Australia's principal revenue collection entity and is part of the Treasury portfolio. The ATO's role is to administer Australia's tax system, significant aspects of Australia's superannuation system and business registry services, together with the provision of support to the Tax Practitioners Board and the Australian Charities and Not-for-profits Commission.

Summary of financial performance

4.16.67 The following section provides a comparison of the 2021–22 and 2022–23 key departmental and administered financial statements items reported by ATO (as outlined in Table 4.16.21 and Table 4.16.22) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.16.21: Key departmental financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(4,053.9)	(3,944.7)
Revenue from government	3,970.6	3,770.7
Surplus/(deficit) attributable to the Australian Government	(83.3)	(174.0)
Total other comprehensive income/(loss)	7.7	17.6
Total comprehensive income/(loss) attributable to the Australian Government	(75.6)	(156.4)
Total assets	2,586.9	2,440.5
Total liabilities	2,257.3	2,133.4
Total equity	329.6	307.1

Source: ATO's audited financial statements for the year ended 30 June 2023.

4.16.68 The increase in net cost of services was mainly due to the following offsetting factors:

- an increase in employee benefits expenses of \$153.4 million due to a 2 per cent salary increase in accordance with the ATO Determination 2019 and an increase in the long service leave expense resulting from an increase in the discount rate compared to 2021–22; and
- an increase in own-source revenue from rendering of services and other revenue and gains. The increase in own-source revenue is due to increased merchant fees of \$27.1 million, attributable to changes in taxpayer behaviour and payment arrangements. The increase in other revenue and gains is due to the recognition of services received free of charge from the Department of Home Affairs of \$9.7 million relating to documentation verification and face matching services.

4.16.69 Revenue from government increased by \$199.9 million mainly due to funding received in 2022–23 for the Tax Avoidance Taskforce.

4.16.70 The increase in total assets of \$146.4 million was largely driven by an increase in appropriation receivable of \$103.2 million reflecting the additional funding in 2022–23 and an increase in prepayments of \$52.2 million reflecting normal business activities.

4.16.71 The movement in total liabilities was mainly due to an increase in lease liabilities of \$66.3 million as a result of new leases for office premises in Brisbane and Sydney and an increase in employee provisions of \$33.7 million reflecting the movement in the discount rate.

Table 4.16.22: Key administered financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	29,316.0	20,202.0
Total revenue	592,725.0	529,273.0
Surplus	563,409.0	509,071.0
Total comprehensive income/(loss)	563,409.0	509,071.0
Total assets administered on behalf of Government	53,262.0	50,647.0
Total liabilities administered on behalf of Government	12,497.0	11,522.0
Net assets	40,765.0	39,125.0

Source: ATO's audited financial statements for the year ended 30 June 2023.

4.16.72 The increase in total expenses of \$9.1 billion was largely attributable to:

- an increase in impairment of receivables of \$6.6 billion. This is largely driven by an increase in gross receivables in 2022–23 and an additional provision of \$1.3 billion for compliance related debts. Other movements included higher impairment ratios and an increase in actual write-offs; and
- an increase in subsidies of \$2.2 billion. This largely reflects an increase in research and development tax incentive claims and an increase in fuel tax credits compared to 2021–22 due to the cessation of the temporary fuel tax credit rate reduction in September 2022.

4.16.73 The increase in total revenue of \$63.5 billion was mainly due to:

- a \$39.2 billion increase in individuals and other withholding tax resulting from stronger labour market conditions, capital gains, and lower rental deductions claimed in prior year tax returns due to historically low interest rates; and
- a \$25.2 billion increase in companies income tax representing stronger collections across various industries.

4.16.74 Total assets increased by \$2.6 billion mainly due to:

- an increase in net receivables of \$0.7 billion. This was due to the net impact of an increase in gross receivables of \$9.2 billion due to an increase in income tax and goods and services (GST) revenue and a \$1.1 billion decrease in the allowance for credit amendments for disputed cases, offset by a \$9.7 billion increase in impairment allowance, due to the ageing of the debt book and increase in gross receivables; and
- an increase in accrued revenue of \$2.0 billion due mainly to an increase in accrued GST revenue due to recovery in economic conditions and an increase in compliance activities.

4.16.75 The increase in total liabilities of \$1.0 billion is largely driven by an increase in provisions. Subsidies provisions increased by \$1.4 billion, reflecting the increase in research and development and fuel tax credit expenses, partially offset by a decrease in superannuation guarantee payments provisions of \$0.3 billion and a decrease in unclaimed superannuation payments provisions of \$0.2 billion.

Key areas of financial risk

4.16.76 In light of the key areas of risk and the ANAO's understanding of the operations of the ATO, the ANAO assessed the overall risk of material misstatement in the 2022–23 financial statements audit as high.

4.16.77 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of ATO's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.16.23 including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.16.23: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<p><i>Administered</i> Taxation revenue \$592.1 billion expenses \$29.3 billion</p>	<p>Accuracy of taxation revenue KAM Accuracy of expenses</p>	Higher	<ul style="list-style-type: none"> complexity and judgement involved in the reliable estimation of taxation revenue due to uncertain timing of tax return assessments, payments and forecasting of likely taxation revenue outcomes; significant judgement when selecting the appropriate base and method for revenue recognition; completeness, relevance and accuracy of source data used in developing taxation revenue estimates; and estimation involves consideration of historical taxpayer behaviours together with assumptions about economic factors such as future wage growth, and gross domestic product.
<p><i>Administered</i> Taxation receivables (gross) \$79.9 billion impairment allowance \$39.9 billion allowance for credit amendments \$4.7 billion (component of net receivables of \$35.5 billion) provision for refunds</p>	<p>Valuation of taxation receivables and provisions for refunds KAM</p>	Higher	<ul style="list-style-type: none"> complex methodologies and assumptions underpinning the calculation and assessment of the recoverability of taxation receivables, and the calculation of the provision for refunds; estimate methodologies are based on assumptions including taxpayer compliance and lodgement history, the existence of dispute over a receivable and the taxpayer's capacity to pay. Models use historical data to predict future taxpayer behaviour; and completeness, relevance and accuracy of source data used in estimating balances.

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
\$2.2 billion (component of provisions of \$10.1 billion)			
<i>Administered</i> Taxation revenue \$592.1 billion	Completeness of taxation revenue and the ATO's compliance and risk management processes relating to the collection of taxation revenue	Higher	<ul style="list-style-type: none"> reliance on information provided by taxpayers in a self-assessment and voluntary compliance regime for a significant value of revenue transactions; the effectiveness of the design and implementation of the compliance risk management regime that reduces the risk that inappropriate taxation returns may not be detected and corrected by the ATO, which makes the deterrence of tax evasion more effective; and judgements associated with the risk management approach to compliance programs.
<i>Administered</i> All financial statements line items	Accuracy and completeness of balances due to ATO's complex IT business systems and associated processing of taxpayer returns and statements	Higher	<ul style="list-style-type: none"> large and complex IT environment with several hundred business applications processing a high volume of transactions through many IT systems that are bespoke of heavily customised to the ATO; and reliance on bespoke reports to extract large volume and complex data from IT systems for the calculation of balances used in the preparation of the financial statements.
<i>Administered</i> All financial statements line items	Completeness and accuracy of data required for financial reporting purposes due to complex manual processes for compilation of data	Moderate	<ul style="list-style-type: none"> manual calculation of complex information in spreadsheets increases the risk of miscalculation due to data linkages and human error.

Source: ANAO 2022–23 audit results, and ATO's audited financial statements for the year ended 30 June 2023.

4.16.78 The following performance audit reports were tabled during 2022–23 relevant to the financial management or administration of the ATO:

- Auditor-General Report No.2 2022–23 *Australian Taxation Office's Engagement with Tax Practitioners*
- Auditor-General Report No.9 2022–23 *Management of Cyber Security Supply Chain Risks*
- Auditor-General Report No.20 2022–23 *Identifying and Reducing the Tax Gap for Individuals not in Business*
- Auditor-General Report No.39 2022–23 *Implementation of the Government Response to the Black Economy Taskforce Report*

4.16.79 While the reports did not include recommendations regarding risks to the ATO’s financial administration as it relates to the financial statements, the observations were considered in designing the audit procedures.

Audit results

4.16.80 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.16.24: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Significant (A)	–	1	–	1
Moderate (B)	2	–	(1) ^a	1
Total	2	1	(1)	2

Note a: The moderate audit finding relating to ATO assurance over extracts of data was downgraded to a minor audit finding. A discussion of this finding can be found in the Auditor-General Report No.26 2022–23 *Interim Report on Key Financial Controls of Major Entities*.

Source: ANAO 2022–23 audit results.

4.16.81 For each of the findings listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that ATO’s 2022–23 financial statements were not materially misstated.

New significant audit finding

Enterprise change management

4.16.82 The ANAO identified the following weaknesses associated with the ATO’s enterprise change management for key information technology systems supporting the preparation of ATO’s financial statements.

- A disconnect between change management policy and procedural documentation in relation to segregation of duties particularly in relation to developers and migrators. The ATO policy highlights a paragraph relating to segregation of duties requirements however the underlying procedural documentation across ATO’s business groups varied in its application of this requirement and in some instances removed the requirement under certain development methodologies.
- The ATO was unable to provide the ANAO with a complete and accurate list of changes made to financial systems assessed as in scope for the financial statements audit. The ANAO identified instances where:
 - use of free text fields without strong naming conventions or mandatory fields led to inaccurate and incomplete records;
 - records contained fields that were incorrect; and
 - sample testing identified changes that did not meet ATO policy requirements, including a lack of appropriate evidence of segregation of duties and testing of changes prior to implementation. The ANAO confirmed that no changes subject to sample testing adversely impacted the financial statements.

4.16.83 As a result of identified deficiencies the ANAO was required to undertake significant additional testing to obtain assurance over the reliability of reports generated to support financial statements balances.

4.16.84 The ANAO recommended that the ATO improve the change management framework to ensure policy alignment throughout ATO's business operations, all changes are recorded in the approved system in line with ATO policy and changes have effective system enforced segregation of duties. The ATO has agreed with the recommendations. The ANAO will review the status of the ATO's remediation of these weaknesses as part of the 2023–24 audit.

Unresolved moderate audit finding

Uneconomic to pursue debt and re-raises

4.16.85 In 2021–22, the ANAO identified issues in the ATO's treatment of debts considered to be uneconomical to pursue ('non-pursued debt'). These included:

- the timeframe where the automatic re-raise functionality was switched off that resulted in the ATO not re-raising debts that had previously been identified as uneconomical to pursue where the taxpayer became entitled to a credit.
- the use of exclusionary criteria that had the effect of preventing a re-raise on a taxpayer's account for non-pursued debt that met certain criteria.

4.16.86 In both cases there was a potential effect of a taxpayer being able to receive a full credit despite having a debt owed to the Commonwealth.

4.16.87 At the completion of the final audit, the ANAO identified that selected exclusionary criteria relating to non-pursued debts had been removed, with a timeframe established for implementation of the remaining recommendations by 30 June 2024. The ANAO will review the status of the ATO's remediation of these issues as part of the 2023–24 audit.

National Housing Finance and Investment Corporation

4.16.88 The National Housing Finance and Investment Corporation (NHFIC)¹⁴⁶ is responsible for:

- the establishment and operation of an Affordable Housing Bond Aggregator (AHBA), which provides finance to registered community housing providers by aggregating their lending requirements and issuing bonds to institutional investors;
- the establishment and operation of the National Housing Infrastructure Facility (NHIF) to provide loans, grants and investments for social and affordable housing as well as to overcome impediments to the provision of housing that is due to the lack of necessary infrastructure; and
- the administration of the Home Guarantee Scheme (HGS) to support first home buyers and single parents to access the housing market sooner and undertakes research into housing supply, demand and affordability in Australia.

¹⁴⁶ On 12 October 2023 the National Housing Finance and Investment Corporation was renamed to Housing Australia.

Summary of financial performance

4.16.89 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by NHFIC (as outlined in Table 4.16.25) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.16.25: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Net (cost of)/contribution by services	(4.2)	8.2
Revenue from government	49.1	39.9
Surplus/(deficit) attributable to the Australian Government	44.9	48.1
Total other comprehensive income/(loss)	–	–
Total comprehensive income/(loss) attributable to the Australian Government	44.9	48.1
Total assets	3,111.8	2,832.2
Total liabilities	2,277.8	2,208.1
Total equity	834.0	624.1

Source: NHFIC's audited financial statements for the year ended 30 June 2023.

4.16.90 Total assets and equity increased primarily due to additional cash holdings and investments due to additional amounts provided by Government as an equity injection for \$165.0 million for the NHIF.

Key areas of financial risk

4.16.91 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of NHFIC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.16.26.

Table 4.16.26: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Loans receivable \$2.1 billion concessional loans provisions \$29.0 million	Recognition, completeness and accuracy of concessional loans and associated calculations	Moderate	<ul style="list-style-type: none"> • manual calculation of complex information; • application of judgement surrounding the selection and application of indices such as market rates; and • interpretation of and disclosure in accordance with AASB 9 <i>Financial Instruments</i>.
Other interest-bearing liabilities \$2.2 billion	Valuation and completeness of bonds recognised	Moderate	<ul style="list-style-type: none"> • the fair value measurement of bonds requires the use of judgement for market interest rates.

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
	in the financial statements		•

Source: ANAO 2022–23 audit results, and NHFIC's audited financial statements for the year ended 30 June 2023.

Audit results

4.16.92 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Reserve Bank of Australia

4.16.93 The Reserve Bank of Australia (RBA) is responsible for determining and implementing monetary policy that seeks to contribute to the stability of the currency and maintains full employment; works to maintain a strong financial system and efficient payments system; and issues Australia's banknotes. As well as being a policymaking body, the RBA provides selected banking services to a range of Australian Government entities and to a number of overseas central banks and official institutions. The RBA is also responsible for the management of Australia's gold and foreign exchange reserves.

Summary of financial performance

4.16.94 The following section provides a comparison of the 2021–22 and 2022–23 key financial statements items reported by RBA (as outlined in Table 4.16.27) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.16.27: Key financial statements items

Key financial statements items	2022–23 (\$m)	2021–22 (\$m)
Total expenses	772.0	661.0
Total income/(losses)	(5,180.0)	(36,039.0)
Net profit/(loss)	(5,952.0)	(36,700.0)
Total other comprehensive income/(loss)	667.0	1,252.0
Total comprehensive income/(loss)	(5,285.0)	(35,448.0)
Total assets	598,102.0	613,774.0
Total liabilities	615,830.0	626,217.0
Total equity	(17,728.0)	(12,443.0)

Source: RBA's audited financial statements for the year ended 30 June 2023.

4.16.95 The RBA's net loss of \$6.0 billion was primarily as a result of:

- net valuation losses incurred on the fair value measurement of domestic securities of \$4.4 billion that were acquired as part of the RBA's bond purchase program in response to the COVID-19 pandemic. These valuation losses were mainly driven by higher bond yields over the year; and

- foreign exchange losses due to changes in exchange rates.

4.16.96 The decrease in total assets was mainly due to the following offsetting movements:

- a decrease of \$34.0 billion of Australian dollar investments, largely as a result of the maturity of bonds acquired as part of the RBA's policy responses to the COVID-19 pandemic and the scheduled maturities of the Term Funding Facility, which commenced in April 2023; and
- an increase in the value of foreign currency investments of \$18.0 billion.

Key areas of financial risk

4.16.97 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the information technology (IT) general and application controls for key systems that support the preparation of RBA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 4.16.28 including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.16.28: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Australian dollar investment \$504.5 billion foreign currency investments \$83.7 billion net loss on security and foreign exchange \$1.3 billion	Valuation of Australian dollar securities and foreign currency investments KAM	Higher	<ul style="list-style-type: none"> • complexity in determining the fair value of a range of investments and securities; and • significant financial impact from any fluctuations in the value of the Australian dollar.
Australian banknotes on issue \$101.3 billion	Accuracy of the liability for the Australian banknotes	Higher	<ul style="list-style-type: none"> • the accuracy of the liability for Australian banknotes on issue is dependent on the assumption that legal tender status is retained by all Australian notes on issue; and • significant financial impact from any fluctuations in the value of the Australian dollar supply and security of banknotes.
Superannuation asset \$592.0 million superannuation reserve \$975.0 million	Valuation of superannuation funds	Moderate	<ul style="list-style-type: none"> • estimation uncertainty in the selection of parameters used and assumptions made in the valuation of the future value of the defined benefit obligation.

Source: ANAO 2022–23 audit results, and RBA's audited financial statements for the year ended 30 June 2023.

Audit results

4.16.98 There were no significant or moderate audit findings arising from the 2021–22 or 2022–23 financial statements audits.

Comments on non-material entities

Royal Australian Mint

4.16.99 The objective of the Royal Australian Mint (the Mint) is to create public value through meeting the circulating coin and collector coin needs of Australia and selected international markets, maintaining Australia's National Coin Collection, and providing educational and cultural experiences to local and overseas visitors.

Audit results

4.16.100 The following table summarises the status of audit findings reported by the ANAO in 2021–22 and 2022–23.

Table 4.16.29: Status of audit findings

Category	Closing position (2021–22)	New findings (2022–23)	Findings resolved (2022–23)	Closing position (2022–23)
Moderate (B)	–	1	–	1
Total	–	1	–	1

Source: ANAO 2022–23 audit results.

4.16.101 For the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that the Mint's 2022–23 financial statements were not materially misstated.

New moderate audit finding

Reconciliation variances

4.16.102 During the 2022–23 financial statements audit the ANAO identified a number of material unexplained and unreconciled differences in the reconciliations performed by management in preparing the Mint's financial statements. Reconciliations should be supported by appropriate information and differences should be explained, followed up and adjusted. Once the variances were investigated material adjustments were required to the financial statements. All variances were subsequently corrected by the Mint and reflected in the financial statements.

4.16.103 The ANAO recommended that the Mint strengthen its reconciliation processes, specifically the review of reconciliations by management and reporting of variances. The Mint agreed with this recommendation.



Grant Hehir
Auditor-General

Canberra ACT
14 December 2023

Appendices

Appendix 1 Listing of entities by portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^a	Annual report approval date ^b	Annual report tabling date	Senate estimates ^c
Agriculture, Fisheries and Forestry portfolio									
Department of Agriculture, Fisheries and Forestry	Yes	High	✓	8 Sep 23	11 Sep 23	◆	14 Sep 23	20 Oct 23	
Australian Fisheries Management Authority	No	Low	✓	8 Sep 23	8 Sep 23	Nil	22 Sep 23	18 Oct 23	
Australian Pesticides and Veterinary Medicines Authority	No	Low	✓	6 Sep 23	6 Sep 23	Nil	6 Sep 23	18 Oct 23	
Cotton Research and Development Corporation	No	Low	✓	23 Aug 23	25 Aug 23	Nil	27 Sep 23	20 Oct 23	
Fisheries Research and Development Corporation	No	Low	✓	23 Aug 23	23 Aug 23	Nil	23 Aug 23	18 Oct 23	24 Oct 23
Grains Research and Development Corporation	No	Low	✓	6 Sep 23	8 Sep 23	Nil	20 Sep 23	20 Oct 23	
• Grains Australia Limited	No	Low	✓	27 Sep 23	28 Sep 23	Nil	N/A	N/A	
Regional Investment Corporation	No	Low	✓	14 Aug 23	14 Aug 23	Nil	31 Aug 23	17 Oct 23	
Rural Industries Research and Development Corporation	No	Low	✓	13 Sep 23	13 Sep 23	Nil	13 Sep 23	17 Oct 23	
Wine Australia	No	Low	✓	27 Sep 23	27 Sep 23	Nil	30 Sep 23	18 Oct 23	
Attorney-General's portfolio									
Attorney-General's Department	Yes	Moderate	✓	28 Sep 23	28 Sep 23	◆□	10 Oct 23	23 Oct 23	24 Oct 23
Administrative Appeals Tribunal	No	Moderate	✓	8 Sep 23	12 Sep 23	□	25 Sep 23	17 Oct 23	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^a	Annual report approval date ^b	Annual report tabling date	Senate estimates ^c
Australian Commission for Law Enforcement Integrity	No	Low	✓	20 Oct 23	24 Oct 23	Nil	6 Nov 23	30 Nov 23	
Australian Criminal Intelligence Commission	No	Low	✓	19 Sep 23	20 Sep 23	Nil	25 Sep 23	18 Oct 23	
Australian Federal Police	Yes	Low	✓	14 Sep 23	14 Sep 23	Nil	14 Sep 23	20 Oct 23	23 Oct 23
Australian Financial Security Authority	No	Moderate	✓	25 Sep 23	26 Sep 23	Nil	25 Sep 23	17 Oct 23	
Australian Human Rights Commission	No	Moderate	✓	15 Sep 23	15 Sep 23	Nil	25 Sep 23	20 Oct 23	
Australian Institute of Criminology	No	Low	✓	19 Sep 23	20 Sep 23	Nil	25 Sep 23	18 Oct 23	
Australian Law Reform Commission	No	Low	✓	28 Sep 23	28 Sep 23	Nil	5 Oct 23	17 Oct 23	24 Oct 23
Australian Transaction Reports and Analysis Centre	No	Low	✓	13 Sep 23	13 Sep 23	Nil	18 Sep 23	17 Oct 23	
Federal Court of Australia	No	Low	✓	8 Sep 23	12 Sep 23	Nil	19 Sep 23	18 Oct 23	
High Court of Australia	Yes	Low	✓	15 Aug 23	16 Aug 23	Nil	•	•	
Office of Parliamentary Counsel	No	Low	✓	20 Sep 23	22 Sep 23	Nil	22 Sep 23	18 Oct 23	
Office of the Australian Information Commissioner	No	Low	✓	7 Sep 23	8 Sep 23	Nil	25 Sep 23	18 Oct 23	23 Oct 23
Office of the Commonwealth Director of Public Prosecutions	No	Low	✓	27 Sep 23	29 Sep 23	Nil	28 Sep 23	18 Oct 23	23 Oct 23
Office of the Commonwealth Ombudsman	No	Low	✓	27 Sep 23	28 Sep 23	Nil	3 Oct 23	18 Oct 23	24 Oct 23
Office of the Inspector-General of Intelligence and Security	No	Low	✓	4 Aug 23	4 Aug 23	Nil	25 Sep 23	18 Oct 23	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^a	Annual report approval date ^b	Annual report tabling date	Senate estimates ^c
Office of the Special Investigator	No	Low	✓	29 Sep 23	30 Sep 23	Nil	9 Oct 23	18 Oct 23	
Climate Change, Energy, the Environment and Water portfolio									
Department of Climate Change, Energy, the Environment and Water	Yes	High	✓	13 Oct 23	16 Oct 23	▲	20 Sep 23	20 Oct 23	
• Natural Heritage Trust of Australia	No	Low	✓	13 Oct 23	13 Oct 23	Nil	N/A	N/A	
Australian Institute of Marine Science	No	Low	✓	30 Aug 23	30 Aug 23	Nil	25 Sep 23	17 Oct 23	
Australian Renewable Energy Agency	No	Low	✓	26 Sep 23	26 Sep 23	Nil	26 Sep 23	20 Oct 23	
Bureau of Meteorology	Yes	Moderate	E	15 Sep 23	18 Sep 23	◆	19 Sep 23	19 Oct 23	
Clean Energy Finance Corporation	Yes	Moderate	✓	22 Aug 23	22 Aug 23	Nil	26 Sep 23	18 Oct 23	
Clean Energy Regulator	Yes	Moderate	✓	25 Sep 23	25 Sep 23	▲	25 Sep 23	20 Oct 23	23 Oct 23
Climate Change Authority	No	Low	✓	20 Sep 23	20 Sep 23	Nil	25 Sep 23	17 Oct 23	
Director of National Parks	No	Moderate	✓	28 Sep 23	28 Sep 23	Nil	10 Oct 23	23 Oct 23	
Great Barrier Reef Marine Park Authority	No	Low	✓	6 Sep 23	6 Sep 23	◆	25 Sep 23	20 Oct 23	
Murray-Darling Basin Authority	No	Low	✓	28 Sep 23	28 Sep 23	Nil	4 Oct 23	27 Oct 23	
North Queensland Water Infrastructure Authority	No	Low	✓	8 Aug 23	9 Aug 23	Nil	1 Oct 23	24 Oct 23	
Snowy Hydro Limited	Yes	Moderate	✓	4 Sep 23	4 Sep 23	Nil	4 Sep 23	20 Oct 23	
Sydney Harbour Federation Trust	No	Low	✓	19 Sep 23	19 Sep 23	Nil	20 Sep 23	20 Oct 23	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^a	Annual report approval date ^b	Annual report tabling date	Senate estimates ^c
• Sydney Harbour Foundation Management Limited	No	Low	✓	6 Sep 23	6 Sep 23	Nil	N/A	N/A	
Defence portfolio									
Department of Defence	Yes	High	✓	28 Sep 23	29 Sep 23	▲ □	18 Sep 23	17 Oct 23	
AAF Company	No	Low	✓	19 Sep 23	19 Sep 23	Nil	19 Sep 23	30 Nov 23	
Army and Air Force Canteen Service	No	Moderate	✓	8 Sep 23	12 Sep 23	□	12 Sep 23	30 Nov 23	
Australian Military Forces Relief Trust Fund	No	Low	✓	11 Aug 23	11 Aug 23	Nil	11 Aug 23	30 Nov 23	
Australian Signals Directorate	Yes	Moderate	✓	13 Sep 23	13 Sep 23	Nil	20 Sep 23	23 Oct 23	
Australian Strategic Policy Institute Ltd	No	Low	✓	1 Sep 23	4 Sep 23	Nil	•	•	
Australian War Memorial	Yes	Low	✓	25 Aug 23	28 Aug 23	Nil	25 Aug 23	19 Oct 23	25 Oct 23
Defence Housing Australia	Yes	Moderate	✓	7 Sep 23	7 Sep 23	Nil	29 Sep 23	20 Oct 23	
Department of Veterans' Affairs	Yes	Moderate	E	14 Sep 23	15 Sep 23	▲ □	12 Oct 23	24 Oct 23	
• Defence Service Homes Insurance Scheme	No	Moderate	✓	14 Sep 23	15 Sep 23	Nil	N/A	N/A	
Royal Australian Air Force Veterans' Residences Trust Fund	No	Low	✓	13 Sep 23	15 Sep 23	▲	•	•	
Royal Australian Air Force Welfare Recreational Company	No	Low	✓	31 Oct 23	24 Nov 23	Nil	•	•	
Royal Australian Air Force Welfare Trust Fund	No	Low	✓	8 Aug 23	9 Aug 23	□	8 Aug 23	30 Nov 23	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^a	Annual report approval date ^b	Annual report tabling date	Senate estimates ^c
Royal Australian Navy Central Canteens Board	No	Moderate	⚡	⚡	⚡	□	⚡	⚡	
• Win with Navy Ltd	No	Low	✓	27 Nov 23	28 Nov 23	Nil	N/A	N/A	
Royal Australian Navy Relief Trust Fund	No	Low	✓	17 Aug 23	17 Aug 23	Nil	17 Aug 23	30 Nov 23	
Education portfolio									
Department of Education	Yes	High	✓	13 Sep 23	15 Sep 23	◆▲□	25 Sep 23	20 Oct 23	
Australian Curriculum, Assessment and Reporting Authority	No	Low	✓	22 Aug 23	23 Aug 23	Nil	8 Sep 23	17 Oct 23	
Australian Institute for Teaching and School Leadership Limited	No	Low	✓	29 Aug 23	28 Sep 23	Nil	29 Aug 23	24 Oct 23	
Australian National University	No	Moderate	✓	31 Mar 23	31 Mar 23	Nil	31 Mar 23	8 Aug 23	
• ANU Enterprise Pty Limited	No	Low	✓	14 Jun 23	14 Jun 23	Nil	N/A	N/A	26 Oct 23
• Australian Scientific Instruments Pty Ltd	No	Moderate	E	13 Jun 23	13 Jun 23	Nil	N/A	N/A	
• Social Research Centre Pty Limited	No	Low	✓	14 Jun 23	14 Jun 23	Nil	N/A	N/A	
Australian Research Council	Yes	Low	✓	13 Sep 23	14 Sep 23	Nil	13 Sep 23	18 Oct 23	
Tertiary Education Quality and Standards Agency	No	Low	✓	18 Aug 23	18 Aug 23	Nil	12 Oct 23	20 Oct 23	
Employment and Workplace Relations portfolio									
Department of Employment and Workplace Relations	Yes	High	✓	21 Sep 23	25 Sep 23	▲□	5 Oct 23	18 Oct 23	25 Oct 23

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^a	Annual report approval date ^b	Annual report tabling date	Senate estimates ^c
Asbestos Safety and Eradication Agency	No	Low	✓	25 Sep 23	25 Sep 23	Nil	26 Sep 23	24 Oct 23	
Australian Building and Construction Commission	No	Low	✓	12 Sep 23	13 Sep 23	Nil	19 Sep 23	23 Oct 23	
Australian Skills Quality Authority	No	Low	✓	7 Sep 23	7 Sep 23	Nil	12 Sep 23	18 Oct 23	26 Oct 23
Coal Mining Industry (Long Service Leave Funding) Corporation	Yes	Moderate	✓	7 Sep 23	7 Sep 23	Nil	7 Sep 23	18 Oct 23	
Comcare	Yes	Moderate	✓	18 Sep 23	18 Sep 23	Nil	19 Sep 23	18 Oct 23	
Fair Work Commission	No	Low	✓	8 Sep 23	8 Sep 23	Nil	28 Sep 23	18 Oct 23	
Office of the Fair Work Ombudsman	No	Low	✓	12 Sep 23	12 Sep 23	Nil	19 Sep 23	23 Oct 23	25 Oct 23
Safe Work Australia	No	Low	✓	15 Sep 23	15 Sep 23	Nil	18 Sep 23	17 Oct 23	
Seafarers Safety, Rehabilitation and Compensation Authority	No	Low	E	21 Nov 23	21 Nov 23	Nil	•	•	
Finance portfolio									
Department of Finance	Yes	Moderate	✓	7 Sep 23	7 Sep 23	☐	3 Oct 23	20 Oct 23	
ASC Pty Ltd	Yes	Moderate	✓	31 Aug 23	31 Aug 23	Nil	29 Sep 23	20 Oct 23	24 Oct 23
Australian Defence Force Superannuation Scheme	No	Moderate	✓	19 Sep 23	19 Sep 23	Nil	N/A	N/A	
Australian Electoral Commission	No	Low	✓	24 Aug 23	25 Aug 23	Nil	22 Sep 23	13 Oct 23	23 Oct 23
Australian Naval Infrastructure Pty Ltd	Yes	Moderate	✓	5 Sep 23	5 Sep 23	Nil	5 Sep 23	20 Oct 23	
Commonwealth Superannuation Corporation	No	Moderate	✓	19 Sep 23	19 Sep 23	◆	19 Sep 23	26 Oct 23	24 Oct 23

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^a	Annual report approval date ^b	Annual report tabling date	Senate estimates ^c
Commonwealth Superannuation Scheme	No	Moderate	✓	19 Sep 23	19 Sep 23	Nil	N/A	N/A	
Digital Transformation Agency	No	Low	✓	28 Sep 23	28 Sep 23	Nil	6 Oct 23	18 Oct 23	
Future Fund Management Agency and the Board of Guardians	Yes	Moderate	✓	26 Sep 23	27 Sep 23	Nil	26 Sep 23	18 Oct 23	
Independent Parliamentary Expenses Authority	No	Low	✓	27 Sep 23	30 Sep 23	Nil	6 Oct 23	18 Oct 23	23 Oct 23
Military Superannuation and Benefits Scheme	No	Moderate	✓	19 Sep 23	19 Sep 23	Nil	N/A	N/A	
Public Sector Superannuation Accumulation Plan	No	Moderate	✓	19 Sep 23	19 Sep 23	Nil	N/A	N/A	24 Oct 23
Public Sector Superannuation Scheme	No	Moderate	✓	19 Sep 23	19 Sep 23	Nil	N/A	N/A	
Foreign Affairs portfolio									
Department of Foreign Affairs and Trade	Yes	Moderate	✓	13 Sep 23	13 Sep 23	◆	27 Sep 23	24 Oct 23	
Australian Centre for International Agricultural Research	No	Low	✓	14 Sep 23	14 Sep 23	Nil	11 Oct 23	7 Nov 23	
Australian Secret Intelligence Service	No	Moderate	✓	27 Nov 23	27 Nov 23	Nil	N/A	N/A	26 Oct 23
Australian Trade and Investment Commission	No	Low	✓	12 Sep 23	12 Sep 23	Nil	4 Oct 23	24 Oct 23	
Export Finance Australia	Yes	Moderate	✓	24 Aug 23	24 Aug 23	Nil	27 Sep 23	24 Oct 23	
Tourism Australia	No	Low	✓	17 Aug 23	17 Aug 23	Nil	14 Oct 23	24 Oct 23	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^a	Annual report approval date ^b	Annual report tabling date	Senate estimates ^c
Health and Aged Care portfolio									
Department of Health and Aged Care	Yes	High	✓	18 Sep 23	18 Sep 23	◆ □	7 Oct 23	18 Oct 23	
Aged Care Quality and Safety Commission	No	Low	✓	21 Sep 23	21 Sep 23	Nil	12 Oct 23	20 Oct 23	
Australian Commission on Safety and Quality in Health Care	No	Low	✓	6 Sep 23	6 Sep 23	Nil	6 Sep 23	20 Oct 23	
Australian Digital Health Agency	No	Moderate	✓	28 Sep 23	28 Sep 23	Nil	28 Sep 23	18 Oct 23	
Australian Institute of Health and Welfare	No	Low	✓	27 Sep 23	27 Sep 23	Nil	27 Sep 23	26 Oct 23	
Australian National Preventive Health Agency	No	Low	✓	18 Sep 23	18 Sep 23	Nil	7 Oct 23	18 Oct 23	
Australian Radiation Protection and Nuclear Safety Agency	No	Low	✓	15 Sep 23	27 Sep 23	Nil	27 Sep 23	18 Oct 23	26 Oct 23
Australian Sports Commission	No	Low	✓	27 Sep 23	29 Sep 23	Nil	27 Sep 23	20 Oct 23	
Australian Sports Foundation Limited	No	Low	✓	25 Sep 23	25 Sep 23	Nil	26 Oct 23	2 Nov 23	
• Australian Sports Foundation Charitable Trust	No	Low	E	25 Sep 23	25 Sep 23	Nil	N/A	N/A	
Cancer Australia	No	Low	✓	6 Sep 23	6 Sep 23	Nil	28 Sep 23	17 Oct 23	
Food Standards Australia New Zealand	No	Low	✓	29 Sep 23	29 Sep 23	Nil	4 Oct 23	23 Oct 23	
Independent Health and Aged Care Pricing Authority	No	Low	✓	18 Sep 23	20 Sep 23	Nil	18 Sep 23	18 Oct 23	
National Blood Authority	Yes	Low	✓	11 Oct 23	12 Oct 23	◆	13 Oct 23	26 Oct 23	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^a	Annual report approval date ^b	Annual report tabling date	Senate estimates ^c
National Health and Medical Research Council	Yes	Low	✓	30 Aug 23	31 Aug 23	Nil	29 Sep 23	20 Oct 23	
National Health Funding Body	No	Low	✓	22 Sep 23	22 Sep 23	Nil	22 Sep 23	18 Oct 23	
National Mental Health Commission	No	Low	✓	28 Sep 23	29 Sep 23	Nil	13 Oct 23	7 Nov 23	
Australian Organ and Tissue Donation and Transplantation Authority	No	Low	✓	20 Sep 23	21 Sep 23	Nil	3 Oct 23	19 Oct 23	
Professional Services Review	No	Low	✓	28 Jul 23	28 Jul 23	Nil	20 Sep 23	17 Oct 23	
Sport Integrity Australia	No	Low	✓	7 Sep 23	8 Sep 23	Nil	8 Sep 23	19 Oct 23	
Home Affairs portfolio									
Department of Home Affairs	Yes	High	✓	12 Sep 23	12 Sep 23	☐	15 Sep 23	18 Oct 23	
Australian Security Intelligence Organisation	Yes	Moderate	✓	17 Aug 23	17 Aug 23	Nil	29 Sep 23	18 Oct 23	23 Oct 23
National Emergency Management Agency	No	Moderate	✓	22 Sep 23	25 Sep 23	Nil	22 Sep 23	20 Oct 23	
Industry, Science and Resources portfolio									
Department of Industry, Science and Resources	Yes	Moderate	✓	4 Sep 23	5 Sep 23	Nil	4 Oct 23	20 Oct 23	
Australian Nuclear Science and Technology Organisation	Yes	Moderate	✓	12 Sep 23	13 Sep 23	◆☐	21 Sep 23	18 Oct 23	26 Oct 23
• ANSTO Nuclear Medicine Pty Ltd	Yes ^d	Low	E	11 Sep 23	12 Sep 23	Nil	N/A	N/A	
• PETTECH Solutions Pty Ltd	No	Low	✓	11 Sep 23	12 Sep 23	Nil	N/A	N/A	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^a	Annual report approval date ^b	Annual report tabling date	Senate estimates ^c
Commonwealth Scientific and Industrial Research Organisation	Yes	Moderate	✓	7 Sep 23	11 Sep 23	◆	11 Sep 23	20 Oct 23	
• CSIRO Custodial Services Pty Ltd	No	Moderate	✓	14 Aug 23	16 Aug 23	Nil	N/A	N/A	
• CSIRO Financial Services Pty Ltd	No	Moderate	✓	14 Aug 23	16 Aug 23	Nil	N/A	N/A	
• CSIRO General Partner Co Pty Ltd	Yes^e	Low	✓	15 Aug 23	16 Aug 23	Nil	N/A	N/A	
• CSIRO Innovation Co-Investment Fund	No	Moderate	✓	7 Aug 23	8 Aug 23	Nil	N/A	N/A	
• CSIRO Innovation Follow-on Fund 1	No	Moderate	✓	14 Aug 23	15 Aug 23	Nil	N/A	N/A	
• CSIRO Innovation Follow-on Fund 2	No	Moderate	✓	7 Aug 23	8 Aug 23	Nil	N/A	N/A	
• CSIRO Innovation Fund 1	No	Moderate	✓	14 Aug 23	15 Aug 23	Nil	N/A	N/A	
• CSIRO Innovation Fund 2	No	Moderate	✓	7 Aug 23	8 Aug 23	Nil	N/A	N/A	
• CSIRO Main Sequence Core Fund 3	No	Moderate	✓	7 Aug 23	8 Aug 23	Nil	N/A	N/A	
• CSIRO Main Sequence NGS Co-Investment Fund	No	Moderate	✓	7 Aug 23	8 Aug 23	Nil	N/A	N/A	
• CSIRO Main Sequence Parallel Fund	No	Moderate	✓	7 Aug 23	8 Aug 23	Nil	N/A	N/A	
• National ICT Australia Ltd	No	Low	✓	19 Sep 23	21 Sep 23	Nil	N/A	N/A	
• Science and Industry Endowment Fund	No	Low	✓	28 Aug 23	30 Aug 23	Nil	N/A	N/A	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^a	Annual report approval date ^b	Annual report tabling date	Senate estimates ^c
Geoscience Australia	Yes	Low	✓	4 Sep 23	4 Sep 23	Nil	29 Sep 23	19 Oct 23	
IP Australia	No	Low	✓	29 Sep 23	30 Sep 23	Nil	13 Oct 23	18 Oct 23	
National Offshore Petroleum Safety and Environmental Management Authority	No	Low	✓	21 Sep 23	21 Sep 23	Nil	21 Sep 23	25 Oct 23	
Infrastructure, Transport, Regional Development, Communications and the Arts portfolio									
Department of Infrastructure, Transport, Regional Development, Communications and the Arts	Yes	Moderate	✓	15 Sep 23	18 Sep 23	◆▲	26 Sep 23	20 Oct 23	24 Oct 23
Airservices Australia	Yes	Moderate	✓	20 Sep 23	21 Sep 23	Nil	20 Sep 23	20 Oct 23	23 Oct 23
Australian Broadcasting Corporation	Yes	Moderate	✓	22 Aug 23	22 Aug 23	Nil	6 Sep 23	20 Oct 23	
Australian Communications and Media Authority	Yes	Low	✓	14 Sep 23	14 Sep 23	◆	27 Sep 23	20 Oct 23	24 Oct 23
Australia Council	No	Low	✓	21 Aug 23	21 Aug 23	Nil	21 Aug 23	27 Oct 23	
Australian Film, Television and Radio School	No	Low	✓	8 Sep 23	11 Sep 23	Nil	8 Sep 23	26 Oct 23	
Australian Maritime Safety Authority	No	Low	✓	21 Sep 23	21 Sep 23	Nil	21 Sep 23	19 Oct 23	
Australian National Maritime Museum	No	Moderate	✓	14 Sep 23	15 Sep 23	Nil	14 Sep 23	27 Oct 23	23 Oct 23
• Australian National Maritime Foundation	No	Low	✓	14 Sep 23	15 Sep 23	Nil	N/A	N/A	
Australian Postal Corporation	Yes	Moderate	✓	29 Aug 23	29 Aug 23	Nil	29 Aug 23	19 Oct 23	24 Oct 23

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^a	Annual report approval date ^b	Annual report tabling date	Senate estimates ^c
• Australia Post Licensee Advisory Council Limited	No	Low	E	17 Aug 23	17 Aug 23	Nil	N/A	N/A	
• Australia Post Services Pty Ltd	No	Low	✓	1 Sep 23	1 Sep 23	Nil	N/A	N/A	
• Australia Post Transaction Services Pty Ltd	No	Moderate	✓	20 Sep 23	20 Sep 23	Nil	N/A	N/A	
Australian Rail Track Corporation Ltd	Yes	High	✓	19 Sep 23	20 Sep 23	Nil	19 Sep 23	19 Oct 23	
Australian Transport Safety Bureau	No	Low	✓	29 Sep 23	29 Sep 23	Nil	29 Sep 23	31 Oct 23	
Bundanon Trust	No	Low	---	---	---	□◆	---	---	23 Oct 23
Civil Aviation Safety Authority	No	Low	✓	23 Aug 23	24 Aug 23	Nil	20 Sep 23	23 Oct 23	
Creative Partnerships Australia Ltd	No	Low	E	21 Aug 23	22 Aug 23	Nil	21 Aug 23	27 Oct 23	
Infrastructure Australia	No	Low	✓	12 Sep 23	13 Sep 23	Nil	12 Sep 23	17 Oct 23	
National Archives of Australia	Yes	Moderate	✓	16 Nov 23	17 Nov 23	◆	---	---	24 Oct 23
National Capital Authority	Yes	Low	✓	29 Aug 23	29 Aug 23	Nil	12 Oct 23	31 Oct 23	
National FASTER Rail Agency	No	Low	✓	18 Sep 23	18 Sep 23	Nil	18 Sep 23	18 Oct 23	23 Oct 23
National Film and Sound Archive of Australia	No	Low	✓	6 Oct 23	6 Oct 23	Nil	6 Oct 23	27 Oct 23	
National Gallery of Australia	Yes	Moderate	✓	16 Aug 23	16 Aug 23	Nil	20 Oct 23	31 Oct 23	
• National Gallery of Australia Foundation	No	Low	✓	16 Aug 23	16 Aug 23	Nil	N/A	N/A	24 Oct 23
National Intermodal Corporation Limited	Yes	High	✓	29 Aug 23	29 Aug 23	Nil	29 Aug 23	19 Oct 23	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^a	Annual report approval date ^b	Annual report tabling date	Senate estimates ^c
National Library of Australia	Yes	Moderate	✓	21 Aug 23	21 Aug 23	Nil	18 Aug 23	31 Oct 23	
National Museum of Australia	No	Low	✓	1 Sep 23	1 Sep 23	Nil	1 Sep 23	31 Oct 23	
National Portrait Gallery of Australia	No	Low	✓	22 Sep 23	25 Sep 23	Nil	22 Sep 23	31 Oct 23	
National Transport Commission	No	Low	✓	23 Aug 23	24 Aug 23	Nil	10 Sep 23	18 Oct 23	23 Oct 23
NBN Co Limited	Yes	High	✓	7 Aug 23	7 Aug 23	Nil	7 Aug 23	14 Sep 23	24 Oct 23
Northern Australia Infrastructure Facility	No	Moderate	✓	26 Sep 23	26 Sep 23	Nil	26 Sep 23	23 Oct 23	23 Oct 23
Old Parliament House	No	Low	✓	3 Oct 23	3 Oct 23	Nil	9 Oct 23	30 Oct 23	24 Oct 23
Screen Australia	No	Low	✓	28 Aug 23	28 Aug 23	Nil	28 Aug 23	31 Oct 23	
Special Broadcasting Service Corporation	No	Low	✓	30 Aug 23	30 Aug 23	Nil	30 Aug 23	20 Oct 23	
WSA Co Limited	Yes	Moderate	✓	18 Aug 23	18 Aug 23	Nil	18 Aug 23	19 Oct 23	23 Oct 23
Parliamentary Departments									
Department of Parliamentary Services	Yes	Low	✓	22 Sep 23	26 Sep 23	Nil	22 Sep 23	18 Oct 23	
Department of the House of Representatives ^(f)	No	Low	✓	26 Sep 23	28 Sep 23	Nil	13 Oct 23	16 Oct 23	23 Oct 23
Department of the Senate	No	Low	✓	28 Sep 23	29 Sep 23	Nil	10 Oct 23	16 Oct 23	
Parliamentary Budget Office	No	Low	✓	8 Sep 23	12 Sep 23	Nil	13 Oct 23	16 Oct 23	
Prime Minister and Cabinet portfolio									
Department of the Prime Minister and Cabinet	Yes	Moderate	✓	12 Sep 23	13 Sep 23	◆	12 Sep 23	18 Oct 23	23 Oct 23

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^a	Annual report approval date ^b	Annual report tabling date	Senate estimates ^c
• Aboriginals Benefit Account	No	Moderate	✓	14 Sep 23	15 Sep 23	Nil	N/A	N/A	
Aboriginal Hostels Limited	No	Moderate	✓	29 Sep 23	29 Sep 23	Nil	29 Sep 23	26 Oct 23	
Anindilyakwa Land Council	No	Moderate	✓	28 Sep 23	29 Sep 23	☐	12 Oct 23	30 Nov 23	27 Oct 23
Australian Institute of Aboriginal and Torres Strait Islander Studies	No	Low	✓	29 Aug 23	31 Aug 23	Nil	22 Sep 23	30 Oct 23	
Australian Public Service Commission	No	Low	✓	27 Sep 23	27 Sep 23	Nil	5 Oct 23	18 Oct 23	24 Oct 23
Central Land Council	No	Low	✓	23 Aug 23	23 Aug 23	Nil	20 Sep 23	28 Nov 23	
Indigenous Business Australia	Yes	Moderate	✓	21 Sep 23	22 Sep 23	Nil	21 Sep 23	27 Oct 23	
• Darwin Hotel Partnership	No	Low	E	18 Sep 23	18 Sep 23	Nil	N/A	N/A	
• Gagudju Lodge Cooida Trust	No	Low	E M	27 Sep 23	27 Sep 23	Nil	N/A	N/A	
• IBA Retail Asset Management Pty Ltd	No	Low	✓	29 Sep 23	29 Sep 23	Nil	N/A	N/A	
• IBA Retail Property Trust	No	Low	E	22 Aug 23	22 Aug 23	Nil	N/A	N/A	
• Ikara Wilpena Enterprises Pty Ltd	No	Low	✓	29 Sep 23	29 Sep 23	Nil	N/A	N/A	27 Oct 23
• Ikara Wilpena Holdings Trust	No	Low	E	29 Aug 23	30 Aug 23	Nil	N/A	N/A	
• Indigenous Economic Development Trust	No	Low	✓	5 Sep 23	5 Sep 23	Nil	N/A	N/A	
• Indigenous Prosperity Fund – Growth Fund	No	Low	✓	20 Sep 23	20 Sep 23	Nil	N/A	N/A	
• Indigenous Prosperity Fund – Income Fund	No	Low	✓	20 Sep 23	20 Sep 23	Nil	N/A	N/A	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^a	Annual report approval date ^b	Annual report tabling date	Senate estimates ^c
• Indigenous Real Estate Investment Trust	No	Low	✓	12 Sep 23	13 Sep 23	Nil	N/A	N/A	
• Kakadu Tourism (GLC) Pty Ltd	No	Moderate	✓ M	29 Sep 23	29 Sep 23	Nil	N/A	N/A	
• Performance Bond Fund	No	Low	E	17 Aug 23	17 Aug 23	Nil	N/A	N/A	
• Tennant Creek Land Holding Trust	No	Low	E	27 Sep 23	27 Sep 23	Nil	N/A	N/A	
• Tennant Food Barn	No	Low	✓	27 Sep 23	27 Sep 23	Nil	N/A	N/A	
Indigenous Land and Sea Corporation	No	Low	✓	15 Sep 23	15 Sep 23	Nil	15 Sep 23	25 Oct 23	
• National Centre of Indigenous Excellence Limited	No	Low	✓	4 Sep 23	4 Sep 23	Nil	N/A	N/A	
• Primary Partners Pty Ltd	No	Low	✓	8 Sep 23	8 Sep 23	Nil	N/A	N/A	
• Voyages Indigenous Tourism Australia Pty Ltd	Yes ⁹	High	✓	6 Sep 23	6 Sep 23	Nil	N/A	N/A	
National Australia Day Council Limited	No	Low	✓	15 Aug 23	16 Aug 23	Nil	15 Aug 23	18 Oct 23	24 Oct 23
National Indigenous Australians Agency	Yes	Moderate	✓	14 Sep 23	15 Sep 23	Nil	10 Oct 23	26 Oct 23	
Northern Land Council	No	Moderate	✓	29 Sep 23	29 Sep 23	▲ □	•	•	27 Oct 23
Northern Territory Aboriginal Investment Corporation	No	Low	✓	9 Oct 23	9 Oct 23	Nil	9 Oct 23	•	
Office of National Intelligence	No	Low	✓	27 Sep 23	28 Sep 23	Nil	N/A	N/A	
Office of the Official Secretary to the Governor-General	No	Low	✓	29 Sep 23	29 Sep 23	Nil	29 Sep 23	24 Oct 23	24 Oct 23

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^a	Annual report approval date ^b	Annual report tabling date	Senate estimates ^c
Outback Stores Pty Ltd	No	Low	✓	31 Aug 23	31 Aug 23	Nil	•	•	
Tiwi Land Council	No	Moderate	✓	29 Sep 23	29 Sep 23	▲	13 Oct 23	30 Nov 23	27 Oct 23
Torres Strait Regional Authority	No	Low	✓	5 Sep 23	6 Sep 23	Nil	6 Sep 23	31 Oct 23	
Workplace Gender Equality Agency	No	Low	✓	5 Sep 23	7 Sep 23	Nil	•	•	24 Oct 23
Wreck Bay Aboriginal Community Council	No	High	■	■	■	■	■	■	27 Oct 23
Social Services portfolio									
Department of Social Services	Yes	High	✓	10 Oct 23	10 Oct 23	◆▲	11 Oct 23	24 Oct 23	
Australian Hearing Services	Yes	Low	✓	18 Aug 23	18 Aug 23	Nil	4 Oct 23	24 Oct 23	
Australian Institute of Family Studies	No	Low	✓	20 Sep 23	21 Sep 23	Nil	2 Oct 23	24 Oct 23	
Domestic, Family and Sexual Violence Commission	No	Low	✓	11 Oct 23	11 Oct 23	Nil	17 Oct 23	25 Oct 23	25 Oct 23
National Disability Insurance Agency	Yes	Moderate	✓	15 Sep 23	18 Sep 23	▲□	15 Sep 23	31 Oct 23	
NDIS Quality and Safeguards Commission	No	Low	✓	28 Sep 23	28 Sep 23	□	11 Oct 23	31 Oct 23	
Services Australia	Yes	High	✓	8 Sep 23	12 Sep 23	◆▲	27 Sep 23	17 Oct 23	
Treasury portfolio									
Department of the Treasury	Yes	Moderate	✓	15 Sep 23	15 Sep 23	□	26 Sep 23	18 Oct 23	
Australian Bureau of Statistics	Yes	Low	✓	1 Sep 23	1 Sep 23	Nil	25 Sep 23	18 Oct 23	25 Oct 23
Australian Competition and Consumer Commission	No	Low	✓	23 Aug 23	23 Aug 23	Nil	6 Sep 23	20 Oct 23	

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified ^a	Annual report approval date ^b	Annual report tabling date	Senate estimates ^c
Australian Office of Financial Management	Yes	Moderate	✓	24 Aug 23	25 Aug 23	Nil	26 Sep 23	20 Oct 23	
Australian Prudential Regulation Authority	Yes	Low	✓	15 Aug 23	15 Aug 23	Nil	15 Sep 23	17 Oct 23	
Australian Reinsurance Pool Corporation	Yes	Moderate	✓	20 Sep 23	20 Sep 23	Nil	20 Sep 23	18 Oct 23	
Australian Securities and Investments Commission	Yes	Moderate	E	17 Aug 23	17 Aug 23	◆	13 Oct 23	13 Oct 23	26 Oct 23
Australian Taxation Office	Yes	High	✓	13 Sep 23	14 Sep 23	◆▲	9 Oct 23	24 Oct 23	
Commonwealth Grants Commission	No	Low	✓	9 Aug 23	9 Aug 23	Nil	18 Sep 23	20 Oct 23	
Inspector-General of Taxation	No	Low	✓	22 Sep 23	22 Sep 23	Nil	28 Sep 23	18 Oct 23	
National Competition Council	No	Low	✓	7 Sep 23	7 Sep 23	Nil	12 Sep 23	13 Oct 23	
National Housing Finance and Investment Corporation	Yes	Moderate	✓	24 Aug 23	24 Aug 23	Nil	29 Sep 23	18 Oct 23	25 Oct 23
Office of the Auditing and Assurance Standards Board	No	Low	✓	21 Sep 23	21 Sep 23	Nil	21 Sep 23	18 Oct 23	
Office of the Australian Accounting Standards Board	No	Low	✓	21 Sep 23	21 Sep 23	Nil	21 Sep 23	18 Oct 23	
Productivity Commission	No	Low	✓	25 Aug 23	25 Aug 23	Nil	8 Sep 23	18 Oct 23	
Reserve Bank of Australia	Yes	Moderate	✓	6 Sep 23	6 Sep 23	Nil	14 Sep 23	19 Oct 23	26 Oct 23
• Note Printing Australia Ltd	No	Low	✓	3 Aug 23	3 Aug 23	Nil	N/A	N/A	25 Oct 23
Royal Australian Mint	No	Low	✓	22 Sep 23	22 Sep 23	◆	22 Sep 23	20 Oct 23	

Note a: These are significant or moderate audit findings and/or significant legislative breaches identified in prior and current years.

Note b: The date of the accountable authority's approval of the annual report is taken as either the date on the transmittal letter or the date the board approved the annual report.

Note c: This is the first appearance for the portfolio in the 2023–24 budget supplementary estimates hearing.

Note d: This entity is classified as material by the Department of Finance. As it is consolidated into a material entity, the Australian Nuclear Science and Technology Organisation, it is not discussed separately as a material entity in this report.

Note e: This entity is classified as material by the Department of Finance. As it is consolidated into a material entity, the Commonwealth Scientific and Industrial Research Organisation, it is not discussed separately as a material entity in this report.

Note f: The House of Representatives is not required to appear before Senate Estimates.

Note g: This entity is classified as material by the Department of Finance. As it is consolidated into the Indigenous Land and Sea Corporation, it is not discussed separately as a material entity in this report.

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

M: auditor's report draws attention to a material uncertainty related to going concern

Q: auditor's report contains a qualification of the opinion

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

- ◆: new significant or moderate audit findings and/or legislative breaches noted
- ▲: significant or moderate audit findings and/or legislative breaches reported previously not yet resolved
- : significant or moderate audit findings and/or legislative breaches identified in previous periods, or the 2022–23 interim audit phase, now downgraded or resolved
- 📅: financial year end date other than 30 June 2023
- ▬: financial statements not signed as at 30 November 2023
- : annual report not tabled as at 30 November 2023

Appendix 2 Changes in audit responsibilities in 2022–23

1. The following is a listing of new portfolios created in 2022–23, portfolios that had a name change in 2022–23, entities that have moved between portfolios in 2022–23, new entities that were required to be audited by the Auditor-General in 2022–23, entities that ceased to be audited by the Auditor-General in 2022–23 and entities that had a name change in 2022–23.

New portfolios

- Climate Change, Energy, the Environment and Water
- Employment and Workplace Relations

Table A.1: Portfolio name changes

2022–23 portfolio name	Former portfolio name
Agriculture, Fisheries and Forestry	Agriculture, Water and the Environment
Education	Education, Skills and Employment
Health and Aged Care	Health
Industry, Science and Resources	Industry, Science, Energy and Resources
Infrastructure, Transport, Regional Development, Communications and the Arts	Infrastructure, Transport, Regional Development and Communications

Table A.2: Changes in administrative arrangements

Entity name	2022–23 portfolio	Former portfolio
Australian Criminal Intelligence Commission	Attorney-General's	Home Affairs
Australian Federal Police	Attorney-General's	Home Affairs
Australian Institute of Criminology	Attorney-General's	Home Affairs
Australian Transaction Reports and Analysis Centre	Attorney-General's	Home Affairs
Office of the Special Investigator	Attorney-General's	Home Affairs
Department of Climate Change, Energy, the Environment and Water	Climate Change, Energy, the Environment and Water	
– Natural Heritage Trust of Australia	Climate Change, Energy, the Environment and Water	Agriculture, Water and the Environment
Australian Institute of Marine Science	Climate Change, Energy, the Environment and Water	Industry, Science, Energy and Resources
Australian Renewable Energy Agency	Climate Change, Energy, the Environment and Water	Industry, Science, Energy and Resources
Bureau of Meteorology	Climate Change, Energy, the Environment and Water	Agriculture, Water and the Environment

Entity name	2022–23 portfolio	Former portfolio
Clean Energy Finance Corporation	Climate Change, Energy, the Environment and Water	Industry, Science, Energy and Resources
Clean Energy Regulator	Climate Change, Energy, the Environment and Water	Industry, Science, Energy and Resources
Climate Change Authority	Climate Change, Energy, the Environment and Water	Industry, Science, Energy and Resources
Director of National Parks	Climate Change, Energy, the Environment and Water	Agriculture, Water and the Environment
Great Barrier Reef Marine Park Authority	Climate Change, Energy, the Environment and Water	Agriculture, Water and the Environment
Murray-Darling Basin Authority	Climate Change, Energy, the Environment and Water	Agriculture, Water and the Environment
North Queensland Water Infrastructure Authority	Climate Change, Energy, the Environment and Water	Infrastructure, Transport, Regional Development and Communications
Snowy Hydro Limited	Climate Change, Energy, the Environment and Water	Industry, Science, Energy and Resources
Sydney Harbour Federation Trust	Climate Change, Energy, the Environment and Water	Agriculture, Water and the Environment
– Sydney Harbour Foundation Management Limited	Climate Change, Energy, the Environment and Water	Agriculture, Water and the Environment
Asbestos Safety and Eradication Agency	Employment and Workplace Relations	Attorney-General's
Australian Building and Construction Commission	Employment and Workplace Relations	Attorney-General's
Australian Skills Quality Authority	Employment and Workplace Relations	Education, Skills and Employment
Coal Mining Industry (Long Service Leave Funding) Corporation	Employment and Workplace Relations	Attorney-General's
Comcare	Employment and Workplace Relations	Attorney-General's
Fair Work Commission	Employment and Workplace Relations	Attorney-General's
Fair Work Ombudsman and Registered Organisations Commission Entity	Employment and Workplace Relations	Attorney-General's
Safe Work Australia	Employment and Workplace Relations	Attorney-General's
Seafarer Safety, Rehabilitation and Compensation Authority	Employment and Workplace Relations	Attorney-General's
Digital Transformation Agency	Finance	Prime Minister and Cabinet

Entity name	2022–23 portfolio	Former portfolio
National Emergency Management Agency	Home Affairs	Prime Minister and Cabinet
National Archives of Australia	Infrastructure, Transport, Regional Development, Communications and the Arts	Attorney-General's
Old Parliament House	Infrastructure, Transport, Regional Development, Communications and the Arts	Prime Minister and Cabinet

New entities audited by the Auditor-General

- CSIRO Main Sequence Core Fund 3, LP
- CSIRO Main Sequence NGS Co-Investment Fund
- CSIRO Main Sequence Parallel Fund
- Department of Climate Change, Energy, the Environment and Water
- Department of Employment and Workplace Relations
- Domestic, Family and Sexual Violence Commission
- National Emergency Management Agency
- Northern Territory Aboriginal Investment Corporation

Entities that ceased to be audited by the Auditor-General

- ASC AWD Shipbuilder Pty Ltd
- ASC OPV Pty Ltd
- Clean Energy Investment Management Pty Ltd
- Gagudju Crocodile Hotel Trust
- Kakadu Tourism (GCH) Pty Ltd
- Moorebank Intermodal Development Investment Trust
- Moorebank Intermodal Development Rail Trust
- National Recovery and Resilience Agency
- Northam Solar Project Partnership
- North Australia Aboriginal Corporation
- Northern Australian Aboriginal Charitable Trust
- Wheat Quality Australia

Table A.3: Entities that had a name change

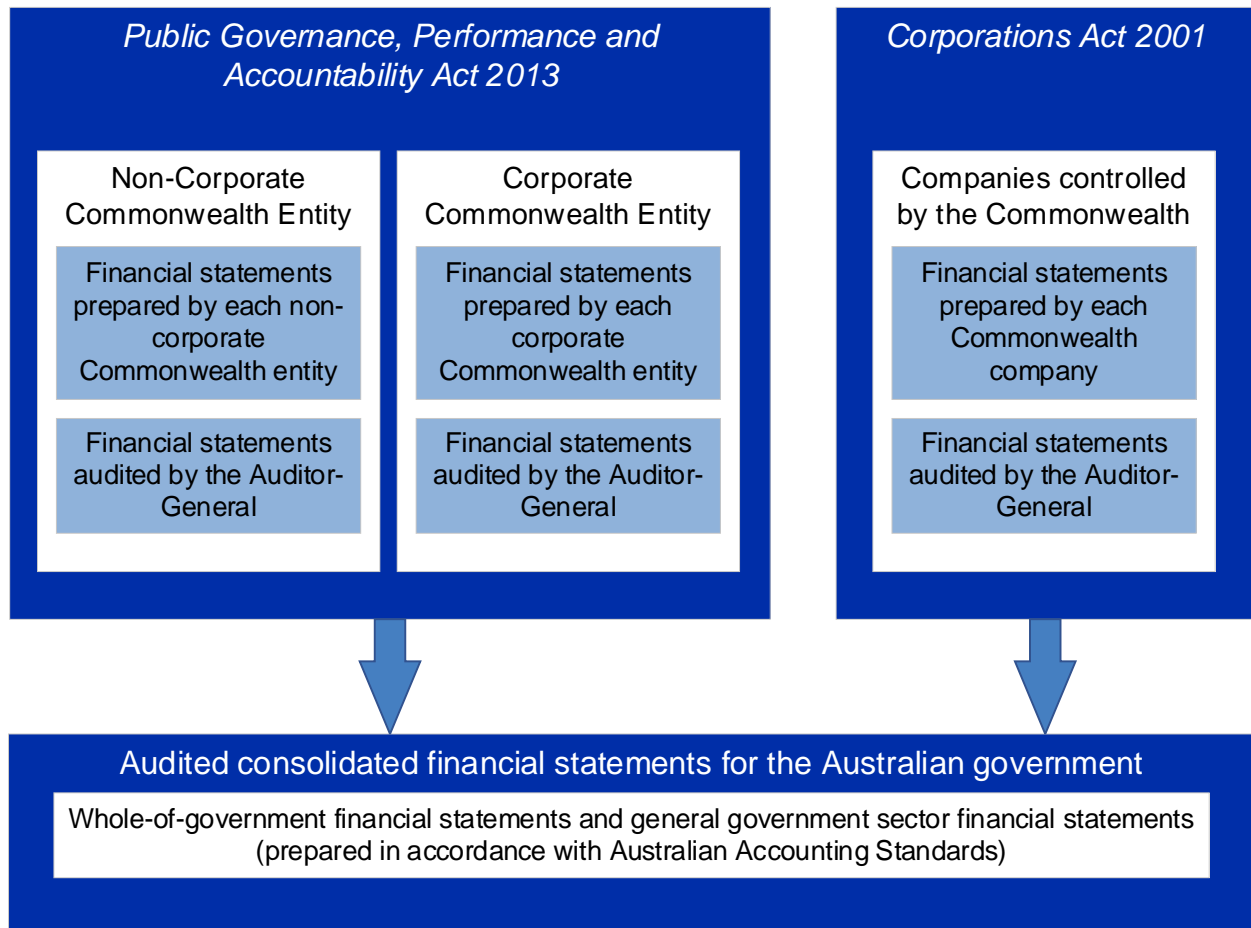
2022–23 entity name	Former entity name
Department of Agriculture, Fisheries and Forestry	Department of Agriculture, Water and the Environment
Department of Education	Department of Education, Skills and Employment

2022–23 entity name	Former entity name
Department of Health and Aged Care	Department of Health
Department of Industry, Science and Resources	Department of Industry, Science, Energy and Resources
Department of Infrastructure, Transport, Regional Development, Communications and the Arts	Department of Infrastructure, Transport, Regional Development and Communications
Independent Health and Aged Care Pricing Authority	Independent Hospital Pricing Authority
Professional Services Review	Professional Services Review Scheme

Appendix 3 The financial reporting and auditing framework for the 2022–23 financial statements

1. Key elements of the Australian Government’s financial reporting and auditing framework are outlined in Figure A.1 below.

Figure A.1: Australian Government financial reporting framework



Source: ANAO compilation.

Australian Government reporting entities

Commonwealth Government of Australia

2. Section 48 of the PGPA Act requires the Finance Minister to prepare annual consolidated financial statements and give the statements to the Auditor-General.

3. The PGPA Act prescribes Australian Accounting Standards (AASs) and any other requirements prescribed by the PGPA rules, as the applicable financial reporting framework for the preparation of annual consolidated financial statements.

Commonwealth entities

4. Section 11 of the PGPA Act determines that there are two types of Commonwealth entities: a non-corporate Commonwealth entity, which is a Commonwealth entity that is not a

body corporate¹⁴⁷; and a corporate Commonwealth entity, which is a Commonwealth entity that is a body corporate and legally separate from the Commonwealth.

5. Section 41 of the PGPA Act requires the accountable authority of a Commonwealth entity to maintain records, internal controls, procedures and processes that comply with the PGPA rules and support the preparation of financial statements.

6. Section 42 of the PGPA Act requires the accountable authority of a Commonwealth entity to prepare annual financial statements that comply with the AAS and any other requirements prescribed by the PGPA rules.

Commonwealth companies and subsidiaries

7. Commonwealth companies are companies that are controlled by the Australian Government through majority share holdings, voting rights, or via control over the composition of the company's board. Commonwealth companies operate and prepare financial statements under the *Corporations Act 2001* (Corporations Act).

8. The applicable financial reporting framework for Commonwealth companies is the Corporations Act, including the AASs and the Corporations Regulations.

9. The Directors of a Commonwealth company, or a company that is a subsidiary of either a Commonwealth entity or a Commonwealth company, are responsible for the preparation of financial statements that give a true and fair view and for maintaining records, internal controls, procedures and processes that support the preparation of the financial statements.

Other bodies

10. The ANAO audits the financial statements of other bodies under Commonwealth legislation other than the PGPA Act, including the 'by arrangement' provisions in section 20 of the *Auditor-General Act 1997*. Examples of these other bodies include statutory bodies not established as Commonwealth entities or trusts. The financial reporting framework applicable to these other bodies depends on legislation and rules that govern that entity.

Audit of Australian Government entity financial statements

11. The ANAO undertakes audit procedures over the financial statements and the systems and processes used for the preparation of the financial statements. Once this audit work is completed, the ANAO will form an opinion on whether the financial statements are free from material misstatement, comply with applicable accounting standards and any other rules, and present fairly the financial position, financial performance and cashflows of the entity. These audit procedures are conducted in accordance with the ANAO Auditing Standards, which incorporate the AAS and provide reasonable assurance that the entities have prepared financial statements that are free of material misstatement.

¹⁴⁷ Three entities have a body corporate status but are prescribed as non-corporate Commonwealth entities. These are the Australian Competition and Consumer Commission; the Australian Prudential Regulation Authority; and the Australian Securities and Investments Commission.

Audit scope

12. Audit procedures include an examination of the entity's records and its internal controls, 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 the entity's accounting policies and significant accounting estimates are evaluated.

13. Responsibility for the prevention and detection of fraud and error within the entity rests with those charged with governance, the accountable authority and the management of the entity. The auditor is not responsible for the prevention or detection of fraud and error.

The auditor's report on financial statements

14. The ANAO auditor's report on the financial statements includes a statement of the auditor's opinion as to whether the financial statements present fairly the entity's financial position, the results of its operations and its cash flows in accordance with the applicable financial reporting framework. The audit opinion can be presented in different forms and the auditor's report may draw to the reader's attention other matters.

Form of auditor's opinion

15. An auditor's opinion is described as 'unmodified' when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

16. An auditor's opinion may be 'modified' in one of three ways:

- a 'qualified opinion' is expressed when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in aggregate, are material but not pervasive to the financial statements. A 'qualified opinion' is also expressed when the auditor, having been unable to obtain sufficient appropriate audit evidence, concludes that the possible effects on the financial statements of undetected misstatements could be material but not pervasive.
- a 'disclaimer of opinion' is expressed when the auditor, having been unable to obtain sufficient appropriate audit evidence on which to base the opinion, concludes that the possible effects on the financial statements of undetected misstatements could be both material and pervasive. A 'disclaimer of opinion' is also expressed when the auditor, having been able to obtain sufficient appropriate audit evidence regarding individual uncertainties, concludes that the potential interaction of the uncertainties and their possible cumulative effect on the financial report cannot be determined.
- an 'adverse opinion' is expressed when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements individually or in aggregate, are both material and pervasive to the financial statements.

Emphasis of matter

17. An 'emphasis of matter' paragraph is included in the auditor's report when the auditor considers it necessary to draw to users' attention a matter presented in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to the users' understanding of the financial statements. The circumstances in which an emphasis of matter is used include:

- when financial statements and the auditor's report have been issued and a fact is discovered that leads to revised financial statements and a new auditor's report being prepared; and
- when financial statements have been prepared in accordance with a special purpose framework, and as a result the financial statements may not be suitable for another purpose.

Other matter

18. The auditor's report on the financial statements may also include a reference to an 'other matter'. This allows the auditor to communicate a matter other than a matter that is presented or disclosed in the financial statements that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Material uncertainty related to going concern

19. The auditor's report on the financial statements will also include a reference to a 'material uncertainty related to going concern' when there are possible or actual events or conditions that may cast significant doubt on an entity's ability to continue as a going concern and the financial statements include adequate disclosure about the uncertainty and management's plans to deal with the uncertainty.

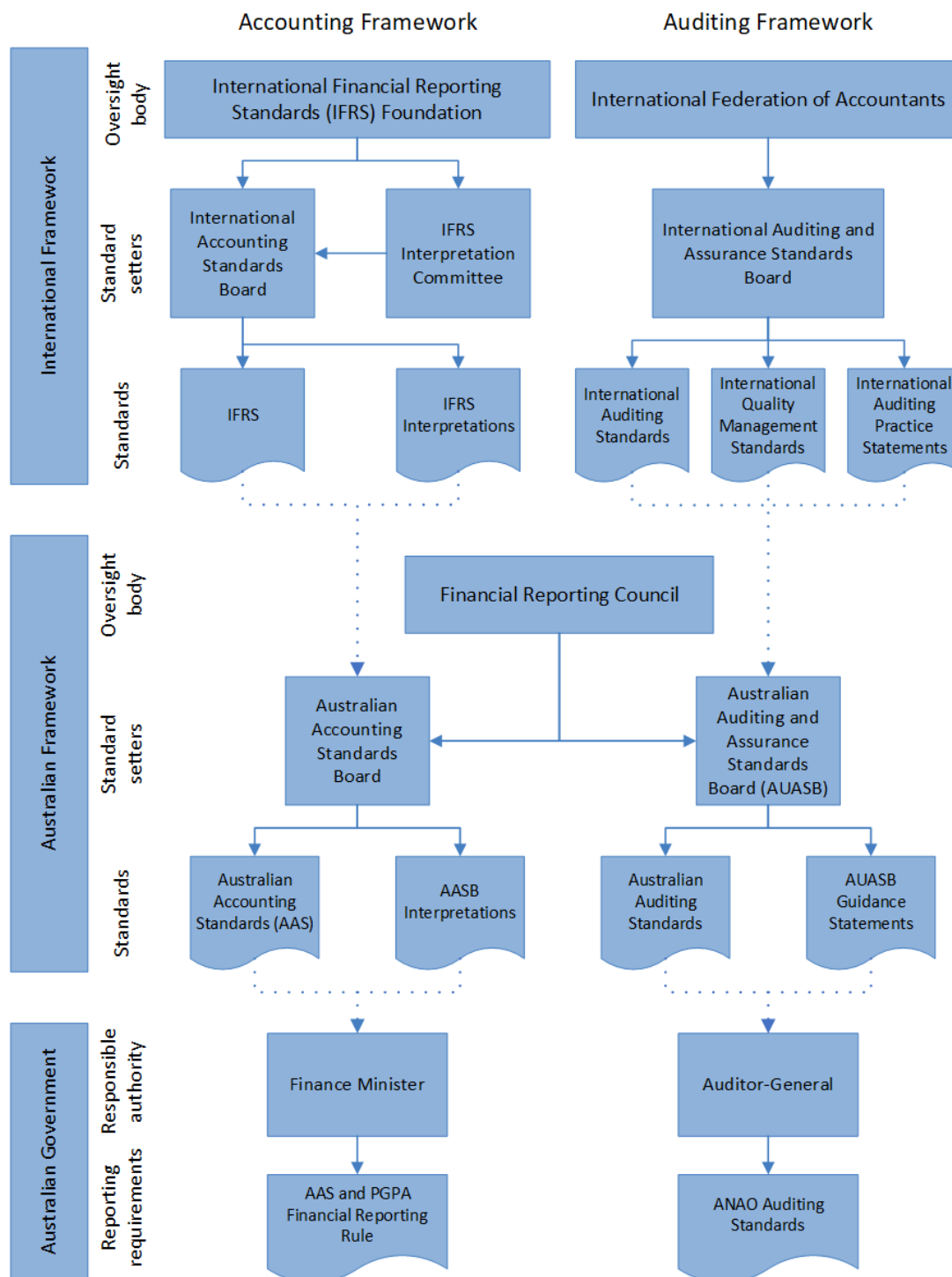
Report on other legal and regulatory requirements

20. The auditor's report on the financial statements may also include a report on other legal and regulatory requirements. This report covers matters that the Auditor-General is required by law to report on in conjunction with the financial statements audit.

Appendix 4 The financial reporting and auditing standards frameworks for 2022–23

Figure A.2 below depicts the standard setting framework for financial reporting and auditing in the Australian Government context.

Figure A.2: Australian Government standard setting framework



Appendix 5 Comments on 2021–22 audits of non-material entities that were not finalised at 2 December 2022

- As reported in Auditor-General Report No.8 2022–23 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2022*, there were ten¹⁴⁸ entities for which the 2021–22 financial statements audit had not been finalised as at 2 December 2022. Details of these audits are presented in Table A.4 below.
- This section outlines the results of the audits of the 2021–22 financial statements of each individual entity by portfolio based on the administrative arrangement orders existing as at 30 June 2022. This section also details:
 - the number of audit differences reported to each of the entities within the portfolio; and
 - findings identified during the course of the 2021–22 financial statements audits of each of the entities.

Table A.4: Non-material entities for which the 2021–22 financial statements were not finalised at 2 December 2022

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Agriculture, Water and the Environment Portfolio						
• Grains Australia Limited	No	Low	✓	22 Dec 22	22 Dec 22	Nil
Defence Portfolio						
Army and Air Force Canteen Service	No	Low	E	2 Dec 22	5 Dec 22	◆
Royal Australian Air Force Welfare Trust Fund	No	Low	✓	14 Feb 23	14 Feb 23	◆
Royal Australian Navy Central Canteens Board	No	High	Q	27 Jun 23	28 Jun 23	◆
• Win with Navy Ltd	No	Low	✓	27 Jun 23	28 Jun 23	Nil
Foreign Affairs and Trade Portfolio						
Australian Secret Intelligence Service	No	Low	✓	7 Feb 23	7 Feb 23	Nil
Infrastructure, Transport, Regional Development and Communications Portfolio						
Bundanon Trust	No	High	E	8 May 23	9 May 23	◆
Prime Minister and Cabinet Portfolio						
Anindilyakwa Land Council	No	Low	E	17 Apr 23	26 Apr 23	◆
Tiwi Land Council	No	Low	E	19 Dec 22	19 Dec 22	◆

148 Wheat Quality Australia was de-registered on 12 September 2022. As a result, no audit of the 2021–22 financial statements was required.

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
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✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

◆: new significant or moderate findings and/or legislative matters noted

Quality and timeliness of financial statements preparation

3. Table A.5 shows the total number of audit differences reported to entities during the 2021–22 financial statements audits.

Table A.5: The number of audit differences for entities in 2021–22 which had not been finalised at 2 December 2022

	2021–22			2020–21		
	Unadjusted	Adjusted	Total	Unadjusted	Adjusted	Total
Agriculture, Water and the Environment Portfolio						
• Grains Australia Limited	1	–	1	–	2	2
Defence Portfolio						
Army and Air Force Canteen Service	–	2	2	–	–	–
Royal Australian Navy Central Canteens Board	2	7	9	–	2	2
• Win with Navy Ltd	–	–	–	–	–	–
Infrastructure, Transport, Regional Development and Communications Portfolio						
Bundanon Trust	4	–	4	–	2	2
Prime Minister and Cabinet Portfolio						
Anindilyakwa Land Council	–	10 ^a	10	7	1	8

Note a: The current year adjustments include adjustments identified in 2021–22 that relate to the prior year.

Source: ANAO 2021–22 audit results.

Audit findings

4. A summary of the total number of audit findings by category is presented below in Table A.6.

Table A.6: The number of audit findings for entities in 2021–22 which had not been finalised at 2 December 2022

Category	Significant	Moderate	Minor
Financial statements preparation	1	1	2
IT control environment	–	–	–

Category	Significant	Moderate	Minor
Compliance and quality assurance frameworks	–	–	–
Accounting and control of non-financial assets	1	3	1
Revenue, receivables and cash management	–	1	3
Human resources financial processes	–	–	–
Purchases and payables management	–	–	3
Other audit findings	2	3	3
Legislative breaches	3	2	1
Total	7	10	13

Source: ANAO 2021–22 audit results.

Comments on non-material entities in the Defence Portfolio relating to the 2021–22 financial statements audits

Army and Air Force Canteen Service

5. The Army and Air Force Canteen Service (AAFCANS) was established to provide goods, facilities and services to members of the Defence community. AAFCANS operates food services and facilities on 27 Army and Air Force bases and joint Australian Defence Force facilities throughout Australia.

Audit results

6. The following table summarises the status of audit findings as at the end of the 2021–22 audit as reported by the ANAO.

Table A.7: Status of audit findings

Category	Closing position (2020–21)	New findings ^a (2021–22)	Findings resolved (2021–22)	Closing position (2021–22)
Significant (A)	–	1	–	1
Moderate (B)	–	1	–	1
Legislative breach (L1)	–	1	–	1
Total	–	3	–	3

Note a: These audit findings were previously reported in Auditor-General Report No.26 2022–23 *Interim Report on Key Financial Controls of Major Entities*.

Source: ANAO 2021–22 audit results.

7. For each of the findings listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that the financial statements were not materially misstated.

New significant audit finding

Key management personnel disclosures

8. The ANAO identified a number of material misstatements in the 2020–21 KMP disclosures. These errors resulted in a significant restatement of the key management personnel note disclosure and the inclusion of narrative disclosures to explain the changes to the note. The ANAO has made recommendations to AAFCANS in relation to policies and procedures that should be in place to reduce the risk of future misstatements occurring.

New significant legislative breach

Breach of section 41 of the PGPA Act

9. Section 41 of the PGPA Act requires entities to maintain accounts and records that properly explain the entity's transactions and financial position. ANAO identified that AAFCANS was unable to produce accounts and records in relation to its asset revaluation reserve. The ANAO recommended AAFCANS implement appropriate controls designed to ensure compliance with the PGPA Act, the FRR and to enable the preparation of the financial statements using information that can be properly supported with accounts and records.

New moderate audit finding

Control weaknesses around the asset revaluation reserve

10. The ANAO identified that AAFCANS did not have a process to reconcile its asset revaluation reserve and was unable to provide a breakdown of the balance by asset class. As a result, AAFCANS did not record its asset valuation adjustments in its general ledger as it was unable to determine whether there was a revaluation reserve in which to offset the revaluation decrement. The ANAO requested management undertake work to recreate the asset revaluation reserve so valuation adjustments could be properly recorded.

Emphasis of matter

11. An Emphasis of Matter paragraph has been included in the 2021–22 auditor's report to draw users' attention to the restatement of comparative information presented in relation to Key Management Personnel remuneration due to errors in the disclosure in the prior period.

Royal Australian Air Force Welfare Trust Fund

12. The Royal Australian Air Force Welfare Trust Fund (the Fund) was established to provide financial assistance to Defence service personnel including concessional loans and grants, and a Group Life Insurance Scheme.
13. The following table summarises the status of audit findings as at the end of the 2021–22 audit as reported by the ANAO.

Table A.8: Status of audit findings

Category	Closing position (2020–21)	New findings ^a (2021–22)	Findings resolved (2021–22)	Closing position (2021–22)
Moderate (B)	–	1	–	1

Category	Closing position (2020–21)	New findings ^a (2021–22)	Findings resolved (2021–22)	Closing position (2021–22)
Legislative breach (L1)	–	1	–	1
Total	–	2	–	2

Note a: These audit findings were previously reported in Auditor-General Report No.26 2022–23 *Interim Report on Key Financial Controls of Major Entities*.

Source: ANAO 2021–22 audit results.

14. For the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that the financial statements were not materially misstated.

New moderate audit finding

Governance risk

15. The Fund currently has one Audit Committee member who is a Trustee. Under law, Trustees are responsible for managing the affairs of a Trust. The *Services Trust Funds Act 1947* outlines the responsibilities of Trustees.
16. The Fund does not have employees who are undertaking managerial functions. Instead, the Fund employs staff who perform duties that would be described as clerical or administrative in nature. The staff of the Fund have not been included in the Key Management Personnel note disclosure.
17. The lack of independence between management, the audit committee and the Board of Trustees presents a governance risk as the Board is performing all functions that would usually be split between these roles. A governance risk may result in inadequate and poorly designed systems of internal control, risks around the financial and performance reporting undertaken by the entity, and non-compliance with relevant laws and regulations. The risk is further exacerbated by the absence of any independent oversight through an internal audit function.

New significant legislative breach

Breaches of the *Services Trust Funds Act* – loan made to dependent of trustee

18. The Royal Australian Air Force Welfare Trust Fund was established to provide concessional loans to current and ex-air force personnel to assist with small expenditure items. Interest free loans of up to \$5,500 may be approved where eligibility criteria has been met. In accordance with the *Services Trust Funds Act 1947*, a person who is a Trustee or a dependant of a Trustee of any fund shall not receive benefits from the Fund. A dependant is defined in the *Services Trust Funds Act 1947* and includes dependants past and present.
19. The ANAO identified that a loan of \$1,500 (plus a \$13.84 contribution fee) had been made to a dependent of a Trustee. The Trustee's dependent also financially contributed to the Fund's 'Group Life Scheme' which provides a payout for untimely death. The Trustee (and his immediate family) are beneficiaries of any payout. Both transactions are in contravention of paragraph 14 of the *Services Trust Funds Act 1947*, which prohibits a person who is a Trustee or a dependant of a Trustee from receiving benefits from the Fund.

20. Trustees are key management personnel of the Fund, and the loan made to the dependent and the potential benefit accruing from the Group Life Scheme, both constitute related party transactions requiring disclosure in the financial statements.

Royal Australian Navy Central Canteens Board

21. The Royal Australian Navy Central Canteens Board (RANCCB) is established as a corporate Commonwealth entity to support Navy members by providing a range of low-cost healthy food and beverage options, where profits are returned through social enterprise programs.
22. The 2021–22 financial statements were signed 27 June 2023 and a qualified auditor’s report was issued 28 June 2023.

Audit results

23. The following table summarises the status of audit findings as at the end of the 2021–22 final audit as reported by the ANAO.

Table A.9: Status of audit findings

Category	Closing position (2020–21)	New findings (2021–22)	Findings resolved (2021–22)	Closing position (2021–22)
Significant (A)	–	2	–	2
Moderate (B)	–	5	–	5
Total	–	7	–	7

Source: ANAO 2021–22 audit results.

24. For each of the findings listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that the financial statements were not materially misstated.

New significant audit findings

Process for considering CEO’s remuneration

25. In 2021–22 the CEOs remuneration was subject to evaluation for the period 2017–18 to 2021–22. Testing identified:
- there was no evidence that the CEO had developed Key Performance Indicators (KPIs) in accordance with their employment contract on which to base the assessment of performance bonuses.
 - the CEO received pay increments for the period 3 January 2019 to 3 January 2022 that exceeded pay increments for employees of Australian Public Service (APS) and non-APS government entities based on the APS Bargaining Framework. As KPIs for the CEO’s performance were not established there was insufficient evidence of performance in line with approved pay increments.
 - the CEO was awarded a performance bonus and pay increment for the period between April 2020 and October 2020 where there was a pay freeze as a result of COVID.

- management was unable to provide evidence of Board approval for the total back payment of salary and superannuation components. Evidence was obtained that captured a number of the discussions but did not capture the approval for the total payment.
26. The ANAO recommended RANCCB implement formal policies for considering CEO's remuneration, including the development of KPIs to be used in assessing the performance of the CEO. Further, discussions and decisions of the Remuneration Committee and Executive Board should be fulsomely recorded in the minutes and records maintained in line with records management requirements.

Weaknesses in asset management

27. In 2021–22 the ANAO identified weaknesses in RANCCB's asset management process, including the absence of a formalised annual asset stocktaking process. The results of the 2021–22 stocktake identified:
- significant assets first found where ownership was unclear; and
 - significant assets on the asset register that could not be located.
28. Further, the ANAO identified that incorrect and incomplete data was provided to the independent valuer for the purposes of asset valuation. As a result, the ANAO was unable to obtain sufficient appropriate audit evidence to support the valuation of plant and equipment assets as at 30 June 2022 resulting in the inclusion of a qualification in the auditor's report for RANCCB's 2021–22 financial statements.
29. The ANAO recommended RANCCB develop and implement formal procedures in relation to the asset stocktaking process. Further, the ANAO recommended improvements in the process for recording assets within the asset register to ensure an appropriate level of detail of the asset description and location, in conjunction with the use of stickers or engraving on assets to evidence ownership. To address the qualification in the 2021–22 auditor's report, the ANAO recommended RANCCB undertake a detailed asset valuation process as at 30 June 2023, ensuring the use of complete and accurate data to determine the fair value of plant and equipment.

New moderate audit findings

Weaknesses in inventory management

30. In 2021–22 the ANAO identified weaknesses in RANCCB's inventory management process. Testing identified:
- the inventory policy was out of date and did not reflect the current process.
 - no physical count was performed for the Navy merchandise held by a third-party provider and no periodic merchandise inventory reconciliations were prepared. The lack of physical count of RANCCB's merchandise resulted in the ANAO being unable to obtain sufficient and appropriate audit evidence for the inventory balance at 30 June 2022 resulting in the inclusion of a qualification in the auditor's report for RANCCB's 2021–22 financial statements.
 - there was no independent process or review to confirm whether the physical count performed by each canteen manager was complete and accurate. Canteen managers have limited guidance on the conduct of the stocktake process.

31. The ANAO recommended RANCCB update the inventory policy and inventory stocktake procedures and ensure a physical count is performed over any inventory held by third parties on a periodic basis, or at a minimum 30 June annually. Further, the ANAO recommended that inventory reconciliations be prepared and independently reviewed on an established periodic basis.

Deficiencies in recording and monitoring cost of goods sold

32. In 2021–22 the ANAO identified weaknesses in RANCCB’s recording and monitoring cost of goods sold. Testing identified:
- there was no documented formal process to ensure that cost of goods sold expenses were being recorded, monitored, and rectified accurately and in a timely manner by key personnel.
 - weaknesses in the month end stocktake processes performed by canteen managers, as identified in the weakness in inventory management audit finding.
 - no independent check to confirm purchased inventory was appropriately recorded in the system and no evidence of processes to monitor and remediate the accuracy of canteen stock recorded by canteen managers.
 - no formal independent review or approval prior to cost of goods sold adjustments being processed in the financial management information system.
33. The ANAO recommended RANCCB update the inventory policy and inventory stocktake procedures to support canteen managers execute month end stocktake processes. The updated processes should include a formal process to manage the transfer of inventory between canteens. Further, the ANAO recommended RANCCB implement detective controls to support the accurate processing of inventory purchases in the system, including strengthening the investigations performed by the Inventory Analyst to investigate discrepancies identified during the month end stocktake and ensuring stock adjustment journals are reviewed prior to posting in the financial management information system.

Weaknesses in revenue and receivables

34. In 2021–22 the ANAO identified weaknesses in RANCCB’s revenue and receivables process. Testing identified:
- no formal controls in place for revenue received from canteens and no formal controls to confirm completeness of revenue received from RANCCB’s Australia Post licence. There was no reconciliation between the report provided by Australia Post and revenue received by RANCCB.
 - no formal controls to monitor the sales volumes through vending machines to confirm completeness of commission revenue received.
 - no formal monitoring controls over debtor management, resulting in processing errors being undetected and debtors that could not be substantiated to supporting documentation.
35. The ANAO recommended RANCCB implement a formalised reconciliation of canteen revenue and revenue received from external sources, including Australia Post and vending

machines. Further, the ANAO recommended RANCCB perform a periodic reconciliation of aged debtors and implement a process to follow-up overdue debt on a timely basis.

Records management

36. During 2021–22 the ANAO observed weaknesses in RANCCB’s records management practices. These observations related to appropriate accounts and records to support current year transactions and balances, along with prior year balances that were carried forward to 2021–22. These included:
- accounts and records were not available to support the breakdown of the asset revaluation reserve by asset class, as required by the Australian Accounting Standards.
 - accounts and records prepared at the time of implementation of the new FMIS on 1 July 2021 were not available and were required to be recreated.
 - reconciliations were not prepared for a number of balance sheet line items, particularly during the first eight months of the financial year.
 - write-offs occurred across a number of asset balances and suspense accounts as there were no accounts and records to support the balances.
 - system limitations prevented RANCCB from providing the ANAO with evidence that its manual journals population was complete.
 - records evidencing controls around revenue transactions were not maintained.
37. The ANAO recommended RANCCB implement an appropriate records management framework and controls designed to ensure the creation and subsequent capture of accounts and records to support the preparation of the financial statements.

Weaknesses around manual journal processes

38. During 2021–22 the ANAO identified weaknesses in the manual journals process. The ANAO identified a number of manual journals processed with no evidence of segregation of duties and a system configuration that allowed specific employees access to edit manual journals which had previously been approved and posted to the general ledger, with no audit trail to identify where this had occurred. Further, there were unexplained gaps in the sequential numbering of manual journals, indicating a risk that journals had been deleted or voided with no supporting evidence.
39. The ANAO recommended RANCCB implement processes to ensure appropriate segregation of duties between the preparer and reviewer for manual journals. Where this cannot be enforced through the financial management information system, RANCCB should implement a manual process to demonstrate appropriate segregation of duties, including maintaining supporting documentation.

Qualification

40. The auditor’s report for RANCCB’s 2021–22 financial statements included qualification’s relating to the following:
- RANCCB did not undertake a physical count of its merchandise inventory, which is a component of the inventory balance. The ANAO was unable to perform alternative audit procedures regarding the existence and condition of inventory held and consequently,

were unable to obtain sufficient and appropriate audit evidence for the inventory balance at 30 June 2022.

- As a result of deficiencies in the sales records of RANCCB, the ANAO’s audit procedures with respect to revenue were restricted to transactions recorded in the financial records. This resulted in the ANAO being unable to express an opinion on the completeness of revenue for the year ended 30 June 2022.
- The valuation performed by the management-appointed valuer was based upon inadequate information provided by RANCCB with respect to the number of assets held and the conditions of those assets. This resulted in the ANAO being unable to obtain sufficient and appropriate audit evidence regarding the valuation of plant and equipment held at 30 June 2022.

Comments on non-material entity in the Infrastructure, Transport, Regional Development and Communications Portfolio relating to the 2021–22 financial statements audit

Bundanon Trust

41. Bundanon Trust Limited supports arts practice and engagements with the arts through its residency, education, exhibition, and performance programs. The Trust was incorporated on 22 March 1993 as a public company limited by guarantee to manage artworks, landscape and heritage infrastructure gifted by Arthur and Yvonne Boyd to the Australian Government. The Trust’s mission is to operate the Bundanon properties as a centre for creative arts and education, to support the development of arts practice across all disciplines and to enable public access to the arts and to the landscape.
42. The 2021–22 financial statements audit was delayed because an issue affecting going concern was identified by the ANAO which required additional work to be undertaken by the Trust.

Audit results

43. The following table summarises the status of audit findings reported by the ANAO in 2020–21 and 2021–22.

Table A.10: Status of audit findings

Category	Closing position (2020–21)	New findings (2021–22)	Findings resolved (2021–22)	Closing position (2021–22)
Significant (A)	–	1	–	1
Total	–	1	–	1

Source: ANAO 2021–22 audit results.

44. For the finding listed below, the ANAO undertook additional audit procedures to gain assurance that Bundanon Trust’s 2021–22 financial statements were not materially misstated.

New significant audit finding

Going concern

45. As part of the 2021–22 audit, the ANAO assessed the Trust’s projected cash flows for 18 months to 31 December 2023. Cash flows were assessed as insufficient to meet the Trust’s estimated expenditure. As at 30 June 2022, Bundanon Trust had not secured future government or donor funding, and the Trust’s activities to generate own-source revenue were insufficient to meet the expected cash outflows.
46. In addition, Bundanon Trust had been significantly impacted by the COVID-19 pandemic, the 2020 bushfires and the 2022 flooding events. These events limited the Trust’s ability to generate its own-sourced income. Whilst operations had started to recover during the financial year, new flooding events continued to cause damage to the roads which provided access to the property limiting physical access for visitors, tour groups and staff further impacting income-generating activities.
47. Bundanon Trust identified both short-term and long-term financial sustainability as extreme risks in its enterprise risk register. As at 30 June 2022, there were minimal strategies in place to mitigate the risks.
48. In May 2023, the Australian Government announced that the Trust would receive additional funding from the 2023–24 financial year. At the conclusion of the 2021–22 audit, there was no signed agreement in relation to the announced funding, and the Trust had not undertaken any cashflow analysis to assess the impact of the announcement on its financial sustainability.
49. The Trust disclosed a material uncertainty in relation to going concern in its 2021–22 financial statements.

Emphasis of matter

50. The auditor’s report for the Trust’s 2021–22 financial statements included an emphasis of matter paragraph to draw the attention of users to a material uncertainty that existed at 30 June 2022 that may cast significant doubt on the Trust’s ability to continue as a going concern.

Comments on non-material entity in the Prime Minister and Cabinet Portfolio relating to the 2021–22 financial statements audit

Anindilyakwa Land Council

51. The Anindilyakwa Land Council (ALC) was formed by the *Aboriginal Land Rights (Northern Territory) Act 1976* (ALRA). Under subsection 23(1) of the ALRA, ALC undertakes the following activities:
 - Management of the land to protect traditional owners’ interests.
 - Protection of sacred sites.
 - Consultation regarding proposals relating to lands and seas in the Groote Archipelago.
 - Provision of assistance to traditional owners to engage in commercial activities and economic development.
 - Supervision and administration of land trusts.

- Control of visits by all non-indigenous people through monitoring and permits.
- Protection and preservation of culture, including intellectual property, copyright and reproduction of cultural products to safeguard against illegal or improper use of research, digital images, designs, stories, bio-cultural information, artefacts and art.

Audit results

52. The following table summarises the status of audit findings as at the end of the 2021–22 final audit as reported by the ANAO.

Table A.11: Status of audit findings

Category	Closing position (2020–21)	New findings ^a (2021–22)	Findings resolved (2021–22)	Closing position (2021–22)
Moderate (B)	–	1 ^b	–	1
Total	–	1	–	1

Note a: This audit finding was previously reported in Auditor-General Report No.26 2022–23 *Interim Report on Key Financial Controls of Major Entities*.

Note b: The minor audit finding relating to financial statements preparation was identified during the 2019–20 audit. This audit finding has been reclassified to a moderate audit finding.

Source: ANAO 2021–22 audit results.

New moderate audit finding

Financial statements preparation

53. Part 2-2 Division 4 Section 41.2 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) requires the accountable authority of a Commonwealth entity to ensure that the accounts and records are kept in a way that: allows those financial statements to be conveniently and properly audited.
54. In 2019–20, the ANAO identified a number of areas where ALC had limited quality assurance checks performed by management to ensure that the draft versions of the financial statements were of a high standard. The ANAO recommended in 2019–20 that ALC develop a detailed financial statements preparation process that included appropriate working papers, position papers and quality assurance processes.
55. In 2020–21, the ANAO performed a follow-up on the recommendations made in 2019–20 and noted that there had been no significant improvement to ALC’s financial statements preparation process.
56. As part of the 2021–22 final audit, the ANAO continued to identify issues in ALC’s financial statements preparation process, The ANAO reclassified the minor audit finding originally raised in 2019–20 to moderate.

Emphasis of matter

57. An Emphasis of Matter paragraph has been included in the 2021–22 auditor’s report to draw users’ attention to two prior period errors in relation to Key Management Personnel Remuneration disclosures and related party transactions.

Tiwi Land Council

58. The Tiwi Land Council (TLC) was established on 18 August 1978, following representation by the Tiwi people to the Australian Government for recognition of their distinct geographic and cultural identity. TLC was instituted by the Minister for Aboriginal Affairs, the Honourable Ian Viner, at a special gathering on Bathurst Island on 7 September 1978. TLC is the only body with authority and capacity to direct and administer the Tiwi Aboriginal Land Trust established under the *Aboriginal Land Rights (Northern Territory) Act 1976*.

Audit results

59. The following table summarises the status of audit findings as at the end of the 2021–22 final audit as reported by the ANAO.

Table A.12: Status of audit findings

Category	Closing position (2020–21)	New findings ^a (2021–22)	Findings resolved (2021–22)	Closing position (2021–22)
Legislative Breach (L1)	–	1	–	1
Total	–	1	–	1

Note a: This audit finding was previously reported in Auditor-General Report No.26 2022–23 *Interim Report on Key Financial Controls of Major Entities*.

Source: ANAO 2021–22 audit results.

New significant legislative breach

Risk management activities

60. Part 2-2 Division 2 Section 16 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) requires the accountable authority of a Commonwealth entity to establish and maintain an appropriate system of risk oversight and management. This would normally include the development of a risk management policy and framework, including a risk plan and a risk register and monitoring activities over the implementation of the control activities identified in the risk register.
61. During the final audit, the ANAO noted that TLC did not have in place a formal risk management policy nor a formal risk management framework. It was also noted that TLC updated the design of its Risk Register in 2021–22 but not the substantive contents which were last updated in 2020. There was no evidence of monitoring activities over the implementation of the control activities identified in the risk register. There was also no documented evidence to support that an appropriate system of risk oversight and management is in place for TLC.

Emphasis of matter

62. An Emphasis of Matter paragraph has been included in the 2021–22 auditor’s report to draw users’ attention to the Key Management Personnel Remuneration of the financial statements which describes prior period errors in relation to Key Management Personnel

Remuneration disclosures and overpayments made to the Key Management Personnel for the financial years ended 30 June 2013 to 30 June 2021 inclusive.