

The Auditor-General  
Audit Report No.17 2009–10  
Financial Statement Audit

**Audits of the Financial Statements of  
Australian Government Entities for the  
Period Ended 30 June 2009**

Australian National Audit Office

© Commonwealth  
of Australia 2009

ISSN 1036-7632

ISBN 0 642 81101 6

## COPYRIGHT INFORMATION

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth.

Requests and inquiries concerning reproduction and rights should be addressed to:

Commonwealth Copyright  
Administration  
Attorney-General's Department  
3-5 National Circuit  
Barton ACT 2600

<http://www.ag.gov.au/cca>



Canberra ACT  
17 December 2009

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken audits of the 2008–09 financial statements of Australian Government entities and examinations and inspections of the accounts and records of those entities in accordance with the authority contained in the contained in the *Auditor-General Act 1997*.

Pursuant to *Senate Standing Order 166* relating to the presentation of documents when the Senate is not sitting, I present this report and the accompanying brochure that reports on the results of these audits. The report is titled *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2009*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name.

Ian McPhee  
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 and financial statement audits 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:  
**The Publications Manager**  
**Australian National Audit Office**  
**GPO Box 707**  
**Canberra ACT 2601**

**Telephone:** (02) 6203 7505  
**Fax:** (02) 6203 7519  
**Email:** [webmaster@anao.gov.au](mailto:webmaster@anao.gov.au)

ANAO audit reports and information about the ANAO are available at our internet address:

<http://www.anao.gov.au>

# Contents

---

Abbreviations and Acronyms .....	10
Foreword .....	13
Summary .....	17
Overview .....	17
Summary of audit findings and related issues .....	17
Report Structure .....	18
1. Financial Reporting and Auditing Frameworks .....	19
Introduction .....	19
Developments in the public sector reporting framework .....	20
Developments in Auditing Standards .....	24
Reporting compliance with the Government's Financial Management Framework .....	27
Conclusion .....	29
2. Results of the Audit of the Consolidated Financial Statements of the Australian Government .....	31
Background .....	31
Audit Report .....	31
Australian Government's Financial Outcome for 2008–09 .....	33
Significant Disclosures in the CFS .....	37
3. Summary of Audit Results and Related Issues .....	39
Audit approach .....	39
Classification of Entities .....	40
Summary of results of audits .....	41
Summary of other audit findings .....	44
Preparation of entity financial statements .....	45
Impact of the Global Economic Downturn .....	47
Certificate of Compliance .....	50
COAG Financial Reforms .....	53
4. Results of Financial Statements Audits by Portfolio .....	55
Introduction .....	55
Agriculture, Fisheries and Forestry Portfolio .....	57
Portfolio overview .....	58
Department of Agriculture, Fisheries and Forestry .....	59
Grains Research and Development Corporation .....	61
Attorney-General's Portfolio .....	63
Portfolio overview .....	64
Attorney-General's Department .....	64
Australian Customs and Border Protection Service .....	66
Australian Federal Police .....	68

Australian Government Solicitor .....	69
Australian Security Intelligence Organisation .....	70
Family Court of Australia.....	71
High Court of Australia.....	72
National Capital Authority .....	73
Australian Crime Commission.....	74
Office of the Director of Public Prosecutions (DPP) .....	75
<b>Broadband, Communications and the Digital Economy Portfolio .....</b>	<b>77</b>
Department of Broadband, Communications and the Digital Economy .....	78
Australian Broadcasting Corporation .....	80
Australian Communications and Media Authority.....	80
Australian Postal Corporation .....	81
NBN Co Limited .....	82
Special Broadcasting Service Corporation .....	83
<b>Defence Portfolio.....</b>	<b>85</b>
Portfolio overview.....	86
Department of Defence.....	86
Australian War Memorial.....	93
Defence Materiel Organisation .....	93
Department of Veterans' Affairs.....	98
Defence Housing Authority .....	100
Royal Australian Navy Central Canteens Board.....	100
Defence Service Homes Insurance Scheme .....	101
Military Superannuation and Benefits Scheme.....	101
<b>Education, Employment and Workplace Relations Portfolio.....</b>	<b>103</b>
Portfolio overview.....	104
Department of Education, Employment and Workplace Relations.....	104
Coal Mining Industry (Long Service Leave Funding) Corporation.....	107
Comcare.....	108
<b>The Environment, Water, Heritage and the Arts Portfolio.....</b>	<b>111</b>
Portfolio overview.....	112
Department of the Environment, Water, Heritage and the Arts.....	112
Bureau of Meteorology.....	114
National Gallery of Australia .....	115
National Library of Australia.....	116
National Museum of Australia .....	116
Screen Australia.....	117
<b>Families, Housing, Community Services and Indigenous Affairs Portfolio .....</b>	<b>119</b>
Portfolio overview.....	120
Department of Families, Housing, Community Services and Indigenous Affairs .....	121

Indigenous Business Australia .....	124
Aboriginal Hostels Limited .....	125
<b>Finance and Deregulation Portfolio .....</b>	<b>127</b>
Portfolio overview .....	128
Department of Finance and Deregulation .....	128
Australian Electoral Commission .....	131
Australian Industry Development Corporation .....	132
ASC Consolidated Group .....	132
Future Fund Management Agency .....	133
Medibank Private Pty Ltd .....	134
ComSuper .....	136
Commonwealth Superannuation Scheme (CSS) .....	136
Public Sector Superannuation Scheme (PSS) .....	136
Public Sector Superannuation Accumulation Plan (PSSap).....	136
Health Services Australia Pty Limited (HSA) .....	137
<b>Foreign Affairs and Trade Portfolio .....</b>	<b>139</b>
Portfolio overview .....	139
Department of Foreign Affairs and Trade .....	140
Australian Agency for International Development.....	142
Australian Trade Commission.....	144
Export Finance and Insurance Corporation .....	145
<b>Health and Ageing Portfolio .....</b>	<b>147</b>
Portfolio overview .....	148
Department of Health and Ageing.....	148
National Blood Authority .....	150
National Health and Medical Research Council (NHMRC).....	151
Australian Sports Commission (ASC).....	152
<b>Human Services Portfolio.....</b>	<b>155</b>
Portfolio overview .....	155
Department of Human Services .....	156
Australian Hearing.....	157
Centrelink .....	157
Medicare Australia .....	159
<b>Immigration and Citizenship Portfolio.....</b>	<b>161</b>
Portfolio overview .....	161
Department of Immigration and Citizenship.....	161
<b>Infrastructure, Transport, Regional Development and Local Government Portfolio .....</b>	<b>165</b>
Portfolio overview .....	165
Department of Infrastructure, Transport, Regional Development and Local Government .....	166

Airservices Australia.....	167
Australian Rail Track Corporation Ltd.....	169
Civil Aviation Safety Authority.....	170
Australian Maritime Safety Authority.....	171
<b>Innovation, Industry, Science and Research Portfolio.....</b>	<b>173</b>
Portfolio overview.....	174
Department of Innovation, Industry, Science and Research.....	174
Australian Nuclear Science and Technology Organisation.....	175
Australian Research Council.....	176
Commonwealth Scientific and Industrial Research Organisation.....	177
Australian Institute of Aboriginal and Torres Strait Islander Studies.....	178
<b>Parliamentary Departments.....</b>	<b>179</b>
Parliamentary Departments overview.....	179
Department of Parliamentary Services.....	180
<b>Prime Minister and Cabinet Portfolio.....</b>	<b>181</b>
Portfolio overview.....	181
Department of the Prime Minister and Cabinet.....	182
Department of Climate Change.....	183
National Archives of Australia.....	185
Office of the Renewable Energy Regulator.....	185
<b>Resources, Energy and Tourism Portfolio.....</b>	<b>187</b>
Portfolio overview.....	187
Department of Resources, Energy and Tourism.....	187
Tourism Australia.....	189
<b>Treasury Portfolio.....</b>	<b>191</b>
Portfolio overview.....	192
Department of the Treasury.....	192
Australian Bureau of Statistics.....	194
Australian Office of Financial Management.....	195
Australian Reinsurance Pool Corporation.....	197
Australian Securities and Investments Commission.....	198
Australian Taxation Office.....	200
Reserve Bank of Australia.....	204
Australian Competition and Consumer Commission.....	205
Australian Valuation Office.....	206



<b>Appendices .....</b>	<b>207</b>
Appendix 1: Mandate Changes in 2008–09 .....	209
Appendix 2: The Financial Reporting Framework .....	211
Australian Government Reporting Entities .....	212
Audit of Australian Government financial statements .....	213
Appendix 3: The Accounting and Auditing Standards Frameworks .....	217
Appendix 4: Number of audit findings.....	218
Series Titles.....	222
Current Better Practice Guides .....	224

# Abbreviations and Acronyms

---

AAO	Administrative Arrangements Order
AAS	Australian Accounting Standard
AASB	Australian Accounting Standards Board
AEIFRS	Australian Equivalents to International Financial Reporting Standards
AGD	Attorney-General's Department
ANAO	Australian National Audit Office
AOFM	Australian Office of Financial Management
ASA	Australian Auditing Standard
ATO	Australian Taxation Office
AUASB	Australian Auditing and Assurance Standards Board
BCM	Business Continuity Management
BCP	Business Continuity Plan
CAC Act	Commonwealth Authorities and Companies Act 1997
CEIs	Chief Executive's Instructions
CE	Chief Executive
CFO	Chief Finance Officer
CSA	Child Support Agency

Customs and Border Protection	Australian Customs and Border Protection Service
DMO	Defence Materiel Organisation
DAFF	Department of Agriculture, Fisheries and Forestry
DBCDE	Department of Broadband, Communications and the Digital Economy
DCC	Department of Climate Change
DCITA	Department of Communications, Information Technology and the Arts
Defence	Department of Defence
DEEWR	Department of Education, Employment and Workplace Relations
DEWHA	Department of Environment, Water, Heritage and the Arts
DFAT	Department of Foreign Affairs and Trade
DIAC	Department of Immigration and Citizenship
Infrastructure	Department of Infrastructure, Transport, Regional Development and Local Government
DIISR	Department of Innovation, Industry, Science and Research
DoHA	Department of Health and Ageing
DVA	Department of Veterans' Affairs
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
FBO	Final Budget Outcome
Finance	Department of Finance and Deregulation

FMA Act	Financial Management and Accountability Act 1997
FMIS	Financial Management Information System
FMOs	Finance Minister's Orders
GAAP	Generally Accepted Accounting Principles
GFC	Global Financial Crisis
GFS	Government Finance Statistics
GGs	General Government Sector
HRMIS	Human Resources Management Information System
IT	Information Technology
JCPAA	Joint Committee of Public Accounts and Audit
PM&C	Department of the Prime Minister and Cabinet
RET	Department of Resources, Energy and Tourism
Treasury	The Department of the Treasury

# Foreword

---

Each year I report the results of the Australian National Audit Office's (ANAO) annual financial statement audit work to the Parliament in two reports. This report provides the final results of the audit of the financial statements of all Australian Government entities and the Consolidated Financial Statements of the Australian Government, for the financial year ended 30 June 2009. The results of the interim phase<sup>1</sup> of the audits of significant entities were reported in Audit Report No.42 2008–09, *Interim Phase of the Audit of Financial Statements of General Government Sector Agencies for the year ended 30 June 2009*.<sup>2</sup> These reports also discuss contemporary issues and practices impacting on public sector entities' financial reporting responsibilities, and the ANAO's responsibilities.

The preparation of audited financial statements in compliance with the Finance Minister's Orders<sup>3</sup> is a key element of the financial management and accountability regime applicable to Australian Government entities. It is generally accepted in both the private and public sectors that a good indicator of the effectiveness of an entity's financial management is the timely finalisation of its annual financial statements, accompanied by an unmodified audit opinion. Australian Government entities in cooperation with the ANAO devote considerable effort to achieving timeliness in financial reporting.

The audit report on the 2008–09 Consolidated Financial Statements (CFS) of the Australian Government was issued on 28 November 2009. The audit report expressed the opinion that the financial statements gave a true and fair view of the Australian Government's financial position as at 30 June 2009 and its operations and cash flows for the year then ended, in accordance with the *Financial Management and Accountability Act 1997* and Australian Accounting Standards as they relate to the whole of government reporting requirements of AASB 1049 *Whole of Government and General Government Sector Reporting*.

---

<sup>1</sup> The interim audit phase is directed towards the audit of key financial controls and processes within entities.

<sup>2</sup> The 26 agencies covered in Audit Report No.42 2008–09 represent approximately 95 per cent of total General Government Sector revenues and expenses.

<sup>3</sup> The Finance Minister's Orders (FMOs) made by the Minister for Finance and Administration set out the requirements for the preparation of financial statements of all reporting entities covered by the *Finance Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*.

However, a report on the General Government Sector, envisaged by AASB 1049 was not prepared and presented to the ANAO for audit.

A number of entities have continued to experience difficulty in meeting the deadlines for the submission of audit cleared financial information to the Department of Finance and Deregulation (Finance),<sup>4</sup> with the percentage of material entities that met the deadline decreasing from 85 per cent in 2007–08 to 75 per cent in 2008–09. The percentage of non-material entities that met the deadline also reduced, with 54 per cent meeting the deadline in 2008–09 compared with 57 per cent in 2007–08. For material entities, this position was primarily the result of the need to finalise a number of technical accounting issues and delays in financial statement preparation for a number of entities. The position in respect of non-material entities was, in part, as a result of the ANAO deferring the audit of a number of entities to assist audit scheduling.

Consistent with the trend in relation to the results of our audits in recent years, there was again a reduction in the number and significance of issues arising from the final phase of the 2008–09 financial statements audits. Issues that are common across a number of entities that were identified in the final audit phase were in respect of: controls in entities' IT environments, such as change management controls and the segregation of duties; asset management processes including accounting for assets under construction, asset stock-takes and the integrity of asset registers; and business system processing controls.

Generally, our audits found that entities have made good progress in addressing and resolving, where possible, issues identified during the interim audit phase.

The importance of public sector entities' legislative compliance was reinforced by a Government decision that, commencing from 2006–07, Chief Executives of each *Financial Management and Accountability Act* (FMA) agency are required to provide an annual Certificate of Compliance (CoC) with specified elements of the financial management framework. The Directors of General Government Sector *Commonwealth Authorities and Companies Act* (CAC) authorities and wholly-owned companies are also required to provide an annual report on compliance with relevant aspects of CAC Act legislation.

---

<sup>4</sup> For 2008–09, the 71 material entities were required to submit audit cleared information to Finance by 15 August 2009 (15 August in 2007–08) and non-material entities were required to submit audit cleared information by 31 August 2009 (31 August in 2007–08).

The ANAO is also cognizant of the importance of legislative compliance and continues to include an assessment of compliance in relation to annual appropriations, special appropriations, annotated appropriations, special accounts and the investment of public moneys in its financial statement audits. Consistent with the results over the last three years, our 2008–09 audits found a high level of compliance in these areas.

In another positive development, the 2008–09 CoC process identified a significant decrease in non-compliance with relevant legislative requirements (from approximately 32 600 in 2007–08 to approximately 14 960 in 2008–09). Generally, the reduction was the result of the progressive increase in staff awareness of legislative requirements leading to higher levels of compliance.

Finally, I would like to acknowledge the professionalism and commitment of my staff in finalising the audits of some 250 entities' financial statements in the tight timeframes required. This work has enabled the tabling of this report in a timely manner for the information of the Parliament. I would also like to acknowledge the important role that Audit Committees, Chief Financial Officers and other entity staff involved in financial statement preparations continue to play. Their efforts in providing information and assistance to my audit staff were much appreciated.



Ian McPhee  
Auditor-General





# Summary

---

## Overview

1. The *Auditor-General Act 1997* establishes the mandate for the Auditor-General to undertake financial statement audits of all Commonwealth entities including those of government agencies, statutory authorities and government business enterprises.
2. Financial statement audits are an independent examination of the financial accounting and reporting of public sector entities. The results of the examination are presented in an audit report, which expresses the auditor's opinion on whether the financial statements as a whole and the information contained therein fairly present each entity's financial position and the results of its operations and cash flows. The accounting treatments and disclosures reflected in the financial statements by the entity are assessed against relevant accounting standards and legislative reporting requirements.
3. In addition to undertaking financial statement audits, the ANAO tables two reports annually addressing the outcomes of the financial statement audits of public sector entities. The first of these, *Audit Report No.42 2008–09 Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2009*, outlined details of the ANAO's assessment of audit findings relating to the internal controls of major agencies, including governance arrangements, information systems and control procedures. The findings summarised in that report are the results of the interim phase of the financial statement audits of significant Australian Government reporting agencies.
4. This report complements the interim phase report referred to above, and provides a summary of the final audit results of the audits of the financial statements of all Australian Government entities, including the Consolidated Financial Statements for the Australian Government.
5. The audit findings in this report have been reported to the management of each entity, and to the responsible Minister(s).

## Summary of audit findings and related issues

6. The ANAO is responsible for the audit of the financial statements of all the Australian Government entities. For the 2008–09 financial year, the

Auditor-General and senior staff delegated to issue audit opinions issued 251 audit opinions (clear opinions); one qualified audit opinion; one report contained 'Other Legal and Regulatory Requirements'; and one contained an 'Other Matters' reference. This result is consistent with the trend over recent years that has seen an overall reduction in the number of audit opinions that have been qualified.

7. During 2008–09, the Auditor-General became the auditor of 21 new entities and ceased to be the auditor of 11 entities for the following reasons:

- seven entities ceased to be owned or controlled by the Commonwealth; and
- four entities were consolidated into other entities.

8. Details of these entities are set out in Appendix 1.

9. With the exception of Bilioara Pty Ltd, all entity financial statements and auditors' reports for 2008–09 were signed prior to the finalisation of this report. As such, the report sets out the significant issues arising from the 2008–09 audits of all but one Australian Government entities.

## Report Structure

10. The report is organised as follows:

- Chapter One - Financial Reporting and Auditing Frameworks: provides commentary on recent developments in the financial reporting and auditing frameworks under which the Australian Government and its reporting entities operate.
- Chapter Two - Results of the Audit of the Consolidated Financial Statements of the Australian Government: provides an overview of the audit of the Consolidated Financial Statements for 2008–09.
- Chapter Three - Summary of Audit Results and Related Issues: summarises the final results of audits of the financial statements, and provides commentary on the preparation of entity financial statements, the impact of the Global Economic Downturn, the 2008–09 Certificate of Compliance process and COAG financial reforms.
- Chapter Four - Results of Financial Statements Audits by Portfolio: provides the results of individual financial statement audits including any additional significant or moderate control matters identified since Audit Report No.42 2008–09.

# 1. Financial Reporting and Auditing Frameworks

---

*This chapter provides commentary on recent developments in the financial reporting and auditing frameworks under which the Australian Government and its reporting entities operate. The frameworks are illustrated at Appendices 2 and 3 of this Report.*

## Introduction

**1.1** The Australian Government's financial reporting framework is based, in large part, on standards made independently by the Australian Accounting Standards Board (AASB)<sup>5</sup>. This framework is designed to meet the decision-making and accountability needs of financial report users.

**1.2** This chapter outlines progress in the continuing effort to improve public sector financial reporting. It highlights a significant change in financial reporting by Australian Governments in 2008–09: the implementation of a new financial statements format, harmonised with Government Finance Statistics. Other domestic and international developments in financial reporting are also discussed.

**1.3** Domestically, AASB projects on accounting for grants, taxes and executive remuneration disclosure will have a direct impact on the public sector. Also, moves to simplify financial reporting by small to medium sized entities may provide an opportunity for more concise reporting by some public sector entities.

**1.4** Internationally, changes to the conceptual framework underpinning accounting standards, implementation of the lessons from the global financial crisis and possible new requirements for reporting the financial effects of emissions trading regimes are also likely to affect the Australian public sector.

**1.5** The framework the ANAO adopts for auditing Australian Government reporting entities is based on the standards made by the Australian Auditing and Assurance Standards Board (AUASB). This chapter outlines recent

---

<sup>5</sup> Since 1 January 2009 I have been a member of the Australian Accounting Standards Board. The views expressed in this Report are my own and do not necessarily represent the views of other Board members.

changes to improve the clarity of auditing standards and measures to strengthen quality control in the conduct of audits.

## Developments in the public sector reporting framework

### GAAP/GFS harmonisation

1.6 In 2008–09 the Australian Government adopted AASB 1049 *Whole of Government and General Government Sector Reporting* for its whole of government financial report. This is a significant milestone in improving Australian Government financial reporting.

1.7 Prior to 2008–09, the Australian Government presented its annual budget mainly in accordance with the Government Finance Statistics (GFS) framework of the Australian Bureau of Statistics, while its audited financial statements were prepared in accordance with Generally Accepted Accounting Principles (GAAP). AASB 1049, by incorporating elements of GFS, provides a single framework for financial reporting by governments in Australia.

1.8 Key changes resulting from the adoption of AASB 1049 include:

- application of the principles and rules in the Australian Bureau of Statistics' GFS manual,<sup>6</sup> where these do not conflict with GAAP;
- reporting, on the face of the primary statements, specified key fiscal aggregates<sup>7</sup> used in GFS, measured in accordance with GAAP; and
- where the measurement of a key fiscal aggregate using the GFS basis differs, a reconciliation between the GAAP and GFS measures, in the notes to the financial statements.

1.9 AASB 1049 also requires the preparation of a financial report, in accordance with the standard, for the General Government Sector that is not to be made available prior to its whole of government financial report being made available. The Australian Government did not prepare and present to the ANAO for audit, a GGS financial report in accordance with AASB 1049 for 2008–09. The Government currently includes detailed information on the

---

<sup>6</sup> Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005, (latest issue released 31 July 2006), available on the ABS website [www.abs.gov.au](http://www.abs.gov.au).

<sup>7</sup> The key fiscal indicators required by AASB 1049 are: net worth; net operating balance; total change in net worth (before transactions with owners); net lending/borrowing; and cash surplus/deficit.

General Government Sector in the Final Budget Outcome (FBO), produced each year by 30 September in accordance with the *Charter of Budget Honesty Act 1998* to provide timely information on the budget outcome for the financial year; however, the FBO does not satisfy the requirements of AASB 1049. In addition, the Charter of Budget Honesty Act does not require the FBO to be audited.

**1.10** Further commentary on the Consolidated Financial Statements is contained in Chapter 2.

**1.11** The AASB had planned to consider GFS/GAAP harmonisation for entities within the General Government Sector. The AASB released an exposure draft in January 2009 with proposed application to reporting periods beginning on or after 1 July 2010. In light of comments received, the AASB has decided at this time not to issue a standard. Instead it has indicated an intention to issue non-mandatory guidance that can be used if a jurisdiction elects to produce GFS/GAAP harmonised financial statements at the entity level.

## **Reporting Requirements for Small and Medium-sized Entities**

**1.12** Australian Accounting Standards are largely based on standards issued by the International Accounting Standards Board (IASB), known as International Financial Reporting Standards (IFRS). In order to reduce the burden of financial reporting requirements on small to medium sized entities (SMEs), the IASB issued a stand-alone accounting standard with simplified reporting requirements for SMEs in July this year.

**1.13** The AASB has decided not to immediately adopt IFRS for SMEs in Australia. Instead it has decided to introduce a separate reporting regime for particular classes of entities. Under the new regime, there would be no change to the way income, expenses, assets and liabilities would be recognised or measured, but the level of detailed disclosure in the notes to the financial statements would be reduced. The new regime would be available, as an option, to for-profit private sector entities that are not publicly accountable, not-for-profit private sector entities and certain entities in the public sector.

**1.14** This new regime may provide an opportunity for some Australian Government entities to reduce their administrative workload, while still providing sufficient information to satisfy the needs of the users, in particular the Parliament.

1.15 The AASB aims to have the new regime in place before 30 June 2010.

## **Changes in accounting standards affecting public sector entities**

1.16 The AASB has set out its priorities and a timetable for its review of public sector-specific standards.<sup>8</sup> The following two issues are particularly relevant to the Commonwealth public sector.

1.17 In June 2009 the AASB released an exposure draft of a standard covering income from grants and taxes (referred to collectively as 'non-exchange transactions'), based on an accounting standard issued by the International Public Sector Accounting Standards Board (IPSASB).<sup>9</sup>

1.18 The main change proposed in the exposure draft is that grant recipients would recognise a liability for their obligation to meet the conditions of a grant agreement, where a breach of conditions would result in a repayment of granted funds. The exposure draft does not directly address accounting by grantors, so accounting for grants provided by the Australian Government will not be subject to requirements tailored to these circumstances.

1.19 The AASB has also commenced work on requirements for not-for-profit public sector entities in relation to related party disclosures.<sup>10</sup> The Australian Accounting Standard on related party disclosures<sup>11</sup> currently imposes director and executive remuneration disclosures only on the private and for-profit sectors. The AASB intends to consider whether not-for-profit sector entities should also comply with the executive remuneration provisions of the Standard. The AASB is currently reviewing existing practices in Australian and international public sector jurisdictions; an exposure draft of a new or revised standard is expected to be released in late 2010.

## **Conceptual frameworks for accounting standards**

1.20 AASB standards comprise mainly Australian equivalents to the International Financial Reporting Standards (IFRS). The conceptual framework

---

<sup>8</sup> The AASB work program (as at August 2009) can be found on the AASB website <[www.aasb.gov.au](http://www.aasb.gov.au)>.

<sup>9</sup> IPSAS 23 Revenue From Non-Exchange Transactions (Taxes and Transfers).

<sup>10</sup> AASB Action Alert 116 (4 August 2008) available at <[www.aasb.com.au](http://www.aasb.com.au)>.

<sup>11</sup> AASB 124 Related Party Disclosures.

that underpins AASB standards is also largely based on the IASB's conceptual framework.

**1.21** The IASB conceptual framework is currently under review by the IASB in partnership with the United States Financial Accounting Standards Board (FASB). The objective of the review is to develop a common framework that provides a sound foundation for developing future accounting standards. This is intended to lead to more useful financial reports for potential investors, creditors and others who make resource allocation decisions.

**1.22** The IASB has a timetable to release discussion papers and exposure drafts over the duration of the project, culminating in a final framework document to be released in 2012.

**1.23** The project has a focus on for-profit entities. It is only in the latter stages of the project that the applicability of the framework to other entities will be considered. As a result, the International Public Sector Accounting Standards Board, in conjunction with the AASB and other national accounting standards boards, has embarked on a separate project for developing a Public Sector Conceptual Framework. The IPSASB are now considering comments on their first consultation paper from the project<sup>12</sup> and the project is expected to be completed in 2012.

**1.24** The AASB plans to consider the implications of the early stages of the IASB conceptual framework project for the not-for-profit sector in the second half of 2009.

## **The global financial crisis**

**1.25** In the light of the global financial crisis the quality and consistency of information presented in financial reports has been closely scrutinised. The Group of Twenty (G-20) Finance Ministers and Central Bank Governors meeting of 15 November 2008 called for accounting standard-setters to address immediately the valuation and disclosure of complex financial instruments and off-balance sheet vehicles, and, in the medium term, to develop a single high-quality global accounting standard for financial instruments.

---

<sup>12</sup> *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: The Objectives of Financial Reporting, The Scope of Financial Reporting; The Qualitative Characteristics of Information Included in General Purpose Financial Reports; The Reporting Entity*, International Public Sector Accounting Standards Board, September 2008

**1.26** International accounting standard-setters have dedicated additional resources to addressing these concerns. The IASB has issued improvements to its standards regarding disclosure of fair values and proposals on measuring fair value and disclosing off-balance sheet vehicles.

**1.27** In March this year, the IASB and the FASB agreed to work towards common financial instruments standards that would address issues arising from the global financial crisis in a comprehensive manner. Proposals to revise the derecognition, classification, measurement and impairment of financial instruments have been released by the IASB. Further IASB proposals dealing with hedging are expected to be released in early 2010. The AASB is monitoring and contributing to these developments and expects to have revised financial instruments standards developed by the end of 2010.

### **Carbon Pollution Reduction Scheme**

**1.28** In December 2008, the Australian Government released a White Paper outlining its proposed Carbon Pollution Reduction Scheme. In May 2009, the Government announced that the Scheme would be phased in from 1 July 2011. Legislation to implement the Scheme was rejected by the Senate in December 2009.

**1.29** There are currently no Australian or international accounting standards addressing emissions trading schemes. The White Paper indicates that the IASB should determine the accounting requirements relating to emissions trading in Australia, and if the requirements cannot be met before the commencement of the scheme, Australian specific guidance may have to be implemented in the interim.

**1.30** The IASB is currently progressing a project on accounting for rights and obligations arising from all types of emission trading schemes. It is expected that an exposure draft will be released in the second half of 2010 and a final standard issued in the first half of 2011.

**1.31** The AASB has decided to await the outcome of the IASB's project before proceeding with an accounting pronouncement for application in Australia.

### **Developments in Auditing Standards**

**1.32** Section 24 of the *Auditor-General Act 1997* requires the Auditor-General to set auditing standards to be complied with by persons performing ANAO



audits. The ANAO Auditing Standards establish mandatory requirements and provide explanatory guidance for persons performing the functions specified in section 24, which include the statutory audits of the financial statements of Commonwealth bodies.

**1.33** The ANAO Auditing Standards incorporate, by reference, the current versions of standards set by the AUASB including those for the auditing of financial statements ('Australian Auditing Standards' or 'ASAs'). As a result, financial statement audits conducted by the ANAO are bound by the same standards that apply to the broader auditing profession in Australia.

**1.34** The Auditor-General re-issued the ANAO Auditing Standards on 25 June 2009 to reflect the introduction of *ASAE 3500 Performance Engagements*, an Assurance Engagement Standard issued by the AUASB on 30 October 2008.

**1.35** The AUASB uses International Standards on Auditing (ISAs) as the basis for making Australian Auditing and Assurance Standards. ISAs are made by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

**1.36** In 2004, the IAASB initiated the Clarity Project, a comprehensive program to enhance the quality and uniformity of International Auditing Standards and to encourage greater consistency in their application worldwide. The Clarity Project encompassed the issue of 36 International Auditing Standards consisting of 19 redrafted Standards, 16 revised and redrafted Standards and ISA 265, a new Standard about communicating deficiencies in internal control to those charged with governance and management.

**1.37** The IAASB also redrafted in clarity format its International Standard on Quality Control, ISQC 1, which requires firms to establish and maintain a system of quality control to provide reasonable assurance that: the firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and that any reports issued by the firm or engagement partners are appropriate in the circumstances.

**1.38** The Clarity Project aimed to ensure that the Standards are clear and capable of being consistently applied, through:

- identifying the auditor's overall objectives when conducting an audit in accordance with ISAs;

- setting an objective in each ISA and establishing the auditor's obligation in relation to that objective;
- clarifying the obligations imposed on auditors by the requirements of ISAs and the language used to communicate such requirements;
- eliminating ambiguity about the requirements an auditor needs to fulfil; and
- improving the overall readability and understandability of the ISAs through structural and drafting improvements, including the presentation of mandatory requirements of each Standard separately from explanatory guidance material.

**1.39** The IAASB's Clarity Project was formally completed on 27 February 2009.

**1.40** In response to the IAASB's Clarity Project, the AUASB has recently completed the redrafting and revision of all existing ASAs based on the reissued ISAs. The AUASB has stated that this project will ensure the revised Australian standards will continue to conform to ISAs while maintaining enforceability under Australian regulatory arrangements (e.g. the *Corporations Act 2001*).

**1.41** In addition to redrafting and revising the existing ASAs, the AUASB has issued three new auditing standards:

- *ASA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, based on the new International Auditing Standard ISA 265;
- *ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*, the requirements of which have been drawn from several standards issued by the IAASB; and
- *ASQC 1 Quality Control for Firms that Perform Audits and Reviews, of Financial Reports, Other Financial Information, and Other Assurance Engagements*, based on the re-drafted International Standard on Quality Control, ISQC 1.

**1.42** The AUASB announced the issue of its revised and redrafted standards on 30 October 2009. The standards will be operative for audits of financial statements in Australia for periods commencing on or after 1 January 2010.

**1.43** *APES 320 Quality Control for Firms* is an Australian quality control standard set by the Accounting Professional and Ethical Standards Board (APESB) that is also based on ISQC 1. The APESB has recently revised APES 320 to reflect the changes made to the re-drafted ISQC 1.

**1.44** The ANAO's Quality Assurance Framework aims to ensure compliance with applicable professional standards and relevant regulatory and legal requirements, including APES 320. The ANAO is reviewing its Quality Assurance Framework to confirm it complies with the revised APES 320 and the new ASQC 1 when they come into effect on 1 January 2010.

**1.45** The ANAO estimates that the revisions to the Australian Auditing Standards have led to some 20 percent increase in the number of mandatory requirements, which will in turn require an increase in the ANAO's financial statement audit effort.

## Reporting compliance with the Government's Financial Management Framework

### ANAO auditing of compliance

**1.46** The ANAO continues to focus on legislative compliance as part of its financial statement audit coverage. Annual and special appropriations, appropriations of relevant agency receipts, special accounts and the investment of public monies are covered using targeted work programs.

**1.47** The ANAO's annual performance audit work program also includes a compliance focus, usually with the inclusion of audits that continue the ANAO's examination of aspects of the Australian Government's financial framework. An audit of entities' compliance with the direct sourcing provisions of the Commonwealth Procurement Guidelines is in progress and an audit of entities' management of the Certificate of Compliance process is scheduled to commence in early 2010.

### Changes to Financial Management Legislation

**1.48** The *Financial Management and Accountability Regulations 1997* were amended with effect from 1 July 2009 to permit the Finance Minister to issue *Commonwealth Grant Guidelines* which are binding on officials performing duties in relation to the administration of grants. The Guidelines themselves were also issued in July and establish the Government's policy framework for grants administration, from planning and design through to the review and

evaluation of relevant grants and grant programs. The Guidelines apply to all agencies subject to the *Financial Management and Accountability Act 1997*. The definition of 'grants' for the purpose of the Regulations excludes financial assistance to the States in accordance with section 96 of the Constitution and payments to the States and Territories that are made for the purposes of the *Federal Financial Relations Act 2009*.

**1.49** Under the Guidelines, agencies must make guidelines for new grant programs publicly available and must publish on their websites information on individual grants no later than 7 days after the funding agreement for a grant takes effect. Ministers must report to the Finance Minister annually on all instances where they approve a particular grant recommended for rejection by the agency. Ministers sitting in the House of Representatives must also advise the Finance Minister of grants they approve in their own electorate.

**1.50** The Guidelines have regard to the matters raised in a series of performance audits of grants carried out by the ANAO.

**1.51** The *Commonwealth Authorities and Companies Regulations 1997* (CAC Regulations) have been amended to prescribe the minimum requirements for the use of credit cards and credit vouchers by Commonwealth authorities that do not have an express borrowing provision in their enabling legislation. The amendments also give directors flexibility in deciding how their authority uses credit cards and credit vouchers by enabling them to make guidelines on their use.

**1.52** The CAC Regulations were also amended to designate the Commonwealth company established to build and operate the national broadband network, NBN Co Limited, as a Government Business Enterprise (GBE) from 4 August 2009. Governance arrangements for Commonwealth GBEs are published on the website of the Department of Finance and Deregulation.

## **Significant Constitutional Developments**

**1.53** A Constitutional issue considered in the preparation and audit of the 2008–09 financial statements of a number of entities was the implications of the High Court decision in *Pape v Commissioner of Taxation (2009)*. This case arose when aspects of the Government's tax bonus were challenged in the High Court. On 3 April 2009, a majority of the High Court found that the relevant tax bonus payments were valid. The Court, however, rejected the proposition

that the Commonwealth could rely on section 81 of the Constitution as a source of spending power. The Court ruled that, while sections 81 and 83 of the Constitution require an appropriation of Commonwealth moneys before executive expenditure is lawful, substantive power to spend must be found elsewhere, either in legislation enacted by the Parliament (under a head of legislative power), or in the Constitution itself.

**1.54** Based on legal advice from the Attorney-General's Department, the Government considered that the High Court decision did not have direct implications on the 2008–09 financial statements of entities.

**1.55** The ANAO sought assurance, through the management representation letter from individual agencies potentially impacted by the High Court's judgement, that the judgement did not identify any payment as being invalid. The ANAO accepted that no breaches of the Constitution were identified by the High Court.

**1.56** Agencies will need to consider the implications of the High Court judgement, and ensure that future spending proposals do not rely on section 81 as the source of the spending power.

## Conclusion

**1.57** In 2008–09, a significant achievement was the implementation of the new accounting standard, AASB 1049, with the Australian Government adopting the whole of government reporting requirements of this Standard for its annual Consolidated Financial Statements. This Standard has improved the usefulness of whole-of-government financial reports, by more closely aligning the GFS statistical framework with the generally accepted accounting principles used in Australia.

**1.58** The completion of this major project frees resources to focus on outstanding public sector issues. The AASB has already commenced work on accounting standards on grants, taxes and executive remuneration disclosure in the public sector.

**1.59** The public sector will also be affected by current developments in financial reporting, such as improvements prompted by the lessons of the global financial crisis and the drive to simplify financial reporting by small to medium sized entities. In the longer term, the public sector may also be affected by plans at the international level to issue accounting standards on

emission trading schemes and to revise the conceptual framework on which accounting standards are based.

**1.60** From 1 January 2010, revisions to auditing standards will increase the financial statement audit effort the ANAO must undertake.

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

---

*This chapter outlines the results of the audit of the Consolidated Financial Statements of the Australian Government for the year ended 30 June 2009.*

### Background

**2.1** The preparation and audit of the Australian Government's Consolidated Financial Statements (CFS) support government accountability and transparency. The CFS and the associated financial analysis allow readers to assess the annual financial performance and position of the Australian Government.

**2.2** The CFS present the consolidated whole of government financial results inclusive of all Australian Government controlled entities, including entities outside the general government sector, such as Australia Post and the Reserve Bank of Australia. The CFS are prepared in accordance with the regulations of the *Financial Management and Accountability Act 1997* and the whole of government financial reporting requirements of the Australian Accounting Standards.

**2.3** In 2008–09 the Australian Government adopted the whole of government financial reporting requirements of AASB 1049 *Whole of Government and General Government Sector Reporting* in the preparation of the CFS. This standard, by incorporating elements of Government Finance Statistics (GFS), provides a single framework for financial reporting by governments in Australia.

**2.4** This chapter discusses the ANAO's audit report on the 2008–09 CFS, the overall impact of the economic conditions and associated Government measures on the Australian Government's financial position as represented in the CFS and the significant disclosures included in the CFS.

### Audit Report

**2.5** The CFS were signed by the Minister for Finance and Deregulation on 26 November 2009 and the audit report was issued on 28 November 2009.

**2.6** The audit report on the 2008–09 CFS expressed the opinion that the statements presented a true and fair view of the financial operations and position of the Australian Government. The 2008–09 audit report did however include an ‘Other Matters’ section. The inclusion of this section does not change our opinion on whether the CFS provide a true and fair view of the Australian Government’s financial position, operations and cash flows, rather it was included to ensure users of the CFS clearly understand the ANAO’s audit responsibilities and the scope of the audit report on the CFS.

**2.7** As mentioned above, the Australian Government adopted AASB 1049 *Whole of Government and General Government Sector Financial Reporting* for the first time in 2008–09. This standard requires the preparation of whole of government and general government sector (GGS) financial reports. The standard sets out the requirements relating to the preparation of the GGS financial report and also provides that the GGS financial report cannot be made available earlier than the whole of government report. The whole of government report required by this standard was prepared by the Australian Government through the production of the CFS. However, the Australian Government has not prepared and presented for audit a GGS financial report for 2008–09 that is fully compliant with the requirements of AASB 1049. The CFS disclose this matter in notes 1.3 to 1.8 to the statements. Unless remedied by the preparation of a GGS financial report in accordance with AASB 1049, this represents a departure from the long standing practice of Australian Governments adopting Australian Accounting Standards – the only exception to date being past accounting for the Goods and Services Tax. Further, all State and Territory governments have concurrently prepared and released audited whole of government and GGS financial reports for 2008–09, or are in the process of doing so.

**2.8** The preparation of a separate GGS report that complies with AASB 1049, or the incorporation of the GGS requirements of AASB 1049 into the CFS, would be in addition to the Final Budget Outcome (FBO) Statement which is prepared in accordance with the requirements of the *Charter of Budget Honesty Act 1998*, and is not currently fully compliant with AASB 1049.<sup>13</sup> The ANAO has encouraged the Government and the Department of Finance and Deregulation to review the current approach so that the requirements of AASB

---

<sup>13</sup> The departures from AASB 1049 are set out in the 2008–09 FBO at pages 30 and 31.



1049 in relation to the preparation of a GGS financial report can be satisfied. The Finance Minister has agreed to undertake such a review during 2009–10.

## Australian Government's Financial Outcome for 2008–09

**2.9** The reported 2008–09 operating result<sup>14</sup> attributable to the Australian Government was a deficit of \$32.0 billion (2007–08: surplus of \$18.9 billion), the fiscal balance<sup>15</sup> was a deficit of \$30.0 billion (2007–08: surplus of \$22.3 billion) and the reported positive net worth<sup>16</sup> position was \$15.8 billion (2007–08: \$67.7 billion). These figures reflect the financial impact of government policies, including the Government's stimulus measures, for the year ended 30 June 2009 and the associated movement in assets and liabilities as at the financial year end. Further information on the significant impacts on the Operating Statement and the Balance Sheet is discussed below.

### Operating Statement

**2.10** Total revenue decreased by \$5.3 billion in 2008–09. The major movement in revenue from 2007–08 to 2008–09 was a \$7.6 billion decrease in taxation revenue, as a result of:

- a decrease in income tax on individuals, reflecting personal income tax cuts, falls in realised capital gains income and increased tax refunds as a result of the bring forward of tax return lodgements in response to the tax bonus payment that was part of the Government's stimulus measures. These decreases were partially offset by growth in wages and employment, growth in unincorporated business income and some significant revenue from taxation compliance assessments;
- a decrease in company tax, reflecting lower company profits as a result of the global economic conditions, lower asset prices and increased bad debts;

---

<sup>14</sup> The operating result is calculated as revenues plus gains less expenses (including losses), excluding those that are classified as 'other non-owner movements in equity'.

<sup>15</sup> The fiscal balance (net lending/borrowing) is calculated as the net operating balance minus the net acquisition/(disposal) of non-financial assets.

<sup>16</sup> Net worth equals assets less liabilities.

- a decrease in tax from superannuation funds as a result of lower fund earnings, large falls in net capital gains as a result of decreased share prices and higher deductions for exempt current pension income;
- a decrease in GST reflecting the weaker economic conditions; and
- offsetting small increases in excise and customs duties and other taxes.

**2.11** At the same time, total non-taxation revenues increased by \$2.4 billion in 2008–09. This increase was primarily due to increased revenue from the sales of goods and services, including the fees generated from the Government’s guarantee of large deposits and wholesale funding. There was also an increase in Medibank Private premium revenue, predominantly due to a growth in the number of members and the impact of Medibank Private’s acquisition of Australian Health Management.

**2.12** The Australian Government’s total expenses increased by \$45.3 billion in 2008–09. The major drivers for this increase were:

- increased direct personal benefits, grants and subsidies expenses, primarily relating to:
  - an increase of \$25.2 billion in personal benefit expenses as a result of the economic stimulus packages, particularly the one-off payments to pensioners and low and middle income families, the tax bonus for working Australians, the single-income family bonus and the training and learning bonus;
  - a \$9.7 billion increase in specific purpose payments to the States and Territories, particularly as a result of the various economic stimulus packages;
  - an increase of \$1.0 billion in grants to not-for-profit organisations, particularly relating to grants for health services;
  - a \$0.6 billion increase in subsidy expenses, including an increase in fuel credit schemes due to the phased implementation of the Fuel Tax Credits Scheme over a six year period;
- an increase in expenses related to the supply of goods and services, primarily due to increases in payments related to the Medicare Benefits and Pharmaceutical Benefits Schemes which fund access to medical services and medicines;

- increased employee expenses, which were spread across a number of agencies; and
- an increase in interest expenses largely attributable to higher interest on Commonwealth Government securities and an increase in superannuation interest cost, consistent with the growth in the underlying liabilities.

**2.13** Other economic flows, which include asset and liability revaluation gains and losses, decreased from negative \$1.7 billion in 2007–08 to negative \$26.7 billion in 2008–09. The primary driver for this decrease was the actuarial revaluation of the Australian Government’s superannuation liability and an increase in the allowance for taxation impairment losses and credit amendments.

**2.14** The net acquisition of non-financial assets increased by \$1.7 billion in 2008–09, primarily as a consequence of an increase in the acquisition of military equipment and property, including the new Headquarters Joint Operations Command, the recognition of the Commonwealth’s share in the Murray-Darling Basin infrastructure assets and the purchase of water rights.

## **Balance Sheet**

**2.15** The 2008–09 CFS reported a \$51.9 billion decrease in the net worth position of the Australian Government. This decrease was a consequence of the \$79.9 billion increase in liabilities being significantly greater than the \$28 billion increase in assets as at 30 June 2009.

**2.16** The value of the Australian Government’s financial assets at 30 June 2009 increased by \$22.8 billion since 30 June 2008. The primary drivers of this increase were:

- an increase in investments as a result of the establishment of three new Nation Building Funds (the Building Australia Fund, the Education Investment Fund and the Health and Hospitals Fund) and the Australian Government’s acquisition of Residential Mortgage Backed Securities;
- an increase in receivables and accrued revenue predominantly as a result of the recognition of a receivable associated with the Guarantee Scheme for Large Deposits and Wholesale Funding; and

- an increase in advances primarily due to an increase in the Higher Education Loan Program.

**2.17** Total non-financial assets increased by \$5.2 billion in 2008–09 primarily due to military equipment purchases, the upwards revaluation of Defence buildings, the completion of the Headquarters Joint Operations Command, the recognition of the Commonwealth's share in the Murray-Darling Basin infrastructure assets and the purchase of water rights. These increases were partially offset by a reduction in prepayments primarily due to the drawing down of the Auslink prepayment as road projects have been delivered by the States and Territories.

**2.18** Interest bearing liabilities increased by \$38.0 billion as at 30 June 2009. This increase primarily related to an increase in Commonwealth Government securities on issue as a result of the Government's decision to issue debt over and above that required to meet maturing debt obligations in order to support the liquidity of the Treasury Bond market. This increase was partially offset by reduced deposits held by the Reserve Bank of Australia (RBA) for exchange settlement accounts and a decrease in the amount outstanding under repurchase agreements used by the RBA.

**2.19** Provisions and payables increased by \$41.8 billion. The main drivers for this increase were:

- a \$24.4 billion increase in the defined benefit obligations for Australian Government sponsored superannuation schemes at 30 June 2009 following an actuarial reassessment during 2008–09;
- an increase in supplier payables primarily due to an increase in unsettled investment purchases for the Nation Building Funds as 30 June 2009;
- the recognition of a liability in relation to the Australian Government's contractual obligations under the Guarantee Scheme for Large Deposits and Wholesale Funding;
- increases in family tax benefit provisions and in the grant provision for university superannuation, primarily due to the reduction in the discount rate used to calculate the present value of these future payments; and

- an increase in the value of Australian notes on issue largely due to an increase in demand for banknotes around the time of the global banking crisis.

## Significant Disclosures in the CFS

### Implementation of AASB 1049

**2.20** In accordance with AASB 1049, a number of key fiscal aggregates are now required to be included on the operating statement, balance sheet and cash flow statement. These key fiscal aggregates, which have previously only been disclosed in budget estimate and budget outcome reports, include the net operating balance, the fiscal balance (or net lending/borrowing), the cash surplus/(deficit) and net worth. The CFS includes explanations of these new key fiscal aggregates and how they differ from similar accounting aggregates.

**2.21** There are also a number of new disclosures included in the notes to the CFS as a result of the introduction of AASB 1049. These disclosures include a reconciliation, where there are differences, of the GAAP and GFS measures of key fiscal aggregates and the disclosure of assets and expenses by GFS function. Descriptions of the various GFS functions are also included in the notes to the CFS.

**2.22** A further requirement of AASB 1049 is a need to explain significant variances between the original budget presented to Parliament and the actual results disclosed in the audited financial statements. The CFS do not disclose budgetary information as a budget is not prepared at the whole of government level. As explained earlier in this chapter, a GGS report has not been presented to the ANAO for audit, therefore no GGS variance explanations are included in an audited set of financial statements.

### Ministerial Remuneration

**2.23** In previous years,<sup>17</sup> the ANAO has reported that the CFS did not disclose the remuneration of Ministers or Executive Officers of Australian Government entities. Whilst the accounting standards do not currently mandate the inclusion of this information, its inclusion within the CFS would

---

<sup>17</sup> Audit Report No.14 2008–09, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2008*, p. 34

generally be seen as a positive contribution to enhanced accountability and consistent with practice in the corporate sector. The *Review of Operation Sunlight: Overhauling Budgetary Transparency* by Senator Murray (also known as the 'Murray Review') also recommended that the Australian Government consider the inclusion of ministerial remuneration disclosures in the CFS. In its response to the Murray Review, the Government agreed to investigate the feasibility of including ministerial remuneration in the CFS.

**2.24** It is encouraging to note that 2008–09 CFS incorporate disclosure of ministerial remuneration for the first time. The disclosure includes Cabinet ministers that served at any time during the financial year. Amounts that have been included and excluded from the calculation of remuneration have been clearly outlined in Note 1 to the CFS.

**2.25** The ANAO sees this disclosure as a positive step towards increased transparency and accountability in Government reporting.

## 3. Summary of Audit Results and Related Issues

---

*This chapter provides: a summary of issues included in our reports on entities' 2008–09 financial statements; a summary of other audit findings noted in the 2008–09 audits; and commentary on: the impact of the global economic downturn on entities' 2008–09 financial statements; the 2008–09 Certificate of Compliance process; and COAG financial reforms.*

### Audit approach

**3.1** Each year, under section 57 of the *Financial Management and Accountability Act 1997* (FMA Act) and under clause 3, part 2 of Schedule 1 of the *Commonwealth Authorities and Companies Act 1997* (CAC Act), the Auditor-General is required to report to the relevant Minister on whether the financial statements of Australian Government entities have been prepared in accordance with the Finance Minister's Orders (FMOs) and whether they give a true and fair view of the matters required by those Orders.

**3.2** The ANAO conducts its financial statement audits in accordance with the ANAO Auditing Standards that incorporate the Australian Auditing Standards (ASAs). An audit performed in accordance with the ASAs is designed to provide reasonable assurance that a financial report taken as a whole is free from material misstatement. Reasonable assurance is a concept relating to the accumulation of the audit evidence necessary for the auditor to conclude that there are no material misstatements in the financial report taken as a whole. Reasonable assurance relates to the whole audit process.<sup>18</sup>

**3.3** In accordance with generally accepted audit practice, the ANAO accepts a minimal level of risk that a material misstatement in the financial statements will not be detected by the audit procedures. This minimal risk is accepted because of the significant costs and impracticability of performing an audit that accepts no, or an extremely low, level of risk. The ANAO performs specific audit procedures to ensure that the risk taken is acceptably low. These procedures include, for example, reviewing the operation of internal controls,

---

<sup>18</sup> ASA 200 *Objective and General Principles Governing an Audit of a Financial Report*, paragraph 25

undertaking analytical reviews, testing a sample of transactions and account balances, and confirming year-end balances with third parties.

**3.4** Financial statement audits focus on the major financial reporting risks facing entities and the manner in which the entities seek to manage those risks. The risks will vary according to the size and nature of the organisation, including the nature of its operating environment, the complexity of its information technology systems and the geographical spread of its operations.

**3.5** Financial statement audits are performed in a number of phases, primarily planning, interim and final. The ANAO's Audit Report No 42 of 2008–09 reported on the results of the interim phase of the audit of selected material entities. The results of the final phase of the audit of Australian Government entities is the focus of this report.

## **Classification of Entities**

**3.6** Seventy-one of the entities consolidated into the CFS are classified as material entities as they comprise the majority of the revenues, expenses, assets and liabilities of the Australian Government. The remaining entities are considered to be non-material reporting entities. The 71 material entities comprise some 99 per cent of key financial statement balances consolidated into the CFS. Material entities are required to produce more detailed financial information than non-material entities for the purposes of providing monthly, end-of-year and estimates reports to Finance.

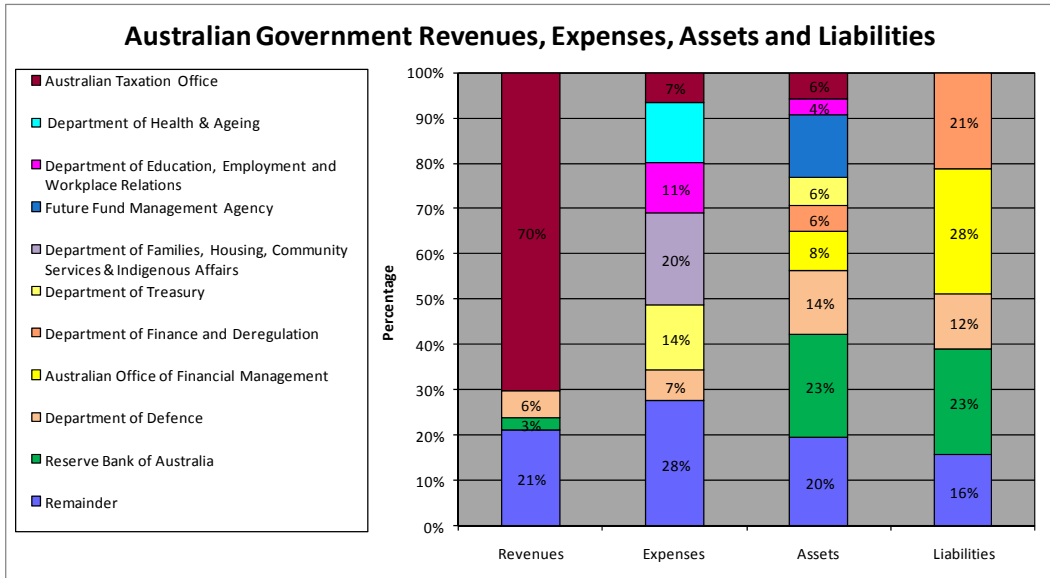
**3.7** The following ten entities represent a significant proportion of the Australian Government 2008–09 financial statement balances:

- the Department of Defence;
- the Department of Education, Employment and Workplace Relations;
- the Department of Families, Housing, Community Services and Indigenous Affairs;
- the Department of Finance and Deregulation;
- the Department of Health and Ageing;
- the Department of the Treasury;
- the Australian Office of Financial Management;
- the Australian Taxation Office;



- the Future Fund Management Agency; and
  - the Reserve Bank of Australia.
11. The contribution of these entities to the Australian Government’s revenues, expenses, assets and liabilities (prior to elimination of inter entity transactions) is shown in Figure 3.1.

Figure 3.1



Source: ANAO analysis

## Summary of results of audits

### Summary of Reports Issued

3.8 The Auditor-General is required by law to provide to the relevant Minister an audit report on the annual financial statements of each Australian government reporting entity. The audit opinion included in the auditor’s report may be qualified. An auditor’s reports may also include an emphasis of matter without qualifying the audit opinion. The various types of audit opinions and other matters that may be included in an auditor’s report are explained at Appendix 2. A summary of the qualifications, ‘emphasis of matter’, ‘other legal and regulatory requirements’, and ‘other matters’ included in auditors’ reports issued by the ANAO for the past two years is provided in this chapter.

**Table 3.1****Summary of audit reports issued and outstanding**

Financial Statement Audit Reports	2008–09	2007–08
Qualified	1	0
Emphasis of matter	0	0
Other Legal and Regulatory Requirements	1	1
Other matters	1	0
Unqualified audit reports	249	233
<b>Total Issued</b>	<b>250</b>	<b>233</b>
Financial statements not presented for audit at the time of this report	1	14
<b>Total number of audits</b>	<b>251</b>	<b>238</b>

**Entity Audit Reports containing a Qualification or an Emphasis of Matter**

3.9 Only one 2008–09 audit report contained a qualification (nil in 2007–08).

**Department of Resources, Energy and Tourism**

3.10 The Department of Resources, Energy and Tourism’s (RET) 2008–09 financial statements have been qualified in respect of the valuation of the investment of approximately \$374 million in Snowy Hydro Limited due to a limitation on the scope of the audit. The department has valued this investment utilising a discounted cash flow methodology, an approach that is available under the Finance Minister’s Orders.

3.11 The methodology utilised the forecast cash flow data included in the Corporate Plan of Snowy Hydro Limited in determining the fair value of the investment. However, in the ANAO’s view, while the department had made attempts to validate the cash flow data, it could not obtain sufficient documentation to support the valuation of the investment at 30 June 2009. As a consequence, there was uncertainty about the reliability of the carrying amount of the investment for Snowy Hydro Limited included in RET’s financial statements.

## **Audit Reports containing ‘Other Legal and Regulatory Requirements’**

**3.12** One 2008–09 audit report contained a reference to Other Legal and Regulatory Requirements (one in 2007–08).

### **Australian Taxation Office**

**3.13** The 2008–09 financial statements of the Australian Taxation Office (ATO) made reference (in Note 24C) to breaches of section 83 of the Constitution. These breaches were identified by the ATO during the 2008–09 Certificate of Compliance process. The note to the financial statements indicated that from time to time, as a result of processing errors outside the assessment process, incorrect payments are made by the ATO. In these circumstances a payment is made to a taxpayer without any legislative basis, representing a breach of section 83 of the Constitution. The number of payments identified by the ATO was a very small proportion of the total payments made by the ATO.

**3.14** The audit opinion on the financial statements was unqualified, as the financial statements fairly presented the financial operations and position of the ATO at year end, although the opinion did include a reference to the breaches of section 83 of the Constitution under ‘Other Legal and Regulatory Requirements’.

**3.15** A similar reference was included in the auditor’s report on the ATO’s 2007–08 financial statements.

## **Audit reports containing a reference to ‘Other Matters’**

**3.16** One 2008–09 audit report contained a reference to ‘Other Matters’ (nil in 2007–08).

### **Consolidated Financial Statements**

**3.17** The audit report on the 2008–09 Consolidated Financial Statements included an ‘Other Matters’ section that referred to the fact that the Australian Government did not prepare and present to the ANAO for audit, a general government sector (GGS) financial report in accordance with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, which was adopted for the first time in 2008–09. Accordingly, the audit report made clear that it only related to the Australian Government’s whole of government report for 2008–09.

## Summary of other audit findings

**3.18** The ANAO rates audit findings according to the potential risk posed to the entity. The rating structure is as follows:

Category	Description
A	Those matters which pose significant business or financial risk and must be addressed as a matter of urgency. This assessment should take account of both the likelihood and consequences of the risk eventuating.
B	Those matters which pose moderate business or financial risk or matters referred to management in the past, which have not been addressed satisfactorily. These would include matters where the consequences of the issue might be significant; however there is little likelihood of the consequences eventuating
C	Matters which are procedural in nature or minor administrative failings. These could include minor accounting issues, audit issues, or relatively isolated control breakdowns, which need to be brought to the attention of management.

**3.19** The final audit phase of the 2008–09 audits included a review of progress achieved by entities in addressing audit issues identified during the 2008–09 interim phase or carried forward from previous years. Most entities had made good progress in resolving outstanding audit issues. In particular, there was significant improvement in some major agencies that had made a concentrated effort to resolve issues.

**3.20** In situations where the ANAO reviewed actions taken and was satisfied that the issue had been satisfactorily addressed, the matter has been reported as ‘resolved’. Where the issue has been partly addressed, the finding may be downgraded in significance. In the remaining instances, the ANAO will review the actions taken by entities as part of the 2009–10 audits.

**3.21** New issues identified during the final phase of the 2008–09 audits included issues relating to: controls in entities’ IT environments, such as change management controls and the segregation of duties; asset management processes, including accounting for assets under construction, asset stock takes and the integrity of asset registers; and business system processing controls, such as reconciliation and payment system controls.

**3.22** Appendix 4 provides:

- the number of Category A and B audit findings for agencies included in Audit Report No 42 at the conclusion of the interim phase of the 2008–09 audits (Table A1); and

- the number of Category A and B audit findings for all material entities at the conclusion of the final phase of 2008–09 audits (Table A2).

**3.23** Chapter 4 includes details of Category A and B audit findings for each entity together with a table that provides a summary of the status of previously reported audit issues as well as new issues identified during the final phase of the 2008–09 audit.

**3.24** A summary of the trend in Category A and B findings between 2007–08 and 2008–09 final audit phases for material entities is outlined below:

- the total number of Category A audit findings is four in 2008–09, down from 5 in 2007–08;
- there were four entities with Category A audit findings in 2008–09, up from three in 2007–08;
- the total number of Category B audit findings in material entities decreased from 72 in 2007–08 to 69 in 2008–09; and
- there was a reduction in the number of Category B findings in 14 entities; 12 entities showed an increase in the number of Category B findings; three entities had the same number of findings; and 41 had no findings in either 2007–08 or 2008–09.

## Preparation of entity financial statements

### Financial statement timeframes

**3.25** The preparation and publication of annual audited financial statements is a key means by which entities meet their financial accountability and legislative obligations. It is generally accepted that a good indicator of the effectiveness of an entity's stewardship and financial management processes is the timely finalisation of the entity's financial statements, accompanied by an unqualified audit opinion. While acknowledging the challenges caused by tight completion requirements, rushed preparations, particularly if caused by poor project management or process shortcomings, heighten the risk of error or unreasonable resource usage to bring forward financial statement completion. The emphasis is on both the timeliness and quality of financial reporting.

**3.26** For 2008–09, material entities were required to submit audit cleared financial information to the Department of Finance and Deregulation by

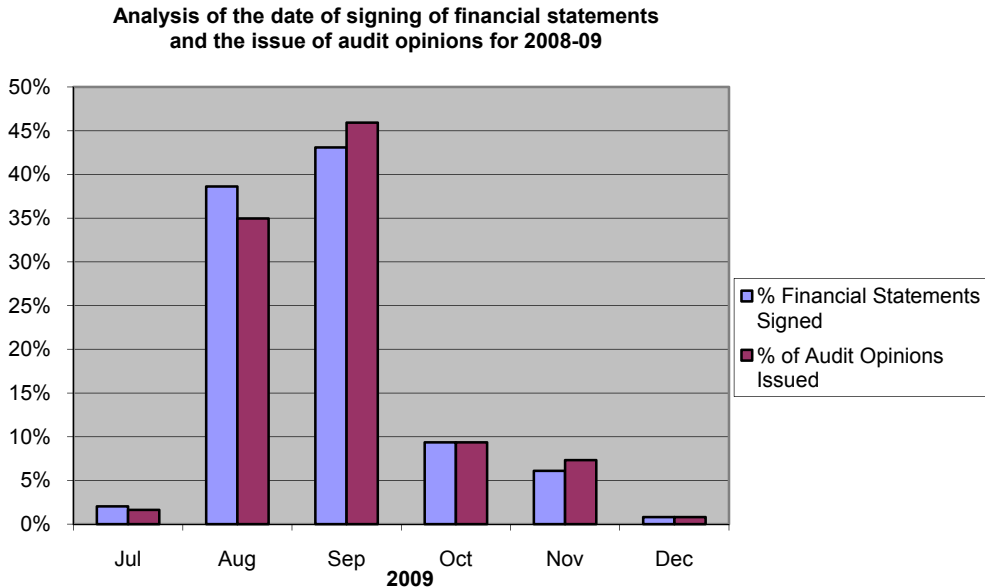
15 August 2009. For non-material agencies, the date was 31 August 2009. These dates also applied in 2007–08 and 2006–07.

**3.27** Approximately 75 per cent of material entities met the 15 August 2009 deadline and approximately 54 per cent of non-material entities met the deadline of 31 August 2009. This is a decrease from the position achieved in 2007–08 when 85 per cent of material entities and 57 per cent of non-material entities met the deadlines. The decrease in material entities meeting the deadline in 2008–09 was due to a combination of technical and financial statements preparation issues. The decrease in non-material entities meeting the deadline in 2008–09 was, in part, caused as a result of ANAO deferring the completion of a number of audits to assist audit scheduling.

**3.28** There are no deadlines for the signing of the actual financial statements (although in a number of entities the financial statements were signed at or about the same time as audit cleared information was provided to Finance) and the issue of the related audit opinion. There is, however, a deadline of 31 October 2009 for the tabling of entities' annual reports<sup>19</sup> that are required to include a copy of the signed financial statements and the auditor's report. An analysis of the dates on which entities' financial statements were signed and the auditor's report issued is provided in Figure 3.2.

---

<sup>19</sup> Agencies are required to table their Annual Reports by 31 October. CAC Act authorities are required to provide their Annual Report to the responsible Minister by the 15<sup>th</sup> day of the fourth month after the end of the financial year, ie. 15 October.

**Figure 3.2**

Source: ANAO Analysis

**3.29** This result is consistent with 2007–08, in that the audits for the large majority of entities' financial statements were completed within three months of the end of the financial year. Overall, this continues to reflect positively on the priority entities give to meeting their financial reporting responsibilities and on the financial stewardship of the public sector generally.

## Impact of the Global Economic Downturn

**3.30** As reported in Audit Report No 42 2008–09 *Interim Phase of the Audit of Financial Statements of General Government Sector Agencies for the Year Ended 30 June 2009*, the operations and control environments of individual agencies were affected by the consequences of the global financial crisis (GFC) during 2008–09. Audit Report No 42 outlined a range of measures taken by the Government in response to the GFC and mentioned some of the implications on agencies' financial statements, including on the valuation of certain assets and funds held by Australian Government entities and the impact of a decrease in the Government Bond rates on employee provisions.

**3.31** As foreshadowed in Audit Report No 42, the implications of the global economic downturn have been a particular focus during preparation and audit

of the 2008–09 financial statements of entities affected by the consequences of the GFC.

**3.32** The impact of the economic downturn on agencies' financial statements varied significantly. With the exception of an increase in employee provisions, discussed below, the impact on many entities was limited, resulting in little movement in key financial measures. By contrast, other entities were directly affected by the downturn with the deterioration in the global economy resulting in material movements in key financial measures.

**3.33** The major financial effects of the economic downturn that impacted entities' financial statements were: the Government's fiscal stimulus package and the consequences of the deterioration in the economy and financial markets, including higher unemployment; lower earnings by companies and superannuation funds; and a reduction in Government bond rates and interest rates generally. The impact of these factors on entities' 2008–09 financial statements included:

- personal benefit expenses increased substantially in entities such as FaHCSIA and the ATO that were responsible for the administration of various Government stimulus measures;
- income relating to taxation receipts, particularly relating to company and superannuation funds, also reduced during 2008–09;
- the economic downturn also had a major impact on both the nature and scale of products managed by the Australian Office of Financial Management (AOFM);
- the value of investments reduced significantly in a number of entities, particularly those that operate in the financial sector, including the Future Fund;
- there was a substantial decrease in the value of property holdings reduced in entities such as the Department of Foreign Affairs and Trade and Defence Housing Australia; and
- the value of the Commonwealth's superannuation liabilities and long-term employee liabilities increased substantially as a result of the



reduction in interest rates<sup>20</sup> and, in the case of superannuation liabilities, a reduction in funded asset values.

**3.34** In all entities, the reduction in Commonwealth bond rates resulted in an increase in employee provisions which, in turn, impacted entity operating results for the year. Based on advice from the Department of Finance and Deregulation, 61 entities had obtained approval during 2008–09 to incur a loss as a result of a reduction in bond rates.

**3.35** Based on an analysis of entities' 2008–09 financial statements, 69 entities incurred a loss in 2008–09. An analysis of the reasons provided by entities for incurring a loss identified that the majority of losses were the result of a variety of operational factors, the majority of which were associated with the need to manage the financial impact of the economic downturn. These factors included increases in expenses relating to the Government's stimulus measures, reductions in investments and increases in superannuation and other liabilities. As at 30 June 2009, the effect of the reduction in bond rates that lead to an increase in superannuation and employee provisions was not as severe as anticipated. Between the time a number of entities had obtained approval to incur a loss and the end of the financial year, the bond rate increased by approximately two per cent. As a consequence, the reduction in the bond rate, compared with the rate used at the time entity budgets were prepared, was not the main reason for entity losses in 2008–09. In fact, entities advised the ANAO that this factor was the sole or primary reason why a loss was incurred in only a small number of entities.

**3.36** The economic downturn required the ANAO to review its risk assessments for individual entities and adjust audit coverage where appropriate. Generally, this required an increased emphasis on high risk balances, rather than a major adjustment to existing audit approaches. In most

---

<sup>20</sup> Movements in interest rates have a direct bearing on the balance at year end of various liabilities, particularly those relating to long-term employee benefits and superannuation. In accordance with Australian Accounting Standards, the reported values of these liabilities are to be calculated by discounting expected future payments of employee benefits and superannuation to their present value. The discount factor used is the Australian Government long-term bond rate. An increase in the bond rate increases the extent of discounting and reduces the present value of liabilities. Conversely, a decrease in the rate increases their present value. The period over which the future value of the liability is calculated is determined by the period over which payments are expected to become due and payable. During 2008–09, there was a significant reduction in interest rates that, in turn, affected the long-term bond rate. As a result, there was a significant increase in the reported value of long-term liabilities during 2008–09.

instances, the ANAO already had in place appropriate arrangements to review balances that were estimated using the services of experts such as valuers or actuaries; in a number of instances the ANAO undertook additional coverage, including engaging independent experts, to obtain the necessary level of assurance in view of the increased risks associated with the economic environment. This was particularly the case in relation to the valuation of certain investments, superannuation liabilities and debt provisions.

**3.37** In respect of increases in personal benefit and other expenses as a result of the Government's stimulus package, the majority of the payments made were through existing payments systems. As a result, additional audit coverage generally consisted of increased analytical review procedures and the testing of any additional controls put in place by entities.

**3.38** Our audits identified that entities generally were well prepared to address the range of issues arising from the economic downturn during the preparation of their 2008–09 financial statements. Where considered appropriate, entities engaged valuers, actuaries and other experts to assist in estimating the value of a range of financial statement balances at year end. The additional complexity of estimating certain financial statement balances in a climate of economic uncertainty was, in general, understood by entities.

## Certificate of Compliance

**3.39** Commencing from the 2006–07 financial year, Chief Executives of each FMA agency are required to provide an annual Certificate of Compliance (CoC). Directors of GGS CAC Act authorities and wholly-owned companies are also required to provide a report on compliance with relevant aspects of CAC Act legislation.

**3.40** The Certificate of Compliance process requires the Chief Executive of an FMA agency to certify, having regard to advice provided by the agency's internal control mechanisms, management and the audit committee, that the agency:

- has complied with the provisions of the FMA Act, the Financial Management and Accountability Regulations 1997 and the Financial Management and Accountability Orders 2005;
- has exercised the powers delegated by the Finance Minister in accordance with the delegation;

- has complied with Australian Government requirements on foreign exchange risk management;
- has complied with legal and financial requirements for the management of Special Accounts;
- has complied with the financial management policies of the Commonwealth;
- is operating within the agreed resources for the current financial year; and
- has adopted appropriate management strategies for all currently known risks that may affect the financial sustainability of the agency.

**3.41** Certificates of Compliance are required to be provided by 15 October each year.

**3.42** Finance issued further guidance on issuing and exercising drawing rights and on commitments to spend public moneys in response to a large number of breaches that had occurred relating to these matters. Guidance material issued to entities to assist with the conduct of the 2007–08 CoC process was also updated as a result of the 2007–08 review.

**3.43** Consistent with established practice, as part of the 2008–09 financial statement audit process, the ANAO obtained details of actual or potential breaches of the relevant financial framework referred to in entities' Certificates of Compliance or other records. The impact of any reported breaches on the financial statements was considered prior to the signing of the audit report.

**3.44** While financial statement audits do not include an audit of the CoC process, a number of general observations are made based on information advised by individual entities:

- approximately 21 per cent of material entities signed their Certificate of Compliance prior to, or at the same time as, signing their 2008–09 financial statements. This compares to the position in 2007–08 where approximately 40 per cent of material agencies signed their Certificate of Compliance prior to, or at the same time as signing their 2007–08 financial statements. In a number of cases audit committees sought further documentation to support the certificate submitted to the committee for review, delaying the finalisation of the certificate;

- the large majority of entities signed their respective certificates by 15 October 2008; and
- no breaches required disclosure in the auditors' report on agencies' financial statements, except in respect of the ATO that had breached section 83 of the Constitution.

**3.45** Based on advice from Finance, agencies reported a total of 14 961 breaches in 2008–09. This represents a significant reduction compared with 2007–08 when approximately 32 600 breaches were reported. ANAO enquiries identified that the CoC process has resulted in staff having an increased awareness of legislative requirements. Entities advised the ANAO that this had resulted in staff giving higher priority to meeting legislative requirements, particularly in areas where breaches had occurred in 2007–08.

**3.46** Consistent with the results in 2006–07 and 2007–08, the majority of breaches identified by FMA Act agencies relate to requirements of the FMA Regulations rather than the requirements of the FMA Act itself. Many of the breaches identified by FMA Act agencies also continued to consist of multiple occurrences of a breach of the same legislative requirement rather than one-off breaches of a large number of individual requirements.

**3.47** The ANAO analysis also suggests that, in broad terms, many of the breaches continue to relate to regulations in respect of the commitment, approval and spending of public moneys, and the failure to document the reasons for non-adherence to the Commonwealth Procurement Guidelines. Areas where there was a significant decrease in the number of breaches compared with 2007–08 included having valid drawing, the banking of public moneys and the misuse of Commonwealth credit cards. It was also evident that, as in previous years, a small number of entities accounted for the large majority of the total number of breaches.

**3.48** Since its introduction in 2006–07, the Certificate of Compliance process has resulted in an increased awareness of legislative requirements and most, if not all, entities have well-established processes in place to identify legislative breaches and take corrective action where appropriate. The significant reduction in breaches in 2008–09 compared with 2007–08 reflects favourably on the effectiveness of these processes.

## COAG Financial Reforms

**3.49** Audit Report No 42 2008–09 *Interim Phase of the Audit of Financial Statements of General Government Sector Agencies for the Year Ending 30 June 2009* referred to a revised Council of Australian Governments (COAG) financial relations framework that took effect during 2008–09. The revised framework is reflected in the *Federal Financial Relations Act 2009* that commenced from 1 April 2009.

**3.50** The revised arrangements resulted in a significant change in the reporting of payments to the States and Territories in agency 2008–09 financial statements in relation to National Partnership payments (NPs), National Specific Purpose Payments (NSPPs), and General Revenue Assistance (GRA). Many payments that had previously been included in the financial statements of individual agencies were reported in Treasury's 2008–09 statements. In total, Treasury reported the following amounts in 2008–09:

- NPs - \$6 735 million
- NSPPs - \$3 163 million
- GRA - \$41 685 million

**3.51** Under the new framework, the Treasury also made payments to the States on behalf of other agencies of \$2 060 million. These payments related to Interstate Road Transport, non-government schools and National Building projects from the Building Australia and Health and Hospital Funds.

**3.52** During 2008–09, transitional arrangements were implemented and a number of accounting and disclosure issues were addressed for the purposes of the 2008–09 financial statements.

**3.53** Arrangements implemented during 2008–09 were sufficient to enable the ANAO to gain assurance about the completeness and accuracy of these amounts in Treasury's financial statements. The Treasury is progressively working to further strengthen the control environment to support these payments in 2009–10 and future years. The ANAO will continue to monitor and review the control environment and structure its future audit coverage accordingly.



## 4. Results of Financial Statements Audits by Portfolio

---

*This chapter summarises the results of the audits of the 2008–09 financial statements of individual Australian Government entities.*

### Introduction

For reporting purposes, the structure of this chapter reflects the Portfolio arrangements, existing at 30 June 2009.

**4.1** The table for each portfolio indicates, for each portfolio entity:

- the nature of the audit opinion and whether the audit identified any significant audit issues;
- the date the financial statements were signed; and
- the date the audit report was issued.

**4.2** The table also identifies, for each entity, whether previously reported significant or moderate issues remain unresolved and/or new significant or moderate issues identified during the 2008–09 final audit.

**4.3** Issues identified are rated in accordance with the seriousness of the particular matter. The three tier rating scale of 'A', 'B' and 'C', as outlined in Chapter Three, indicates to the respective entity the priority it should give to remedial action. Category B or C issues unresolved at the time of the next audit may, depending on the seriousness of the issue, subsequently be given a higher rating.

**4.4** For each material entity<sup>21</sup> details of the balance of key departmental and administered financial measures for 2007–08 and 2008–09 are provided, accompanied by a brief explanation of any movements in these measures that are significant.

**4.5** For each portfolio entity, the chapter also indicates the status of significant and moderate of issues (Category A and B issues respectively) identified in the interim audit phase, or in prior years, and summarises any new significant or moderate audit issues arising from the final phase of the 2008–09 audit.

---

<sup>21</sup> 71 entities are classified as material entities for Whole of Government reporting purposes with the remainder classified as non-material. Entities considered material collectively account for some 99 per cent of revenues, expenses, assets and/or liabilities of the Australian Government.





# Agriculture, Fisheries and Forestry Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Agriculture, Fisheries and Forestry	Yes	✓	31 Aug 09	1 Sept 09	
- Australian Quarantine and Inspection Service	No	✓	31 Aug 09	1 Sept 09	
- National Residue Survey	No	✓	31 Aug 09	1 Sept 09	
Australian Fisheries Management Authority	No	✓	10 Sept 09	11 Sept 09	
Australian Pesticides and Veterinary Medicines Authority	No	✓	2 Sept 09	4 Sept 09	
Australian Wine and Brandy Corporation	No	✓	25 Aug 09	28 Aug 09	
Biosecurity Australia ☞: ceased to exist on 30 June 2009	No	✓	16 Sept 09	18 Sept 09	
Cotton Research and Development Corporation	No	✓	16 Sept 09	16 Sept 09	◆
Dairy Adjustment Authority ☞: ceased to exist on 31 Dec 2008	No	✓	17 Aug 09	21 Aug 09	
Fisheries Research and Development Corporation	No	✓	27 Aug 09	27 Aug 09	
Grains Research and Development Corporation	Yes	✓	11 Aug 09	12 Aug 09	
- Single Vision Grains Australia Limited	No	✓	2 Oct 09	6 Oct 09	
Grape and Wine Research and Development Corporation	No	✓	25 Aug 09	28 Aug 09	
Land and Water Resources Research and Development Corporation	No	✓	3 Sept 09	4 Sept 09	
Rural Industries Research and Development Corporation	No	✓	25 Sept 09	29 Sept 09	
Sugar Research and Development Corporation	No	✓	20 Aug 09	7 Sept 09	
Wheat Exports Australia	No	✓	25 Sept 09	25 Sept 09	

✓: audit opinion not modified

E : auditor's report contains an emphasis of matter

Q : auditor's report contains a qualification

A : auditor's report contains additional statutory disclosure

☞: financial year end date other than 30 June 2009

☞: signed financial statements not presented for audit at this time

▲: moderate or significant issues reported previously not yet resolved

◆: new moderate or significant issues noted

## Portfolio overview

**4.6** The Agriculture, Fisheries and Forestry portfolio aims to advance the interests of Australia's agriculture, food, fisheries and forest industries in ways that protect and enhance Australia's natural resource assets.

**4.7** The portfolio comprises the Department of Agriculture, Fisheries and Forestry (DAFF) and a number of prescribed agencies, statutory authorities and research and development corporations. These portfolio entities work towards the common goal of ensuring Australian agricultural, food, fisheries, and forestry industries are based on sustainable management of and access to natural resources, are more competitive, self-reliant and innovative, have increased access to markets, are protected from diseases and are underpinned by scientific advice and economic research.

**4.8** During the 2008–09 financial year, the following changes occurred within the portfolio:

**4.9** The Australian Fisheries Management Authority (AFMA) became an agency subject to the *Financial Management and Accountability Act 1997* on 1 July 2008. Previously AFMA was subject to the *Commonwealth Authorities and Companies Act 1997*;

**4.10** Wheat Exports Australia replaced the previous Export Wheat Commission on 1 July 2008 following the introduction of new wheat marketing arrangements;

**4.11** The Dairy Adjustment Authority (DAA) was wound up on 31 December 2008. DAA's operations were funded through the Dairy Structural Adjustment Fund (DSAF) which in turn was funded by a consumer levy on the sales of drinking milk. The levy was abolished on 22 February 2009 and the DSAF was wound up on 30 June 2009; and

**4.12** Biosecurity Australia (BA) ceased to be a prescribed agency on 1 July 2009 and its financial resources, functions and accountabilities were transferred to DAFF.

## Department of Agriculture, Fisheries and Forestry

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	634.3	645.1
Total expenses	651.7	644.5
Total assets	219.7	253.5
Total liabilities	214.2	235.6

**4.13** The reduction in income is mainly due to a decrease in appropriation revenue, particularly in respect of drought assistance and other programs.

**4.14** The increase in expenses is principally due to an increase in employee benefits that was partially offset by a decrease in suppliers' expenses.

**4.15** The reduction in assets is largely due to a decrease in trade and other receivables as DAFF took action to reduce the balance of debtors at year end.

**4.16** The decrease in liabilities is due to a reduction in creditors, including the payment of a large creditor during 2008–09.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	605.3	621.8
Total expenses	1 686.9	2 820.3
Total assets	250.5	246.2
Total liabilities	90.5	124.2

**4.17** The reduction in income is mainly due to a decrease in levies collected from agricultural industries that are particularly dependent on water for production as drought continues in some parts of Australia, and an increase in natural disasters such as fires in Victoria and flooding in northern New South Wales and Queensland that resulted in a reduction in levy receipts.

**4.18** The significant decrease in expenses is due to a number of factors including: the transfer of Special Purpose Payments (\$679 million) to the Department of the Treasury in January 2009; a decrease in grants paid

(\$224 million) to the private sector in connection with programs such as the National Action Plan on Salinity, Fighting the Weed Menace and Tobacco Growers Assistance programs; a reduction in expenditure (\$85 million) relating to the Drought Assistance - Murray Darling Basin Grants to Irrigators program as that program nears its end; and a decrease in spending (\$74 million) in relation to the Equine Influenza Business Assistance program as that program begins to wind down after significant spending in 2007–08 when the equine influenza was at its peak.

**4.19** The decrease in liabilities is attributable to a decrease in personal benefits and grants payable at year end in line with the reduction in expenses discussed above.

## Audit results

### *Summary of audit findings*

**4.20** A moderate risk issue relating to access by developers from the AQIS Software Development Team to the IT production environment of the AQIS Import Management System (AIMS) identified during the interim phase of the audit has been satisfactorily addressed by amending system access arrangements and reviewing all prior access by developers.

**4.21** There were no significant or moderate audit issues identified during the final phase of the 2008–09 audit.

**4.22** The following table provides a summary of the status of previously reported audit issues.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	0	0
<b>B</b>	1	(1)	0	0
<b>Total</b>	<b>1</b>	<b>(1)</b>	<b>0</b>	<b>0</b>

## Grains Research and Development Corporation

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	150.4	127.2
Total expenses	121.2	102.5
Total assets	159.1	117.5
Total liabilities	40.4	27.7

**4.23** The increase in income is the result of the higher production and price of grain products that resulted in higher levy receipts.

**4.24** Expenses were higher in 2008–09 as a result of increased research and development activity.

**4.25** The increase in assets is a result of a significant increase in cash and trade receivables, and an increase in the recognition at year end of industry levies which were received after 30 June 2009.

**4.26** The increase in liabilities is due to an increase in payables at year end as a result of more research and development expenditure in 2008–09.

### Audit results

#### *Summary of audit findings*

**4.27** There were no significant or moderate audit issues identified during the 2008–09 audit.

### Comments on non-material entities

**4.28** There were no moderate or significant audit issues noted in non-material entities within the portfolio except for the Cotton Research and Development Corporation (CRDC).

## Cotton Research and Development Corporation

**4.29** The ANAO noted that the CRDC Fraud Control Plan identified the ANAO's annual external audit as a mitigating control for a number of fraud risks faced by CRDC. The ANAO considers that this is inappropriate as the audit procedures performed by the ANAO are not designed to identify fraud unless it is material to the preparation of the Corporation's financial

statements. In the absence of adequate procedures designed to prevent, detect and/or mitigate the risk of fraud, there is a risk that fraudulent activities within CRDC may go undetected. CRDC has advised that an action plan designed to address this issue would be discussed at the next Board meeting.

# Attorney-General's Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Attorney-General's Department	Yes	✓	27 Aug 09	28 Aug 09	▲◆
Administrative Appeals Tribunal	No	✓	3 Sept 09	4 Sept 09	
Australian Crime Commission	No	✓	17 Sept 09	18 Sept 09	▲◆
Australian Commission for Law Enforcement Integrity	No	✓	13 Oct 09	14 Oct 09	
Australian Customs and Border Protection Service	Yes	✓	28 Aug 09	31 Aug 09	▲
Australian Federal Police	Yes	✓	2 Sept 09	3 Sept 09	
Australian Government Solicitor	Yes	✓	14 Aug 09	14 Aug 09	
Australian Human Rights Commission	No	✓	25 Aug 09	27 Aug 09	
Australian Institute of Criminology	No	✓	14 Sept 09	14 Sept 09	
Australian Law Reform Commission	No	✓	1 Sept 09	1 Sept 09	
Australian Security Intelligence Organisation	Yes	✓	30 Sept 09	30 Sept 09	
Australian Transaction Reports and Analysis Centre	No	✓	7 Sept 09	7 Sept 09	
Criminology Research Council	No	✓	14 Sept 09	14 Sept 09	
CrimTrac Agency	No	✓	14 Sept 09	14 Sept 09	
Family Court of Australia	Yes	✓	19 Aug 09	19 Aug 09	
Federal Court of Australia	No	✓	26 Aug 09	27 Aug 09	
Federal Magistrates Court of Australia	No	✓	1 Sept 09	1 Sept 09	
High Court of Australia	Yes	✓	3 Sept 09	3 Sept 09	
Insolvency and Trustee Service Australia	No	✓	22 Sept 09	23 Sept 09	
National Capital Authority	Yes	✓	14 Aug 09	14 Aug 09	
National Native Title Tribunal	No	✓	25 Aug 09	28 Aug 09	
Office of the Director of Public Prosecutions	No	✓	15 Oct 09	15 Oct 09	▲◆
Office of the Privacy Commissioner	No	✓	25 Aug 09	27 Aug 09	
Office of Parliamentary Counsel	No	✓	18 Sept 09	18 Sept 09	

✓: audit opinion not modified

E : auditor's report contains an emphasis of matter

Q : auditor's report contains a qualification

A : auditor's report contains additional statutory disclosure

∞: financial year end date other than 30 June 2009

=: signed financial statements not presented for audit at this time

▲ : moderate or significant issues reported previously not yet resolved

◆ : new moderate or significant issues noted

## Portfolio overview

**4.30** The Attorney-General's portfolio comprises the Attorney-General's Department (AGD) and a large number of statutory and non-statutory bodies. The AGD is the central policy and coordinating entity within the portfolio.

**4.31** The portfolio covers a broad range of law and justice matters and services including legal policy and services to the Australian Government in areas of administrative, constitutional, civil, family, and international law, law reform, bankruptcy estate administration and regulation. In addition, the portfolio covers courts and tribunals, legal aid, native title, national and international human rights issues, censorship, criminal law and law enforcement, national security, emergency management, and some aspects of customs and border control.

## Attorney-General's Department

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	255.6	237.2
Total expenses	257.3	250.5
Total assets	246.4	218.5
Total liabilities	78.3	70.4

**4.32** In December 2007 AGD's role and functions increased to include responsibilities for the administration of the Territories, and natural disaster relief and mitigation. The increase in income was largely due to the impact of the first full financial year since the expansion of the department, additional funding for new initiatives including the Personal Property Securities Register (PPSR),<sup>22</sup> offset to some extent by the termination of APEC funding provided in 2007–08.

**4.33** The increase in assets is predominantly due to the completion and capitalisation of office fitout at the Department's new accommodation.

---

<sup>22</sup> The PPSR will be a single national on-line register of personal property security interests (other than for land and buildings).



**4.34** Movements in other items were not significant and were the result of fluctuations in normal business activity.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	47.9	52.6
Total expenses	847.1	808.5
Total assets	813.2	827.6
Total liabilities	727.6	624.7

**4.35** The increase in expenses was predominantly related to the net effect of:

- 2008–09 being the first full financial year since the department's expanded functions; and
- the Department of Treasury assuming responsibility for all payments made from the Australian Government to respective State and Territory Governments under the new federal financial framework from 1 January 2009.

**4.36** The increase in liabilities was largely due to movements in the liability for the Judges' Pension Scheme relating to the impact of lower interest rates on the calculation of projected benefit payments, and minor refinements to actuarial assumptions for projecting benefit payments including increased life expectancy of retired judges and their spouses.

**4.37** Movements in other items were not significant and were the result of fluctuations in normal business activity.

## **Audit results**

### *Summary of audit findings*

**4.38** The ANAO reported three moderate control weaknesses in the interim phase of the 2008–09 or 2007–08 audits. These issues relate to:

- Assets Under Construction – delays in capitalising the cost of completed projects and no formal procedures to regularly monitor and validate recorded balances;
- IT security – weaknesses in access management practices for the Department's human resource management information system; and

- valuation of Law Courts Limited – inadequate accounts and records to support decisions underpinning the valuation of the Law Courts Limited administered investment (this item was identified in the 2007–08 audit).

**4.39** The final phase of the 2008–09 audit found that AGD had adequate records to support the valuation of Law Courts Limited. AGD has also made progress to address the matters relating to assets under construction and IT security.

**4.40** During the final audit an additional moderate issue was raised in relation to control weaknesses identified in the stocktaking procedures for departmental and administered assets. The ANAO found gaps in the initial control and oversight procedures for the stocktakes, poor quality review over the returned count sheets, and fragmentation of the documentation of stocktake results and associated follow-up activities.

**4.41** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2008–09 audit.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues (identified during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	0	0
<b>B</b>	3	(1)	1	3
<b>Total</b>	<b>3</b>	<b>(1)</b>	<b>1</b>	<b>3</b>

## Australian Customs and Border Protection Service

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	1 079.6	1 078.9
Total expenses	1 091.4	1 094.4
Total assets	634.0	595.8
Total liabilities	234.9	228.5

**4.42** The increase in assets is predominantly related to revaluation increases in the Australian Customs and Border Protection Service’s asset holdings.

4.43 There were no significant movements in departmental income, expenses and liabilities.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	6 920.8	6 629.8
Total expenses	14.2	2.9
Total assets	118.8	121.6
Total liabilities	8.1	8.7

4.44 The increase in administered income was primarily due to:

- an increase in duty revenue related to excise equivalent goods because of a consumer shift from pre-mixed drinks to spirits and a change in the method of calculating duty on tobacco;
- a higher demand for clothing and footwear; and
- an increase in the passenger movement charge of \$9 per departing passenger.

4.45 The movement in administered expenses is due to increased write off of impaired receivables relating to fines which are no longer collectable.

4.46 The movements in assets and liabilities were not significant and were the result of fluctuations in normal business activity.

## Audit results

### *Summary of audit findings*

4.47 The ANAO reported three moderate control weaknesses in the interim phase of the 2008–09 audit. These issues relate to:

- system change management processes – the ANAO's review of change management processes identified weaknesses in documentation and controls over changes made to key systems. Inadequate controls and documentation increase the risk that system changes may occur without appropriate approval or adequate acceptance testing;
- IT user security controls – inconsistencies were noted between the Customs and Border Protection ICT Security Policy and the procedures being applied in a number of the information systems relating to an

increased risk of unauthorised and inappropriate access or changes to information systems; and

- asset management – the location of assets should be recorded in the assets register as a control to ensure that the assets exist and that there is proper asset stewardship. The ANAO identified that Customs and Border Protection was not appropriately managing this process.

**4.48** Customs and Border Protection has made progress in resolving these control weaknesses, but further remedial action is required. No new issues were identified in the final phase of the 2008–09 audit.

**4.49** The following table provides a summary of the status of previously reported audit issues.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	0	0
<b>B</b>	3	0	0	3
<b>Total</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>3</b>

## Australian Federal Police

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	1 242.2	1 211.5
Total expenses	1 242.4	1 259.4
Total assets	827.2	673.0
Total liabilities	283.6	270.9

**4.50** Total assets have increased significantly due to a capital injection of \$127.3 million during the year and an asset revaluation increment of \$15.0 million.

**4.51** Movements in other items were not significant and were the result of fluctuations in normal business activity.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	0	0
Total expenses	6.8	0
Total assets	0.2	0
Total liabilities	2.0	0

**4.52** This is the first year that AFP has had administered funding. Programs receiving administered appropriations in 2008–09 include the Timor Leste Police Development Program; the Pacific Police Development Program and the Cyber Safety (internet advertising) program.

**Audit results***Summary of audit findings*

**4.53** There were no significant or moderate audit issues identified during the 2008–09 audit.

**Australian Government Solicitor****Summary of financial results***Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	121.1	128.6
Total expenses	116.4	119.5
Total assets	78.2	81.5
Total liabilities	42.1	47.7

**4.54** Movements in all items were not significant and were the result of fluctuations in normal business activity.

**Audit results***Summary of audit findings*

**4.55** There were no significant or moderate audit issues identified during the 2008–09 audit.

# Australian Security Intelligence Organisation

## Summary of financial results

### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	361.7	304.1
Total expenses	352.2	303.8
Total assets	519.4	429.9
Total liabilities	72.5	63.3

**4.56** The increase in income relates to additional appropriation to bolster the Organisation’s intelligence collection and analytical capabilities which includes additional recruitment of staff across all areas of operations. This has also resulted in an increase in expenses that relates mainly to increases in employee expenses.

**4.57** Assets have increased due to significant capital equity injections during 2008–09. Since 2005, ASIO has been given significant additional funding, both operational and capital, to boost its intelligence collection and analytical capabilities.

## Audit results

### *Summary of audit findings*

**4.58** In 2007–08, the ANAO identified a moderate audit issue relating to ASIO’s system of recording their provision for employee entitlements. During 2008–09, ASIO completed an extensive audit of its personnel records in which it detected a number of instances where employee entitlements were incorrect. During 2008–09, the correct records were loaded into the HRMIS.

**4.59** There were no significant or moderate audit issues identified during the 2008–09 audit.

## Family Court of Australia

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	140.1	142.8
Total expenses	139.5	141.4
Total assets	56.5	51.8
Total liabilities	27.9	27.8

4.60 There were no significant movements in these items during 2008–09.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	1.1	1.3
Total expenses	0	0
Total assets	0	0
Total liabilities	0	0

4.61 The administered income relates to court filing fees.

### Audit results

#### *Summary of audit findings*

4.62 There were no significant or moderate audit issues identified during the 2008–09 audit.

# High Court of Australia

## Summary of financial results

### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	17.1	15.3
Total expenses	18.6	16.2
Total assets	194.0	195.9
Total liabilities	3.2	2.2

4.63 There were no significant movements in financial balances during 2008–09.

### *Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	1.0	1.1
Total expenses	0	0
Total assets	0	0
Total liabilities	0	0

4.64 The administered income relates to court filing and hearing fees.

## Audit results

### *Summary of audit findings*

4.65 There were no significant or moderate audit issues identified during the 2008–09 audit.



## National Capital Authority

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	16.0	21.7
Total expenses	16.0	21.6
Total assets	20.4	21.9
Total liabilities	7.2	9.0

**4.66** The decrease in income is largely the result of a reduction in funding from Government and reduced sponsorship revenue.

**4.67** Employee benefit expenses have decreased as a result of a reduction in staff numbers during 2008–09. Suppliers' expenses have also decreased as a result of a reduction in expenses relating to property repairs and maintenance and events costs, with no major events taking place during 2008–09.

**4.68** The movements in assets and liabilities are not significant and were due to fluctuations in normal business activity.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	3.2	31.4
Total expenses	16.1	11.3
Total assets	693.2	671.7
Total liabilities	0.6	0.9

**4.69** The significant reduction in income was due to a free of charge transfer of assets from the ACT Government that occurred in 2007–08. This was a one-off transaction.

**4.70** The increase in expenses mainly relates to higher depreciation charges that are consistent with the revaluation increments recorded in 2008–09, and costs associated with the write down and impairment of assets.

**4.71** The increase in assets relates mainly to revaluation increments recorded in 2008–09.

4.72 The movement in liabilities is not significant and is due to fluctuation in normal business activity.

## **Audit results**

### *Summary of audit findings*

4.73 There were no significant or moderate audit issues identified during the 2008–09 audit.

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

4.74 There were no significant or moderate audit issues noted in non-material entities within the portfolio except for the Australian Crime Commission and the Office of the Director of Public Prosecutions.

### **Australian Crime Commission**

4.75 During the 2007–08 interim audit, a moderate audit issue was identified relating to weaknesses in the IT security framework of the then newly implemented financial management and human resources information system. These weaknesses related to security documentation, privileged user access, security conformations and user access management, monitoring controls and access removal for non-continuing staff. While follow-up work as part of the 2008–09 audit showed progress had been made to address these issues, it was noted that some weaknesses remained.

4.76 Since 2005–06, the ANAO has reported minor administrative issues to the Australian Crime Commission in relation to its reconciliations of data recorded in the financial management information system. Issues noted included reconciliations not being performed, not evidenced as reviewed by an independent officer and/or not prepared in a timely manner. The ANAO's follow up work in 2008–09 identified weaknesses still remained, resulting in this issue being escalated to a moderate audit finding. The Commission has advised that it has now addressed these issues. The 2009–10 audit will include a review of the remedial actions taken.

4.77 In 2007–08, the ANAO reported a moderate audit issue with respect to the Australian Crime Commission's financial statement preparation process. The Commission has made improvements in this area during 2008–09, and addressed the majority of the issues previously raised.

## Office of the Director of Public Prosecutions (DPP)

**4.78** The 2007–08 interim audit identified a number of weaknesses in the security framework surrounding the DPP's FMIS. The audit identified that an FMIS security plan was not in place and system access controls were largely informal and unsupervised at a central level. During 2008–09, the ANAO reviewed the actions taken to address those issues and noted that though some actions have been taken, further work was required to satisfactorily address all weaknesses noted.

**4.79** The 2007–08 audit identified a number of weaknesses in the financial statement preparation process, including inadequate quality assurance and review. While some improvements have been made in 2008–09, significant weaknesses still remained. The issues caused delays in both the preparation and audit of the financial statements. The ANAO has recommended a range of improvements in future financial statement preparation processes and the Office of the Director of Public Prosecutions has agreed to take corrective action.

**4.80** One moderate audit issue was identified during the 2008–09 audit in relation to bank reconciliation processes. The ANAO noted that bank reconciliations did not include the associated clearing accounts where all receipts and payments were recorded. The DPP took prompt action to address the weaknesses noted.

**4.81** The ANAO will include a review of remedial actions taken as part of the 2009–10 audit.



# Broadband, Communications and the Digital Economy Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Broadband, Communications and the Digital Economy	Yes	✓	28 Aug 09	28 Aug 09	
Australian Broadcasting Corporation	Yes	✓	30 Jul 09	30 Jul 09	
Australian Communications and Media Authority	Yes	✓	10 Sept 09	11 Sept 09	
Australian Postal Corporation	Yes	✓	27 Aug 09	27 Aug 09	◆
NBN Co Limited	Yes	✓	21 Sept 09	21 Sept 09	
Special Broadcasting Service Corporation	Yes	✓	5 Aug 09	5 Aug 09	
– Multilingual Subscriber Television Limited	No	✓	5 Aug 09	5 Aug 09	

✓: audit opinion not modified

E : auditor's report contains an emphasis of matter

Q : auditor's report contains a qualification

A : auditor's report contains additional statutory disclosure

☞: financial year end date other than 30 June 2009

☞: signed financial statements not presented for audit at this time

▲: moderate or significant issues reported previously not yet resolved

◆: new moderate or significant issues noted

**4.82** The portfolio is responsible for the promotion of the digital economy, the development of communications, broadcasting and related policies and codes of practice, in addition to the provision of services through agencies including Australia Post, the Australian Broadcasting Corporation and Special Broadcasting Services Corporation.

**4.83** On 9 April 2009, a new Commonwealth-owned company, NBN Co Limited, was established. The principal activities of the company are to build and operate a National Broadband Network to deliver telephony and high speed broadband to Australian homes, schools and businesses.

# Department of Broadband, Communications and the Digital Economy

## Summary of financial results

### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	119.1	116.2
Total expenses	115.0	128.3
Total assets	99.8	94.2
Total liabilities	26.8	26.7

**4.84** DBCDE's 2007–08 Departmental financial results incorporate the Department of Communications, Information Technology and the Arts' income and expenses for the period 1 July 2007 to 3 December 2007.

**4.85** The movement in all measures has been impacted by the Machinery of Government (MOG) changes which took place during 2007–08. These changes resulted in a number of functions and programs being transferred to other agencies, together with the related revenues, expenses, assets and liabilities.

**4.86** Other factors affecting these measures included:

- additional income to fund the cost of coordinating the development of the National Broadband Network (NBN);
- a reduction in consulting and legal expenses; and
- higher appropriations receivable which relate to the funding of the new NBN policy and co-ordination program.

### *Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	514.6	477.1
Total expenses	1 235.5	358.8
Total assets	3 640.5	7 118.6
Total liabilities	22.6	21.5

**4.87** The increase in administered revenue reflected, in part, the payment of a \$150 million special dividend by Australia Post, which was offset by a

\$77 million decrease in interest revenue following the transfer of the balance of the Communications Fund to the Building Australia Fund on 1 January 2009.

**4.88** New funding arrangements<sup>23</sup> for the payment of appropriations to the Australian Broadcasting Corporation and Special Broadcasting Service Corporation resulted in the recognition of additional administered expenses of \$1.049 billion. This was offset by lower grant and subsidies expenses, reflecting the full year impact of the December 2007 MOG changes.

**4.89** The significant decrease in administered assets resulted from the transfer of the Communications Fund (\$2.46 billion) to the Building Australia Fund and a \$1.12 billion decrease in the value of the Australia Post administered investment. NBN Co Limited was recognised as an administered investment of \$9.9 million in 2008–09.

**4.90** There were no significant changes to administered liabilities during the year.

## **Audit results**

### *Summary of audit findings*

**4.91** There were no significant or moderate audit issues identified during the 2008–09 audit.

**4.92** The moderate audit issue that was identified during the final phase of the 2007–08 audit relating to weaknesses in the financial management reporting of expenses and accruals for the broadband subsidy programs has been addressed by the implementation of new systems and processes.

---

<sup>23</sup> From 1 July 2008, changed arrangements for Commonwealth authorities and companies receiving appropriation funding took effect. Portfolio departments now receive this funding and pay it to authorities and companies within their portfolio. Payment of these funds is recognised in the administered accounts of each portfolio department, generally as administered expenses.

## Australian Broadcasting Corporation

### Summary of financial results

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	1 102.4	1 053.6
Total expenses	1 088.5	1 041.4
Total assets	1 224.7	1 255.2
Total liabilities	278.6	288.1

**4.93** There were no significant movements in revenues, expenses, assets or liabilities noted during the year. The movements were the result of fluctuations in normal business activity.

### Audit results

#### *Summary of audit findings*

**4.94** There were no significant or moderate audit findings arising from the 2008–09 audit.

## Australian Communications and Media Authority

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	97.6	99.0
Total expenses	98.9	99.1
Total assets	64.9	61.8
Total liabilities	28.8	26.2

**4.95** The increase in assets is due to the purchase of new equipment.

**4.96** The movements in other measures were not significant and were the result of fluctuations in normal business activity.



*Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	757.1	708.4
Total expenses	160.4	170.8
Total assets	355.5	326.6
Total liabilities	6.7	11.6

**4.97** The increase in administered income is mainly attributable to the increase in broadcasting licence fees.

**4.98** The decrease in administered expenses is due to a reduction in the demand for services delivered in relation to the National Relay Service and the Universal Service Obligation.

**4.99** Movements in other administered items were the result of fluctuations in normal business activity.

**Audit results***Summary of audit findings*

**4.100** There were no significant or moderate audit issues identified during the 2008–09 audit.

**Australian Postal Corporation****Summary of financial results**

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	4 974.5	4 936.9
Total expenses	4 566.4	4 326.4
Total assets	4 270.2	5 477.0
Total liabilities	2 425.1	2 667.1

**4.101** The most significant variation in the Australian Postal Corporation's (APC) 2008–09 financial position was as a result of a \$1.1 billion decrease in the defined benefit plan asset.

**4.102** Other movements were not significant and were the result of fluctuations in normal business activity.

## Audit results

### Summary of audit findings

**4.103** During the 2008–09 financial statement audit the ANAO identified four moderate findings.

**4.104** The ANAO identified four moderate findings in 2008–09 concerned with IT change management; debtor analysis and reconciliations. The reconciliation issues related to a lack of formal policy for reconciliations of inter-company accounts and incomplete information to support other key reconciliations.

**4.105** APC advised that it is implementing procedures to address these issues and progress will be reviewed during the 2009–10 audit.

**4.106** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2008–09 audit.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
A	0	0	0	0
B	0	0	4	4
<b>Total</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>4</b>

## NBN Co Limited

### Summary of financial results

Key financial measures for year	2008–09 \$m
Total income	-
Total expenses	0.1
Total assets	10.0
Total liabilities	0.2

**4.107** NBN Co Limited was established on 9 April 2009. Activities have been limited to raising initial capital and establishing the company.

## Audit results

### *Summary of audit findings*

**4.108** There were no significant or moderate audit issues arising from the 2008–09 audit.

## Special Broadcasting Service Corporation

### Summary of financial results

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	268.1	258.6
Total expenses	264.7	258.5
Total assets	257.5	231.2
Total liabilities	98.8	81.1

**4.109** The increase in income is largely due to higher advertising revenues.

**4.110** The increase in expenses is due to an increase in employee numbers and salary increases during 2008–09.

**4.111** The increase in assets is mainly due to capital acquisitions, the revaluation of plant and equipment, the recognition of goodwill in the purchase of an advertising sales business and increases in locally produced program inventories.

**4.112** The increase in liabilities is largely due to an additional loan being obtained from Government during the year.

## Audit results

### *Summary of audit findings*

**4.113** There were no significant or moderate audit issues identified during the 2008–09 audit.

### Comments on non-material entities

**4.114** There were no significant or moderate audit issues noted in non-material entities within the portfolio.



# Defence Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Defence	Yes	✓	15 Sept 09	15 Sept 09	▲◆
Army and Air Force Canteen Service	No	✓	2 Sept 09	2 Sept 09	
Australian Military Forces Relief Trust Fund	No	✓	15 Sept 09	16 Sept 09	
Australian Strategic Policy Institute Ltd.	No	✓	22 Sept 09	24 Sept 09	
Australian War Memorial	Yes	✓	12 Aug 09	13 Aug 09	
Defence Housing Authority	Yes	✓	7 Aug 09	10 Aug 09	
Defence Materiel Organisation	Yes	✓	3 Sept 09	3 Sept 09	▲◆
Defence Service Homes Insurance Scheme	No	✓	26 Aug 09	27 Aug 09	◆
Department of Veterans' Affairs	Yes	✓	26 Aug 09	27 Aug 09	◆
Military Superannuation and Benefits Board of Trustees No. 1	No	✓	4 Sept 09	4 Sept 09	
Military Superannuation and Benefits Scheme	No	✓	4 Sept 09	4 Sept 09	◆
Royal Australian Air Force Veterans' Residences Trust Fund	No	✓	1 Oct 09	6 Oct 09	
Royal Australian Air Force Welfare Trust Fund No. 3	No	✓	10 Aug 09	11 Aug 09	
Royal Australian Navy Relief Trust Fund	No	✓	8 Sept 09	9 Sept 09	
Royal Australian Navy Central Canteen Board	No	✓	14 Sept 09	16 Sept 09	◆
RAAF Welfare Recreational Company	No	✓	20 Oct 09	20 Oct 09	
RAAF Central Welfare Trust Fund	No	✓	20 Oct 09	20 Oct 09	
Army Amenities Fund Company	No	✓	28 Oct 09	5 Nov 09	
Army Amenities Fund	No	✓	28 Oct 09	5 Nov 09	
Messes Trust Fund	No	✓	28 Oct 09	5 Nov 09	

✓: audit opinion not modified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains additional statutory disclosure

☞: financial year end date other than 30 June 2009

☞: signed financial statements not presented for audit at this time

▲: moderate or significant issues reported previously not yet resolved

◆: new moderate or significant issues noted

## Portfolio overview

**4.115** The Defence portfolio consists of the Department of Defence (Defence), the Department of Veterans' Affairs (DVA), the Defence Materiel Organisation (DMO) and a number of other statutory and non-statutory bodies. The portfolio is responsible for developing, implementing and administering policies, programs and services to defend Australia and its national interests. The portfolio is also responsible for carrying out government policy and implementing programs to fulfil Australia's obligations to war veterans and their dependents, as well as for providing compensation claims management services to currently serving and former members of the Australian Defence Force (ADF).

## Department of Defence

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	21 673	21 085
Total expenses	22 617	21 670
Total assets	61 348	58 913
Total liabilities	4 642	3 957

**4.116** Income increased mainly due to increased funding for Defence activity and the maintenance of Defence funding growth at 3 per cent (in line with the Defence White Paper).

**4.117** The increase in expenses was due to higher employee, supplier and depreciation expenses, offset by a reduction in the write-down and impairment of assets as outlined below:

- employee expenses increased due to long-term employee liabilities increasing as a result of a reduction in the Commonwealth bond rate,<sup>24</sup> salary rates and staffing numbers. Other increases are attributed to an increase in health care expenses, retention bonus programs for service

---

<sup>24</sup> Op.cit. (Refer to Footnote No. 20, page 49)

personnel, and the reclassification of housing costs for ADF personnel from suppliers' expenses to employee expenses;

- suppliers' expenses increased mainly due to an increase in DMO sustainment and acquisition, increased consumption for fuel and General Stores Inventory (GSI) inventory, an increase in repairs, overhaul and operating lease rentals, which were offset by a decrease in travel expenses and the cost of estate upkeep;
- depreciation expenses increased primarily due to the effect of the roll out in 2008–09 of a range of specialist military equipment such as the Super Hornets and the Air Warfare Destroyers; the commissioning of the Headquarters Joint Operation Command (HQJOC) and a number of major accommodation projects; and
- the write-down and impairment of financial assets, SME, fixed assets and inventory. The expenses movement is predominantly the effect of stock movements and data remediation activities of Defence's inventory and financial management information system.

**4.118** Assets increased primarily due to increases in land and buildings, SME, infrastructure, intangibles and trade and other receivables, which were offset by a decrease in prepayments.

**4.119** Land and buildings increased primarily as a result of acquisitions associated with the HQJOC, Single Leap and the Holsworthy projects. Other increases included:

- the revaluation increment for Defence's land and buildings;
- an increase in SME, reflecting additions from the roll out of completed projects, offset by depreciation expenses;
- an increase in intangibles as a result of in-year additions, offset by amortisation charges; and
- an increase in trade and other receivables that reflects appropriation funding resulting from foreign exchange movements and expected revenue from the sale of Seasprite spare parts.

**4.120** Defence's liabilities increased principally due to increases in employee provisions and leases. The movement in employee liabilities was due to the impact of salary increases under the respective workplace agreements, the impact of additional staff numbers from recruitment campaigns and the effect

of changes in bond rates on estimating employee benefit liabilities. Finance lease liabilities increased in 2008–09 as a result of additional finance leases for such assets as HQJOC, IT equipment and accommodation facilities.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	917	895
Total expenses	3 501	2 892
Total assets	2 032	1 909
Total liabilities	42 697	33 647

**4.121** The movement in administered expenses and liabilities primarily reflects the effect of the superannuation liability for the Defence Force Retirement and Death Benefits Scheme and the Military Superannuation and Benefits Scheme. The expenses and liabilities associated with these schemes increased as a result of an increase in members accruing benefits, salary increases and the effect of a reduction in the interest rates used in estimating the liability for these two schemes at year end.<sup>25</sup>

**4.122** There were no significant movements in administered income, and assets.

**Audit results**

**4.123** An unqualified audit report was issued on 15 September 2009. This is the second consecutive year that an unqualified audit report has been issued for the department. This represents a significant achievement and is the culmination of continued and sustained effort over the past several years by Defence to address significant control deficiencies previously reported.

*Summary of audit findings*

**4.124** During the final phase of the 2008–09 audit, the ANAO found that Defence had resolved two significant and 14 moderate risk issues previously identified. At the conclusion of the 2008–09 audit, one significant and 23 moderate risk issues remained outstanding.

---

<sup>25</sup> Op. cit. (Refer to Footnote No. 20, page 49)



## Financial Management Framework

**4.125** The Defence financial management framework encompasses ongoing monitoring of the controls and reporting processes in place over financial transactions and balances within Defence. At the completion of the 2008–09 audit, the issue in relation to the management and oversight of service bureau arrangements between DMO and Defence remains outstanding.

## Logistics Management General Stores Inventory and Specialist Military Equipment

**4.126** In 2007–08 Defence completed comprehensive remediation activity to address GSI quantities and legacy pricing issues. However, at the conclusion of the 2007–08 audit, two significant and eight moderate audit issues remained outstanding. In 2008–09, the focus by Defence on these areas resulted in the two significant risk issues and seven moderate risk issues being resolved, with the issue of the remediation and processing of Royal Australian Navy returns remaining outstanding.

**4.127** While Defence and the ANAO have undertaken significant work to be confident that reported inventory balances remain materially stated in 2008–09, the underlying inventory systems and associated business process controls continue to require ongoing and sustained attention. One new significant and eight new moderate issues were identified during the final phase of the 2008–09 audit. With regard to Defence’s logistics management, the audit identified a need to:

- strengthen controls, documentation and the reporting of the cyclical stocktake program of inventory and assets;
- address deficiencies in the underlying controls that affect the quality of data within the inventory system (SDSS);
- improve the analysis and management of variances from the reconciliation of the SDSS and the financial management information system (ROMAN);
- strengthen the design and operation of compensating controls within SDSS;
- improve the currency and alignment of policies and procedures to the supply chain processes used within Defence establishments and increase the awareness of changes to specific policies and processes within these establishments;

- improve management assurance activities supporting supply chain processes;
- strengthen controls over the pricing of general stores inventory;
- improve the retention of supporting documentation relating to the approval to dispose of certain Defence assets; and
- strengthen the estimation processes for obsolete inventory items.

**4.128** These issues limited the ANAO's ability to place reliance on specific inventory management and purchasing controls for the 2008–09 audit. Accordingly, the ANAO audit focussed on validating the effectiveness of Defence's Inventory Assurance Program and conducting extended detailed transaction testing at Defence establishments across Australia to gain reasonable assurance in relation to the reported financial statement items.

#### Asset Management (General and SME)

**4.129** During the 2008–09 audit, the ANAO identified two new moderate risk issues in relation to Assets Under Construction in respect of the timeliness and retention of appropriate documentation to support the roll-out of assets from Assets Under Construction and the verification and accounting of certain specialist military assets.

#### Financial Management Information System

**4.130** In 2007–08, the ANAO continued to report inappropriate segregation of duties relating to user access management, insufficient review processes surrounding application security for the FMIS and weaknesses in relation to user access management and configuration settings within the FMIS.

**4.131** While improvements were noted in relation to user access management and the review processes surrounding application security, at the conclusion of the 2008–09 audit, issues remain outstanding regarding the high number of users with access to sensitive financial transactions, user access management and configuration settings within the FMIS.

#### Purchase to Pay

**4.132** Consistent with prior years, control weaknesses were noted in relation to the purchasing and payment systems, and business processes known as 'Purchase to Pay'. These issues related to accounts payable management, the

Card Management System<sup>26</sup> (CMS), the Master Supplier Register<sup>27</sup> (MSR) and the Invoice Scanning and Imaging System<sup>28</sup> (ISIS), and included the need to:

- strengthen procurement delegations and approvals procedures and the need to implement controls to prevent the processing and payment of duplicate invoices;
- improve the data quality and management of vendor records;
- improve compliance with policies and procedures for the management and use of purchase and travel cards;
- address deficiencies in the change management framework for the MSR; and
- address weaknesses in the change management and user access management frameworks for ISIS.

**4.133** The extent of these issues has limited the ability of the ANAO to place reliance on purchasing controls and resulted in the extension of controls and substantive testing as part of the 2008–09 audit.

#### Human Resource Management

**4.134** The Human Resource Management systems for Defence are PMKeyS for all civilian personnel transactions and military leave processing and recording, and ADFPay for military payroll processing. At the conclusion of the 2007–08 audit, the ANAO reported the following issues:

- the need to improve record keeping procedures, exception processing and payroll processes for civilian and military employees;
- the need to improve the performance and review of input reports in ADFPay; and
- the need to reconcile records from the PMKeyS interface with ADFPay.

---

<sup>26</sup> The Card Management System is the system used to manage Defence's corporate credit card transactions.

<sup>27</sup> The Master Supplier Register is Defence's single authoritative source for vendor related data.

<sup>28</sup> The Invoice Scanning and Imaging System is the system used to increase the efficiency of payments made on invoices received by utilising data imaging technology.

**4.135** At the conclusion of the 2008–09 audit, Defence had initiated improvements in relation to systems, processes and procedures, however these are yet to be fully implemented.

**IT Governance**

**4.136** Defence is undergoing a number of strategic reforms in relation to Information and Communications Technology. The ANAO has previously reported two moderate risk issues in relation to IT governance, including in the areas of IT strategic planning documentation, bureau service arrangements and shared services agreements with DMO.

**4.137** The lack of current key strategic planning documents creates an exposure that business decisions are not aligned to organisational goals and executive management’s expectation, including future capability requirements. Without appropriate management oversight, control and maintenance of information technology within the Defence control environment, Defence cannot be reasonably assured that there is an appropriate level of rigour applied to key control activities impacting upon financial, operational and management information and the integrity of transactions.

**4.138** The following table provides a summary of the status of previously reported audit issues and new issues raised in the 2008–09 audit.

<b>Ratings</b>	<b>Opening position (at end of interim phase)</b>	<b>Issues resolved (during final audit phase)</b>	<b>New issues identified (during final audit phase)</b>	<b>Closing position (at conclusion of final audit)</b>
<b>A</b>	2	(2)	1	1
<b>B</b>	23	(14)*	14	23
<b>Total</b>	<b>25</b>	<b>(16)</b>	<b>15</b>	<b>24</b>

\*Three moderate audit issues relating to SDSS previously reported in DMO’s audit results are now reported in Defence’s audit results.

## Australian War Memorial

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	50.8	48.6
Total expenses	50.5	48.2
Total assets	1 151.3	1 160.6
Total liabilities	9.4	8.3

**4.139** The decrease in assets is mainly due to a decrease in the value of land and buildings on revaluation.

**4.140** There were no significant movements in other financial measures.

### Audit results

#### *Summary of audit findings*

**4.141** There were no significant or moderate audit issues identified during the 2008–09 audit.

## Defence Materiel Organisation

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	9 761	8 442
Total expenses	9 690	8 400
Total assets	1 967	2 528
Total liabilities	1 655	2 287

**4.142** The Defence Materiel Organisation (DMO) provides sustainment and acquisition capability to the Department of Defence. The DMO is provided with a prepayment from Defence which it draws down to provide agreed acquisition and sustainment services. DMO's income, excluding government and other revenue, is recognised as costs are incurred in undertaking acquisition and sustainment activity on behalf of Defence. Accordingly, the

movements in income are closely correlated with a similar movement in expenses.

**4.143** The increase in income and expenses is primarily due to an increase in acquisition and sustainment activity undertaken on behalf of Defence. The movement in acquisition related expenditure primarily relates to the major acquisition projects of Super Hornets, M-113 Armoured Vehicles, and Air Warfare Destroyers. The increase in sustainment activities is primarily due to expenditure for repair and overhaul associated with the five key defence assets – Orion, Hornet, C-130 Hercules, and the multi role (MRH90) and armed reconnaissance (Tiger) helicopters.

**4.144** The decrease in both assets and liabilities is largely attributable to the decrease in appropriations receivable and unearned revenue, which is offset by an increase in expenditure for Assets Under Construction (AUC) projects.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	8	19
Total expenses	0	0
Total assets	0.007	0.124
Total liabilities	0	0

**4.145** This is the first year that the DMO has produced Administered statements. Administered income and total assets relate to interest DMO earned on bank accounts held overseas and previously reported in the Departmental statements. The decrease in income is due to fluctuations in the foreign currency exchange rates and the regular fluctuations in the level of cash and prepayment balances held by the DMO on which interest is earned.

## **Audit results**

### *Summary of audit findings*

#### *Moderate Risk Matters — Category B*

##### Financial Management and Reporting Framework

**4.146** During 2007–08, the DMO implemented a Controls and Assurance Framework for Financial Reporting (the framework) designed to facilitate the successful operation of financial reporting processes. The DMO continues to strengthen its internal control with a program of controls testing of the

framework in 2008–09. However a number of issues continue to be noted that require further management attention. These issues include the coverage of controls testing performed, a lack of a robust sample methodology for testing transactions, errors in the accrual information provided to the Financial Reporting Team by the System Project Office, and transactions allocated to incorrect accounts in the general ledger.

**4.147** The issues identified increase the risk of material misstatement in the financial statements as well as decreasing the level of reliance management, and subsequently the ANAO or other users, can gain from information obtained from the financial reporting system.

#### Commitments

**4.148** The ANAO encountered a number of issues over the completeness, valuation and accuracy of the Schedule of Commitments. These included incomplete working papers, inadequate management review of the commitments, the inability to agree reported commitments to payment schedules and purchase orders, inconsistent treatment and reporting of GST payable on commitments, and incompleteness of the centrally maintained contracts register.

**4.149** The ANAO has recommended that the DMO undertake a full review of the methodology used to capture and report commitments, in addition to performing regular reviews to obtain and maintain appropriate supporting documentation. This should help ensure that the 2009–10 commitments schedule used to support the information included in DMO's financial statements is of better quality, with appropriately documented working papers to support the DMO's calculations.

#### Controls within the purchasing and payment process

**4.150** In prior years, a number of issues were identified in the purchasing and payment process regarding the appropriate use of delegation limits. As a result, the ANAO was unable to gain reasonable assurance that purchases were made within appropriate delegation limits due to inconsistencies in the delegation details provided on purchase orders.

**4.151** During the 2008–09 audit, the ANAO continued to identify a number of issues regarding the approval and exercise of delegations, the retention of supporting documentation for the purchase of goods and services, supporting documentation not reconciling to purchase orders, and incomplete supporting

documentation for evidencing of goods and services received prior to payment. Accordingly, this finding remains unresolved.

#### Business Continuity Planning

**4.152** The DMO has an enterprise wide Business Continuity Plan (BCP), however the Plan is not current and has not been tested. In the absence of a current, integrated and tested BCP, existing business continuity arrangements may prevent the DMO from restoring critical business processes and systems within an acceptable timeframe, in the event there is an interruption to operations.

**4.153** The DMO is in the process of updating its existing BCP and has indicated that testing will be completed by the end of the 2009 calendar year.

#### Shared Service Arrangements

**4.154** A Shared Service Agreement, between DMO and Defence, was signed in June 2006. This agreement was to be updated on an annual basis to reflect any changes or evolution in the activities or the environment of the respective agencies.

**4.155** The ANAO continues to identify moderate risk issues regarding Bureau Service and shared services arrangements between Defence and DMO over key financial systems, the human resources management system (PMKeys), supply chain systems and processes and supporting IT general controls.

**4.156** Current arrangements do not provide mechanisms that allow the DMO to obtain the necessary assurance, from Defence, over the effectiveness and adequacy of controls in the financial management information system, the human resource management system and the supporting IT general controls, such as systems security and change management. The DMO requires assurance over the integrity of transactions process by these systems as they are reported in the DMO's financial statements.

**4.157** The ANAO also continues to identify issues concerning the supply chain systems and processes. Details of the issues are provided at paragraphs 4.126 and 4.127 of this report, and relate to the assurance and testing framework, systems security and accuracy of processed transactions.

**4.158** These issues affect the level of assurance that can be placed by management on the supply chain systems and processes supporting Defence's Inventory balance and DMO's Cost of Goods Sold (General Supply Inventory



and Repairable Items) balances in their respective financial statements. The DMO will need to continue to work with Defence to achieve an efficient and well-defined controls assurance framework.

**4.159** The ANAO considers that the Agreement should be updated, or alternative arrangements established, to reflect the above matters. The shared service arrangements should also include arrangements by which the DMO provides assurance to Defence over the effectiveness and adequacy of controls for the inventory systems managed by the DMO, but that affect Defence's financial statements.

#### Cash Management

**4.160** The DMO operate a number of Australian and overseas bank accounts. These bank accounts are often established under contracts or memoranda of understanding with external parties, in which the terms of these arrangements determine whether they are reported in the financial statements as a prepayment or cash on hand.

**4.161** The ANAO identified issues regarding the classification, reporting and reconciliation of cash balances in these accounts. The DMO has agreed to undertake a review and reconciliation of all bank accounts during 2009–10.

**4.162** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2008–09 audit.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	0	0
<b>B</b>	12	(8)*	3	7
<b>Total</b>	<b>12</b>	<b>(8)</b>	<b>3</b>	<b>7</b>

\* Three moderate audit issues relating to SDSS previously reported in the DMOs audit results are now reported in Defence's audit results.

## Department of Veterans' Affairs

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	361.0	351.8
Total expenses	350.6	384.7
Total assets	170.4	168.3
Total liabilities	113.7	122.2

**4.163** The decrease in expenses is due to reduced general expenditure, a reduction in staff numbers and a pause in expenditure on significant IT projects.

**4.164** The movements in income, assets and liabilities were not significant and reflected fluctuations in normal business activity.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	10	13
Total expenses	11 616	10 893
Total assets	1 487	1 225
Total liabilities	2 718	2 531

**4.165** The reduction in administered income reflects a decrease in reimbursements of overseas pensions and health payments.

**4.166** The increase in administered expenses was predominantly due to increases in personal benefits (increased fortnightly pension rates and one-off payments under the economic stimulus package), health care payments and the first time inclusion of payments to the Australian War Memorial under revised arrangements for the funding of CAC Act bodies.

**4.167** Assets increased as a result of an increase in the balance of cash in order to make pension payments that were due in July 2009. The increase in administered liabilities can be attributed to an increase in provisions to reflect higher health care costs.

## Audit results

### Summary of audit findings

**4.168** The ANAO reported one moderate control weakness in the interim phase of the 2008–09 audit relating to the quality assurance framework over the payments made under the *Military Rehabilitation and Compensation Act* and *Safety Rehabilitation and Compensation Act*. The audit identified that the quality assurance framework should be strengthened by ensuring that the framework addresses business risks and quality assurance, testing is completed in a timely manner and is appropriately reviewed, and the results reported to management.

**4.169** The 2008–09 final audit identified that DVA was addressing this matter by developing process documents and an action plan. This has resulted in a downgrading of the issue to a Category C finding.

### Moderate risk matter – Category B

**4.170** The ANAO reported one new moderate finding in the final phase of the 2008–09 audit. This was in relation to DVA’s level of assurance over Residential Aged Care payments. The audit identified that there were limited controls to provide assurance that payments are made from DVA appropriation to residential care facilities for DVA veterans.

**4.171** DVA did not have controls in place to obtain assurance that payments were made only for DVA veterans. In particular, there was no Memorandum of Understanding between Medicare Australia and DVA that outlined the terms and conditions, and reporting requirements in relation to these payments.

**4.172** DVA agreed to take remedial action to address the audit finding.

**4.173** The following table provides a summary of the status of previously reported audit issues as well as new issues raised during the final phase of the 2008–09 audit:

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	0	0
<b>B</b>	1	(1)*	1	1
<b>Total</b>	<b>1</b>	<b>(1)</b>	<b>1</b>	<b>1</b>

\*Downgraded to a Category C finding

## Defence Housing Authority

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	821	825
Total expenses	771	741
Total assets	1 745	1 684
Total liabilities	644	614

**4.174** Movements in the measures were not significant and were the result of fluctuations in normal business activity.

#### **Audit results**

**4.175** There were no significant or moderate audit issues in 2008–09.

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

**4.176** There were no significant or moderate audit issues noted in non-material entities within the portfolio except for the Royal Australian Navy Central Canteens Board, the Defence Service Homes Insurance Scheme, and the Military Superannuation and Benefits Scheme.

### Royal Australian Navy Central Canteens Board

**4.177** The 2008–09 audit identified one moderate audit issue concerning the revaluation of plant, property and equipment, and that no stocktakes were performed on certain fixed assets. The method used by the Board to revalue plant, property and equipment did not allow the identification of movements in the asset revaluation reserve for each asset class. In addition, revaluations were not performed for all assets in a particular asset class. These practices represented a departure from the relevant accounting standard.

**4.178** The Board has accepted the finding and have responded positively by reassessing the current accounting treatment, strengthening the revaluation process, and undertaking to perform regular stocktakes of its assets.

## Defence Service Homes Insurance Scheme

**4.179** One moderate audit issue was identified during the 2008–09 audit relating to recognition of earned and unearned premium revenues. The Scheme had introduced a reconciliation process that highlighted discrepancies between the financial management information system and client management system. The Scheme experienced difficulties in reconciling the portion of policies consumed with those outstanding at year-end. The related accounting system was not able to produce accurate reports to enable the reconciliation of the unearned portion of the premium revenues.

**4.180** The Scheme advised it was taking necessary action to rectify this issue.

## Military Superannuation and Benefits Scheme

**4.181** The financial statements for the Military Superannuation and Benefits Scheme (MSBS) as at 30 June 2009 included an investment with a carrying value of \$93 million. MSBS could not provide sufficient support for the value of this investment to the ANAO. The entity in which this investment is held is in receivership and audited financial statements have not been prepared for the entity for the financial years ending 30 June 2008 and 30 June 2009. The investment comprises investments in loans that are used to fund the purchase of aircraft which are leased to aircraft operators. Valuations of the aircraft were regularly obtained, however MSBS was unable to reconcile these valuations to interest in the assets due to the complexity of the investment structure and the associated valuation model. The ANAO considers that MSBS needs to ensure sufficient support for this investment's carrying value can be provided in the future. MSBS advised that it was addressing this issue.



# Education, Employment and Workplace Relations Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Education, Employment and Workplace Relations	Yes	✓	14 Sept 09	14 Sept 09	
ANU Enterprise Ltd ☞ 31 December 2008	No	✓	27 Mar 09	27 Mar 09	
Australian Curriculum Assessment and Reporting Authority	No	✓	26 Oct 09	26 Oct 09	
Australian Fair Pay Commission Secretariat	No	✓	24 Sept 09	24 Sept 09	
Australian Industrial Registry	No	✓	14 Sept 09	14 Sept 09	
Australian Learning and Teaching Council Limited	No	✓	1 Sept 09	1 Sept 09	
Australian National University ☞ 31 December 2008	No	✓	27 Mar 09	27 Mar 09	
Australian Scientific Instruments Pty Ltd ☞ 31 December 2008	No	✓	27 Mar 09	27 Mar 09	
Coal Mining Industry (Long Service Leave Funding) Corporation	Yes	✓	19 Aug 09	19 Aug 09	
Comcare Australia	Yes	✓	12 Aug 09	12 Aug 09	
Office of the Australian Building and Construction Commissioner	No	✓	25 Aug 09	31 Aug 09	
Seafarers' Safety, Rehabilitation and Compensation Authority (Seacare Authority)	No	✓	21 Sept 09	21 Sept 09	
Teaching Australia –Australian Institute for Teaching and School Leadership Ltd	No	✓	18 Sept 09	21 Sept 09	
Workplace Authority	No	✓	9 Sept 09	9 Sept 09	
Workplace Ombudsman	No	✓	17 Sept 09	18 Sept 09	

✓: audit opinion not modified

E : auditor's report contains an emphasis of matter

Q : auditor's report contains a qualification

A : auditor's report contains additional statutory disclosure

☞ : financial year end date other than 30 June 2009

☞: signed financial statements not presented for audit at this time

▲: moderate or significant issues reported previously not yet resolved

◆: new moderate or significant issues noted

## Portfolio overview

**4.182** The Australian Government takes a national leadership role in education and training and aims to maximise the ability of working age Australians to participate in the workforce and to improve the productive performance of enterprises in Australia. Through the Department of Education, Employment and Workplace Relations (DEEWR) and other portfolio agencies, the Australian Government works with the State and Territory governments, other Australian Government agencies, various industries, and a range of contracted service providers to provide high quality policy, advice and services for the benefit of Australia.

## Department of Education, Employment and Workplace Relations

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	1 972.2	1 906.4
Total expenses	1 974.6	1 882.1
Total assets	457.4	445.9
Total liabilities	228.6	239.2

**4.183** The increase in revenue is primarily the result of higher funding received from government relating to new measures including for Centrelink call centre supplementation and various measures relating to the Responsible Economic Management measure. The increase was partially offset by decreased revenue streams paid for corporate services provided by DEEWR to a number of portfolio agencies as a result of a restructure of portfolio corporate support arrangements.

**4.184** The movements in assets and liabilities were not significant and were the result of fluctuations in normal business activity.



*Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	1 231.7	1 117.5
Total expenses	39 377.3	39 371.6
Total assets	15 668.4	21 334.5
Total liabilities	5 421.6	4 160.4

**4.185** Although expenses have remained stable, within the overall balance there have been significant movements. Payments made in relation to employment focused programs and personal benefits increased in 2008–09, primarily due to increased demand based on rising unemployment rates.

**4.186** There were also movements in the personal benefits expense and grants expense balances due to the transfer of functions between agencies. Child care benefit payments, which transferred to DEEWR in January 2008, have increased as they are represented for the full year in 2008–09. Reductions in personal benefits and grants expenses also occurred due to the Disability Support Pension program and the Science Research and Innovation grants program transferring to the Department of Families, Housing, Community Services and Indigenous Affairs and the Department of Innovation, Industry, Science and Research respectively in December 2007.

**4.187** Grants expenses reduced as a result of changes made to payment arrangements, with a number of payments to the States now being made by the Department of the Treasury. This decrease was partially offset by increases in grant expenditure flowing from the government's stimulus measures, in particular the Building the Education Revolution grant program.

**4.188** The primary movement in assets was a significant decrease in cash, due to the abolition of the Higher Education Endowment Fund (HEEF) as at 31 December 2008 and the balances of HEEF being transferred to the new Education Investment Fund administered by the Department of Finance and Deregulation.

**4.189** Total liabilities increased predominantly due to an increase in the provision for grants, relating to Unfunded University Superannuation. The superannuation provision is calculated by the Australian Government Actuary on an annual basis. The increase is predominantly due to changes in the

discount rate, as well as other economic factors used as the basis for the calculation.

## Audit results

### *Summary of audit findings*

**4.190** In 2007–08, shortcomings in the financial statement preparation process resulted in DEEWR not meeting its financial statement obligations in a timely manner. DEEWR undertook a review of the financial statement preparation process in late 2008 and presented to the Audit Committee a Financial Statement Project Plan that focused on improvements in project management, timeframes for key components of financial statement preparation and quality control and assurance processes.

**4.191** The financial statement preparation process for 2008–09 improved significantly. The key factors contributing to this improvement were the establishment of a committee to oversight the financial statement preparation process that met on a regular basis and facilitated the discussion and early resolution of issues; the undertaking of a financial statement trial run focused on known areas of difficulty; improved project management and quality assurance processes; and the preparation of workpapers to support key financial statement balances and note disclosures.

**4.192** There were no significant or moderate audit issues identified during the final phase of the 2008–09 audit.

**4.193** The following table provides a summary of the status of previously reported audit issues.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues (identified during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	0	0
<b>B</b>	1	(1)	0	0
<b>Total</b>	<b>1</b>	<b>(1)</b>	<b>0</b>	<b>0</b>

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

### Summary of financial results

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	73.0	37.0
Total expenses	178.5	107.4
Total assets	541.4	564.3
Total liabilities	674.1	591.6

**4.194** Income increased as a result of higher investment returns combined with increased Long Service Leave (LSL) levy collections due to positive conditions in the black coal mining industry.

**4.195** The increase in expenses was a result of an increase in the LSL provision resulting from increased wages in the coal mining industry, and realised investment losses as a result of the downturn in the financial markets.

**4.196** Assets decreased due to a decline in the value of the Corporation's investments.

**4.197** Liabilities increased primarily as a result of an increase in the provision for the reimbursement for LSL. The provision increased due to higher average wages and LSL hours owed to employees and is consistent with the positive conditions experienced in the black coal mining industry for full-time employees.

### Audit results

#### *Summary of audit findings*

**4.198** There were no issues arising from the 2008–09 audit.

## Comcare

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	344.5	394.4
Total expenses	330.6	324.3
Total assets	2 474.9	2 435.6
Total liabilities	2 275.7	2 246.5

**4.199** Income decreased due to lower workers compensation premiums. This was due to Comcare reducing the premium pool rate as a result of lower claim frequency.

**4.200** Expenses, assets and liabilities remained relatively stable between years.

### Audit results

#### *Summary of audit findings*

**4.201** One moderate audit risk issue was identified in 2007–08 relating to control weaknesses within Comcare’s cash management processes. This issue was addressed during 2008–09.

**4.202** One legislative compliance issue was raised during 2008–09. Prior to the federal court decision in the *Commonwealth v Etheridge and Others (2006)* long latency diseases, where exposure to the disease-causing agent occurred pre-1 July 1989 but the diseases manifested themselves post-1 July 1989, were among the injuries considered to qualify under section 90B of the *Safety, Rehabilitation and Compensation Act 1988 (SRC Act)* for funding through the Consolidated Revenue Fund (CRF). The Court decision in the *Commonwealth v Etheridge and Others (2006)* means that payments made for these disease claims are potentially repayable to the Commonwealth.

**4.203** In order to remove Comcare’s liability to the Commonwealth, Ministerial approval has been obtained to amend the SRC Act.

**4.204** The following table provides a summary of the status of previously reported audit issues.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues (identified during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	0	0
<b>B</b>	1	(1)	0	0
<b>Total</b>	<b>1</b>	<b>(1)</b>	<b>0</b>	<b>0</b>

### Comments on non-material entities

4.205 There were no moderate or significant audit issues noted in non-material entities within the portfolio.



# The Environment, Water, Heritage and the Arts Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of the Environment, Water, Heritage and the Arts	Yes	✓	8 Sept 09	9 Sept 09	
National Water Commission	No	✓	18 Aug 09	18 Aug 09	
Bureau of Meteorology	Yes	✓	28 Aug 09	31 Aug 09	
Director of National Parks	No	✓	17 Sept 09	17 Sept 09	
Great Barrier Reef Marine Park Authority	No	✓	17 Sept 09	29 Sept 09	
National Environment Protection Council Service Corporation	No	✓	25 Aug 09	28 Aug 09	
Natural Heritage Trust of Australia Account	No	✓	8 Sept 09	9 Sept 09	
Sydney Harbour Federation Trust	No	✓	2 Sept 09	2 Sept 09	
Australian Business Arts Foundation Ltd	No	✓	15 Sept 09	15 Sept 09	
Australia Council	No	✓	18 Aug 09	18 Aug 09	
Australian Film, Television and Radio School	No	✓	28 Aug 09	31 Aug 09	
Australian National Maritime Museum	No	✓	25 Sept 09	25 Sept 09	
Australian National Maritime Foundation	No	✓	19 Oct 09	22 Oct 09	
Bundanon Trust	No	✓	5 Sept 09	5 Sept 09	
National Film and Sound Archive	No	✓	17 Sept 09	17 Sept 09	
Screen Australia	No	✓	10 Sept 09	10 Sept 09	◆
National Gallery of Australia	Yes	✓	26 Aug 09	27 Aug 09	
National Gallery of Australia Foundation	No	✓	26 Aug 09	27 Aug 09	
National Library of Australia	Yes	✓	7 Aug 09	7 Aug 09	
National Museum of Australia	Yes	✓	28 Jul 09	28 Jul 09	
Murray–Darling Basin Authority	No	✓	29 Sept 09	30 Sept 09	

✓: audit opinion not modified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains additional statutory disclosure

☞: financial year end date other than 30 June 2009

≡: signed financial statements not presented for audit at this time

▲: moderate or significant issues reported previously not yet resolved

◆: new moderate or significant issues noted

## Portfolio overview

**4.206** The role of the Environment, Water, Heritage and the Arts portfolio is to provide leadership on environment, water, heritage and cultural matters with a national focus. The portfolio also aims to ensure that Australia continues to support and develop the cultural sector to enrich the economic, social and cultural well-being of the nation and provide all Australians with opportunities to engage and participate in cultural and creative arenas. The portfolio is also responsible for supporting community and household energy efficiency, Australia's Antarctic activities and the provision of meteorological services to the Australian community.

**4.207** The specific responsibilities of the Department of the Environment, Water, Heritage and the Arts (DEWHA) are to protect Australia's environment and heritage, advance Australia's Antarctic interests on behalf of the Australian Government, enable the more efficient and sustainable use of Australia's water resources and support the development of a rich and stimulating cultural sector for all Australians.

## Department of the Environment, Water, Heritage and the Arts

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	553.9	550.9
Total expenses	583.5	559.2
Total assets	651.4	584.4
Total liabilities	354.2	304.0

**4.208** Assets increased primarily due to the transfer of the National Portrait Gallery Building from the Department of Finance and Deregulation to DEWHA in December 2008.



**4.209** The increase in liabilities mainly relates to an increase in the make good provision, and liabilities relating to the restitution of the Antarctic base as a result of a reduction in the government bond rate.<sup>29</sup>

**4.210** The movements in income and expenses were not significant and were the result of fluctuations in normal business activity.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	542.9	13.4
Total expenses	1 922.4	1 139.7
Total assets	8 134.5	7 348.8
Total liabilities	128.3	50.7

**4.211** The significant increase in administered income was the result of the initial financial arrangements associated with the revised Commonwealth–State agreement for the Murray Darling Basin.

**4.212** During 2008–09, the Murray Darling Basin Commission (a joint venture between the Australian Government and the Basin States) ceased to exist. All cash held by the Commission was transferred to the Government and recognised as income by DEWHA. At the same time, an equivalent amount was appropriated to a special account managed by the newly created Murray Darling Basin Authority for future purchases of assets, as agreed by the Basin States and the Government.

**4.213** The increase in administered expenses is due to the new arrangements for the provision of funding to Commonwealth authorities and companies.<sup>30</sup> In addition, there was growth in demand for funding under the Solar Homes and Communities Plan, the Hot Water rebate, the Home Owner Insulation and the National Solar Schools Plan programs. These programs also resulted in a significant increase in administered liabilities at 30 June 2009.

**4.214** The significant increase in administered assets is attributable to the capitalisation of water entitlements under the Restoring the Balance in the

<sup>29</sup> This liability is discounted to present value using the long-term government bond rate; a reduction in this rate resulted in an increase in the liability.

<sup>30</sup> Op.cit. (Refer to Footnote No. 23, page 79)

Murray Darling Basin Authority program to protect and restore river systems and wetlands. In addition, DEWHA's investment in subsidiaries, mainly the National Gallery of Australia, increased in value.

## Audit results

### Summary of audit findings

**4.215** There were no significant or moderate audit issues identified during the 2008–09 audit.

## Bureau of Meteorology

### Summary of financial results

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	272.6	253.7
Total expenses	264.8	253.6
Total assets	419.0	365.1
Total liabilities	111.0	99.1

**4.216** The increase in income primarily relates to continued funding for the status reporting on Australia's water resources, and forecasting the future availability of water as part of the Water for the Future initiative that commenced in 2007–08.

**4.217** Assets increased primarily due to capital works relating to the National Plan for Water Security, a Tsunami Warning System, installation of new radar facilities, and the replacement of field meteorological offices.

**4.218** Movements in other items were not significant and were the result of fluctuations in normal business activity.

### Items administered on behalf of the Australian Government

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	18.4	20.4
Total expenses	19.5	8.0
Total assets	3.4	4.2
Total liabilities	0	0

**4.219** Administered expenses increased due to a progressive increase in funding under the Water for the Future initiative that commenced in 2007–08.

**4.220** Movements in other items were not significant and were the result of fluctuations in normal business activity.

## Audit results

### *Summary of audit findings*

**4.221** There were no significant or moderate audit issues identified during the 2008–09 audit.

## National Gallery of Australia

### Summary of financial results

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	61.5	61.0
Total expenses	53.0	53.0
Total assets	4 095.7	3 611.3
Total liabilities	13.2	11.2

**4.222** The increase in assets is mainly due to a revaluation of the gallery's artwork collection and new additions to the collection.

**4.223** Movements in other items were not significant and were the result of fluctuations in normal business activity.

## Audit results

### *Summary of audit findings*

**4.224** In 2007–08 three moderate audit issues were identified in relation to user access security over the FMIS; weaknesses in the control of changes made to key systems; and disaster recovery capability. These issues were resolved in 2008–09. Actions taken by the Gallery included upgrading FMIS to provide additional user password security; documenting control policy and procedures to help ensure consistency of practices relating to system changes; and updating the disaster recovery plan.

**4.225** There were no new significant or moderate audit issues identified during the 2008–09 audit.

## National Library of Australia

### Summary of financial results

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	75.9	75.2
Total expenses	70.1	71.4
Total assets	1 702.3	1 718.4
Total liabilities	16.0	16.3

4.226 The movements in these balances were not significant and were the result of fluctuations in normal business activity.

### Audit results

#### *Summary of audit findings*

4.227 There were no significant or moderate audit issues identified during the 2008–09 audit.

## National Museum of Australia

### Summary of financial results

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	47.8	48.2
Total expenses	47.8	48.0
Total assets	400.1	394.4
Total liabilities	9.0	8.0

4.228 The movements in these balances were not significant and were the result of fluctuations in normal business activity.

### Audit results

#### *Summary of audit findings*

4.229 There were no significant or moderate audit issues identified during the 2008–09 audit.

## Comments on non-material entities

**4.230** There were no significant or moderate audit issues identified in relation to non-material entities within the portfolio, except for Screen Australia. In 2007–08 two moderate audit issues were reported for the Great Barrier Reef Marine Park Authority (GBRMPA) in relation to the financial statement preparation process and the valuation of islands administered on behalf of the Commonwealth. These issues were resolved in 2008–09. The 2008–09 financial statement preparation process was satisfactory and the islands were revalued by an independent valuer in 2008–09.

### Screen Australia

**4.231** Screen Australia was created on 1 July 2008 in accordance with the *Screen Australia Act 2008*. During the 2008–09 audit there was one moderate audit issue identified in relation to the IT control environment.

**4.232** The ANAO's review of the management of IT changes to key financial systems identified weaknesses in change management controls, including a lack of documentation of change management policies and procedures. Inadequate change management controls increase the risk that system changes may occur without appropriate approval or adequate acceptance testing. The 2008–09 audit also identified weaknesses in user access controls that resulted in an excessive number of staff with privileged access to key financial systems. This puts at risk the integrity of financial information and data.

**4.233** Screen Australia has advised that a review of the general IT control environment was being undertaken.



# Families, Housing, Community Services and Indigenous Affairs Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Families, Housing, Community Services and Indigenous Affairs	Yes	✓	31 Aug 09	31 Aug 09	◆
- Aboriginals Benefit Account	No	✓	31 Aug 09	31 Aug 09	
Indigenous Business Australia	Yes	✓	15 Sept 09	15 Sept 09	
- Bilioara Pty Ltd	No	✓			
- Bowen Basin Holdings Pty Ltd	No	✓	17 Nov 09	18 Nov 09	
- Bowen Basin Holdings Trust	No	✓	17 Nov 09	18 Nov 09	
- Bowen Basin Investments Pty Ltd	No	✓	17 Nov 09	18 Nov 09	
- Hotel Enterprises Pty Ltd	No	✓	17 Nov 09	17 Nov 09	
- Hotel Holdings Trust	No	✓	17 Nov 09	17 Nov 09	
- IBA Insurance Holdings Pty Ltd	No	✓	14 Sept 09	16 Sept 09	
- Indigenous Fishing Trust	No	✓	18 Nov 09	26 Nov 09	
- Indigenous Investment Trust	No	✓	17 Nov 09	26 Nov 09	
- National Indigenous Property Trust	No	✓	3 Dec 09	4 Dec 09	
- Outback Stores Pty Ltd	No	✓	26 Nov 09	26 Nov 09	
- Port Botany Transfer Station Trust	No	✓	17 Nov 09	27 Nov 09	
- Scarborough House Office Trust	No	✓	17 Nov 09	17 Nov 09	
- Scarborough House Investment Trust	No	✓	17 Nov 09	17 Nov 09	
- South Hedland Indigenous Property Trust	No	✓	3 Dec 09	4 Dec 09	
- Swanbrook Road Holding Trust	No	✓	17 Nov 09	18 Nov 09	
- Tennant Creek Land Holding Trust	No	✓	17 Nov 09	18 Nov 09	
Aboriginal Hostels Ltd ☞ 27 June 2009	No	✓	25 Sept 09	25 Sept 09	▲
Anindilyakwa Land Council	No	✓	28 Aug 09	3 Sept 09	

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Central Land Council	No	✓	28 Aug 09	3 Sept 09	
Indigenous Land Corporation	No	✓	26 Aug 09	28 Aug 09	
- National Centre of Indigenous Excellence Limited	No	✓	28 Oct 09	29 Oct 09	
Northern Land Council	No	✓	31 Aug 09	3 Sept 09	
Tiwi Land Council	No	✓	2 Sept 09	3 Sept 09	
Torres Strait Regional Authority	No	✓	14 Sept 09	21 Sept 09	
Wreck Bay Aboriginal Community Council	No	✓	17 Sept 09	17 Sept 09	
Wreck Bay Enterprises Ltd	No	✓	17 Sept 09	17 Sept 09	
Equal Opportunity for Women in the Workplace Agency	No	✓	29 Jul 09	3 Aug 09	

✓: audit opinion not modified

E : auditor's report contains an emphasis of matter

Q : auditor's report contains a qualification

A : auditor's report contains additional statutory disclosure

☞: financial year end date other than 30 June 2009

☐: signed financial statements not presented for audit at this time

▲: moderate or significant issues reported previously not yet resolved

◆: new moderate or significant issues noted

## Portfolio overview

**4.234** The role of the Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) portfolio is to provide policy advice, income support and assistance to families and their children, senior citizens, carers, people with disabilities, and community groups. The portfolio also provides policy advice on issues affecting women in Australia as well as a whole-of-government approach to programs and service delivery for Indigenous Australians.



## Department of Families, Housing, Community Services and Indigenous Affairs

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	1 700.9	1 475.6
Total expenses	1 705.3	1 485.4
Total assets	428.6	338.2
Total liabilities	211.6	142.4

**4.235** The increase in income was mainly due to the increased government funding relating to service delivery payments to Centrelink.

**4.236** The increase in expenses principally relate to the additional service delivery payments to Centrelink associated with the Northern Territory Emergency Response (NTER) initiative, increased payment types and customer numbers, increased supplier expenses for the provision of services under the NTER initiatives and an increase in lease rental payments.

**4.237** The increase in assets was due to revaluations increments in land and buildings, additional leasehold improvement work undertaken at a number of State and Territory offices, and undrawn funds from the Consolidated Revenue Fund.

**4.238** The increase in liabilities is due to an increase in payables at year end which is consistent with the increased funding for service delivery payments to Centrelink.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	659.7	579.5
Total expenses	75 737.0	55 746.2
Total assets	4 787.5	4 372.5
Total liabilities	7 845.8	4 255.0

**4.239** The increase in administered income was a result of the full year effect of the funding provided for the NTER and Income Management programs,

which commenced in 2007–08. This increase was partly offset by a decrease in the revenue received from the Attorney-General’s Department as a result of revised funding arrangements relating to the Family Relationships Services Program.

**4.240** The significant increase in administered expenses was mainly the result of increased customer numbers and personal benefit payments associated with payments under the Government’s Economic Stimulus Package that included payments for new programs such as Families Payments, Back to School Bonus, and the Single Income Family Bonus.

**4.241** The increase in administered assets was largely a result of increases in the value of investments in Commonwealth entities in the portfolio, and in the investments held by the Aboriginal and Torres Strait Islander Land Account and the Aboriginals Benefit Account as a result of interest earned and royalties received.

**4.242** The increase in the administered liabilities was due to increases in the personal benefits provision and personal benefits payable at year end. The increase in the provision mainly resulted from the removal of an option for Family Tax Benefit (FTB) recipients to claim lump-sum payments through the Australian Taxation Office. The increase in payables relates to unclaimed Economic Stimulus Package payments and a new baby bonus initiative, resulting in a payable being recognised for the first time in 2008–09.

## **Audit results**

### *Summary of audit findings*

**4.243** There were two new moderate audit issues identified during the final phase of the 2008–09 audit in relation to the administration of grants and assets management.

#### Administration of grants

**4.244** A number of weaknesses were identified in a review of the administration of indigenous grants in the Department’s Northern Territory offices. The review indicated that: there was insufficient supporting documentation for grant payments and variations to funding agreements; and a lack of compliance with the terms and conditions of the funding agreement. There was also a need to improve the administration of grants processes, including grant acquittal processes, to ensure they are effective and timely.

FaHCSIA has accepted the finding and has provided the ANAO with details of action taken and proposed to rectify the issues identified.

#### Integrity of the Assets Register

**4.245** The ANAO tested the integrity of data within the fixed asset register and noted the following issues:

- a considerable number of asset items were either fully depreciated or had nil book values within the assets register;
- useful lives of assets within the fixed asset register had not been updated for all assets currently in use by FaHCSIA;
- for a sample of assets selected by the ANAO, the revaluation increments were not added to the asset values for calculation of depreciation; and
- the useful lives of assets had not been reassessed on an annual basis.

**4.246** The ANAO considers that these issues together could have a moderate financial reporting risk to FaHCSIA's financial statements. FaHCSIA disagrees with the categorisation of this finding as a moderate risk.

**4.247** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2008–09 audit.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	0	0
<b>B</b>	0	0	2	2
<b>Total</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>2</b>

# Indigenous Business Australia

## Summary of financial results

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	168.5	305.0
Total expenses	141.1	171.0
Total assets	1 038.8	976.6
Total liabilities	52.3	58.2

**4.248** The decrease in income was mainly due to the 2007–08 figures containing profit generated from the sale of an interest in the Foxleigh joint venture coal mines and additional government funding for NTER measures. This movement was partly offset by an increase in interest income generated from larger cash holdings and an increase in the fair value of the loan portfolio.

**4.249** The decrease in expenses was due to a reduction in construction and Foxleigh related costs, and as a result of the accounting for a positive valuation increment due to the re-measurement of loans. By contrast, the 2007–08 year contained a significant loss on re-measurement. These decreases were partly offset by an increase in employee costs resulting from an increase in staffing numbers associated with the acquisition of subsidiaries.

**4.250** The increase in total assets was mainly attributable to additional cash holdings of subsidiaries acquired during 2008–09 and an increase in the value of the loans portfolio.

## Audit results

### *Summary of audit findings*

**4.251** There were no significant or moderate audit issues identified during the 2008–09 audit.

## Comments on non-material entities

There were no moderate or significant audit issues noted in non-material entities within the portfolio except for the Aboriginal Hostels Limited.

## Aboriginal Hostels Limited

**4.252** The ANAO reported six moderate risk issues during the 2007–08 audit. These issues related to weaknesses in controls supporting:

- key reconciliations such as the monthly bank reconciliation, fixed assets reconciliation, and payroll reconciliation;
- employee commencements and terminations;
- employee leave processing;
- general IT security; and
- IT security over the financial management and payroll systems.

**4.253** The ANAO observed that AHL has effectively resolved the issue relating to security over the payroll system.

**4.254** Five moderate risk issues remain outstanding from the 2007–08 audit. While management has taken steps to resolve some elements of the remaining issues, key aspects of these findings remain unresolved.

**4.255** There were no new moderate or significant issues identified during the 2008–09 audit.



# Finance and Deregulation Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Finance and Deregulation	Yes	✓	14 Aug 09	17 Aug 09	◆
Albury- Wodonga Corporation	No	✓	2 Sept 09	2 Sept 09	
Australian Electoral Commission	Yes	✓	27 Aug 09	27 Aug 09	
Australian Health Management Group Pty Limited	No	✓	26 Aug 09	26 Aug 09	
Australian Industry Development Corporation	Yes	✓	2 Sept 09	2 Sept 09	
Australian Reward Investment Alliance (ARIA)	No	✓	15 Sept 09	15 Sept 09	
Australian River Co	No	✓	23 Mar 09	24 Mar 09	
ASC Consolidated Group	Yes	✓	3 Sept 09	8 Sept 09	
Future Fund Management Agency	Yes	✓	22 Sept 09	22 Sept 09	
ComSuper	No	✓	21 Aug 09	21 Aug 09	◆
Commonwealth Superannuation Scheme (CSS)	No	✓A	15 Sept 09	15 Sept 09	◆
Construction and Development Company Limited	No	✓	29 Oct 09	29 Oct 09	
Medibank Private Ltd	Yes	✓	28 Aug 09	28 Aug 09	◆
- Health Services Australia Pty Limited	No	✓	26 Aug 09	28 Aug 09	◆
Public Sector Superannuation Scheme (PSS)	No	✓A	15 Sept 09	15 Sept 09	◆
Public Sector Superannuation Accumulation Plan (PSSap)	No	✓A	15 Sept 09	15 Sept 09	◆
Tuggeranong Office Park Pty Ltd	No	✓	29 Oct 09	29 Oct 09	

✓: audit opinion not modified

E : auditor's report contains an emphasis of matter

Q : auditor's report contains a qualification

A : auditor's report contains additional statutory disclosure

☞: financial year end date other than 30 June 2009

⇒: signed financial statements not presented for audit at this time

▲: moderate or significant issues reported previously not yet resolved

◆: new moderate or significant issues noted

## Portfolio overview

**4.256** The Finance and Deregulation portfolio provides a broad range of support and services to Government. This includes the provision of budget and financial management services and advice; electoral services and support; Government on-line delivery and information and communication technology (ICT) management; non-defence asset management; the management of asset sales; the administration of the Government's general insurance fund, investment funds and superannuation schemes administration; Commonwealth land policy; discretionary compensation mechanisms and Parliamentarians' entitlements. Additionally, during 2008–09, the portfolio had responsibility for ensuring best practice Government regulation and the evaluation and audit of indigenous programs and operations.

## Department of Finance and Deregulation

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	571.6	524.7
Total expenses	610.4	383.7
Total assets	1 883.3	1 942.3
Total liabilities	393.0	335.3

**4.257** The increase in both income and expenses is mainly due to reinsurance income and an increase in large insurance claims. Also contributing to the increase in expenses was a significant write down in the value of assets, in particular buildings, due to the economic conditions that existed during 2008–09.

**4.258** Assets decreased due to the write down in the value of buildings referred to above. Liabilities increased mainly as a result of new insurance claims.



*Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	1 773.1	1 996.8
Total expenses	6 989.7	5 572.0
Total assets	23 616.6	1 949.1
Total liabilities	82 294.5	66 062.5

**4.259** Administered income decreased as the prior year included income related to the winding up of the Telstra 3 sale.

**4.260** The significant increase in administered expenses is largely due to the payments to other portfolios from the Nation Building Funds, and the significant increase in assets is mainly due to the establishment of the Nation Building Funds in 2008–09.

**4.261** The increase in administered liabilities is primarily due to a revaluation of the unfunded superannuation liability that was impacted by changes in economic assumptions, including discount rates.<sup>31</sup> There has also been a reduction in the value of the superannuation schemes assets, as a result of the economic conditions that existed in 2008–09, further increasing the unfunded superannuation liability.

## Audit results

### *Summary of audit findings*

**4.262** There was one moderate audit issue identified during the 2008–09 audit. Finance, on behalf of the Australian Government, provides former Prime Ministers with entitlements for travel, office fit-out and rental, office expenses, a private plated car and driver, motor vehicle expenses, residential telephone, staff and Fringe Benefits Tax (FBT) on the aforementioned. The payments are provided at the discretion of the Prime Minister of the day and confirmed, in writing, by the serving Prime Minister to each former Prime Minister. All five of the currently living former Prime Ministers receive these benefits. While this expenditure is recognised as an expense in the year it is paid, the full extent of the liability is not reflected in the financial statements. AASB119 *Employee*

<sup>31</sup> Op.cit. (Refer to Footnote No. 20, page 49)

*Benefits* requires this post-employment benefit to be accounted for as a provision in Finance’s administered financial statements. An actuary estimated this provision at approximately \$54 million as at 30 June 2009. While the liability was not material to the 2008–09 financial statements, good accounting practice is to ensure that all provisions, except those that are clearly trivial, are recognised in an entity’s financial statements.

**4.263** In contrast, Finance does include a provision for former members of Parliament’s entitlements under the *Members of Parliament (Life Gold Pass) Act 2002* in their financial statements. Although the former Prime Ministers’ entitlements are not included in legislation, the ANAO sees a strong analogy between these two sets of entitlements from an accounting perspective and considers they should be treated in a similar manner in Finance’s financial statements.

**4.264** Finance’s position is that it is arguable whether a liability should be recognised under the accounting standards because they see this as a complex issue. Finance has indicated that it understands and accepts the ANAO’s position and will work with the ANAO to resolve this issue in 2009–10.

**4.265** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2008–09 audit.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	0	0
<b>B</b>	2	(2)	1	1
<b>Total</b>	<b>2</b>	<b>(2)</b>	<b>1</b>	<b>1</b>

## Australian Electoral Commission

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	116.5	198.5
Total expenses	112.1	208.4
Total assets	56.5	46.3
Total liabilities	31.2	30.1

**4.266** The significant decrease in income and expenses was due to the 2007–08 balances reflecting additional activity undertaken during 2007–08 associated with the 2007 Federal Election.

**4.267** Total assets increased as a result of an increase in the appropriation receivable for capital expenditure unexpended at year end and increased capital expenditure on upgrades to various properties and electoral management systems.

**4.268** The movement in liabilities was not significant and was the result of fluctuations in normal business activity.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	0.2	1.8
Total expenses	0.5	49.0
Total assets	0	0
Total liabilities	0	0

**4.269** The decrease in administered income and expenses is due to the 2007–08 balances reflecting increased activity during 2007–08 associated with the 2007 Federal Election.

### Audit results

#### *Summary of audit findings*

**4.270** There were no significant or moderate audit issues identified during the 2008–09 audit.

# Australian Industry Development Corporation

## Summary of financial results

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	1.0	3.7
Total expenses	0.6	2.8
Total assets	9.6	19.1
Total liabilities	2.6	11.6

**4.271** The decrease in income was a result of declining interest rates and a decrease in interest earned on Australian Government bonds as part of the wind down of the Corporation in accordance with the *AIDC Sale Act 1997*.

**4.272** The decrease in expenses was attributable to a reduction in finance costs as a result of the repayment of treasury borrowings in 2008–09.

**4.273** The decrease in assets was a result of the maturity of Australian Government bonds and interest rate swaps in August and December 2008. The decrease in liabilities related to the repayment of treasury borrowings during 2008–09.

## Audit results

**4.274** There were no significant or moderate audit issues identified during the 2008–09 audit.

## ASC Consolidated Group

**4.275** ASC Consolidated Group (ASC) successfully built Australia’s fleet of Collins Class submarines for the Royal Australian Navy (RAN) and is responsible for ongoing design enhancements, maintenance and support of the Collins Class submarines as part of a 25 year contract signed in 2003. ASC forms part of the alliance based contract arrangements to deliver the Air Warfare Destroyer program. This will involve the ASC constructing the most advanced and complex warships ever built in Australia.

**4.276** ASC is a proprietary company limited by shares registered under the *Corporations Act 2001* and is subject to the *Commonwealth Authorities and Companies Act 1997*. All shares issued in the capital of ASC are held by the Minister for Finance and Deregulation.

## Summary of financial results

Key financial measures for year	2009 \$m	2008 \$m
Total income	352.0	324.9
Total expenses	333.6	295.2
Total assets	446.4	308.2
Total liabilities	262.8	133.3

**4.277** The increase in ASC's income and expenses was primarily attributed to increased activity for the Air Warfare Destroyer (AWD) project.

**4.278** The increased assets were due to working capital requirements for activity associated with AWD, and for shipyard construction and submarine capital projects.

**4.279** Liabilities have increased due to the recognition of a working capital advance in support of the AWD project.

## Audit results

### *Summary of audit findings*

**4.280** There have been no significant or moderate audit issues raised during the 2008–09 audit.

## Future Fund Management Agency

### Summary of financial results

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income/(loss)	(3 189.4)	827.2
Total expenses	129.5	54.2
Total assets	62 757.3	64 259.9
Total liabilities	1 795.7	120.2

**4.281** The decrease in income is attributable to the economic conditions existing during 2008–09, with the Future Fund Management Agency (the Fund) experiencing a net realised/unrealised loss on the fair value of investments and foreign currency of \$6 635 million compared to a net loss of \$3 128 million in 2008. In addition, interest and dividend income decreased from \$3 955 million in 2007–08 to \$3 446 million in 2008–09 due to the

reallocation of fund monies out of interest bearing securities such as bank bill deposits and into other investment categories in accordance with the Fund's strategic asset allocation.

**4.282** The increase in expenses is due to increases in investment manager fees, custodian fees and transaction costs associated with the increased volume in investment activities.

**4.283** The overall asset balance has remained fairly consistent with 2007–08. However, during 2008–09 there has been significant variation in the make up of investments within the portfolio. This is due to the Fund gradually moving towards the strategic asset allocation required to achieve the long term investment return objective of the consumer price index (CPI) plus 4.5 per cent.

**4.284** In 2008–09 the number of unsettled transactions executed close to year end and the quantum of derivative liabilities was significantly higher than in 2007–08, resulting in a significant increase in liabilities.

## Audit results

### *Summary of audit findings*

**4.285** There were no significant or moderate audit issues identified during the 2008–09 audit.

## Medibank Private Pty Ltd

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	3 829.8	3 574.0
Total expenses	3 741.4	3 386.5
Total assets	2 398.7	2 291.7
Total liabilities	961.6	960.9

**4.286** The movement in income is attributable to an increase in premium revenue due to a higher number of members and an upward adjustment in premiums from 1 April 2009.

**4.287** Expenses are higher in 2008–09 reflecting an increase in claims incurred. This has been predominantly driven by increases in single equivalent

units (SEUs), being the standard measure of the different categories of policies, and the average number of claims per SEU.

**4.288** Assets increased largely as a result of normal business operations. A one-off increase of \$18 million is attributable to the transfer of 100 per cent of the share capital of Health Services Australia Limited to Medibank Private Limited.

## **Audit results**

### *Summary of audit findings*

**4.289** The following two new moderate audit findings were identified during the 2008–09 audit.

#### Change Control Management

**4.290** In undertaking sample testing of key application and platform changes, the ANAO noted that change controls were not operating effectively. This was primarily due to the inconsistent use of change and release records within the Medibank change management tool for managing the changes to different applications. This resulted in a lack of evidence that key change controls were operating effectively for sampled changes.

#### Development and Production Environment Access

**4.291** The ANAO identified instances where Mainframe and FMIS system administrators had a level of access which allowed for change management protocols to be bypassed. A detective control was in place in relation to the FMIS administrators, however, adequate supporting documentation to evidence the operational effectiveness of this control had not been maintained. Notwithstanding this, the ANAO change control sample test did not identify any instances of administrators with this level of access executing uploads to the production environment.

**4.292** Medibank Private has acknowledged these issues and is taking appropriate action to address them. The results of the remedial action will be reviewed by the ANAO during the 2009–10 audit.

**4.293** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2008–09 audit.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	0	0
<b>B</b>	0	0	2	2
<b>Total</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>2</b>

## Comments on non-material entities

**4.294** There were no significant or moderate audit issues identified in non-material entities within the portfolio except for the Commonwealth Superannuation Scheme, the Public Sector Superannuation Scheme, the Public Sector Superannuation Accumulation Plan, and Health Services Australia Pty Limited.

## ComSuper

**4.295** The moderate risk issue relating to appropriation reconciliations that was identified as part of the 2007–08 audit has been resolved by ComSuper through the implementation of more regular reconciliation processes. One new moderate audit issue was identified during the 2008–09 audit relating to business continuity and disaster recovery. A business continuity and disaster recovery plan has been developed by ComSuper, along with system recovery procedures. However, the plan has not been fully tested to verify whether all critical business operations and systems can be recovered and resumed within specified timelines. ComSuper has recognised the need to improve their disaster recovery arrangements and has developed a detailed strategy to establish effective ICT service continuity arrangements using a second data centre. ComSuper has advised that, on completion, the new arrangements will be tested.

## Commonwealth Superannuation Scheme (CSS) Public Sector Superannuation Scheme (PSS) Public Sector Superannuation Accumulation Plan (PSSap)

**4.296** Section 89(3) of the *Superannuation Industry Supervision Act 1993* requires a vacancy of an employer representative trustee position to be filled within 90 days. This requirement was breached because the term of an employer representative expired on 18 September 2008 and this position was



not filled by the Minister until 19 March 2009, which was outside the required timeframe. To reflect this breach, the ANAO was required to issue a qualified audit opinion with regard to compliance with section 89(3) of the *Superannuation Industry Supervision Act 1993* for the CSS, PSS and the PSSap. This is not a qualification on the financial statements of these authorities.

## Health Services Australia Pty Limited (HSA)

**4.297** The ownership and control of the HSA group was transferred from the Commonwealth to Medibank Private effective 1 April 2009. This resulted in a restructure of HSA's operations.

**4.298** In 2007–08 three moderate findings were reported in relation to Business Continuity Management and the IT environment. In 2008–09, the ANAO identified that HSA had implemented a significant number of process improvements to address the finding relating to IT change management. However, issues still remained in relation to Business Continuity Management and IT security policies.

### Business Continuity Management

**4.299** The 2008–09 audit identified that HSA's Business Continuity Plans and Disaster Recovery Plans were still not specific to HSA's business and operational environment and there was no evidence of formal testing of these plans.

### IT general controls, security policies and procedures

**4.300** The ANAO identified there continued to be no supporting documentation to support the creation of a number of IT user and system accounts. In addition, IT operational and security policies and procedures were incomplete, out of date or not readily accessible.

**4.301** Control and documentation weaknesses of this type increase the risk of inappropriate or unauthorised access to systems and data which can compromise the integrity of information.

**4.302** HSA advised that these issues would be addressed once the HSA business and IT processes are fully integrated into Medibank Private. The ANAO plans to review these issues during the 2009–10 audit.



# Foreign Affairs and Trade Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Foreign Affairs and Trade	Yes	✓	4 Sept 09	7 Sept 09	▲
AusAID	Yes	✓	26 Aug 09	26 Aug 09	
Australian Centre for International Agricultural Research	No	✓	25 Aug 09	25 Aug 09	
Australian Secret Intelligence Service	No	✓	22 Sept 09	22 Sept 09	
Australian Trade Commission	Yes	✓	5 Aug 09	6 Aug 09	
Export Finance and Insurance Corporation	Yes	✓	12 Aug 09	12 Aug 09	

✓: audit opinion not modified

E : auditor's report contains an emphasis of matter

Q : auditor's report contains a qualification

A : auditor's report contains additional statutory disclosure

∞: financial year end date other than 30 June 2009

☐: signed financial statements not presented for audit at this time

▲: moderate or significant issues reported previously not yet resolved

◆: new moderate or significant issues noted

## Portfolio overview

**4.303** The Foreign Affairs and Trade portfolio comprises the Department of Foreign Affairs and Trade (DFAT), the Australian Trade Commission (Austrade), the Australian Agency for International Development (AusAID), the Australian Centre for International Agricultural Research (ACIAR), Australian Secret Intelligence Service (ASIS) and the Export Finance and Insurance Corporation (EFIC). The portfolio supports Ministers in the conduct of Australia's foreign and trade policy. The overarching objective of Australia's foreign and trade policy is to advance Australia's national interest – the security and prosperity of Australians – by contributing to improvements in international security, national economic and trade performance and global cooperation.

**4.304** This is achieved by pursuing bilateral, regional and global strategies to further these policy objectives. The Foreign Affairs and Trade portfolio contributes to:

- the development and promotion of Australia's foreign and trade policies;

- the management and support of Australia’s overseas diplomatic network;
- providing consular and passport services to Australians;
- the management of the Australian Government overseas owned estate;
- national and international security;
- national economic and trade performance and global cooperation;
- supporting Australian business by providing market access and export advice and assistance;
- promoting trade, investment and a positive image of Australia internationally;
- the management of Australia’s overseas aid program to developing countries to reduce poverty and achieve sustainable development, in line with Australia’s national interest;
- poverty reduction and sustainable development in the Asia-Pacific region and Southern Africa by facilitating and funding collaborative agricultural research and development programs with developing countries; and
- providing assistance to developing countries to improve economic performance and governance.

## Department of Foreign Affairs and Trade

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	990.8	943.5
Total expenses	878.5	805.5
Total assets	2 809.4	2 607.6
Total liabilities	240.2	223.7

**4.305** The increase in income is largely a result of an increase in appropriation funding for a number of new measures and from ‘no win – no loss’ arrangements in relation to foreign exchange movements.

**4.306** Expenses are higher in 2008–09 mainly as a result of increased activity arising from the new measures, foreign exchange movements and greater depreciation costs due to asset additions made in late 2007–08.

**4.307** Movements in assets and liabilities were not significant and were the result of fluctuations in normal business activity.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	335.3	330.0
Total expenses	382.8	259.0
Total assets	403.5	357.8
Total liabilities	102.1	97.2

**4.308** Expenses increased significantly in 2008–09 mainly due to increases in contribution costs to international organisations as a result of unfavourable movements in the Australian dollar and increased activity associated with preparing for the 2010 Shanghai world trade expo.

**4.309** The increase in assets is largely a result of an increase in the fair value of the Export Finance Insurance Corporation investment.

**4.310** The other movements were not significant and were the result of fluctuations in normal business activity.

## **Audit results**

### *Summary of audit findings*

**4.311** Five moderate risk findings were raised during the 2008–09 interim audit. These related to HRMIS upgrade – long service leave liability data conversion; management of passport revenue collection; FMIS IT security, monitoring and reporting; HRMIS IT security, monitoring and reporting; and enterprise-wide business continuity management. The moderate finding related to the HRMIS upgrade – long service leave liability data conversion, was resolved prior to the preparation of the financial statements. The remaining four moderate risk findings have been, or are in the process of being, addressed by DFAT and will be reviewed as part of the 2009–10 audit.

**4.312** There were no significant or moderate audit issues identified during the 2008–09 final audit.

4.313 The following table provides a summary of the status of previously reported audit issues.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
A	0	0	0	0
B	5	(1)	0	4
<b>Total</b>	<b>5</b>	<b>(1)</b>	<b>0</b>	<b>4</b>

## Australian Agency for International Development

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	131.5	109.5
Total expenses	132.0	109.3
Total assets	52.0	45.9
Total liabilities	30.3	25.6

4.314 The increase in income was attributable to additional funding to support delivery of the Government's expanded aid program, including the operational component of the Afghanistan/Pakistan new aid measure.

4.315 The increase in expenses was due mainly to an increase in staffing levels and supplier costs associated with delivery of the expanded aid program.

4.316 Assets and liabilities have remained stable.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	2.4	149.6
Total expenses	3 544.9	2 810.0
Total assets	948.0	1 167.6
Total liabilities	1 373.3	999.9

**4.317** The significant decrease in income was primarily due to losses associated with remeasuring the fair values of AusAID's subscription based financial assets and multilateral liabilities in 2008–09. By contrast, significant gains were recognised on the same items in 2007–08.

**4.318** The increase in expenses is primarily due to the Government's expanded aid program. This includes increases in the Australian overseas aid program covering improvements in education, health, infrastructure, governance, and water security and other environmental initiatives. In addition, due to impacts associated with the global financial crisis requiring the remeasuring of financial assets to fair value, the subscription based financial asset<sup>32</sup> was written down to a significantly lower value in 2008–09.

**4.319** The decrease in assets was almost entirely due to the significant downwards remeasurement of AusAID's subscription based financial assets. The increase in liabilities was due to an increase in the level of grant and loan subscriptions and commitments.

## **Audit results**

### *Summary of audit findings*

**4.320** There were no significant or moderate audit issues identified during the 2008–09 audit.

---

<sup>32</sup> These assets represent membership rights held by the Australian Government in the International Development Association and the Asian Development Fund.

# Australian Trade Commission

## Summary of financial results

### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	217.7	204.2
Total expenses	218.9	206.0
Total assets	99.8	101.7
Total liabilities	53.7	53.7

**4.321** The increase in income reflects an increase in appropriations under ‘no-win no-loss’ arrangements in relation to foreign exchange movements.

**4.322** The increase in expenses reflects increased costs of employees based internationally and increased rental expenses for international properties due to the weaker Australian dollar during the year, and additional costs in taking on the inward investment function and global opportunities program from 1 July 2008.

**4.323** There were no significant movements in the Commission’s assets and liabilities in 2008–09.

### *Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	1.7	1.0
Total expenses	200.2	160.9
Total assets	0.3	1.5
Total liabilities	11.6	5.4

**4.324** The majority of administered financial measures relate to the administration of the Export Market Development Grant scheme. The increase in administered expenses and liabilities relates to additional funding for this scheme approved by the Government for 2008–09.



## Audit results

### *Summary of audit findings*

4.325 There were no significant or moderate audit issues identified during the 2008–09 audit.

## Export Finance and Insurance Corporation

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	155.7	155.1
Total expenses	122.6	135.4
Total assets	2 637.7	2 336.1
Total liabilities	2 297.0	2 004.9

4.326 Expenses decreased as a result of a reduction in interest expenses due to the decline in global interest rates.

4.327 The growth in assets is mainly due to two new loan transactions entered into during the year. Borrowings to fund these loans also increased, resulting in an increase in liabilities.

## Audit results

### *Summary of audit findings*

4.328 There were no significant or moderate audit issues identified in 2008–09.

### Comments on non-material entities

4.329 There were no moderate or significant audit issues noted in non-material entities within the portfolio.



# Health and Ageing Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Health and Ageing	Yes	✓	12 Aug 09	12 Aug 09	
- Therapeutic Goods Administration	No	✓	12 Aug 09	12 Aug 09	
Aged Care Standards and Accreditation Agency Ltd	No	✓	31 Aug 09	31 Aug 09	
Australian Institute of Health and Welfare	No	✓	24 Sept 09	24 Sept 09	
Australian Organ and Tissue Donation and Transplantation Authority	No	✓	7 Sept 09	7 Sept 09	
Australian Radiation Protection and Nuclear Safety Agency	No	✓	9 Sept 09	9 Sept 09	
Australian Sports Commission	Yes	✓	8 Sept 09	8 Sept 09	▲
Australian Sports Foundation Limited	No	✓	9 Sept 09	9 Sept 09	
Australian Sports Anti-Doping Authority	No	✓	17 Sept 09	17 Sept 09	
Cancer Australia	No	✓	30 Sept 09	1 Oct 09	
Food Standards Australia New Zealand	No	✓	17 Sept 09	17 Sept 09	
General Practice Education and Training Ltd	No	✓	25 Sept 09	25 Sept 09	
National Blood Authority	Yes	✓	13 Aug 09	13 Aug 09	
National Health and Medical Research Council	Yes	✓	4 Sept 09	4 Sept 09	▲
National Breast and Ovarian Cancer Centre	No	✓	21 Sept 09	21 Sept 09	
Private Health Insurance Administration Council	No	✓	11 Sept 09	11 Sept 09	
Private Health Insurance Ombudsman	No	✓	21 Aug 09	21 Aug 09	
Professional Services Review	No	✓	9 Sept 09	9 Sept 09	

✓: audit opinion not modified

E : auditor's report contains an emphasis of matter

Q : auditor's report contains a qualification

A : auditor's report contains additional statutory disclosure

∞: financial year end date other than 30 June 2009

=: signed financial statements not presented for audit at this time

▲: moderate or significant issues reported previously not yet resolved

◆: new moderate or significant issues noted

## Portfolio overview

**4.330** The Health and Ageing portfolio consists of the Department of Health and Ageing (DoHA) and a number of statutory and non-statutory bodies that are responsible for contributing to achieving a health care system that meets the health care and ageing needs of all Australians. The portfolio's services are delivered through the 15 outcomes set by the Australian Government. Each portfolio entity has developed performance information to determine effectiveness in achieving entity-specific outcomes.

**4.331** Portfolio entities also work towards the following whole-of-portfolio targets in relation to the health status of Australians:

- continued improvement in life expectancy for both males and females over time;
- further reductions in infant mortality rates over time;
- additional improvements in disability adjusted life expectancy over time;
- improved life expectancy, health expectancy and infant mortality rates for Aboriginal and Torres Strait Islanders, so that they are comparable with the general population; and
- improved life expectancy, health expectancy and infant mortality rates for low income Australians, so that they are comparable with the general population.

## Department of Health and Ageing

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	693.9	704.5
Total expenses	695.0	704.4
Total assets	327.2	302.6
Total liabilities	229.6	208.6

**4.332** The decrease in income is due to reduced appropriation, primarily relating to the additional 2 per cent efficiency dividend and savings initiatives

reflected in the 2008–09 Budget. These measures have also lead to a corresponding decrease in expenses.

**4.333** The value of assets was higher primarily due to an increase in leasehold improvement work in progress relating to new office accommodation under construction in the Australian Capital Territory.

**4.334** The increase in liabilities was a result of a lease incentive liability recognised in relation to the new office accommodation, and increased employee provisions due to a decrease in the long term bond rate which affects the calculation of the liability.<sup>33</sup>

*Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	626.3	397.7
Total expenses	49 730.7	45 785.5
Total assets	757.4	734.5
Total liabilities	2 607.6	2 638.4

**4.335** The increase in administered income is largely due to new funding received for the Health and Hospitals Fund and an increase in revenue from a Private Health Insurance Administration Council levy as a result of an increase in the number of participants in the scheme.

**4.336** The significant increase in administered expenses reflects the Australian Government’s continued spending priorities for improving Australia’s health and ageing systems. Spending initiatives during the year included higher payments under the Medicare Benefit Scheme, the Pharmaceutical Benefit Scheme and Private Health Rebates, and increased spending on Immunisation and Public Hospital funding. In addition, expenses increased as a result of changed arrangements for the payments of annual appropriations to portfolio CAC bodies. The increase in expenses has been partially offset by the transfer of Specific Purpose Payments during the year from DoHA to the Treasury as part of the COAG financial reforms.

---

<sup>33</sup> Op. Cit. (Refer to Footnote No. 20, page 49)

**4.337** Administered assets have increased mainly due to the acquisition of shares in the National Breast and Ovarian Cancer Centre, and an increase in the valuation of shares in General Practice Education and Training Ltd.

**4.338** The decrease in administered liabilities was mainly as a result of a decrease in grants payable to the States and Territories. This decrease was partially offset by an increase in personal benefit subsidy liabilities at year end.

*Summary of audit findings*

**4.339** There were no significant or moderate audit issues identified during the 2008–09 audit.

## National Blood Authority

### Summary of financial results

*Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	9.9	10.4
Total expenses	9.7	9.0
Total assets	10.9	11.9
Total liabilities	3.9	5.1

**4.340** Assets have decreased due to a decrease in appropriation and insurance claims receivable.

**4.341** The decrease in liabilities is mainly the result of the more timely payment of creditors during 2008–09.

**4.342** The movements in other items were not significant and relate to fluctuations in normal business activity.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	829.2	699.6
Total expenses	793.1	725.8
Total assets	75.9	73.2
Total liabilities	36.9	34.7

**4.343** The significant increase in income and expenses is largely attributable to additional contributions made under the National Blood Agreement resulting from higher demand for blood and blood products and related expenditure.

**4.344** Movements in other items were not significant and relate to fluctuations in normal business activity.

## Audit results

### *Summary of audit findings*

**4.345** There were no significant or moderate audit findings identified during the 2008–09 audit.

## National Health and Medical Research Council (NHMRC)

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	44.1	44.4
Total expenses	45.1	43.3
Total assets	31.7	30.6
Total liabilities	12.6	11.0

**4.346** Movements in these items are not significant and relate to fluctuations in normal business activity.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	26.3	26.5
Total expenses	707.3	566.0
Total assets	18.4	11.5
Total liabilities	16.2	6.7

**4.347** The increase in expenses is mainly due to an increase in administered appropriation funding for the provision of medical research grants.

**4.348** The increase in assets is mainly due to an increase in cash balances as a result of grant monies remaining unpaid at year end.

**4.349** The increase in liabilities is the result of an increase in grant monies payable at year end.

## Audit results

### Summary of audit findings

**4.350** The 2007–08 audit identified that the NHMRC did not have adequate procedures in place to follow up grant acquittal documentation and financial statements from grant recipients. At the time of the 2008–09 audit, this matter remained unresolved.

**4.351** The following table provides a summary of the status of previously reported audit issues.

Ratings	Opening position (at end of 2009 interim phase)	Issues resolved (during 2009 final audit phase)	New issues identified (during 2009 final audit phase)	Closing position (at conclusion of 2009 final audit)
<b>A</b>	0	0	0	0
<b>B</b>	1	0	0	1
<b>Total</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>1</b>

## Australian Sports Commission (ASC)

### Summary of financial results

#### Departmental items

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	262.2	249.8
Total expenses	263.2	254.1
Total assets	266.1	265.9
Total liabilities	29.6	28.6

**4.352** Total income and expenses have increased due to additional grant funding provided to sporting bodies and programs. All grants provided by the Commission are funded through annual appropriations.



**4.353** Movements in assets and liabilities were not significant and represented fluctuations in normal business activity.

## **Audit results**

### *Summary of audit findings*

**4.354** A significant audit finding relating to fixed asset management was identified during the final phase of the audit. The finding related to the ASC not having adequate controls in place designed to ensure details of new assets acquired are entered into its Fixed Assets Register (FAR). In addition, the audit identified that the location of assets could not be traced from the FAR, there was a lack of reconciliations for capital work-in-progress, depreciation and reconciliations from the FAR to the General Ledger. These issues were raised as a Category C finding in 2007–08.

**4.355** During the interim phase of 2008–09 audit, a moderate audit finding was reported relating to the lack of formal procedures for the backup of data. The ASC has considerable amount of critical business data. While ASC uses operating system backup tools to backup all business data, there is a lack of formalised test restoration procedures for data backups. This issue was also raised as a Category C finding in 2007–08.

**4.356** The interim phase of the 2008–09 audit identified that the Commission had implemented a new FMIS. As part of the implementation process, the Commission had advised the ANAO that a reconciliation between historical data from the old FMIS and data migrated into the new FMIS had been undertaken. However, these reconciliations were not made available for review by the ANAO. At the time of the final audit, this reconciliation had been re-performed, was reviewed by the ANAO and the finding was considered to be resolved.

4.357 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised during the 2008–09 audit.

Ratings	Opening position (at end of 2009 interim phase)	Issues resolved (during 2009 final audit phase)	New issues identified (during 2009 final audit phase)	Closing position (at conclusion of 2009 final audit)
<b>A</b>	0	0	1	1
<b>B</b>	3*	(1)	0	1
<b>Total</b>	<b>3</b>	<b>(1)</b>	<b>1</b>	<b>2</b>

\* Of the 3 Category “B” findings, the finding relating to fixed asset management was escalated to a Category “A” finding during the final phase of the 2008–09 audit.

### Comments on non-material entities

4.358 There were no significant or moderate audit issues impacting on non-material entities within the portfolio.

# Human Services Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Human Services	Yes	✓	18 Aug 09	18 Aug 09	
-CRS Australia (business operation within Department of Human Services)	No	✓	18 Aug 09	18 Aug 09	
Australian Hearing	Yes	✓	28 Aug 09	2 Sept 09	
Centrelink	Yes	✓	30 Jul 09	31 Jul 09	
Medicare Australia	Yes	✓	28 Aug 09	31 Aug 09	

✓: audit opinion not modified

E : auditor's report contains an emphasis of matter

Q : auditor's report contains a qualification

A : auditor's report contains additional statutory disclosure

∞: financial year end date other than 30 June 2009

⇒: signed financial statements not presented for audit at this time

▲: moderate or significant issues reported previously not yet resolved

◆: new moderate or significant issues noted

## Portfolio overview

**4.359** The Department of Human Services (DHS) role is to provide central policy advice as the coordinating entity within the portfolio. Other portfolio entities are Centrelink, Medicare Australia and Australian Hearing.

**4.360** The portfolio covers a broad range of human services delivery matters and services including:

- directing, coordinating and improvements to service delivery;
- ensuring children of separated parents receive financial support from both parents;
- assisting people with injury or disability in finding employment or return to work by providing individualised vocational rehabilitation;
- ensuring payments and services to disadvantaged families with disabilities, indigenous people and people from diverse cultural and linguistic backgrounds;
- administering a range of health and payments programs;
- providing people with a better quality of life by managing their hearing impairment; and

- providing occupational health, safety and medical assessments.

## Department of Human Services

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	695.5	714.5
Total expenses	682.4	704.5
Total assets	335.1	296.9
Total liabilities	178.1	160.3

**4.361** The decrease in income and expenses was primarily a result of a decrease in activity following the finalisation of the Child Support Change program and the implementation of the Australian Government Child Support Scheme Reforms that became effective from 1 July 2008.

**4.362** Movements in assets and liabilities are not material and were a result of fluctuations in normal business activity.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	1 236.4	1 153.4
Total expenses	1 339.8	1 275.6
Total assets	626.4	598.7
Total liabilities	606.3	569.0

**4.363** The movement in administered measures was the result of fluctuations in normal business activity relating to the administration of the Child Support Act and the Job Capacity Assessment Program.

### Audit results

#### *Summary of audit findings*

**4.364** There were no moderate or significant audit issues noted during the 2008–09 audit.

## Australian Hearing

### Summary of financial results

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	176.0	172.6
Total expenses	167.8	162.3
Total assets	82.0	76.2
Total liabilities	55.0	52.5

**4.365** The movements in these measures were not significant and were the result of fluctuations in normal business activity.

### Audit results

#### *Summary of audit findings*

**4.366** There were no significant or moderate audit issues raised during the 2008–09 audit.

## Centrelink

### Summary of Financial Results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	2 872.6	2 658.6
Total expenses	2 824.2	2 686.2
Total assets	1 058.4	947.0
Total liabilities	750.3	675.2

**4.367** The increase in income was largely due to additional service delivery payments received from the Department of Families, Housing, Community Services and Indigenous Affairs in relation to various budget initiatives, including the Northern Territory Emergency Response and disaster relief assistance programs.

**4.368** The increase in expenses was mainly due to increases in the employee provision relating to long service leave on-costs and increases in supplier related expenses in response to the above budget initiatives and programs.

4.369 Movements in other items were not significant and were due to fluctuations in normal business activity.

## Audit results

### Summary of audit findings

4.370 There were no significant or moderate audit issues noted during the 2008–09 audit.

### Prior year moderate risk matter – Category B

4.371 In 2007–08 the ANAO reported a moderate control weakness relating to the delegation levels granted by the Chief Executive Officer to Centrelink debt officers to waive or write-off debt in the Debt Management Information System (DMIS). The delegation levels configured in DMIS did not align with the instruments of delegation.

4.372 Centrelink has made system changes to address this issue. The ANAO confirmed that system changes had been implemented and, as a result, the ANAO downgraded the finding to a Category C finding. A review of the revised delegation levels will be undertaken during the 2009–10 audit.

4.373 The following table provides a summary of the status of previously reported audit issues as well as any new issues raised in the 2008–09 audit.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	0	0
<b>B</b>	1	(1)*	0	0
<b>Total</b>	<b>1</b>	<b>(1)</b>	<b>0</b>	<b>0</b>

\*Downgraded to a Category C finding.

## Medicare Australia

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	714.0	691.0
Total expenses	722.4	697.3
Total assets	326.4	301.5
Total liabilities	193.2	170.6

**4.374** The increase in liabilities is largely due to revenue received in advance to develop software under agreement with the National e-Health Transition Authority, and an increase in employee benefits provisions as a result of a reduction in the Government bond rate.<sup>34</sup>

**4.375** Increases in income, expenses and assets were not significant and were the result of fluctuations in normal business activity.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	0	0
Total expenses	4.7	1.4
Total assets	0	0
Total liabilities	0.4	1.4

**4.376** These movements were a result of fluctuations in normal business activity.

### Audit results

#### *Summary of audit findings*

**4.377** There were no significant or moderate audit issues identified during the 2008–09 audit.

<sup>34</sup> Op.cit. (Refer to Footnote No. 20, page 49)

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

**4.378** There were no significant or moderate audit issues noted in non-material entities within the portfolio.



# Immigration and Citizenship Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Immigration and Citizenship	Yes	✓	14 Sept 09	15 Sept 09	▲◆
Migration Review Tribunal and Refugee Review Tribunal (MRT-RRT)	No	✓	9 Sept 09	9 Sept 09	

✓: audit opinion not modified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains additional statutory disclosure

☞: financial year end date other than 30 June 2009

⇒: signed financial statements not presented for audit at this time

▲: moderate or significant issues reported previously not yet resolved

◆: new moderate or significant issues noted

## Portfolio overview

**4.379** The Department of Immigration and Citizenship (DIAC) is responsible for enriching Australia through the well managed entry and settlement of people. DIAC's business is managing the permanent and temporary entry of people into Australia, enforcing immigration law, successfully settling migrants and refugees and promoting the benefits of citizenship and cultural diversity.

**4.380** The Migration Review Tribunal (MRT) and the Refugee Review Tribunal (RRT) provide independent merit reviews of general visa decisions and protection visa decisions made by DIAC.

## Department of Immigration and Citizenship

### Summary of financial results

#### Departmental items

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	1 259.1	1 412.3
Total expenses	1 306.7	1 377.8
Total assets	1 168.2	1 222.2
Total liabilities	378.5	378.2

**4.381** Income decreased as a result of the transfer of the Integrated Humanitarian Settlement Services and Detention Centre appropriations from

departmental to administered. This was partially offset by additional funding resulting from increased visa processing activity.

**4.382** Expenses decreased as a result of the transfer of the Integrated Humanitarian Settlement Services and Detention Centre expenditure from departmental to administered. This was partially offset by an increase in employee expenses of \$8.6m resulting from a number of staff redundancies offered towards the end of 2008–09.

**4.383** Movements in assets and liabilities were not significant and were the result of fluctuations in normal business activity.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	848.3	710.3
Total expenses	466.5	279.8
Total assets	24.8	16.4
Total liabilities	141.7	104.9

**4.384** The increase in administered income was the result of increased visa processing fees and fluctuations in normal business activity relating to the processing of visa applications and the administration of the citizenship test.

**4.385** Expenses and liabilities increased mainly as a result of transfer of the Integrated Humanitarian Settlement Services and Detention Centre expenditure from departmental to administered.

**4.386** The movement in assets is a reflection of fluctuations in normal business activity.

## **Audit results**

### *Summary of audit findings*

#### *New and outstanding moderate audit issues*

##### Asset management

**4.387** DIAC manages Land and Buildings and Infrastructure, Plant and Equipment and Intangibles (consisting of purchased and internally developed software) assets valued at over \$882 million. The management of these assets is challenging as they are held in more than 100 locations worldwide.

**4.388** The ANAO's review of asset management processes highlighted a number of weaknesses including: delays in the completion of asset stock-takes; insufficient valuation of offshore assets and related leasehold improvements make-good provisions; deficiencies in the information held within the asset register; delays in the capitalisation of completed software projects; a lack of formal procedures to monitor the capitalisation of IT project expenditure; and non-compliance with accounting standard requirements to assess asset useful lives on an annual basis. These weaknesses increase the risk that assets are recorded by DIAC that are no longer held, incorrect valuations are reported, and depreciation and amortisation expenses are inaccurate.

**4.389** DIAC has indicated that a review of asset management processes will be undertaken in 2009–10 to address these weaknesses.

#### Expenditure authorisation processes

**4.390** The 2008–09 interim audit identified weaknesses in DIAC's purchase order process. These related to the timeliness of the preparation and approval of purchase orders and insufficient approval documentation relating to spending proposals. During the 2008–09 final audit, the ANAO observed significant improvement in the documentation to support the approval of spending proposals. However, the timeliness of the preparation and approval of purchase orders remains an area requiring improvement.

**4.391** This weakness exposes DIAC to an increased risk that commitment information within DIAC's FMIS for both financial statement and budget forecasting purposes is incomplete.

#### Offshore visa business system security and processing controls

**4.392** Previous audits of the offshore visa business system (IRIS) security and processing controls identified weaknesses in access management practices. DIAC has progressively implemented system changes that enhance the overall management of user administration. However, the 2008–09 interim audit identified that outstanding issues remained over the reporting and monitoring of user access and the currency of the IRIS system security plan.

**4.393** DIAC has advised that the IRIS System Security Plan has been updated and implemented to improve reporting and monitoring of IRIS user access. The ANAO will review the design and implementation of the IRIS System Security Plan during the 2009–10 audit.

## *Resolved moderate audit issues*

### Business continuity planning

**4.394** Deficiencies in business continuity planning (BCP) and Disaster Recovery (DR) arrangements were first identified during the 2002–03 financial statement audit. While DIAC has made substantial progress in addressing the deficiencies originally identified, the 2008–09 interim audit observed that completion of DR testing on all components of the FMIS environment had not been undertaken.

**4.395** The ANAO’s review of DR arrangements for the FMIS during the final phase of the 2008–09 audit confirmed that DIAC had successfully completed DR testing for the FMIS. Outstanding components of the audit finding relating to BCP arrangements more broadly have been re-assessed to a Category C finding and will be reviewed during the 2009–10 audit.

**4.396** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2008–09 audit.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	0	0
<b>B</b>	3	(1)*	1	3
<b>Total</b>	<b>3</b>	<b>(1)</b>	<b>1</b>	<b>3</b>

\*The issues relating to Business Continuity Management has been reclassified to a Category C finding.

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

**4.397** There were no moderate or significant audit issues noted in non-material entities within the portfolio.

# Infrastructure, Transport, Regional Development and Local Government Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Infrastructure, Transport, Regional Development and Local Government	Yes	✓	12 Aug 09	13 Aug 09	
Airservices Australia	Yes	✓	25 Aug 09	27 Aug 09	
Australian Maritime Safety Authority	No	✓	23 Sept 09	23 Sept 09	
Australian Rail Track Corporation	Yes	✓	28 Aug 09	28 Aug 09	
Civil Aviation Safety Authority	Yes	✓	27 Aug 09	31 Aug 09	◆
National Transport Commission	No	✓	28 Aug 09	28 Aug 09	

✓: audit opinion not modified

E : auditor's report contains an emphasis of matter

Q : auditor's report contains a qualification

A : auditor's report contains additional statutory disclosure

☞: financial year end date other than 30 June 2009

☐: signed financial statements not presented for audit at this time

▲: moderate or significant issues reported previously not yet resolved

◆: new moderate or significant issues noted

## Portfolio overview

**4.398** The Infrastructure, Transport, Regional Development and Local Government portfolio comprises the Department of Infrastructure, Transport, Regional Development and Local Government (DITRDLG) and a number of statutory authorities. The portfolio is responsible for:

- assisting the government to provide, evaluate, plan and invest in infrastructure across industry sectors;
- fostering an efficient, sustainable, competitive, safe and secure transport system; and
- assisting regions to develop and manage their own futures.

# Department of Infrastructure, Transport, Regional Development and Local Government

## Summary of financial results

### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	248.0	244.9
Total expenses	251.0	239.1
Total assets	172.8	163.4
Total liabilities	68.9	54.7

DITRD LG's 2007–08 Departmental financial results incorporate the revenues and expenses relating to programs that were transferred to other agencies throughout the year.

**4.399** The increase in income and expenses during the year is due to the introduction of new measures and increased departmental activities associated with the administration of new and expanded grant programs under the Nation Building and the Jobs Plan programs.

**4.400** The increase in asset values is due to the replacement of computers and related software across the Department in 2008–09 and increases in the level of appropriations receivable.

**4.401** The increase in liabilities is the result of a change in the timing of payment runs by the Department, resulting in higher levels of trade payables outstanding at year end.

### *Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	1 173.1	242.5
Total expenses	8 642.7	5 232.8
Total assets	2 929.9	3 433.6
Total liabilities	17.1	30.3

**4.402** Administered revenue increased as a result of a \$1.005 billion transfer of funds from the Building Australia Fund Special Account administered by the Department of Finance and Deregulation to the Building Australia Fund (BAF) Infrastructure Portfolio Special Account. The lack of a dividend paid to Government by Airservices Australia partially offset this increase.

**4.403** Administered expenses increased by \$3.4 billion because of an increase in the overall level of grant funding for infrastructure projects. Additional grants totalling \$1.597 billion were made under the National Building Program and an additional \$480 million was paid under the Regional and Local Community Infrastructure Programs. A total of \$1.005 billion was paid from the newly established Building Australia Fund and accelerated payments of \$570 million in Financial Assistance Grants were paid to local communities via State and Territory governments.

**4.404** Administered assets continued to decrease as program work was completed, expensed and offset against prepaid infrastructure grants, in the Improving the National Network, Supplementary Roads to Recovery and Strategic Regional Supplementary programs. These reductions have been partially offset by an increase in the value of investments in the Australian Rail Track Corporation (\$450 million), the Australian Maritime Safety Authority (\$40 million) and the Civil Aviation Safety Authority (\$39 million). A decrease in the value of the investment in Airservices Australia (\$27 million) partially offset this overall increase in the value of investments.

**4.405** The decrease in liabilities, while not significant, is attributable to changes in the timing of payment runs by the Department for administered items.

## Audit results

### *Summary of audit findings*

**4.406** There were no significant or moderate audit issues identified during the 2008–09 audit.

## Airservices Australia

### Summary of financial results

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	784.9	752.7
Total expenses	662.2	621.7
Total assets	1 055.2	823.9
Total liabilities	713.3	464.0

**4.407** The increase in income is attributable to improved airline activity, an interest rate swap fair value gain, and the reversal of previous asset write downs.

**4.408** Expenses increased due to higher employee benefit costs associated with salaries, superannuation, and lower interest rates used to calculate employee entitlements<sup>35</sup>. Increases in expenditure for various projects also contributed to the increase. This was partially offset by a decrease in asset impairments.

**4.409** The increase in assets is primarily due to higher cash holdings, the revaluation of non-current assets, the significant level of capital expenditure and an increase in deferred tax assets stemming from adjustments made to Airservices' defined benefit superannuation fund.

**4.410** The GFC severely impacted the performance of Airservices' Defined Benefit Fund leading up to year end resulting in a substantial decline of \$137 million in the net fund position. Over the year, the fund has seen the impact of reduced interest rates increasing the liability of the fund for superannuation obligations, and a decline in the fair value of shares and property assets. The plan moved from a net asset position to a net liability position during the year.

**4.411** In addition to the effect of the GFC on the defined benefit plan, the increase in liabilities is explained by increases in borrowings, capital expenditure accruals and higher employee entitlements reflecting the decline in interest rates.

## **Audit results**

### *Summary of audit findings*

**4.412** There were no significant or moderate audit issues identified during the 2008–09 audit.

---

<sup>35</sup> op.cit. (Refer to Footnote No. 20, page 49)



## Australian Rail Track Corporation Ltd

### Summary of financial results

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	564.5	609.3
Total expenses	829.3	779.3
Total assets	2 350.3	2 188.4
Total liabilities	712.3	339.3

**4.413** The decrease in income is due mainly to reductions in funding contributions from the State of New South Wales (NSW) pursuant to a tripartite agreement related to the 2004 lease of rail assets and decreases in interest revenue. These are partly offset by increases in sales revenue.

**4.414** The increase in total expenses is largely due to increases in finance costs, infrastructure maintenance and depreciation expenses, partially offset by decreases in asset impairment losses and employee benefit expenses.

**4.415** The increase in assets is mainly attributable to property, plant and equipment additions of \$746 million as part of an ongoing capital investment program, partly offset by the impairment of North-South rail assets of \$227 million, the downward revaluation of East-West rail assets and additional depreciation expense. Cash also decreased by \$163 million.

**4.416** The increase in liabilities is due primarily to an increase in current tax liabilities, increases in unearned revenue relating to the grants received in advance for the construction of infrastructure assets and higher trade payables.

### Audit results

#### *Summary of audit findings*

**4.417** No significant or moderate audit issues were identified during the 2008–09 audit.

# Civil Aviation Safety Authority

## Summary of financial results

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	148.1	143.9
Total expenses	146.1	131.7
Total assets	99.0	99.0
Total liabilities	37.4	39.4

**4.418** Movements in income, expenses, assets and liabilities were not significant and were the result of fluctuations in normal business activity.

## Audit results

### *Summary of audit findings*

**4.419** The ANAO identified three moderate audit issues during the 2008–09 audit. These issues related to inadequate procedures and controls in CASA's IT network, the FMIS and HRMIS.

#### IT network user access

**4.420** The ANAO reviewed CASA's IT network and identified weaknesses of controls and procedures in the management over user accounts including insufficient documentation detailing any evidence of systematic reviews being undertaken over network user access. These issues increase the risk of unauthorised access which may lead to fraudulent activities and data integrity issues.

#### Financial Management Information System controls

**4.421** The ANAO's review of CASA's FMIS identified a number of application control weaknesses which included insufficient documentation of procedures relating to administration and management over user access role types. These weaknesses put at risk data integrity and the reliability of financial information.

#### Human Resource Management Information System controls

**4.422** A number of control weaknesses were identified in the HRMIS including a lack of system user documentation procedures for the creation, deletion and review of user access. These issues increase the risk of unauthorised access to HRMIS data.

**4.423** CASA has implemented strategies to resolve these issues in 2009–10. The ANAO will review action undertaken during the 2009–10 audit.

**4.424** The following table provides a summary of the status of previously reported audit issues.

Ratings	Opening position (at end of 2009 interim phase)	Issues resolved (during 2009 final audit phase)	New issues identified (during 2009 final audit phase)	Closing position (at conclusion of 2009 final audit)
<b>A</b>	0	0	0	0
<b>B</b>	3	0	0	3
<b>Total</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>3</b>

### Comments on non-material entities

There were no significant or moderate audit issues identified in non-material entities except for the Australian Maritime Safety Authority.

### Australian Maritime Safety Authority

**4.425** During 2008–09 AMSA satisfactorily addressed a moderate audit issue identified in 2007–08 in relation to inaccurate employees' long service leave records.

**4.426** There were no significant or moderate audit issues identified during the 2008–09 audit.



# Innovation, Industry, Science and Research Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Innovation, Industry, Science and Research	Yes	✓	21 Aug 09	24 Aug 09	
Anglo-Australian Telescope Board	No	✓	25 Sept 09	25 Sept 09	
Australian Institute of Aboriginal and Torres Strait Islander Studies	No	✓	17 Sept 09	17 Sept 09	
Australian Institute of Marine Science	No	✓	24 Aug 09	28 Aug 09	
Australian Membrane Technologies Pty Limited	No	✓	5 Sept 09	25 Sept 09	
Australian Nuclear Science and Technology Organisation	Yes	✓	14 Aug 09	25 Aug 09	
Australian Research Council	Yes	✓	13 Aug 09	14 Aug 09	
Ceramisphere Pty Ltd	No	✓	5 Sept 09	25 Sept 09	
Commonwealth Scientific and Industrial Research Organisation	Yes	✓	27 Aug 09	31 Aug 09	▲
CVC Reef Limited	No	✓	23 Oct 09	23 Oct 09	
Food Science Australia	No	✓	10 Nov 09	17 Nov 09	
IIF Bioventures Pty Limited	No	✓	29 Oct 09	29 Oct 09	
IIF (CM) Investments Pty Limited	No	✓	29 Oct 09	29 Oct 09	
IIF Foundations Pty Limited	No	✓	29 Oct 09	29 Oct 09	
IIF Investments Pty Limited	No	✓	29 Oct 09	29 Oct 09	
IIF Neo Pty Limited	No	✓	29 Oct 09	29 Oct 09	
Intalysis Pty Ltd	No	✓	16 Nov 09	16 Nov 09	
IP Australia	No	✓	29 Sept 09	29 Sept 09	
Science and Industry Endowment Fund	No	✓	15 Sept 09	16 Sept 09	
Wind Corporation Australia Limited	No	✓	23 Oct 09	23 Oct 09	

✓: audit opinion not modified

E : auditor's report contains an emphasis of matter

Q : auditor's report contains a qualification

A : auditor's report contains additional statutory disclosure

∞: financial year end date other than 30 June 2009

⇒: signed financial statements not presented for audit at this time

▲: moderate or significant issues reported previously not yet resolved

◆: new moderate or significant issues noted

## Portfolio overview

4.427 The key priority for the portfolio is to encourage the sustainable growth of Australian industries by developing a national innovation system that drives knowledge creation, cutting-edge science and research, international competitiveness and greater productivity.

## Department of Innovation, Industry, Science and Research

4.428 The Department of Innovation, Industry, Science and Research (DIISR) was established as a result of the Administrative Arrangement Order of 3 December 2007 with the abolishment of the Department of Industry, Tourism and Resources (DITR).

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	338.4	370.0
Total expenses	337.0	362.1
Total assets	238.7	234.4
Total liabilities	95.8	125.7

4.429 The department's 2008–09 financial statements reflect a full year of operations, while the 2007–08 figures represent the results of DIISR for seven months and DITR for five months. As a result, movements in the financial measures, particularly income and expenses, are due to a change in the department's operations.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	40.6	572.1
Total expenses	3 486.1	2 239.8
Total assets	2 630.8	2 678.5
Total liabilities	250.1	255.9

**4.430** Similar to departmental measures, the above administered measures reflect the results of a full 12 months operations, while the 2007–08 figures represent the results of DIISR for seven months and DITR for five months. The significant reduction in income is mainly because, under the new administrative arrangements, petroleum and uranium royalties are no longer received by DIISR. Expenses have increased as a result of the transfer of a number of programs to other agencies.

## Audit results

### *Summary of audit findings*

**4.431** There were no significant or moderate audit issues identified during the 2008–09 audit.

## Australian Nuclear Science and Technology Organisation

### Summary of financial results

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	229.2	206.2
Total expenses	233.2	225.6
Total assets	944.3	964.3
Total liabilities	159.5	225.7

**4.432** Income increased due to an increase in Government funding of \$21 million to cover increased costs of operations and for the shipment of spent fuel rods to overseas processors. An increase in supplier expenses of \$12 million, relating to the shipment of spent fuel rods overseas was partially offset by a decrease in employee expenses.

**4.433** The decrease in assets relates to a reduction in depreciation charges, partially offset by an increase in the valuation of the Open Pool Australian Lightwater (OPAL) reactor, and a reassessment of the make-good costs capitalised. The decrease in liabilities is the result of a reassessment of the provision for make-good in relation to the OPAL reactor.

## Audit results

### Summary of audit findings

4.434 There were no significant or moderate audit issues identified during the 2008–09 audit.

## Australian Research Council

### Summary of financial results

#### Departmental items

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	16.0	23.3
Total expenses	20.0	19.6
Total assets	19.2	22.7
Total liabilities	5.9	5.4

4.435 The decrease in income is due to funding received in 2007–08 for the Excellence in Research for Australia (formerly Research Quality Framework) as part of administrative arrangement changes that took place in 2008–09.

4.436 The movements in other measures were not significant.

#### Items administered on behalf of the Australian Government

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	5.2	5.4
Total expenses	580.8	580.5
Total assets	3.7	3.9
Total liabilities	234.6	237.5

4.437 There were no significant movements in administered items during the year.

## Audit results

### Summary of audit findings

4.438 There were no significant or moderate audit issues identified during the 2008–09 audit.



# Commonwealth Scientific and Industrial Research Organisation

## Summary of financial results

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	1 302.9	1 091.8
Total expenses	1 180.8	1 043.7
Total assets	2 182.2	2 051.8
Total liabilities	489.6	442.2

**4.439** The increase in income was mainly due to the settlement of court action against a number of IT companies during 2008–09.

**4.440** The increase in expenses was largely due to legal fees and settlement costs attributable to the court action, and increased employee expenses as a result of pay rises.

**4.441** Assets increased largely due to the net impact of higher cash and receivables balances relating to the settlement of the court action, the reduced value of equity investments due to prevailing market conditions at year end, and expenditure on capital projects under construction.

**4.442** The increase in liabilities was due to costs associated with the court action that were payable as at 30 June, and other fluctuations due to normal business activity.

## Audit results

### *Summary of audit findings*

**4.443** Three moderate audit findings were identified during the 2008–09 interim audit. Two of these findings were downgraded during the final phase of the 2008–09 audit as CSIRO had taken action to address the risks to ensure financial statements balances are correctly stated. The downgraded items relate to:

- the recognition of revenue for research projects being incorrectly determined; and
- excessive staff costs remaining unassigned which may significantly impact projects costs.

**4.444** One moderate finding remained outstanding in relation to a lack of segregation of duties for system controls with the implementation of a new Financial Management Information System. The implementation lead to some potential conflicts in duties and inappropriate system user access. In addition, there was limited review to determine whether the access rights within the new system were appropriate.

**4.445** CSIRO has implemented a review and will undertake development of a full matrix of segregation of duties to fully resolve the issue.

**4.446** The following table provides a summary of the status of previously reported audit issues.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	0	0
<b>B</b>	3	(2)*	0	1
<b>Total</b>	<b>3</b>	<b>(2)</b>	<b>0</b>	<b>1</b>

\*Issues have been downgraded to Category C findings.

### Comments on non-material entities

**4.447** There were no moderate or significant audit issues noted in non-material entities within the portfolio during 2008–09.

### Australian Institute of Aboriginal and Torres Strait Islander Studies

**4.448** A moderate control weakness was identified in 2007–08 regarding authorisation of credit card payments. This issue was resolved during 2008–09.

# Parliamentary Departments

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Parliamentary Services	Yes	✓	28 Aug 09	28 Aug 09	
Department of the House of Representatives	No	✓	9 Sept 09	10 Sept 09	
Department of the Senate	No	✓	3 Sept 09	4 Sept 09	

✓: audit opinion not modified

E : auditor's report contains an emphasis of matter

Q : auditor's report contains a qualification

A : auditor's report contains additional statutory disclosure

☞: financial year end date other than 30 June 2009

⇨: signed financial statements not presented for audit at this time

▲: moderate or significant issues reported previously not yet resolved

◆: new moderate or significant issues noted

## Parliamentary Departments overview

**4.449** There are three parliamentary departments supporting the Australian Parliament:

- Department of Parliamentary Services (DPS);
- Department of the House of Representatives (HoR); and
- Department of the Senate (DoS).

**4.450** DPS is responsible for ensuring the occupants of Parliament House are supported by integrated services and facilities, that Parliament functions effectively, and that its work and building are accessible to the public.

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

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

## Department of Parliamentary Services

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	124.1	122.4
Total expenses	123.1	117.7
Total assets	131.5	124.5
Total liabilities	25.4	21.3

**4.453** The increase in assets is mainly due to the revaluation of property, plant and equipment. All other movements in departmental items were the result of fluctuations in normal business activity.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	0.9	1.2
Total expenses	18.5	18.3
Total assets	1 895.6	1 714.2
Total liabilities	0.4	0.2

**4.454** The decrease in administered income is represented by a one off gain in 2007–08 for assets not previously recognised. The increase in assets is primarily due to a revaluation of Parliament House building undertaken in 2008–09. Movements in other administered items were the result of fluctuations in normal business activity.

### Audit results

#### *Summary of audit findings*

**4.455** No significant or moderate issues were identified during the 2008–09 audit.

### Comments on non-material entities

**4.456** There were no moderate or significant audit issues noted in the non-material parliamentary departments.

# Prime Minister and Cabinet Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of the Prime Minister and Cabinet	Yes	✓	20 Aug 09	20 Aug 09	
Australian Institute of Family Studies	No	✓	28 Aug 09	28 Aug 09	
Australian National Audit Office	No	✓	21 Aug 09	21 Aug 09	
Australian Public Service Commission	No	✓	11 Sept 09	11 Sept 09	
Department of Climate Change	Yes	✓	2 Oct 09	2 Oct 09	
National Australia Day Council	No	✓	16 Sept 09	16 Sept 09	
National Archives of Australia	Yes	✓	13 Aug 09	14 Aug 09	
Office of National Assessments	No	✓	30 Sept 09	1 Oct 09	
Office of Renewable Energy Regulator	No	✓	23 Sept 09	23 Sept 09	◆
Office of the Commonwealth Ombudsman	No	✓	1 Sept 09	1 Sept 09	
Office of the Inspector-General of Intelligence and Security	No	✓	10 Sept 09	10 Sept 09	
Office of the Official Secretary to the Governor-General	No	✓	30 Sept 09	30 Sept 09	
Office of the Privacy Commissioner	No	✓	25 Aug 09	25 Aug 09	
Old Parliament House	No	✓	21 Sept 09	21 Sept 09	

✓: audit opinion not modified

E : auditor's report contains an emphasis of matter

Q : auditor's report contains a qualification

A : auditor's report contains additional statutory disclosure

☞: financial year end date other than 30 June 2009

☞: signed financial statements not presented for audit at this time

▲ : moderate or significant issues reported previously not yet resolved

◆: new moderate or significant issues noted

## Portfolio overview

**4.457** The objective of the Prime Minister and Cabinet portfolio is to produce a range of outputs needed for well-coordinated, efficient and accountable public administration, supported by a values-based Australian Public Service.

**4.458** The portfolio undertakes the following responsibilities:

- coordination of government administration and assistance to Cabinet and its committees;
- policy advice and administrative support to the Prime Minister;
- intergovernmental relations and communications with state and territory governments;
- the coordination and promotion of awards and national symbols;
- supporting official establishments;
- policy coordination in relation to climate change, counter terrorism, national security, and work and family;
- oversight of Government ceremonial and hospitality activities;
- oversight of Old Parliament House, which incorporates the Museum of Australian Democracy; and
- administration of freedom of information and privacy legislation.

## Department of the Prime Minister and Cabinet

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	118.2	162.9
Total expenses	117.5	152.0
Total assets	70.8	87.6
Total liabilities	29.7	48.4

**4.459** The decrease in income is mainly attributable to a decrease in appropriations relating to the finalisation of the Asia Pacific Economic Cooperation (APEC) taskforce in 2007–08.

**4.460** The decrease in expenses is related to a reduction in supplier expenses associated with the finalisation of APEC.

**4.461** Liabilities decreased primarily because the 2007–08 balance included a \$24.7 million provision for the return of unspent APEC appropriation funding. Assets decreased as a result of the return of unspent APEC funding.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	0.4	8.5
Total expenses	13.7	9.2
Total assets	43.0	42.8
Total liabilities	16.7	12.9

**4.462** The decrease in total income was due to the Media Commissions Special Account being transferred to the Department of Finance and Deregulation in January 2008 as a result of Machinery of Government changes.

**4.463** There were no significant movements in administered expenses, administered assets or administered liabilities in 2008–09.

**Audit results***Summary of audit findings*

**4.464** There were no significant or moderate audit issues identified during the 2008–09 audit.

**Department of Climate Change****Summary of financial results***Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	81.9	33.2
Total expenses	87.0	31.7
Total assets	45.7	40.9
Total liabilities	32.7	23.8

**4.465** The Department of Climate Change (DCC) was created as a result of an Administered Arrangement Order on 3 December 2007. The 2008–09 financial measures represent DCC's first full year in operation.

**4.466** The movement in income and expenses mainly relates to 2008–09 being the first full year of operation for DCC. There was also an increase in income and expenses for climate change programs which include the design and

implementation of the Emissions Trading Scheme and reducing Australia's greenhouse gas emissions.

**4.467** Assets increased mainly due to purchases of computer software and IT equipment and an increase in the value of leasehold improvements.

**4.468** Liabilities increased mainly due to the timing of suppliers' payments at year end, an increase in employee provisions as a result of an increase in staff numbers, and an adjustment to the prior year Long Service Leave provision.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	0	0
Total expenses	38.4	14.7
Total assets	0	0
Total liabilities	1.9	5.3

**4.469** The increase in administered expenses relates to new grant funding programs for climate change adaptation and land management strategies, and raising public awareness on climate change.

**4.470** The decrease in liabilities is due to a reduction in payables at year end as a result of different timing of grant payments in 2008–09.

## **Audit results**

### *Summary of audit findings*

**4.471** There were no significant or moderate audit issues identified during the 2008–09 audit.



## National Archives of Australia

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	77.3	75.1
Total expenses	72.1	67.4
Total assets	1 502.7	1 226.1
Total liabilities	16.9	15.5

**4.472** The increase in assets is mainly due to the revaluation of heritage and cultural assets.

**4.473** There were no significant movements in other measures.

### Audit results

#### *Summary of audit findings*

**4.474** There were no significant or moderate audit issues identified during the 2008–09 audit.

### Comments on non-material entities

**4.475** There were no significant or moderate audit issues identified in portfolio non-material entities during 2008–09 audits except for the Office of the Renewable Energy Regulator.

### Office of the Renewable Energy Regulator

**4.476** The ANAO identified one moderate audit issue related to the Office of the Renewable Energy Regulator's (ORER) financial statement preparation process.

**4.477** The accurate and timely preparation of annual audited financial statements is an important aspect of financial management and stewardship and is the primary mechanism by which ORER meets its financial accountability obligations. There were a number of errors identified by the ANAO in the draft financial statements presented by ORER for audit that would not have occurred if there had been appropriate quality assurance processes. There was also insufficient supporting documentation to allow ORER to perform an effective quality assurance process. These deficiencies

meant additional ORER and ANAO resources were consumed and led to delays in completing the preparation and audit of the 2008–09 financial statements.

**4.478** ORER has agreed to review the financial statement preparation process to ensure there are improvements in the quality assurance processes and the level of documentation supporting the 2009–10 financial statements.

# Resources, Energy and Tourism Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of Resources, Energy and Tourism	Yes	Q	25 Aug 09	25 Aug 09	◆
Geoscience Australia	No	✓	25 Aug 09	31 Aug 09	
National Offshore Petroleum Safety Authority	No	✓	20 Aug 09	27 Aug 09	
Tourism Australia	Yes	✓	10 Sept 09	10 Sept 09	▲

✓: audit opinion not modified

E : auditor's report contains an emphasis of matter

Q : auditor's report contains a qualification

A : auditor's report contains additional statutory disclosure

∞: financial year end date other than 30 June 2009

⇒: signed financial statements not presented for audit at this time

▲: moderate or significant issues reported previously not yet resolved

◆: new moderate or significant issues noted

## Portfolio overview

**4.479** The portfolio is responsible for improving the strength, competitiveness and sustainability of the resources, energy and tourism industries; providing geoscientific research and geospatial information; the delivery of health and safety regulation for the offshore petroleum industry; and international and domestic positioning of Australia as a quality tourism destination.

## Department of Resources, Energy and Tourism

### Summary of financial results

#### Departmental items

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	90.1	44.6
Total expenses	91.1	47.5
Total assets	30.1	27.2
Total liabilities	29.4	26.5

**4.480** The department was established on 3 December 2007 and, as a consequence, the 2007–08 balances reflect operations for a seven month period.

**4.481** A number of expenses were incurred during the year for the formation of the Global Carbon Capture Institute. The department has provided significant resources to the founding of the Institute.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	1 594.5	866.0
Total expenses	1 004.0	664.8
Total assets	568.4	361.8
Total liabilities	50.6	107.2

**4.482** As for departmental items, the 2007–08 balances reflect operations for a seven month period.

**4.483** From March 2009, the department transferred the payments to the States and Territories for uranium and petroleum royalties to the Department of the Treasury under the COAG financial reforms. These royalty payments, which are paid as a proportion of royalty revenue received, are no longer recorded by the department. This has also resulted in a reduction in liabilities.

**Audit results**

*Summary of audit findings*

**4.484** RET’s 2008–09 financial statements have been qualified in respect of the valuation of the investment of approximately \$374 million in Snowy Hydro Limited due to a limitation on the scope of the audit. The department has valued this investment utilising a discounted cash flow methodology, an approach that is available under the Finance Minister’s Orders.

**4.485** The methodology utilised the forecast cash flow data included in the Corporate Plan of Snowy Hydro Limited in determining the fair value of the investment. The Corporate Plan was twelve months out of date and, in the ANAO’s view, while the department had made attempts to validate the cash flow data, it could not obtain sufficient documentation to support the data. As a consequence, there was uncertainty about the reliability of the carrying amount of the investment for Snowy Hydro Limited included in RET’s financial statements. This matter has been categorised as a significant audit issue.

**4.486** The department is currently seeking independent assurance over the forecast cash flow data used in the Corporate Plan in the context of preparation of its 2009–10 financial statements.

**4.487** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2008–09 audit.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	1	1
<b>B</b>	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>

## Tourism Australia

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	163.1	164.9
Total expenses	173.5	157.9
Total assets	26.2	42.0
Total liabilities	18.6	17.9

**4.488** The decrease in assets is a result of prior period foreign exchange gains being returned to the Consolidated Revenue Fund (cash transfer) in accordance with Foreign Exchange Risk Management Guidelines as well as the impact of funding higher off shore expenses resulting from the Australian dollar depreciating against foreign currencies.

**4.489** The movement in other balances was not significant and was the result of fluctuations in normal business activity.

### Audit results

#### *Summary of audit findings*

**4.490** Three moderate issues reported in the 2007–08 audit in relation to inadequate segregation of duties in respect of payroll and accounts payable processing, the need for an IT disaster recovery plan and a requirement for off

site storage of back up tapes have been resolved. However, one moderate audit issue from 2007–08 relating to a lack of IT policies and procedures for management of user access and the documentation of system changes remained outstanding. Tourism Australia has advised that it has initiated action to address this issue.

**4.491** The following new moderate audit issue was identified in the 2008–09 interim audit.

**4.492** The Business Continuity Plan (BCP) developed in 2007–08 had not been communicated to all business stakeholders, staff training in its implementation had not been undertaken and responsibilities for BCP processes, including testing and keeping the plan updated had not been clearly defined. Tourism Australia has advised that it has made progress in addressing this issue in 2009–10.

**4.493** The following table provides a summary of the status of previously reported audit issues as well as any new issues raised in the 2008–09 audit.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	0	0
<b>B</b>	2	0	0	2
<b>Total</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>2</b>

### Comments on non-material entities

**4.494** There were no significant or moderate audit issues noted in non-material entities in the portfolio during 2008–09.

# Treasury Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Department of the Treasury	Yes	✓	7 Sept 09	7 Sept 09	▲
Australian Accounting Standards Board	No	✓	27 Aug 09	27 Aug 09	
Australian Auditing and Assurance Standards Board	No	✓	27 Aug 09	27 Aug 09	
Australian Bureau of Statistics	Yes	✓	5 Aug 09	6 Aug 09	
Australian Competition and Consumer Commission	No	✓	28 Aug 09	28 Aug 09	◆
Australian Office of Financial Management	Yes	✓	21 Aug 09	21 Aug 09	
Australian Prudential Regulation Authority	No	✓	27 Aug 09	27 Aug 09	
Australian Reinsurance Pool Corporation	Yes	✓	22 Sept 09	23 Sept 09	
Australian Securities and Investments Commission	Yes	✓	7 Aug 09	7 Aug 09	▲
Australian Taxation Office	Yes	✓A	21 Sept 09	21 Sept 09	▲◆
Australian Valuation Office	No	✓	28 Aug 09	1 Sept 09	▲
Commonwealth Grants Commission	No	✓	1 Sept 09	1 Sept 09	
Corporations and Markets Advisory Committee	No	✓	31 Aug 09	31 Aug 09	
HIH Claims Support Ltd	No	✓	9 Oct 09	13 Oct 09	
National Competition Council	No	✓	28 Aug 09	28 Aug 09	
Inspector-General of Taxation	No	✓	27 Aug 09	27 Aug 09	
Productivity Commission	No	✓	20 Aug 09	21 Aug 09	
Reserve Bank of Australia	Yes	✓	13 Aug 09	13 Aug 09	
Reserve Bank of Australia Note Printing Australia Ltd	No	✓	24 Jul 09	24 Jul 09	
Reserve Bank of Australia Officers' Superannuation Fund	No	✓	20 Oct 09	20 Oct 09	
Royal Australian Mint	No	✓	9 Sept 09	10 Sept 09	

✓: audit opinion not modified

E: auditor's report contains an emphasis of matter

Q: auditor's report contains a qualification

A: auditor's report contains additional statutory disclosure

∞: financial year end date other than 30 June 2009

=: signed financial statements not presented for audit at this time

▲: moderate or significant issues reported previously not yet resolved

◆: new moderate or significant issues noted

## Portfolio overview

**4.495** The Treasury portfolio consists of the Department of the Treasury and a large number of statutory and non-statutory bodies. The portfolio undertakes a range of activities aimed at achieving strong sustainable economic growth and the improved wellbeing of Australians. This entails the provision of policy advice to Portfolio Ministers which seeks to promote a sound macroeconomic environment; effective government spending arrangements; effective taxation and retirement income arrangements; and well functioning markets. It also involves the effective implementation and administration of policies that fall within the Portfolio Ministers' responsibilities.

## Department of the Treasury

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	158.3	158.2
Total expenses	162.2	150.0
Total assets	117.2	95.5
Total liabilities	46.8	42.5

**4.496** Expenses increased due to a combination of wage increases, and as a result of elevated average staffing levels to address an increase in demand on the Treasury to provide policy advice to Government in the uncertain economic environment. Supplier expenditure was also higher due to the need to seek domestic and international legal expertise on meeting the objective of protecting Australia's markets, and the costs associated with the Grocery Choice website.

**4.497** The Treasury is involved in the Standard Business Reporting project and the increase in assets is a result of capitalising internally developed software under construction for this project.

**4.498** Movements in income and liabilities were not significant and were the result of fluctuations in normal business activity.



*Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	4 711.2	1 825.2
Total expenses	54 061.1	42 655.7
Total assets	28 700.5	17 287.3
Total liabilities	9 043.1	4 829.6

**4.499** Two factors have had a significant impact on the Treasury administered financial measures in 2008–09, the global economic environment and the Council of Australian Governments (COAG) reforms relating to the federal financial relations framework.

**4.500** Both income and expenses increased substantially as a result of revised arrangements that involve the Treasury assuming responsibility for making payments relating to a range of programs and Special Purpose Payments. These arrangements took effect during 2008–09.

**4.501** The increase in income also relates to:

- revenue received from fees associated with the guarantee scheme for large deposits and wholesale funding; and
- an increase in dividend revenue from the Reserve Bank of Australia.

**4.502** Assets have increased primarily due to an increase in the value of the Reserve Bank of Australia and the recognition of a contractual fee receivable for the guarantee scheme for large deposits and wholesale funding.

**4.503** Total liabilities increased by a comparative amount to recognise the funding service obligation arising from the guarantee scheme for large deposits and wholesale funding. The balance of the increase is due to accrued grants to State and Territory Governments for National Partnership Programs and National Specific Purpose Payments, and payables to the International Monetary Fund for the maintenance of value and the Special Drawing Rights allocation due to foreign exchange movements.

## **Audit results**

### *Summary of audit findings*

**4.504** One moderate risk finding was raised during the 2008–09 interim audit.

**4.505** The ANAO noted that a number of reconciliations between HR reports and the FMIS to verify the completeness and accuracy of employee financial information were not signed and dated as being reviewed and associated supporting documentation was inadequate. The ANAO also observed that employee related transactions were processed into the HRMIS by a single officer without being reviewed.

**4.506** The Treasury advised that the department was in the process of addressing this finding. A review of the actions taken will be undertaken as part of the 2009–10 audit.

**4.507** There were no significant or moderate audit issues identified during the 2008–09 final audit.

**4.508** The following table provides a summary of the status of previously reported audit issues as well as any new issues raised in the 2008–09 audit.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	0	0
<b>B</b>	1	0	0	1
<b>Total</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>1</b>

## Australian Bureau of Statistics

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	312.2	328.5
Total expenses	326.0	330.0
Total assets	170.8	182.1
Total liabilities	121.1	115.3

**4.509** The decrease in income reflects reduced activity relating to the cyclical nature of the census program. Total expenses have decreased due to reductions in property expenses and Comcare premiums, and the cyclical nature of census activity.

**4.510** The decrease in assets is primarily due to asset write-offs. In addition, the Australian Bureau of Statistics determined that the cost of the non-programming staff salaries directly attributable to internally developed software could not be reliably determined. The expensing of programming staff salaries resulted in a reduction in the amount of internally developed software capitalised during 2008–09.

**4.511** The increase in liabilities is the result of an increase in employee provisions, as a result of a reduction in interest rates.

## Audit results

### *Summary of audit findings*

**4.512** There were no significant or moderate audit issues identified during the 2008–09 audit.

## Australian Office of Financial Management

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	9.8	10.2
Total expenses	7.9	7.5
Total assets	18.0	15.7
Total liabilities	1.6	1.3

**4.513** Movements in these measures are not significant and are the result of fluctuations in normal business activity.

#### *Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	2 530.9	2 997.3
Total expenses	4 962.4	5 351.0
Total assets	38 320.8	31 936.3
Total liabilities	107 313.9	59 440.7

**4.514** The global financial crisis and the weakening of the Australian economy in 2008–09 had a significant effect on cash proceeds collected by Government and this, coupled with increased fiscal spending commitments, required the AOFM to significantly change the activities and products managed, both in type and scale, in response to the changing requirements of the Australian Government.

**4.515** The increase in assets is due to increases in investments including investments in semi-government debt (debt issued by Australian States and Territories) and residential mortgage-backed securities (RMBS). The investment in RMBS was as a result of a direction from the Treasurer to invest up to \$8 billion in RMBS. The investment in RMBS was designed to support competition in the home lending market, which had suffered from the global financial crisis.

**4.516** The significant increase in liabilities is due to an increase in borrowings by the AOFM on behalf of Government, through the issuance of Commonwealth Government Securities. To meet the borrowing requirements of Government the AOFM significantly increased the long-term debt program, through the issuance of Treasury Bonds, and re-commenced the short-term debt program, with the first issuance of Treasury Notes since 2003.

## **Audit results**

### *Summary of audit findings*

**4.517** There were no significant or moderate audit issues identified in 2008–09.

## Australian Reinsurance Pool Corporation

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	138.2	129.4
Total expenses	43.6	4.8
Total assets	643.1	504.6
Total liabilities	91.8	47.8

**4.518** The increase in income is mainly attributable to premium growth as a result of the firming of pricing in the insurance market.

**4.519** In January 2009, ARPC commenced a retrocession<sup>36</sup> program to reduce the Commonwealth's risk in meeting excess liability under the terrorism insurance scheme. The program has resulted in increased expenses to recognise the retrocession expense and increased liabilities representing the deferred retrocession expense.

**4.520** Total assets have increased as a result of an increase in funds invested with commercial banks and funds managers. Surplus funds in 2008–09 have been invested in term deposits and at-call accounts.

### Audit results

#### *Summary of audit findings*

**4.521** There were no significant or moderate audit issues identified in 2008–09.

---

<sup>36</sup> Retrocession is the process of insuring against reinsurance.

# Australian Securities and Investments Commission

## Summary of financial results

### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	314.6	292.0
Total expenses	294.8	273.8
Total assets	212.0	177.8
Total liabilities	99.4	101.9

**4.522** The increase in income was primarily the result of additional government funding as a result of the global financial crisis and for a large information technology project. Funding from the Enforcement Special Account was also recognised to meet additional enforcement costs.

**4.523** The increase in expenses is attributable to higher employee costs due to increases in both staff numbers, and average salaries in accordance with the workplace agreement. There was also a significant increase in non payroll contractors due to the ongoing implementation of the IT project.

**4.524** The movement in assets is largely due to an increase in computer software associated with the IT project. The increase also reflects computer equipment acquisitions during 2008–09.

**4.525** Liabilities decreased reflecting the payment of accrued legal settlement costs. However, increases in leave provisions arising from a decrease in discount rates, a new provision for separation and redundancies and an increase in salaries accruals, partially offset this decrease.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	603.9	589.9
Total expenses	63.0	52.9
Total assets	89.4	86.1
Total liabilities	6.4	4.8

**4.526** The increase in administered income reflects the growth in the company population resulting in a corresponding increase in fees and charges.

**4.527** The movement in administered expenses is attributable to an increase in the provision for doubtful debts, following an assessment of the increase in aged debtors.

**4.528** Administered assets have increased largely as a result of an increase in debtors arising from the growth in company incorporations.

**4.529** There were no significant movements in administered liabilities in 2008–09.

## Audit results

### *Summary of audit findings*

**4.530** In 2007–08 the ANAO reported two moderate control weaknesses. These issues related to: a lack of a comprehensive IT Disaster Recovery Plan based on the conduct of a business impact analysis; and no full recovery test of mid-range systems, including its FMIS and HRMIS, to the off site disaster recovery site.

**4.531** ASIC have commenced work to address these issues however, they had not been fully resolved at the time of the 2008–09 final audit. The ANAO will review the progress made in addressing these issues in the 2009–10 audit.

**4.532** The following table provides a summary of the status of previously reported audit issues.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
<b>A</b>	0	0	0	0
<b>B</b>	2	0	0	2
<b>Total</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>2</b>

# Australian Taxation Office

## Summary of financial results

### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	3 000.3	2 873.9
Total expenses	3 025.1	3 002.9
Total assets	920.8	919.4
Total liabilities	936.7	970.9

**4.533** The increase in income was mainly the result of additional funding for compliance activities, the Nation Building and Jobs Plan – tax bonus for working Australians, the First Home Owners Scheme, and prior years' outputs appropriation.

**4.534** The increase in expenses is primarily due to increased staff costs and commencement of the amortisation of information technology system assets, previously under construction, which were commissioned during the year. The increase was partially offset by lower supplier expenses and reduced asset impairment, write-downs and write-offs.

**4.535** The increase in assets included increased appropriation receivables and additions to intangibles and other assets, offset by impairment write-offs and decreased trade receivables at year end.

**4.536** Liabilities decreased due to lower supplier and finance lease payables at year end, partially offset by increased separation and redundancy payables, and salary accruals.

### *Items administered on behalf of the Australian Government*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	270 038	278 071
Total expenses	21 999	13 403
Total assets	25 491	26 417
Total liabilities	6 879	8 615

**4.537** Administered income decreased following a decline in taxation revenue from companies and superannuation funds. A large number of company



taxpayers in the finance and oil sectors modified their instalment amounts to reflect the impact of the global financial crisis (GFC). Superannuation funds also reduced their quarterly instalments to reflect falls in profit. There was also a decline in Goods and Services Tax (GST) revenue as a result of the GFC and weakened discretionary consumption.

**4.538** The increase in administered expenses reflects the tax bonus expense and additional provisions for bad and doubtful debts, while the economic slowdown increased debt under payment arrangements, insolvencies and disputed debts. The increased expenses were partially offset by a reduction in Family Tax Benefit payments which are now administered by FaHCSIA.

**4.539** Although there was an increase in gross administered receivables (including overdue amounts), administered assets decreased overall as a result of higher impairment losses and credit amendments, and lower accrued revenues.

**4.540** The decrease in administered liabilities mainly reflects the absence of Family Tax Benefits liabilities, which are now administered by FaHCSIA, and lower taxation refunds payable at year end.

## **Audit results**

### *Summary of audit findings*

**4.541** The 2008–09 financial statements made reference, in Note 24C, to a number of breaches of section 83 of the Constitution. These breaches were identified by the ATO during the 2008–09 Certificate of Compliance process. The note to the financial statements indicates that, from time to time, as a result of processing errors outside the assessment process, incorrect payments are made by the ATO. In these circumstances a payment is made to a taxpayer without any legislative basis, representing a breach of section 83 of the Constitution which provides that no money shall be drawn from the Treasury of the Commonwealth except under an appropriation made by law.

**4.542** A total of 1 097 incorrect payments totalling \$9.0 million were identified during 2008–09 comprising a very small percentage of some 22 million payments made during the year. At the time of signing the financial statements, over 96 per cent of the incorrect payments had been recovered.

**4.543** The audit opinion on the financial statements was unqualified as the financial statements fairly presented the financial operations and position of the ATO at year end. However, the opinion did include a reference to the

breach of section 83 of the Constitution under Other Legal and Regulatory Requirements.

## **Significant audit findings**

### *Outstanding significant audit finding from prior years*

#### Security Classification

**4.544** Since an audit of ATO's management of security in 2006–07, the ANAO has continued to observe that the ATO is not complying with its IT Security Policy and the Australian Government Protective Security Manual (PSM) requirements for the classification, storage and transmission of protected information. Weaknesses in these security controls increase the risk that persons without appropriate clearance or access rights may have access to information and/or information may be inappropriately distributed.

**4.545** The Commissioner of Taxation has issued a waiver against certain minimum standards of the PSM and the Australian Government Information and Communication Technology Security Manual (ACSI 33). The ATO has set a review date that will coincide with a review of the underlying control environment. The ATO is making progress to address a range of security issues with several projects in progress, including an information security review, the electronic scanning of emails and the establishment of improved controls for the storage of protected information.

**4.546** The ANAO will continue to monitor the outcome of this work and assess whether the ATO can demonstrate that its security controls are fully implemented and working effectively.

## **Moderate audit findings**

**4.547** In the interim phase of the 2008–09 audit, the ANAO reported seven moderate control weaknesses, three of which related to prior years. During the final phase of the 2008–09 audit, the ANAO observed that the ATO had effectively addressed these prior year moderate audit findings in relation to:

- financial management of the change program;
- errors in processing FMA Act section 30 refunds; and
- arrangements with other Australian Government agencies.

Ongoing moderate audit findings from the interim phase of the audit

**4.548** The following audit findings were also identified in the interim phase of the 2008–09 audit:

**Change Program**

**4.549** A review of aspects of the FBT system release identified: a number of security issues around the management of user access rights; a lack of reconciliations that provide assurance over the number of transactions reviewed from system interfaces and the transfer of data through various system components; and departures from key elements of standards and guidelines on the use of the 'Quality Centre' testing management tool.

**Mainframe Access – Access Control:**

**4.550** The ANAO identified a number of weaknesses relating to the use of the program used to manage and monitor all mainframe users.

**4.551** The ANAO will continue to review remedial measures being taken by the ATO on these findings as part of future audits.

***New moderate audit finding identified***

**Superannuation Co-contributions**

**4.552** The ATO is progressively implementing a number of changes to systems, forms, information collection and business processes as a result of system defects which have resulted in delays in payments and potential overpayments. The ATO is implementing the changes to ensure compliance with existing Superannuation Co-contributions legislation.

**4.553** The ATO has identified a number of circumstances in which the calculation of co-contributions was not fully aligned with the legislation and resulted in overpayments. The ATO obtained legal advice which indicated that overpayments could give rise to a breach of section 83 of the Constitution. However the legal advice also indicated that section 83 of the Constitution would not be breached during a reasonable period of problem analysis and rectification, being by July 2010. During this time, the legal advice also indicated that overpayments made in good faith where the ATO did not knowingly make any individual overpayments at the time they were paid would also not represent a breach of the Constitution. No Superannuation Co-contributions overpayments were identified during the 2008–09 financial year which were considered to be breaches of the Constitution at the time they were paid.

4.554 The ANAO will continue to monitor this area and discuss potential compliance risks with the ATO as part of the 2009–10 audit.

4.555 The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2008–09 audit.

Ratings	Opening position (at end of interim phase)	Issues resolved (during final audit phase)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
A	1	0	0	1
B	7	(3)	1	5
<b>Total</b>	<b>8</b>	<b>(3)</b>	<b>1</b>	<b>6</b>

## Reserve Bank of Australia

### Summary of financial results

#### *Departmental items*

Key financial measures for year	2008–09 \$m	2007–08 \$m
Total income	11 137	4 643
Total expenses	2 331	3 213
Total assets	102 966	101 472
Total liabilities	90 423	92 259

4.556 In 2008–09, the Reserve Bank of Australia earned a profit of \$8.8 billion. This includes net interest earnings of \$2.4 billion, realised valuation gains on its foreign currency holdings of \$4.4 billion and unrealised gains on the portfolio of \$2.3 billion, principally owing to the effects of the decline in the Australian dollar on the valuation of foreign assets.

4.557 While assets and liabilities fluctuated significantly throughout the year through monetary policy actions in response to the global financial crisis, year end asset and liability balances were not significantly different from 2007–08.

### Audit results

#### *Summary of audit findings*

4.558 There were no significant or moderate audit issues identified in 2008–09.

## Comments on non-material entities

**4.559** There were no moderate or significant audit issues noted in non-material entities except for the Australian Competition and Consumer Commission and the Australian Valuation Office.

### Australian Competition and Consumer Commission

**4.560** The ANAO identified during the interim phase of the 2008–09 audit one moderate audit finding in relation to the Australian Competition and Consumer Commission’s (ACCC) HRMIS. The ANAO identified a risk exposure in relation to the number of users who could process changes to the HRMIS master data and also process transactions. Further review found the absence of compensating controls to address the risk associated with this lack of segregation of duties.

**4.561** The ACCC has now effectively addressed this moderate audit finding with the implementation of a control designed to detect unauthorised transactions, should they occur.

## Australian Valuation Office

**4.562** The Australian Valuation Office (AVO) integrated components of its business operations into a number of corporate structures and processes of the Australian Taxation Office in the 2007–08 financial year. The ANAO has noted that, although the AVO was charged for services provided by the ATO in 2007–08 and 2008–09, the integration occurred without formal agreement on service requirements or cost charging arrangements. This was raised as a moderate audit issue in 2007–08, and at the time of the final audit had still not been finalised. The AVO advised that agreement was nearing finalisation and was expected to be in place during 2009–10.

---



Ian McPhee  
Auditor-General

Canberra ACT  
17 December 2009

# Appendices





## Appendix 1: Mandate Changes in 2008–09

*The following is a listing of new entities in 2008–09 and entities that ceased to be audited by the Auditor-General in 2008–09.*

### **New entities audited in 2008–09**

- Army Amenities Fund
- Army Amenities Fund Company
- Australian Curriculum Assessment and Reporting Authority
- Australian Organ and Tissue Donation and Transportation Authority
- Construction and Development Company Limited
- Hotel Enterprises Pty Ltd
- Hotel Holdings Trust
- IBA Insurance Holdings Pty Ltd
- National Breast and Ovarian Cancer Centre
- National Centre of Indigenous Excellence Limited
- National Film and Sound Archive
- National Indigenous Property Trust
- NBN Co Ltd
- Old Parliament House
- Port Botany Transfer Station Trust
- Royal Australian Air Force Welfare Recreational Company
- Screen Australia
- South Hedland Indigenous Property Trust
- Swanbrook Road Holding Trust
- Tennant Creek Land Holding Trust
- Tuggeranong Office Park Pty Ltd

## **Entities that ceased to be audited by the Auditor-General**

### *Entities that ceased to exist*

- Australian Maritime College
- AMC Search Limited
- Centrum Insurance Brokers Pty Ltd
- Dairy Adjustment Authority
- Dairy Structural Adjustment Fund
- Telstra Sale Company Ltd
- Australian Film Commission

### *Entities that consolidated into another entity*

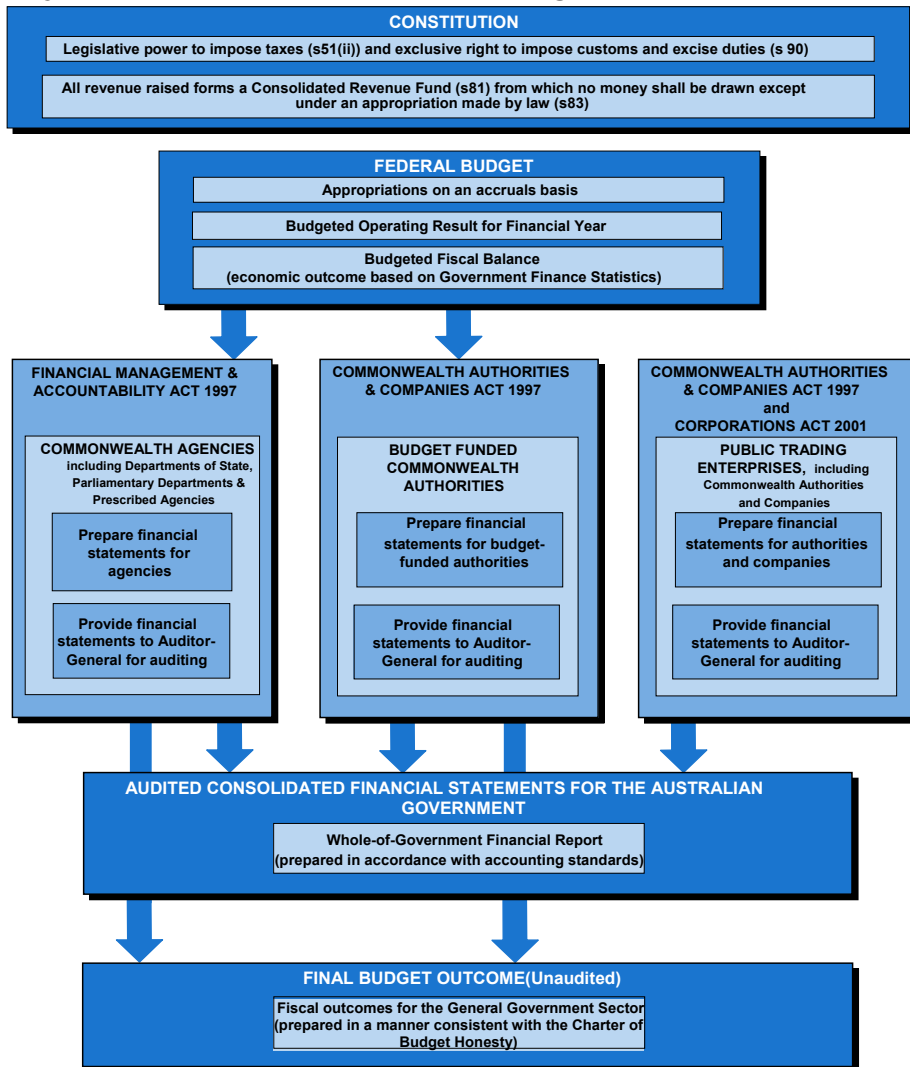
- Biosecurity Australia (consolidated into Department of Agriculture, Fisheries and Forestry)
- Film Australia Limited (consolidated into Screen Australia and National Film and Sound Archive)
- Film Finance Corporation Australia Limited (consolidated into Screen Australia and National Film and Sound Archive)
- Work Solutions Pty Ltd (consolidated into Medibank Private)

## Appendix 2: The Financial Reporting Framework

Key elements of the Australian Government's financial reporting framework are outlined in the diagram below. Then follows an overview of the financial reporting requirements for the various types of Australian Government entities covered by the framework. Finally, the audit of the financial statements of these entities is briefly described.

Figure A 1

### Key Elements of the Financial Reporting Framework



Source: ANAO

## Australian Government Reporting Entities

### Commonwealth Government of Australia

Section 55 of the FMA Act requires the Finance Minister to prepare annual financial statements for the Commonwealth Government of Australia. These financial statements are a general purpose financial report consolidating the financial activities and financial position of all agencies, authorities and other entities controlled by the Commonwealth Government.

### Australian Government agencies

Australian Government agencies are subject to the provisions of the FMA Act. They comprise departments of state, parliamentary departments and prescribed agencies.

The FMA Act requires agency Chief Executives to prepare financial statements for their agencies in accordance with the FMOs. The FMOs include a requirement that the statements comply with accounting standards issued by the Australian Accounting Standards Board.

### Australian Government authorities and subsidiaries

Australian Government authorities are bodies corporate that hold money on their own account and have been created by the Parliament to perform specific functions. Authorities operate under their own enabling legislation and also must comply with relevant provisions of the CAC Act.

The CAC Act requires the governing bodies of authorities to prepare financial statements in accordance with the FMOs. Directors must also ensure that subsidiaries prepare financial statements in accordance with the *Corporations Act 2001* (where applicable) and the CAC Act.

### Australian Government companies and subsidiaries

Australian Government companies are companies in which the Australian Government has a controlling interest. Australian Government companies operate and prepare financial statements under the *Corporations Act 2001* and relevant provisions of the CAC Act.

Directors of an Australian Government company must ensure subsidiaries of the company prepare financial statements in accordance with the *Corporations Act 2001* and the CAC Act.

## Other bodies

The ANAO also audits the financial statements of other bodies controlled by the Commonwealth or where the Commonwealth has significant influence. These consist primarily of trusts or joint ventures entered into by controlled Commonwealth bodies.

## Audit of Australian Government financial statements

### Audit scope

The Chief Executives of agencies, and the directors of authorities and companies, are responsible for the preparation and presentation of the financial statements and for the records, internal control, procedures and organisation that support the preparation of those statements. The ANAO's independent audits of financial statements are undertaken to form an opinion whether the financial statements are free from material misstatement.

The audits are conducted in accordance with the ANAO Auditing Standards, which incorporate the Australian Auditing Standards (ASAs), to provide reasonable assurance as to whether the financial statements are free from material misstatement.

Audit procedures include examination of the entity's records and its internal control, information systems, control procedures and statutory disclosure requirements. Evidence supporting the amounts and other information in the statements is examined on a test basis, and accounting policies and significant accounting estimates are evaluated.

The entity's internal control relevant to the entity's preparation and fair presentation of the financial statements is evaluated, 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 control. In some audits, audit procedures concentrate primarily on substantiating the amounts appearing in the financial statements and do not include a detailed testing of systems and internal controls.

The primary responsibility for the prevention and detection of fraud and error rests with both those charged with the governance and the management of an entity. An audit conducted in accordance with ASAs is designed to provide reasonable assurance that the financial report, taken as a whole, is free from material misstatement, whether due to fraud or error. The fact that an audit is

carried out may act as a deterrent. However, the auditor is not responsible for the prevention of fraud and error.

## **The auditor's report on financial statements**

The ANAO auditor's report on the financial statements includes a statement of the auditor's opinion as to whether the statements give a true and fair view of the entity's financial position, the results of its financial operations and its cash flows in accordance with the Finance Minister's Orders (FMOs), including Australian Accounting Standards (AAS) and Interpretations.

If the auditor is not satisfied that the financial statements are true and fair, the auditor's opinion is modified, with the reasons being indicated. The auditor's opinion may be modified because of a disagreement between the auditor and management of the entity on the application of accounting standards or other reporting requirements, because the scope of the audit work needed to form an opinion has been limited in some way, or if there was a conflict between AAS and the requirements of the FMOs.

The various types of auditor's reports that can be issued are explained below.

### *Unqualified Auditor's Report*

An unqualified auditor's report is provided when the financial statements give a true and fair view of the matters required by the Finance Minister's Orders, including Australian Accounting Standards and Interpretations, so as to present a view which is consistent with the entity's financial position, its financial performance, and its cash flows.

### *Modified Auditor's Report*

The types of modified auditor's reports and the basis for issuing these reports are as follows:

- A qualified opinion is expressed when the auditor concludes that an unqualified opinion cannot be expressed due to a disagreement with management, a conflict between applicable financial reporting frameworks or a scope limitation; however the effect is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion. The qualified opinion is expressed as being 'except for' the effects of the matter to which the qualification relates.
- A disclaimer of opinion is expressed when a limitation on the scope of the auditor's work exists and the possible effect of the limitation on

scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial statements.

- An adverse opinion is expressed when the effect of a disagreement with management or a conflict between applicable financial reporting frameworks is so material or pervasive to the financial statements that the auditor concludes that a qualification is not adequate to disclose the misleading or incomplete nature of the financial statements.
- An emphasis of matter is expressed in certain circumstances to draw attention to, or emphasise, a matter that is included in a note to the financial statements that is relevant to the users of the auditor's report but is not of such a nature that it affects the auditor's opinion (i.e. the auditor's opinion remains unqualified). The circumstances in which an emphasis of matter is used are specified and include:
  - when a significant uncertainty exists, the resolution of which depends upon future events and which may materially affect the financial statements;
  - when information in a document containing the audited financial statements is materially inconsistent with the financial statements; and
  - 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.

### *Other Legal and Regulatory Requirements*

The auditor's report on the financial statements may also include a reference to 'other legal and regulatory requirements'. This allows the Auditor-General to draw the attention of the Parliament to significant departures from the financial management framework.

For example, section 57 of the FMA Act requires that, where the Auditor-General is of the opinion that a Chief Executive has contravened section 48 of the Act, the Auditor-General must state in the auditor's report on the financial statements, the particulars of the contravention. (Section 48 requires the Chief Executive to keep proper accounts and records).

The Auditor-General may also refer to contraventions of other statutory requirements that he considers significant.

The Auditor-General is not required to audit the financial statements of overseas subsidiaries of Commonwealth authorities where it is impracticable or unreasonable for him to do so. In these cases, the auditor's report on the authority's consolidated financial statements must make relevant disclosures required by the CAC Act.

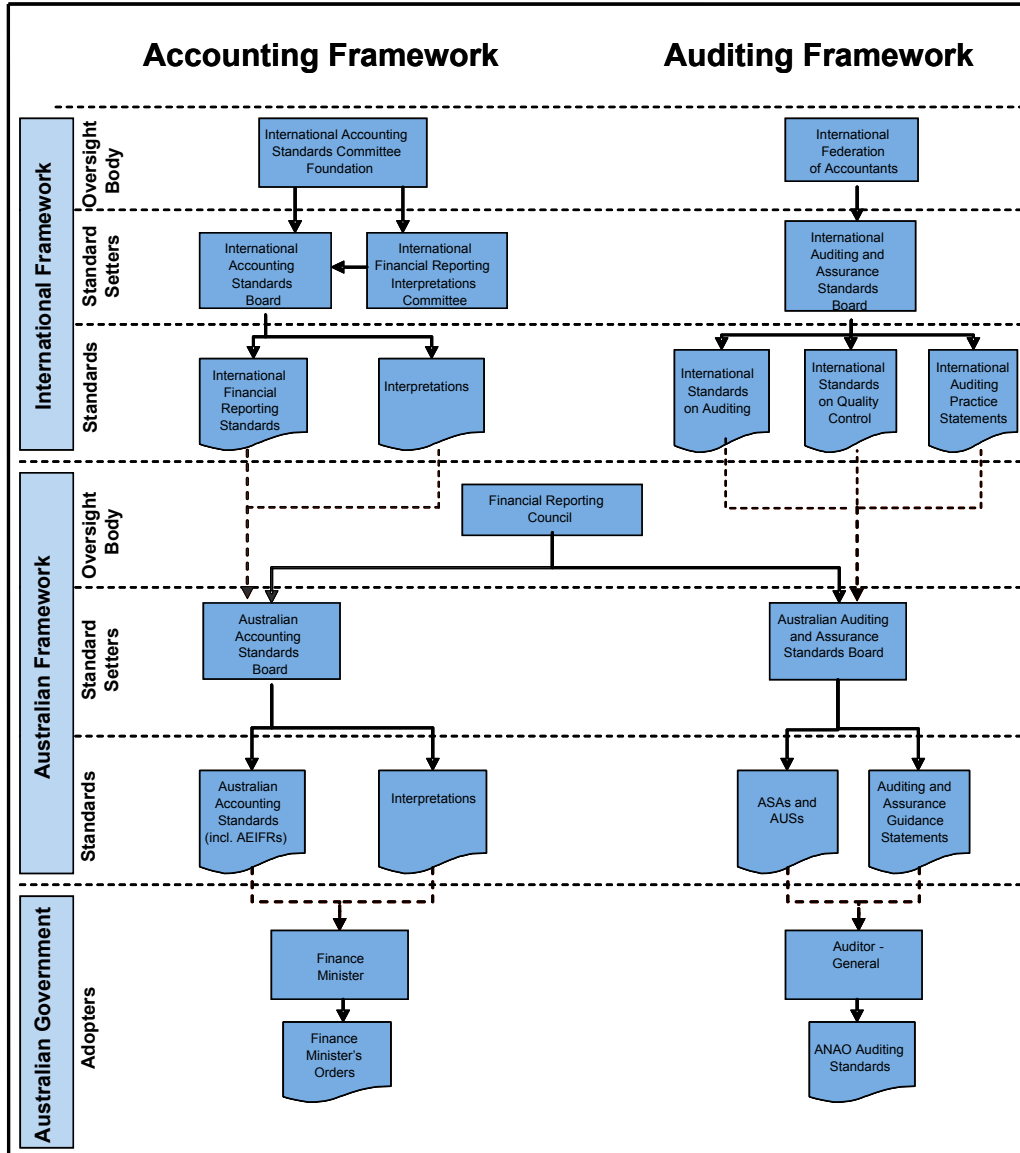
*Other matters*

The auditor's report on the financial statements may also include a reference to 'other matters'. This allows the Auditor-General to communicate a matter other than those that are presented or disclosed in the financial statements that, in the Auditor-General's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, and that is not prohibited by law or regulation.



## Appendix 3: The Accounting and Auditing Standards Frameworks

The figure below depicts the standard setting framework, for accounting and auditing, in the Australian Government context.



Source: ANAO

## Appendix 4: Number of audit findings

**Table A 1**

Significant or moderate findings, at the conclusion of the 2008–09 interim phase, for agencies covered by the interim audit report, Audit Report No 42 2008–09.

Entity	2008–09 Rating		2007–08 Rating	
	A	B	A	B
Department of Agriculture, Fisheries and Forestry	0	1	0	0
Attorney–General’s Department	0	3	0	1
Australian Customs Service	0	3	0	2
Department of Broadband, Communications and the Digital Economy	0	0	0	1
Department of Defence	2	25	7	40
Defence Materiel Organisation	0	12	1	12
Department of Veterans’ Affairs	0	1	0	1
Department of Education, Employment and Workplace Relations	0	1	0	0
Department of the Environment, Water, Heritage and the Arts	0	0	0	0
Department of Families, Housing, Community Services and Indigenous Affairs	0	0	0	1
Department of Finance and Deregulation	0	2	0	0
The Board of Guardians and the Future Fund Management Agency	0	0	0	0
Department of Foreign Affairs and Trade	0	5	0	0
Department of Health and Ageing	0	0	0	4
Department of Human Services	0	0	0	0
Centrelink	0	1	0	3
Medicare	0	0	0	2
Department of Immigration and Citizenship	0	3	1	11
Department of Infrastructure, Transport, Regional Development and Local Government	0	0	0	1
Department of Innovation, Industry, Science and Research	0	0	0	0
Department of the Prime Minister and Cabinet	0	0	0	1
Department of Climate Change	0	0	0	0
Department of Resources, Energy and Tourism	0	0	0	0
Department of the Treasury	0	1	0	0
Australian Office of Financial Management	0	0	0	0
Australian Taxation Office	1	7	1	4
<b>Total</b>	<b>3</b>	<b>65</b>	<b>10</b>	<b>84</b>

Source: ANAO

**Table A 2**

Significant or moderate or findings of material entities grouped by portfolio at the conclusion of the final audit phase of the 2008–09 audits

Entity	2008–09 Rating		2007–08 Rating	
	A	B	A	B
Department of Agriculture, Fisheries and Forestry	0	0	0	0
Grains Research and Development Corporation	0	0	0	0
Attorney-General's Department	0	3	0	1
Australian Customs Service	0	3	0	2
Australian Federal Police	0	0	0	1
Australian Government Solicitor	0	0	0	0
Australian Security Intelligence Organisation	0	0	0	1
Family Court of Australia	0	0	0	0
High Court of Australia	0	0	0	0
National Capital Authority	0	0	0	0
Department of Broadband, Communications and the Digital Economy	0	0	0	1
Australian Broadcasting Corporation	0	0	0	0
Australian Communications and Media Authority	0	0	0	0
Australian Postal Corporation	0	4	0	0
NBN Co Ltd	0	0	N/A	N/A
Special Broadcasting Service Corporation	0	0	0	0
Department of Defence	1	23	3	24
Australian War Memorial	0	0	0	0
Defence Housing Authority	0	0	0	0
Defence Material Organisation	0	7	1	10
Department of Veterans' Affairs	0	1	0	0
Department of Education, Employment and Workplace Relations	0	0	0	1
Coal Mining Industry (Long Service Leave Funding) Corporation	0	0	0	0
Comcare Australia	0	0	0	1
Department of Environment, Water, Heritage and the Arts	0	0	0	0
Bureau of Meteorology	0	0	0	0

Entity	2008–09 Rating		2007–08 Rating	
	A	B	A	B
National Gallery of Australia	0	0	0	3
National Library of Australia	0	0	0	0
National Museum of Australia	0	0	0	0
Department of Families, Housing, Community Services and Indigenous Affairs	0	2	0	0
Indigenous Business Australia	0	0	0	3
Department of Finance and Deregulation	0	1	0	0
Australian Electoral Commission	0	0	0	0
Australian Industry Development Corporation	0	0	0	0
ASC Pty Ltd	0	0	0	0
Future Fund Management Agency and Board of Guardians	0	0	0	0
Medibank Private Ltd	0	2	0	0
Department of Foreign Affairs and Trade	0	4	0	0
Australian Agency for International Development	0	0	0	0
Australian Trade Commission	0	0	0	0
Export Finance and Insurance Corporation	0	0	0	0
Department of Health and Ageing	0	0	0	3
National Blood Authority	0	0	0	0
National Health and Medical Research Council	0	1	0	1
Australian Sports Commission	1	1	0	0
Department of Human Services	0	0	0	0
Centrelink	0	0	0	2
Medicare Australia	0	0	0	1
Australian Hearing	0	0	0	0
Department of Immigration and Citizenship	0	3	0	7
Department of Infrastructure, Transport, Regional Development and Local Government	0	0	0	0
Airservices Australia	0	0	0	0
Australian Rail Track Corporation	0	0	0	0
Civil Aviation Safety Authority	0	3	0	0
Department of Innovation, Industry, Science and Research	0	0	0	0

Entity	2008–09 Rating		2007–08 Rating	
	A	B	A	B
Australian Research Council	0	0	0	0
Australian Nuclear Science and Technology Organisation	0	0	0	0
Commonwealth Scientific and Industrial Research Organisation	0	1	0	0
Department of Parliamentary Services	0	0	0	0
Department of the Prime Minister and Cabinet	0	0	0	0
Department of Climate Change	0	0	0	0
National Archives of Australia	0	0	0	0
Department of Resources, Energy and Tourism	1	0	0	0
Tourism Australia	0	2	0	4
Department of the Treasury	0	1	0	0
Australian Bureau of Statistics	0	0	0	0
Australian Office of Financial Management	0	0	0	0
Australian Reinsurance Pool Corporation	0	0	0	0
Australian Securities and Investments Commission	0	2	0	2
Australian Taxation Office	1	5	1	5
Reserve Bank of Australia	0	0	0	0
<b>Total</b>	<b>4</b>	<b>69</b>	<b>5</b>	<b>72</b>

Note: N/A: Not applicable

# Series Titles

---

**ANAO Audit Report No.1 2009–10**

*Representations to the Department of the Treasury in Relation to Motor Dealer Financing Assistance*

Department of the Treasury  
Department of the Prime Minister and Cabinet

**ANAO Report No.2 2009–10**

*Campaign Advertising Review 2008–09*

**ANAO Audit Report No.3 2009–10**

*Administration of Parliamentarians' Entitlements by the Department of Finance and Deregulation*

**ANAO Audit Report No.4 2009–10**

*The Management and Processing of Annual Leave*

**ANAO Audit Report No.5 2009–10**

*Protection of Residential Aged Care Bonds*  
Department of Health and Ageing

**ANAO Audit Report No.6 2009–10**

*Confidentiality in Government Contracts – Senate Order for Departmental and Agency Contracts (Calendar Year 2008 Compliance)*

**ANAO Audit Report No.7 2009–10**

*Administration of Grants by the National Health and Medical Research Council*

**ANAO Audit Report No.8 2009–10**

*The Australian Taxation Office's Implementation of the Change Program: a strategic overview*

**ANAO Audit Report No.9 2009–10**

*Airservices Australia's Upper Airspace Management Contracts with the Solomon Islands Government*

Airservices Australia  
Department of Infrastructure, Transport, Regional Development and Local Government

**ANAO Audit Report No.10 2009–10**

*Processing of Incoming International Air Passengers*  
Australian Customs and Border Protection Service

**ANAO Audit Report No.11 2009–10**

*Garrison Support Services*  
Department of Defence

**ANAO Audit Report No.12 2009–10**

*Administration of Youth Allowance*  
Department of Education, Employment and Workplace Relations  
Centrelink

**ANAO Audit Report No.13 2009–10**

*Defence Materiel Organisation – Major Projects Report 2008–09*  
Department of Defence

**ANAO Audit Report No.14 2009–10**

*Agencies' Contract Management*  
Australian Federal Police  
Austrade  
Department of Foreign Affairs and Trade

**ANAO Audit Report No.15 2009–10**

*AusAID's Management of the Expanding Australian Aid Program*  
AusAID

**ANAO Audit Report No.16 2009–10**

*Do Not Call Register*  
Australian Communications and Media Authority

# Current Better Practice Guides

---

The following Better Practice Guides are available on the Australian National Audit Office website.

Innovation in the Public Sector	
Enabling Better Performance, Driving New Directions	Dec 2009
SAP ECC 6.0	
Security and Control	June 2009
Preparation of Financial Statements by Public Sector Entities	June 2009
Business Continuity Management	
Building resilience in public sector entities	June 2009
Developing and Managing Internal Budgets	June 2008
Agency Management of Parliamentary Workflow	May 2008
Public Sector Internal Audit	
An Investment in Assurance and Business Improvement	Sep 2007
Fairness and Transparency in Purchasing Decisions	
Probity in Australian Government Procurement	Aug 2007
Administering Regulation	Mar 2007
Developing and Managing Contracts	
Getting the Right Outcome, Paying the Right Price	Feb 2007
Implementation of Programme and Policy Initiatives:	
Making implementation matter	Oct 2006
Legal Services Arrangements in Australian Government Agencies	Aug 2006
Administration of Fringe Benefits Tax	Feb 2006
User-Friendly Forms	
Key Principles and Practices to Effectively Design and Communicate Australian Government Forms	Jan 2006
Public Sector Audit Committees	Feb 2005
Fraud Control in Australian Government Agencies	Aug 2004
Better Practice in Annual Performance Reporting	Apr 2004



Management of Scientific Research and Development Projects in Commonwealth Agencies	Dec 2003
Public Sector Governance	July 2003
Goods and Services Tax (GST) Administration	May 2003
Building Capability—A framework for managing learning and development in the APS	Apr 2003
Administration of Grants	May 2002
Performance Information in Portfolio Budget Statements	May 2002
Some Better Practice Principles for Developing Policy Advice	Nov 2001
Rehabilitation: Managing Return to Work	June 2001
Building a Better Financial Management Framework	Nov 1999
Building Better Financial Management Support	Nov 1999
Commonwealth Agency Energy Management	June 1999
Controlling Performance and Outcomes	Dec 1997
Protective Security Principles (in Audit Report No.21 1997–98)	Dec 1997

