

Audit Reports Summaries

Audit Report No. 13 1995-96

Summary

RESULTS OF 1994-95 FINANCIAL STATEMENTS AUDITS OF COMMONWEALTH ENTITIES

Background

The Auditor-General is required by the *Audit Act 1901* and other legislation to audit and report on financial statements of Commonwealth entities. These include departments, statutory authorities, companies and other entities such as trusts and joint ventures.

The results of financial statements audits are publicly reported in two ways. An audit report on an entity's financial statements, prepared in a form required by legislation and in accordance with professional auditing practices and standards, is included in the annual report of the entity concerned. The second way is this report, which provides details of the audit results of entities, including any matters of significance that have come to attention during the course of the audit.

During the latter half of the financial year, the Auditor-General circularised a revised reporting policy indicating that only:

- significant control weaknesses or business risks which required prompt management attention; and
- control weaknesses that should be addressed by management in the short term or those that had been referred to management previously but had not been addressed, would be publicly reported.

Accordingly, this report includes details of those matters and, where appropriate, specific commentary on important matters relevant to agencies' operating environments. The policy also required that, for the first time, reports on the results of departmental financial statements audits would be furnished to responsible Portfolio ministers.

Audit Outcome

In 1994-95 all departments prepared their financial statements on an accrual reporting basis.

Auditing of financial statements disclosed that:

- 401 financial statements were unqualified;
- 16 were qualified for various reasons including:
 - incomplete accounts and records;
 - departures from accounting standards;
 - breaches of legislation;

- uncertainty relating to the effects of the proposed disposals of certain assets or operations of entities; and
- continued improvement was noted in financial statement preparation.

Control Structures

The audits conducted found that:

- overall, control structures were sound in the vast majority of entities; inadequate accounts and records resulted in audit qualifications in only three entities; and
- more than 1500 recommendations were made to management. These included recommendations for improvement in:
 - access security and change control procedures in major IT systems;
 - development of computer systems to support financial statement preparation;
 - control and accounting for assets; and
 - reconciliation of accounting records.

Risk management

As part of the financial statement audit, risk management practices in selected entities were evaluated.

The review disclosed that:

- 50% have sound risk management practices in place; and
- 48% were in the process of developing risk management practices.

The ANAO has worked with entities to encourage them to broaden their assessments and strategies consistent with public sector best practice guidelines, as indicated in the recent MAB/MIAC exposure draft.

Summary

In 1994-95 there has been a continuing improvement in the standard of preparation of financial statements with the majority of heads of entities committed to ensuring that the financial statement preparation process is an integral part of an entity's business culture and performance. The incidence of qualified audit reports issued has continued to decline and in 1994-95 represents only four per cent of all audit reports issued.

In the future, the ANAO will continue to work with entities to assist them in the timely provision of financial information to the Parliament and in meeting other public sector reform obligations.

In 1995-96 the ANAO will issue the first in a series of best practice guides addressing corporate governance matters and, as part of this process, will be placing an increasing emphasis on financial analysis in support of improved financial management practices.