

The Auditor-General  
Audit Report No.22 2010–11  
Financial Statement Audit

**Audits of the Financial Statements of  
Australian Government Entities for the  
Period Ended 30 June 2010**

Australian National Audit Office

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Canberra ACT  
16 December 2010

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken audits of the 2009-10 financial statements of Australian Government entities and examinations and inspections of the accounts and records of those entities in accordance with the authority contained in the *Auditor-General Act 1997*.

Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present this report and the accompanying brochure 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 2010*.

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

Yours sincerely

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

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.

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# Abbreviations and Acronyms

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AAO	Administrative Arrangements Order
AAS	Australian Accounting Standard
AASB	Australian Accounting Standards Board
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	<i>Commonwealth Authorities and Companies Act 1997</i>
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
DCCEE	Department of Climate Change and Energy Efficiency
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
DITRDLG	Department of Infrastructure, Transport, Regional Development and Local Government
DIISR	Department of Innovation, Industry, Science and Research
DoHA	Department of Health and Ageing
DHS	Department of Human Services
DVA	Department of Veterans' Affairs
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
Finance	Department of Finance and Deregulation
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMIS	Financial Management Information System
FMOs	Finance Minister's Orders
GAAP	Generally Accepted Accounting Principles
GFS	Government Finance Statistics
GGG	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	Department of the Treasury

# Summary

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## Introduction

1. The *Auditor-General Act 1997* establishes the mandate for the Auditor-General to undertake financial statement audits of all Australian Government entities including those of government agencies, statutory authorities and government business enterprises.

2. The preparation of audited financial statements in compliance with the Finance Minister's Orders<sup>1</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 Australian National Audit Office (ANAO), devote considerable effort to achieving timeliness in financial reporting.

3. 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 auditor's 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.

4. 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.50 2009–10 Interim Phase of the Audit of Financial Statements of Major General Government Sector Agencies for the Year Ending 30 June 2010*, outlined the ANAO's assessment of audit findings relating to the internal controls of major agencies, including governance arrangements, information systems and control procedures. The

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<sup>1</sup> The Finance Minister's Orders (FMOs) made by the Minister for Finance and Deregulation set out the requirements for the preparation of financial statements of reporting entities covered by the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*, with the exception of companies.

findings summarised in that report are the results of the interim phase of the financial statement audits of major General Government Sector agencies.

5. 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.

6. The audit findings in this report have been reported to the management of each entity, and to the responsible Minister(s).

## Accounting and auditing framework developments

7. The Australian Accounting Standards Board (AASB) continued to develop its accounting standards during 2009-10. Among the changes made were a new format for the main statement of financial performance, enhanced disclosures for the fair value of financial instruments, and exempting public sector not-for-profit entities from the requirement to capitalise borrowing costs related to certain assets.

8. At the international level, work continues on new conceptual frameworks for financial reporting so as to provide a sound base for the development of future accounting standards.

9. Future developments in the public sector reporting framework in Australia include: the implementation of a differential reporting regime; relief from consolidated financial reporting for certain entities with a not-for-profit parent entity; the release of an exposure draft by the AASB to harmonise Australian and New Zealand accounting standards for the for-profit sector; and the review by the AASB of various accounting standards including AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

10. A major project of the International Auditing and Assurance Standards Board has been the enhancement of the quality and uniformity of International Auditing Standards (ISAs). Revised and redrafted ISAs in 'clarity format' were released in 2009. The Australian Auditing and Assurance Standards Board subsequently issued revised standards to conform with the ISAs that are operative for audits of financial statements for reporting periods beginning on or after 1 January 2010.

11. The revisions to the Australian Auditing Standards have led to a significant increase in the number of mandatory requirements. Much of this increase represents the elevation of guidance material to the status of

requirement. These developments will lead to some increase in audit costs, which is expected to be proportionately greater for smaller audits.

## Summary of audit findings

12. The ANAO is responsible for the audit of the financial statements of all the Australian Government entities. For the 2009–10 financial year, the Auditor-General and senior staff delegated to issue audit opinions issued 255 audit opinions (unqualified opinions); no qualified audit opinions; and two reports containing Other Legal and Regulatory Requirements. This result is consistent with the trend over recent years that have seen the issue of unqualified auditors' reports for the large majority of entities.

## Consolidated Financial Statements

13. The Consolidated Financial Statements (CFS) that present the consolidated whole-of-government financial results inclusive of all Australian Government controlled entities, as well as the general government sector (GGs) financial report was signed by the Minister for Finance and Deregulation on 29 November 2010.

14. In 2009–10, the CFS incorporates both the whole-of-government and GGS financial reports required by AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

15. As a AASB 1049-compliant GGS report was prepared for the first time in 2009–10, this is the first year that explanations of variances between the original budget and 2009–10 actuals have been included in an audited set of Australian Government financial statements. The CFS continues the prior year approach of incorporating aggregate disclosure of ministerial remuneration.

16. The auditor's report on the 2009–10 CFS was issued on 30 November 2010 and expressed the opinion that the statements give a true and fair view of the Australian Government's and the General Government Sector's financial position as at 30 June 2010 and their financial performance and cash flows for the year then ended.

## Entity financial statements

17. There was a reduction in the number and significance of issues arising from the final phase of the 2009–10 financial statements audits of individual entities. The number of significant and moderate audit findings decreased

from 69 in 2008–09 to 49 in 2009–10, a reduction of almost 30 per cent. This is consistent with the trend in relation to the results of our audits in recent years. 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 user access 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. These issues are consistent with our audit findings in previous years.

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

19. The ANAO 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 2009–10 audits found a high level of compliance in these areas.

## **Financial statement preparation**

20. Consistent with previous years, the large majority of entities' financial statements were completed within three months of the end of the financial year. This reflects positively on the priority entities give to meeting their financial reporting responsibilities and on the financial stewardship of the public sector generally.

21. Nevertheless, 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.

## **Future audit coverage**

22. The ANAO will continue to work closely with entity audit committees and management with the aim of assisting entities to continue to meet their financial management responsibilities including addressing areas where improvements are warranted.



# 1. Introduction

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*This chapter provides background to the audits of the financial statement of Australian Government entities, sets out the structure of this report and acknowledges the contribution of staff of the ANAO and entities in the preparation of this report.*

## Background

**1.1** Each year the results of the annual financial statement audit work undertaken by the Australian National Audit Office (ANAO) are reported 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 2010. The results of the interim phase<sup>2</sup> of the audits of significant entities were reported in *Audit Report No.50 2009–10, Interim Phase of the Audit of Financial Statements of General Government Sector Agencies for the year ended 30 June 2010*.<sup>3</sup> These reports also discuss contemporary issues and practices impacting on public sector entities' financial reporting responsibilities, and the ANAO's responsibilities.

**1.2** The preparation of audited financial statements in compliance with the Finance Minister's Orders<sup>4</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.

**1.3** The ANAO conducts its financial statement audits in accordance with the ANAO Auditing Standards that incorporate the Australian Auditing

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<sup>2</sup> Financial statement audits are generally performed in two phases; interim and final. The interim phase focuses on an assessment of agencies' key internal controls; in the final audit phase the ANAO completes its assessment of the effectiveness of key controls for the full year, substantively tests material balances and disclosures in the financial statements, and finalises its opinion on the agencies' financial statements.

<sup>3</sup> The 26 agencies covered in Audit Report No.50 2009–10 represent approximately 95 per cent of total General Government Sector revenues and expenses.

<sup>4</sup> The Finance Minister's Orders (FMOs) made by the Minister for Finance and Deregulation set out the requirements for the preparation of financial statements of all reporting entities covered by the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*.

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 whether due to fraud or error. Reasonable assurance as defined in the ASAs means a high, but not absolute, level of assurance. It is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial report is materially misstated) to an acceptably low level. However, reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit as most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion is persuasive rather than conclusive.<sup>5</sup>

## Report structure

1.4 The report is organised as follows:

- Chapter Two - Financial Reporting and Auditing Frameworks: provides commentary on recent developments in the financial reporting and auditing frameworks relevant to the Australian Government and its reporting entities.
- Chapter Three - Results of the Audit of the Consolidated Financial Statements: outlines the results of the audit of the Consolidated Financial Statements, which includes the Whole of Government and the General Government Sector Financial Reports, of the Australian Government for the year ended 30 June 2010.
- Chapter Four - Summary of Audit Results and Related Issues: provides a summary of issues included in our reports on entities' 2009–10 financial statements; summarises other audit findings identified in the 2009–10 audits and includes commentary on the preparation of entity 2009–10 financial statements and the 2009–10 Certificate of Compliance process.
- Chapter Five - Results of Financial Statement Audits by Portfolio: summarises the results of the 2009–10 financial statement audits of individual Australian Government entities. The chapter is structured in accordance with the portfolio arrangements established by the

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<sup>5</sup> ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph 5.

Administrative Arrangements Order (AAO) of 29 June 2010. For reporting purposes, this reflects the portfolio arrangements that existed on 30 June 2010. These arrangements were subsequently revised by AAO's dated 14 September 2010 and 14 October 2010.<sup>6</sup>

## Acknowledgements

**1.5** I would like to acknowledge the professionalism and commitment of my staff in finalising the audits of some 255 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 the ANAO were much appreciated.

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<sup>6</sup> The revised administrative arrangements included the establishment of the Department of Regional Australia, Regional Development and Local Government and the transfer of a number of functions to and from the then Department of the Environment, Water, Heritage and the Arts. That department was renamed the Department of Sustainability, Environment, Water, Population and Communities.

## 2. Financial Reporting and Auditing Frameworks

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*This chapter provides commentary on recent developments in the financial reporting and auditing frameworks relevant to the Australian Government and its reporting entities.*

### Introduction

**2.1** The Australian Government's financial reporting framework is based, in large part, on standards made independently by the Australian Accounting Standards Board (AASB)<sup>7</sup>. This framework is designed to support the decision-making and accountability needs of the Parliament and other external users. The financial reporting and auditing frameworks are illustrated at Appendices 2 and 3 of this Report.

**2.2** The AASB bases its accounting standards on the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). Because IFRS are designed for for-profit organisations, the AASB adds material to address the financial reporting needs of the public and not-for-profit private sectors. Additional financial reporting requirements for Australian Government agencies and authorities are prescribed by the Finance Minister in the Finance Minister's Orders for Financial Reporting.

**2.3** The AASB continued to develop its accounting standards during 2009–10. Among the changes made were a new format for the main statement of financial performance and enhanced disclosures for the fair value of financial instruments.

**2.4** Important changes to the Australian financial reporting framework are in progress. A differential reporting regime, potentially reducing the reporting burden of a large number of reporting entities, was introduced in late 2009–10; it is expected to be implemented over coming years. Steps are being taken to relieve reporting entities with subsidiaries from the requirement to prepare two sets of financial statements – one for their entity and one for the group as a whole. Proposals to align financial reporting requirements of Australian and New Zealand for-profit entities have also been released, with the prospect of not-for-profit reporting being similarly converged in the future.

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<sup>7</sup> Since 1 January 2009 I have been a member of the Australian Accounting Standards Board.

**2.5** At the international level, work continues on new conceptual frameworks for financial reporting so as to provide a sound base for the development of future accounting standards.

**2.6** The ANAO's auditing framework is based on the standards made by the Australian Auditing and Assurance Standards Board (AUASB). The implementation of recent changes made by the AUASB to Australian Auditing Standards enhances their quality and maintains uniformity with International Auditing Standards.

## Recent changes to Australian Accounting Standards

### New Statement of Comprehensive Income

**2.7** In 2009-10, the AASB released a new version of the accounting standard that prescribes the format of financial statements, AASB 101 *Presentation of Financial Statements*, with effect from 2009-10. Entities are now required to produce a statement of comprehensive income, either as an addition to the existing income statement or as a single statement incorporating the information currently presented in the income statement. The Finance Minister's Orders for 2009-10 prescribe the single statement format.

**2.8** Prior to 2009-10, Australian Government entities presented an income statement which excluded some unrealised gains and losses. For example, most revaluations of property, plant and equipment were excluded from the income statement and reported in a separate Statement of Changes in Equity. As a result of the changes to AASB 101, from 2009-10 most Australian Government entities are required to present a single statement of comprehensive income that will include all items of income and expense, including unrealised gains and losses.

### Enhanced fair value disclosures

**2.9** From 2009-10, accounting standards prescribe enhanced disclosure of how entities have calculated the reported fair values of their financial instruments<sup>8</sup>. This change reflects international concerns about financial instruments disclosure flowing from the global financial crisis.

**2.10** Entities that carry financial instruments on their balance sheet at fair value will need to classify those instruments into three categories, to reflect the

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<sup>8</sup> See AASB 7 *Financial Instruments: Disclosure*, paragraphs 27A and 27B

level of objective information used in determining their fair values. This requirement will reveal the extent to which entities have used management assumptions, rather than more objective market information, in calculating fair values. Where entities have primarily relied on management assumptions, further disclosures are prescribed.

## **Capitalisation of borrowing costs**

**2.11** For 2009–10, the AASB decided to exempt public sector not-for-profit entities from the requirement of AASB 123 *Borrowing Costs* to capitalise borrowing costs related to assets that necessarily take a substantial period of time to get ready for sale or use. Public sector not-for-profit entities may continue to expense borrowing costs. The AASB plans to review this exemption at a later date.

## **Future developments in the public sector reporting framework**

### **Differential financial reporting – reduced disclosure requirements**

**2.12** The AASB has implemented a differential financial reporting regime that provides an option for the majority of reporting entities to reduce their reporting burden. While the regime was put in place in late 2009–10, it has yet to be implemented by the Australian public sector.

**2.13** Under this regime, two financial reporting regimes, or tiers, have been identified. Entities in the first tier will prepare financial statements in accordance with the full suite of Australian Accounting Standards. Entities in the second tier will prepare similar financial statements, but with substantially reduced disclosure requirements.

**2.14** Federal, state and territory governments are in the first tier. However, entities controlled by these governments and all universities may opt for either tier, subject to the requirements of their regulators. For the Australian Government, the Finance Minister determines<sup>9</sup> which entities may access the reduced disclosure requirements of the second tier.

**2.15** The differential reporting regime provides an opportunity to reduce the administrative workload of some Australian Government entities and make

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<sup>9</sup> The Finance Minister issues orders for financial reporting under the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*. However, these orders do not apply to Commonwealth companies.

their financial reports easier to read, whilst preserving sufficient disclosures to satisfy the needs of the Parliament.

## **Relief from consolidated financial reporting**

**2.16** Currently, an entity controlling other entities ('a parent entity') must prepare two sets of financial statements every year: one for their own transactions and balances (parent), and one that also incorporates the transactions and balances of the entities they control (consolidated). For example, CSIRO's annual financial report presents separate columns for parent and consolidated information. The only exception to this requirement is for parent entities that are controlled by another entity; these are exempt from the requirement, to prepare consolidated financial statements in certain circumstances.

**2.17** The introduction of the differential financial reporting regime has seen this exemption extended to any entity that is a Tier 2 entity or a not-for-profit parent entity complying with the full suite of Australian Accounting Standards. In September 2010, the AASB released an exposure draft proposing this change.

**2.18** For the Australian Government, this would potentially mean that most not-for-profit entities, and most Tier 2 for-profit entities, would not be required by Australian Accounting Standards to prepare consolidated financial statements. However, the Finance Minister has the power, through the Finance Minister's Orders, to require all Australian Government entities, other than those that are companies, to prepare consolidated financial statements.

## **Australia-New Zealand convergence**

**2.19** Following an agreement between the Australian and New Zealand governments to promote single market outcomes between the two countries, the AASB and New Zealand Financial Reporting Standards Board (FRSB) are acting to remove differences between their respective suites of accounting standards. The initial focus will be on accounting standards relating to the for-profit sector; consideration will also be given to developing a joint exposure draft to remove existing not-for-profit differences at a later date.

**2.20** In July 2010, the AASB and the FRSB released two exposure drafts as a first step towards full harmonisation. The proposals in the exposure drafts would remove many of the differences between Australian and New Zealand accounting standards for for-profit entities.

**2.21** Among the changes proposed is the introduction of a clause permitting entities to depart from an Australian Accounting Standard where compliance with the Standard would be so misleading that it would conflict with the objective of financial statements, provided that the relevant regulatory framework does not prohibit departure. The AASB has decided that this exemption will be limited to for-profit entities. Given that the Australian regulatory framework prevents Corporations Act companies from departing from Australian Accounting Standards, the exemption, in effect, would be available only to non-company for-profit entities, and then only where their regulatory framework permitted departure from Australian Accounting Standards.

**2.22** The proposed effective date of the changes is 1 July 2011.

### **AASB review of its public sector-specific standards**

**2.23** The AASB is undertaking a post-implementation review of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, which applied for the first time in 2008–09. The focus of the review is on the implementation experience at an operational level, rather than a fundamental review of the standard. To date the AASB has decided to:

- remove the ambiguity about whether financial reports are required for the General Government Sector (GGS);
- require GGS and whole of Government reports to be made available at the same time and cross-referenced, in part because the whole-of-government report provides an appropriate context for the GGS report;
- require indicators of government financial performance (“key fiscal aggregates”) to be calculated strictly in accordance with Australian Accounting Standards; and
- facilitate an orderly adoption of any future amendments to the Australian Bureau of Statistics’ Government Finance Statistics (GFS) Manual.

**2.24** The possibility of applying the principles in AASB 1049 to the financial reports of not-for-profit entities within the GGS has been further considered by the AASB, which is now considering broader changes to enhance the quality and comparability of reporting by these entities. The AASB is developing an exposure draft that would include the following proposed requirements:



- entities to recognise and measure assets in accordance with the GFS Manual, where a choice is permitted by other Australian Accounting Standards;
- information to be disclosed in the notes that combines amounts controlled by entities with those they administer on behalf of government;
- a comparison of the original budget with the outcome for the year, explaining major variances from the budget; and
- a period of three years between the issue of the standard and when it becomes mandatory.

**2.25** The AASB is also considering requirements for not-for-profit public sector entities in relation to related party disclosures, which includes disclosure of executive remuneration. The Australian Accounting Standard on related party disclosures currently applies only to the private and for-profit sectors. The AASB is investigating the issues raised by the possible application of this Standard to not-for-profit entities, including the appropriate disclosure of transactions between entities and Ministers.

**2.26** In conjunction with the FRSB, the AASB is considering the accounting treatment of grants. It is exploring an approach that in broad terms would defer recognising income from grants until the grant recipient met the enforceable obligations in the grant agreement.

## **Conceptual frameworks for accounting standards**

**2.27** AASB standards comprise mainly Australian equivalents to IFRS. The conceptual framework that underpins AASB standards is also largely based on the IASB's conceptual framework.

**2.28** 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, leading to more useful financial reports for potential investors, creditors and others who make resource allocation decisions.

**2.29** The project is progressing in eight phases. To date, the IASB has released updated chapters dealing with the objective of general purpose financial reporting and the qualitative characteristics of useful financial

information. The revised chapters state that the objective of financial statements is to provide information to assist investors, lenders and creditors in making decisions about providing resources to the entity.

**2.30** The AASB has decided that the revised chapters will be applicable to all Australian reporting entities, although the project's primary focus is on for-profit entities. It is only in the latter stages of the project that the IASB will consider the applicability of the framework to other entities. In light of this, the International Public Sector Accounting Standards Board (IPSASB), in conjunction with the AASB and other national accounting standards boards, has embarked on a separate project for developing a Public Sector Conceptual Framework. IPSASB has to date released a consultation paper addressing: the objectives and scope of financial reporting; the qualitative characteristics of financial information; and the nature of the reporting entity.

## Developments in auditing standards

**2.31** 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, including the statutory audits of the financial statements of Australian Government bodies.

**2.32** The Auditor-General issued the current ANAO Auditing Standards on 25 June 2009.

**2.33** 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.

**2.34** 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).

**2.35** Previous reports have commented on the IAASB 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 revised and redrafted ISAs in 'clarity format' were released in 2009.

**2.36** In line with the strategic direction provided by the IAASB, the AUASB revised and redrafted the ASAs using the equivalent ISA as the underlying standard. The AUASB has indicated that the revised Australian standards will continue to conform to ISAs while maintaining enforceability under Australian regulatory arrangements, for example the *Corporations Act 2001*. The revised standards were approved in October 2009 and are operative for audits of financial statements in Australia for reporting periods beginning on or after 1 January 2010.

**2.37** For most ANAO financial statement audits, the first application of the revised standards will be for annual reporting periods commencing on 1 July 2010 (ie the 2010–11 financial year). The standards are already applied in a small number of audits of entities with reporting periods that commenced on or after 1 January 2010, including audits of entities that came into existence from this date.

**2.38** The ANAO's financial statement audit methodology and associated policies have been updated to comply with the re-issued standards and financial audit staff have received training in the new requirements. This update exercise has also provided an opportunity for the ANAO to review its financial statement audit processes so that it can continue to deliver cost-effective audit services.

**2.39** The revisions to the Australian Auditing Standards have led to a significant increase in the number of mandatory requirements. Much of this increase represents the elevation of guidance material to the status of requirement. These developments will lead to some increase in audit costs, which is expected to be proportionately greater for smaller audits.

**2.40** The AUASB standards include auditing standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*. This standard requires the ANAO to establish and maintain a system of quality control to provide reasonable assurance that the ANAO and its personnel comply with AUASB Standards, relevant ethical requirements, and applicable legal and regulatory requirements; and that reports issued by the ANAO are appropriate in the circumstances. APES 320 *Quality Control for Firms* is the Australian quality control standard set by the Accounting Professional and Ethical Standards

Board; it is the accounting professional bodies' equivalent to ASQC 1, with very similar requirements.

**2.41** The ANAO's Quality Control framework is structured to achieve compliance with both ASQC 1 and APES 320.

## Conclusion

**2.42** Ongoing developments in accounting and auditing frameworks and standards continue to have an impact on the financial reporting responsibilities of public sector entities and on the ANAO's auditing methodology. The ANAO continues to devote significant resources to the implementation of revised auditing and accounting requirements.

**2.43** The changes made and proposed by the AASB are aimed at improving the quality and relevance of financial reports as well as reducing the reporting burden on many entities. Looking to the future, the change with the most potential to affect the public sector is the differential reporting regime: if adopted by the Australian Government public sector this regime would improve the readability and reduce the cost of preparation of some public sector financial statements.

**2.44** The changes to Australian Auditing Standards take full effect in 2010–11. The auditing profession has been required to make significant adjustments in audit methodology and staff training in preparation for full implementation. The ANAO is well placed to apply the new auditing standards.

## 3. Results of the Audit of the Consolidated Financial Statements

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*This chapter outlines the results of the audit of the Consolidated Financial Statements, which includes the Whole of Government and the General Government Sector Financial Reports, of the Australian Government for the year ended 30 June 2010.*

### Background

**3.1** 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 provide information to assist users in assessing the annual financial performance and financial position of the Australian Government.

**3.2** The CFS present the consolidated whole of government financial results inclusive of all Australian Government controlled entities, as well as the general government sector (GGS) financial report. The CFS are prepared in accordance with the regulations of the *Financial Management and Accountability Act 1997* and the requirements of the Australian Accounting Standards.

**3.3** 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. A GGS financial report prepared in accordance with AASB 1049 was not presented for audit in 2008–09.

**3.4** In 2009–10, the CFS incorporates both the whole of government and GGS financial reports required by AASB 1049. The CFS and the associated auditor's report are located on the Department of Finance and Deregulation's website<sup>10</sup>.

**3.5** This chapter discusses the ANAO's auditor's report on the 2009–10 CFS, the high level 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. The

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<sup>10</sup> [www.finance.gov.au](http://www.finance.gov.au)

commentary in this chapter has focussed on the financial results at the consolidated whole of government level rather than at the GGS level.

## Auditor's Report

**3.6** The CFS were signed by the Minister for Finance and Deregulation on 29 November 2010 and an unqualified auditor's report was issued on 30 November 2010.

**3.7** The auditor's report on the 2009–10 CFS, which includes the GGS report, expressed the opinion that the statements presented a true and fair view of the financial performance and financial position and the cash flows of the Australian Government. The 'Other Matters' section that was included in the auditor's report on the 2008–09 CFS was removed in 2009–10 as a consequence of the Australian Government's preparation and presentation for audit of a 2009–10 GGS report in compliance with the requirements of AASB 1049.

## Australian Government's financial outcome for 2009–10

**3.8** The reported 2009–10 operating result<sup>11</sup> attributable to the Australian Government was a deficit of \$59.1 billion (2008–09: deficit of \$32.0 billion), the fiscal balance<sup>12</sup> was a deficit of \$58.6 billion (2008–09: deficit of \$30.0 billion) and the reported negative net worth<sup>13</sup> position was \$52.8 billion (2008–09: positive \$15.8 billion). These figures reflect the financial effect of government policies, including the ongoing impact of the Government's stimulus measures, for the year ended 30 June 2010 and the associated movement in assets and liabilities as at the financial year end. Further information on the significant movements between 2008–09 and 2009–10 in the Operating Statement and the Balance Sheet is provided in the commentary to the CFS, and is discussed below.

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<sup>11</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>12</sup> The fiscal balance (net lending/borrowing) is calculated as the net operating balance minus the net acquisition/(disposal) of non-financial assets.

<sup>13</sup> Net worth equals assets less liabilities.

## Operating Statement

**3.9** Total revenue of the Australian Government decreased by \$10.9 billion in 2009–10 to \$298.9 billion. The major movement in revenue from 2008–09 to 2009–10 was a \$10.4 billion decrease in taxation revenue, as a result of:

- a decrease in income tax on individuals, reflecting 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;
- a decrease in tax from superannuation funds as a result of lower fund earnings and large falls in net capital gains as a result of decreased share prices; and
- an offsetting increase in Goods and Services Tax (GST) reflecting the response to the Government's cash stimulus and infrastructure stimulus spending, falling unemployment rates, and stabilising domestic economic conditions that boosted consumer and business confidence.

**3.10** At the same time, total non-taxation revenues decreased by \$0.5 billion in 2009–10. This decrease was primarily due to a decrease in the interest income earned by the Reserve Bank of Australia on its portfolio of overseas investments and Australian dollar securities, partially offset by increased revenue from the sales of goods and services across a number of Australian Government entities, particularly in relation to the fees generated from the Government's guarantee of State and Territory borrowings and large deposits and wholesale funding.

**3.11** The Australian Government's total expenses increased by \$15.1 billion in 2009–10. The major causes of this increase were:

- increased direct personal benefits, grants and subsidies expenses, primarily relating to:
  - a \$10.9 billion increase in specific purpose payments to the States and Territories, particularly as a result of the various economic stimulus packages;

- a \$2.3 billion increase in GST payments to the States and Territories, reflecting the increased GST received by the Australian Government as a result of the response to the Government’s cash stimulus and infrastructure stimulus spending, falling unemployment rates, and stabilising domestic economic conditions that boosted consumer and business confidence;
- an increase of \$5.5 billion in grants to not-for-profit organisations and other private sector entities, particularly in relation to the Commonwealth Grant Scheme for Higher Education Support, payments to universities as part of the Education Investment Fund and payments to private sector entities under the Home Insulation Program and the Solar Homes and Communities Plan;
- an offsetting decrease of \$13.1 billion in personal benefit expenses as a result of there being a number of one-off payments in 2008–09 as part of the Government’s economic stimulus measures. These included one-off payments to pensioners and low and middle income families, the tax bonus payments to working families, the single-income family bonus, the back to school bonus and the training and learning bonus;
- a \$5.1 billion 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;
- an increase of \$2.6 billion in employee expenses, which were spread across a number of agencies; and
- a \$1.5 billion increase in interest expenses largely attributable to higher interest on Commonwealth Government securities, consistent with the growth in the Australian Government’s debt portfolio.

**3.12** Other economic flows, which include asset and liability revaluation gains and losses, moved from negative \$26.8 billion in 2008–09 to negative \$17.8 billion in 2009–10. The primary driver for this movement was a smaller increase in the actuarially determined Australian Government superannuation liability in 2009–10 compared to 2008–09.



**3.13** The net acquisition of non-financial assets increased by \$2.6 billion in 2009–10, primarily as a consequence of an increase in the acquisition of military equipment and property.

## Balance Sheet

**3.14** The 2009–10 CFS reported a \$68.6 billion decrease in the net worth position of the Australian Government from the 2008–09 net worth position of \$15.8 billion. This decrease was a consequence of the \$78.7 billion increase in liabilities being significantly greater than the \$10.0 billion increase in assets as at 30 June 2010.

**3.15** The value of the Australian Government's financial assets at 30 June 2010 increased by \$1.4 billion since 30 June 2009. The primary reasons for this increase were:

- an increase of \$1.9 billion in receivables and accrued revenue predominantly as a result of an increased receivable associated with the Guarantee Scheme for Large Deposits and Wholesale Funding;
- a \$1.8 billion increase in advances primarily due to an increase in the Higher Education Loan Program;
- a \$5.2 billion increase in equity investments, primarily as a result of increased share holdings by the Future Fund Management Agency;
- an increase of \$1.6 billion in the cash balance, primarily as a result of lower net cash outflows in relation to investments made and redeemed during 2009–10 compared to 2008–09, partially offset by higher net cash outflows for the Australian Government's operating activities, as reflected in the income and expenses commentary above; and
- an offsetting \$9.1 billion decrease in investments as a result of a decrease in the investments in gold and Government securities held by the Reserve Bank of Australia, partially offset by an increase in investments held by the Future Fund Management Agency.

**3.16** Total non-financial assets increased by \$8.6 billion in 2009–10 primarily due to military equipment purchases and the purchase of water rights.

**3.17** Interest bearing liabilities increased by \$59.6 billion as at 30 June 2010. This increase primarily related to an increase in Commonwealth Government securities on issue which is driven by the underlying cash balance deficit.

**3.18** Provisions and payables increased by \$19.1 billion. The main causes of this increase were:

- a \$16.5 billion increase in the defined benefit obligations for Australian Government sponsored superannuation schemes at 30 June 2010, primarily due to a one per cent decrease in the Government bond rate that is used to discount this liability to its present value;
- an increase of \$2.6 billion in provisions, mainly as a result of an increase in the grant provision for the Higher Education Loan Program and an increased estimated taxation refund provision, following the annual actuarial review of the taxation refund provision;
- a \$0.7 billion 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; and
- an offsetting \$1.2 billion decrease in personal benefit payables, primarily due to a reduction in co-contribution superannuation benefits as a result of a decreased number of taxpayers co-contributing to their superannuation funds due to reductions in the co-contribution matching rate and the dollar value.

## Significant disclosures in the CFS

### Implementation of AASB 1049 in respect of a GGS report

**3.19** Australian Accounting Standard AASB 1049 requires significant variances between the original budget presented to Parliament and the actual results to be disclosed in the audited financial statements. The Australian Government only presents a budget at the GGS level, and not at the whole of government level. As a AASB 1049-compliant GGS report was prepared for the first time in 2009–10, this is the first year that variance explanations have been included in an audited set of financial statements. These explanations are included at Note 44 to the CFS.

**3.20** The main variances explained in this note relate to:

- an increase of \$2.2 billion in actual revenue compared to the amount of revenue expected at the time of the original budget being presented to Parliament in May 2009;

- a \$1.0 billion increase in actual expenses compared to the original budgeted amount;
- an increase of \$0.9 billion in net capital investments compared to the original budget;
- a \$10.6 billion decrease in the net worth position when compared to the original budget; and
- a \$2.4 billion smaller actual cash deficit position than the position that was included in the original budget.

### **Ministerial remuneration**

**3.21** The 2009–10 CFS has continued the prior year approach to incorporating disclosure of ministerial remuneration. The disclosure includes Cabinet ministers that served at any time during the financial year. The disclosure is provided at the aggregate level only and details of individual Cabinet ministers' remuneration are not included. Amounts that have been included and excluded from the calculation of remuneration have been outlined in Note 1 to the CFS.

## 4. Summary of Audit Results and Related Issues

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*This chapter provides: a summary of issues included in our reports on entities' 2009–10 financial statements; a summary of other audit findings identified in the 2009–10 audits; and commentary on the preparation of entity 2009-10 financial statements and the 2009–10 Certificate of Compliance process.*

### Audit approach

**4.1** 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.

**4.2** As previously indicated, 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 whether due to fraud or error. Reasonable assurance as defined in the ASAs means a high, but not absolute, level of assurance. It is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial report is materially misstated) to an acceptably low level. However, reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit as most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion is persuasive rather than conclusive.<sup>14</sup>

**4.3** In accordance with generally accepted audit practice, the ANAO accepts a level of risk that a material misstatement in the financial statements will not be detected by the audit procedures. This risk, which is assessed as

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<sup>14</sup> ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards, paragraph 5.

minimal, 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 based on this low level of risk including, for example, reviewing the operation of internal controls, undertaking analytical reviews, testing a sample of transactions and account balances, and confirming year-end balances with third parties.

**4.4** Financial statement audits focus on the significant financial reporting risks facing entities and the manner in which the entities seek to manage those risks. The risks will vary according to such matters as 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. The auditor's understanding of the agency, its environment and its internal controls, helps the auditor design the work needed and respond to significant risks.<sup>15</sup>

**4.5** Our financial statement audit coverage also takes into account the findings of performance audits, including relevant cross-agency performance audits. In particular, the potential impact on an entity's financial statements of matters referred to in performance audits is considered in determining our financial statement audit coverage. In many cases, issues relating to the administration of a program or activity included in our performance audits will not have a significant financial statement impact. In other cases, our performance audit work and findings will inform our financial statement risk assessment and audit approach. For example, the incidence of potential fraud referred to in the performance audit of the Home Insulation Program<sup>16</sup> required specific consideration in our audit of the financial statements of the entities concerned. The results of the cross-agency audit of the Capitalisation of Software<sup>17</sup> were also considered during the financial statement audits of the entities covered by that audit.

**4.6** Broad areas of audit focus determined as a result of our planning approach are discussed in Chapter 5 in relation to each material entity covered by this report. Areas of audit focus in a number of entities that were of particular interest are discussed in more detail in Chapter 5.

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<sup>15</sup> Significant risks are those risks of material misstatement of the financial statements that, in the auditor's judgement, require special audit consideration.

<sup>16</sup> ANAO Audit Report No. 12, 2010–11 *Home Insulation Program* October 2010

<sup>17</sup> ANAO Audit Report No. 14, 2010–11 *Capitalisation of Software* October 2010

**4.7** Financial statement audits are generally performed in two phases—interim and final. The interim phase focuses on an assessment of an entity’s key internal controls; in the final audit phase the ANAO completes its assessment of the effectiveness of key controls for the full year, substantively tests material balances and disclosures in the financial statements, and issues its audit opinion on the entity’s financial statements.

**4.8** The ANAO’s Audit Report No 50 2009–10 reported on the results of the interim phase of the 2009–10 audits of Major General Government Sector agencies. The results of the 2009–10 audits of 255 Australian Government entities are presented in this report.

## **Classification of entities**

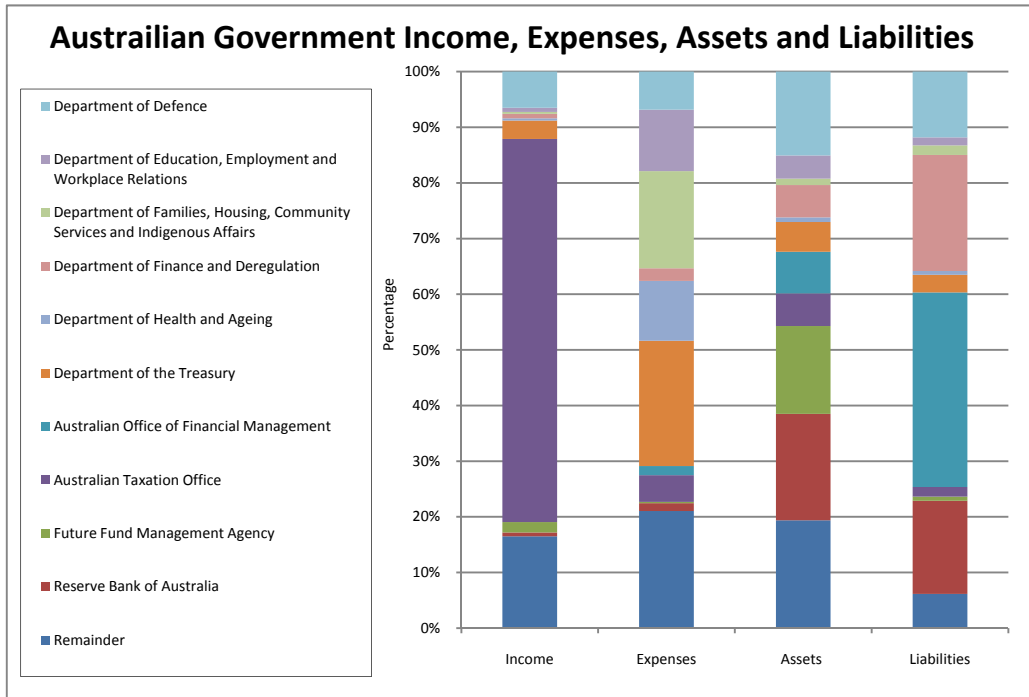
**4.9** Seventy-two of the entities consolidated into the Australian Government’s Consolidated Financial Statements (CFS) are classified as material entities as they comprise some 99 per cent of the revenues, expenses, assets and liabilities of the Australian Government. The remaining entities are classified as non-material reporting entities. Material entities are required to produce more detailed financial information than non-material entities for the purposes of providing monthly and end-of-year reports to Finance.

**4.10** The following ten entities represent a significant proportion of the Australian Government’s 2009–10 financial statement balances:

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

**4.11** 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

**4.12** The Auditor-General provides the relevant Minister with 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 or may 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 Table 1.1 below.

**Table 4.1****Summary of audit reports issued and outstanding**

Financial Statement Audit Reports	2009–10	2008–09
Qualified	0	1
Emphasis of matter	0	0
Other Legal and Regulatory Requirements	2	1
Other matters	0	1
Unqualified audit reports	255	249
<b>Total Issued</b>	<b>255</b>	<b>250</b>
Financial statements not presented for audit at the time of this report	4 <sup>18</sup>	1
<b>Total number of audits</b>	<b>259</b>	<b>251</b>

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

4.13 No audit reports for the 2009–10 year contained a qualification or an emphasis of matter (one in 2008–09).

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

4.14 Two audit reports for the 2009–10 year contained a reference to Other Legal and Regulatory Requirements (one in 2008–09).

**Australian Taxation Office (ATO)**

4.15 The ATO’s 2009–10 financial statements made reference, in Note 25C, to a number of breaches of section 83 of *The Constitution*. These breaches were identified by the ATO during the 2009–10 Certificate of Compliance process. The note to the financial statements indicates that, from time to time, the ATO makes processing errors outside the assessment process that result in incorrect payments being made. In these circumstances the payment is made to a taxpayer without any legislative basis, constituting a breach of section 83 of *The Constitution*.

<sup>18</sup> These relate to the: Army Amenities Fund; Army Amenities Fund Company; Australian National Maritime Foundation; and Messes Trust Fund.



**4.16** A total of 604 incorrect payments totalling \$5.4 million were identified during 2009–10, comprising a very small percentage of some 13 million payments made during the year. At the time of signing the 2009–10 financial statements, over 85% of the incorrect payments had been recovered.

**4.17** 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.'

**4.18** A similar reference was included in our auditor's report on the ATO's 2007–08 and 2008–09 financial statements.

### **Productivity Commission**

**4.19** The Productivity Commission's 2009–10 financial statements made reference, in Note 15, to a breach of section 83 of *The Constitution*. The breach relates to certain remuneration payments made that were not covered by a Remuneration Tribunal determination. The payments amounted to \$54,268. Subsequently, a waiver for recovery of these payments was made pursuant to sub-section 34(1) of the FMA Act.

**4.20** The audit opinion on the financial statements was unqualified as the financial statements fairly presented the financial operations and position of the Productivity Commission at year end. However, the opinion did include a reference to the breach for section 83 of *The Constitution* under 'Other Legal and Regulatory Requirements'.

### **Audit reports containing a reference to 'Other Matters'**

**4.21** No 2009–10 audit reports contained a reference to 'Other Matters' (one in 2008–09).

## Summary of other audit findings

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

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

**4.23** The final phase of the 2009–10 audits included a review of progress achieved by entities in addressing audit issues identified during the 2009–10 interim phase or carried forward from previous years. Similar to the experience in recent years, most entities have made good progress in resolving outstanding audit issues.

**4.24** 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 2010–11 audits.

**4.25** New issues identified during the final phase of the 2009–10 audits included issues relating to: controls in entities’ IT environments, such as user access and data management controls; asset management processes, including accounting policy, accounting for the disposal of assets and calculations of asset impairment and write-downs; and business system processing controls, such as reconciliation controls.

**4.26** 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 2009–10 audit, are provided in Chapter 4.

**4.27** A summary of trends in Category A and B findings between 2008–09 and 2009–10 final audit phases for material entities is outlined below:

- the total number of Category A audit findings is 2 in 2009–10, down from 4 in 2008–09;
- there were 2 entities with Category A audit findings in 2009–10, down from 4 in 2008–09;
- the total number of Category B audit findings in material entities decreased from 69 in 2008–09 to 48 in 2009–10; and
- there was a reduction in the number of Category B findings in 16 entities; 9 entities showed an increase in the number of Category B findings; 1 entity had the same number of findings; and 46 had no Category A or B findings in either 2008–09 or 2009–10.

**4.28** The following information is provided in Appendix 4:

- the number of Category A and B audit findings for agencies included in Audit Report No 50 at the conclusion of the interim phase of the 2009–10 audits (Table A 1); and
- the number of Category A and B audit findings for all material entities at the conclusion of the final phase of 2009–10 audits (Table A 2).

## Preparation of entity financial statements

**4.29** 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 in completing the financial statements. The emphasis is on both the timeliness and quality of financial reporting.

## Financial statement timeframes

**4.30** For 2009–10, material entities were required to submit audit cleared financial information to Finance by 16 August 2010. For non-material agencies, the date was 31 August 2010.

**4.31** Seventy-six per cent of material entities met the 16 August 2010 deadline and 57 per cent of non-material entities met the deadline of 31 August 2010. This is a small improvement from the position achieved in 2008–09 when 75 per cent of material entities and 54 per cent of non-material entities met the deadlines.

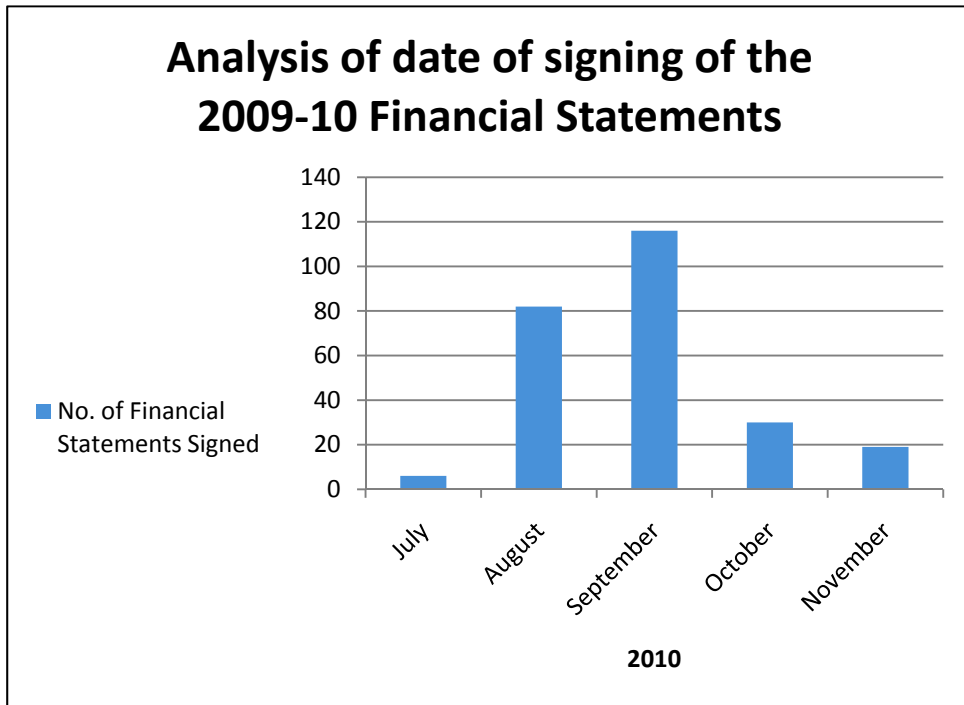
**4.32** There are no specific deadlines for the signing of the actual financial statements (although in a number of entities the financial statements were signed at or about the same time as audit cleared information was provided to Finance) and the issue of the related audit opinion. There is, however, a deadline of 31 October 2010 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. For 2009–10 some 90 per cent of our audit reports were signed within two days of the signed financial.

**4.33** An analysis of the dates on which entities' financial statements were signed is provided in Figure 4.2.

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<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 4.2



Source: ANAO Analysis

**4.34** Consistent with previous years, the audits of a 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.

### Financial statement preparation processes

**4.35** As part of the 2009–10 final audits of the seventy-two material entities, the ANAO reviewed the financial statement preparation process.

**4.36** The review identified that the majority of material entities had effective processes in place for the preparation of their 2009–10 financial statements. Of these entities, approximately 30 per cent had made improvements to their 2009–10 financial statements processes compared with 2008–09. Areas of improvement included: the preparation of technical accounting papers; the experience of financial statement preparation teams; working papers supporting disclosures within the financial statements; adherence to financial

statement preparation timetables; and quality assurance processes. Compared with 2008–09, for a small number of entities, there had been a deterioration in the financial statement preparation process. All entities are encouraged to maintain their commitment to the preparation of timely and accurate financial statements as a key element of their financial management responsibilities.

## Certificate of Compliance

**4.37** 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.

**4.38** Consistent with established practice, as part of the 2009–10 financial statement audit process, the ANAO obtained details of actual or potential breaches of the relevant financial framework referred to in entities' CoC or other records. The impact of any reported breaches on the financial statements was considered prior to the signing of an auditor's report.

**4.39** Finance has advised that agencies reported a total of 17 003 breaches in 2009–10. This represents an increase of 13.6 per cent compared with 2008–09 when 14 961 breaches were reported. Finance advised that the increase in non-compliance largely relates to the introduction of revised financial framework requirements, particularly relating the revised *Commonwealth Grant Guidelines* that came into effect on 1 July 2009. Finance also advised that it was expected that the Minister for Finance and Deregulation will table a report on the results of the 2009–10 CoC process in early 2011.<sup>20</sup>

**4.40** The ANAO has commenced a performance audit of agencies' management of the Certificate process. The audit focuses on the administration of the Certificate by the Department of Finance and Deregulation; implementation of the process by agencies; monitoring, evaluation and reporting on Certificate results; and the extent to which the Certificate process is achieving its aims. The audit report is expected to be tabled in the Autumn 2011 parliamentary sittings.

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<sup>20</sup> The first report, that included an aggregate analysis of all Certificates for 2008–0, was tabled in the Parliament on 29 January 2010.

## 5. Results of Financial Statement Audits by Portfolio

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*This chapter summarises the results of the audits of the 2009–10 financial statements of individual Australian Government entities.*

### Introduction

**5.1** For reporting purposes, the structure of this chapter reflects the Portfolio arrangements, existing at 30 June 2010.<sup>21</sup>

**5.2** 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.

**5.3** The table also identifies, for each entity, whether previously reported significant or moderate issues remain unresolved and/or new significant or moderate issues have been identified during the 2009–10 final audit.

**5.4** 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 Four, indicates to the respective entity the relative importance of audit findings. 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.

**5.5** For each material entity<sup>22</sup> details of the balance of key financial measures for 2008–09 and 2009–10, split between departmental and administered where applicable, are provided. A brief explanation of any

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<sup>21</sup> These arrangements were as established by the Administrative Arrangements Order dated 29 June 2010. These arrangements were subsequently revised by AAOs dated 14 September and 14 October 2010. The revised administrative arrangements included the establishment of the Department of Regional Australia, Regional Development and Local Government and the transfer of a number of functions to and from the then Department of the Environment, Water, Heritage and the Arts. That department was renamed the Department of Sustainability, Environment, Water, Population and Communities.

<sup>22</sup> 72 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 income, expenses, assets and/or liabilities of the Australian Government.

movements in these measures that are significant is also provided. Broad areas of audit focus determined as a result of our planning approach are discussed in relation to each material entity. Areas of audit focus in a number of entities that were of particular audit interest are discussed in more detail.

**5.6** 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 2009–10 interim audit phase, or in prior years, and provides a summary of new significant or moderate audit issues arising from the final phase of the 2009–10 audit.



# Agriculture, Fisheries and Forestry Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit report issued	Audit issues identified
Department of Agriculture, Fisheries and Forestry	Yes	✓	27 Aug 10	31 Aug 10	
- Australian Quarantine and Inspection Service	No	✓	27 Aug 10	31 Aug 10	
- National Residue Survey	No	✓	27 Aug 10	31 Aug 10	
Australian Fisheries Management Authority	No	✓	10 Sept 10	10 Sept 10	
Australian Pesticides and Veterinary Medicines Authority	No	✓	7 Sept 10	9 Sept 10	
Australian Wine and Brandy Corporation	No	✓	1 Sept 10	15 Sept 10	
Cotton Research and Development Corporation	No	✓	8 Sept 10	8 Sept 10	
Fisheries Research and Development Corporation	No	✓	20 Aug 10	20 Aug 10	
Grains Research and Development Corporation	Yes	✓	11 Aug 10	12 Aug 10	
- Single Vision Grains Australia Limited	No	✓	3 Nov 10	4 Nov 10	
Grape and Wine Research and Development Corporation	No	✓	25 Aug 10	15 Sept 10	
Rural Industries Research and Development Corporation	No	✓	22 Sept 10	23 Sept 10	
Sugar Research and Development Corporation	No	✓	26 Aug 10	27 Aug 10	
Wheat Exports Australia	No	✓	22 Sept 10	22 Sept 10	

✓: audit report not modified

E : audit report contains an emphasis of matter

Q : audit report contains a qualification

A: audit report contains additional statutory disclosure

☞: financial year end date other than 30 June 2010

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

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

## Portfolio overview

5.7 The Agriculture, Fisheries and Forestry portfolio aims to enhance the sustainability, profitability and competitiveness of Australia's agriculture, food, fisheries and forestry industries.

5.8 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.

5.9 During 2009–10, the Land and Water Resources Research and Development Corporation ceased operations and was wound up, effective 31 December 2009.

## Department of Agriculture, Fisheries and Forestry

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	323.1	374.6
Appropriation revenue	351.8	353.2
Surplus/(deficit)	28.7	(21.4)
Total other comprehensive income	0.2	5.0
Total comprehensive income	28.9	(16.4)
Total assets	262.3	223.9
Total liabilities	200.6	193.0

5.10 The net cost of services decreased principally due to budgeted reductions in supplier expenses and an increase in cargo import revenue collected by the Australian Quarantine and Inspection Service (AQIS) resulting from an increase in imports.

5.11 Total comprehensive income decreased as only minor adjustments to the assets revaluation reserves were required in 2009–10.

5.12 Assets increased primarily due to increased appropriation receivable by AQIS at year end.

5.13 Movements in departmental liabilities were the result of fluctuations in normal business activity.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	376.4	605.3
Total expenses	1 038.6	1 686.9
Total assets	263.5	250.5
Total liabilities	74.9	90.5

**5.14** Income decreased mainly due to legislative changes that resulted in reduced levy and export charges in 2009–10.

**5.15** Expenses decreased significantly due to a number of factors including: a \$237 million decrease due to revised funding arrangements for payments to States and Territories appropriated to the Department of the Treasury in 2009–10; a \$218 million reduction in payments to the Dairy Adjustment Authority which was abolished on 31 December 2008; a reduction of \$80 million in Exceptional Circumstances Relief payments as there were fewer exceptional circumstances declared areas in 2009–10; a reduction of \$56 million in the Murray Darling Basin Grants Irrigators program due to cessation of funding for this program; and the cessation of grants to the Australian Fisheries Management Authority (AFMA) in 2009–10, as AFMA became a separate FMA Act agency on 1 July 2008.

**5.16** Liabilities decreased mainly as a result of a reduction in personal benefits and grants payable at year end, in line with the reduction in expenses discussed above.

### **Areas of audit focus**

**5.17** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- expenditure relating to administered grants and subsidies (this does not include grants expenditure managed by DAFF and paid by the Treasury);
- administered taxes, levies, fees and charges revenue and the operation of an associated compliance program designed and implemented by DAFF to provide assurance over the completeness and accuracy of levies received;

- AQIS revenue systems, including import and export systems;
- administered personal benefits expenses, including coverage of the controls relating to personal benefits programs, mainly associated with drought relief, that are administered by Centrelink on behalf of DAFF; and
- IT general and application controls as they relate to the financial statements.

5.18 During the 2009–10 final audit, the ANAO completed its review of the main areas of audit focus, including the review of levies revenue which was outstanding at the end of the 2009–10 interim audit.

## Audit results

### *Summary of audit findings*

5.19 There were no significant or moderate audit issues identified during the 2009–10 audit.

## Grains Research and Development Corporation

### Summary of Financial Results

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	39.6	14.8
Revenue from Government	50.0	43.9
Surplus/(deficit) *	9.8	28.5
Total other comprehensive income	0.0	0.5
Total comprehensive income	9.8	29.0
Total assets	176.7	159.1
Total liabilities	48.1	40.4

\* The surplus also includes the Corporation's share of losses in associates and joint ventures of \$0.6m (2008-09: \$06.m)

5.20 The net cost of services increased mainly due to an increase in expenses (\$12.2 million) as a result of higher research and development activity in 2009–10 and a decrease in levies revenue (\$12.8 million) due to lower production in 2009–10.

**5.21** Assets have increased as a result of the value of investments increasing, partly offset by a small reduction in trade and other receivables.

**5.22** Liabilities increased due to an increase in payables at year end, resulting from additional research and development expenditure in 2009–10.

### **Areas of audit focus**

**5.23** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the reduction of investments by the Grains Research and Development Corporation (GRDC) in a number of private companies which have a different year end to GRDC;
- the accounting for financial instruments held by GRDC in managed funds;
- the accounting treatment of patents;
- controls over accounting processes, particularly where there may be inadequate segregation of duties in view of the small size of the Corporation; and
- IT general and application controls as they relate to the financial statements.

**5.24** Audit coverage of these matters was finalised during the 2009–10 final audit.

### **Audit results**

#### *Summary of audit findings*

**5.25** There were no significant or moderate audit issues identified during the 2009–10 audit.

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

**5.26** There were no moderate or significant audit issues noted in non-material entities within the portfolio during the 2009–10 audits. A moderate audit issue identified during the 2008–09 audit of the Cotton Research and Development Corporation (CRDC) has been resolved, as referred to below.

## **Cotton Research and Development Corporation**

5.27 In 2008–09, the ANAO reported a moderate audit issue in relation to the CRDC’s Fraud Control Plan. The Plan inappropriately identified the ANAO’s annual external audit as a mitigating control for a number of fraud risks faced by the CRDC. During 2009–10, the CRDC has undertaken significant work to address potential fraud risks to the organisation and the Fraud Control Plan has been updated to reflect CRDC’s current mitigating controls.

# Attorney–General’s Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit report issued	Audit issues identified
Attorney–General’s Department	Yes	✓	2 Sept 10	3 Sept 10	◆
Administrative Appeals Tribunal	No	✓	13 Sept 10	13 Sept 10	
Australian Commission for Law Enforcement Integrity	No	✓	30 Sept 10	30 Sept 10	
Australian Crime Commission	No	✓	22 Sept 10	22 Sept 10	
Australian Customs and Border Protection Service	Yes	✓	7 Sept 10	7 Sept 10	▲
Australian Federal Police	Yes	✓	10 Sept 10	10 Sept 10	
Australian Government Solicitor	Yes	✓	8 Sept 10	8 Sept 10	
Australian Human Rights Commission	No	✓	16 Sept 10	17 Sept 10	
Australian Institute of Criminology	No	✓	3 Sept 10	7 Sept 10	
Australian Law Reform Commission	No	✓	6 Sept 10	6 Sept 10	
Australian Security Intelligence Organisation	Yes	✓	12 Oct 10	12 Oct 10	◆
Australian Transaction Reports and Analysis Centre	No	✓	30 Sept 10	30 Sept 10	◆
Criminology Research Council	No	✓	3 Sept 10	7 Sept 10	
CrimTrac Agency	No	✓	15 Sept 10	15 Sept 10	
Family Court of Australia	Yes	✓	30 Aug 10	30 Aug 10	
Federal Court of Australia	No	✓	30 Aug 10	30 Aug 10	
Federal Magistrates Court of Australia	No	✓	30 Aug 10	30 Aug 10	
High Court of Australia	Yes	✓	3 Sept 10	3 Sept 10	
Insolvency and Trustee Service Australia	No	✓	21 Sept 10	21 Sept 10	
National Capital Authority	Yes	✓	20 Aug 10	24 Aug 10	◆
National Native Title Tribunal	No	✓	27 Aug 10	2 Sept 10	
Office of Parliamentary Counsel	No	✓	17 Sept 10	17 Sept 10	
Office of the Commonwealth Director of Public Prosecutions	No	✓	1 Oct 10	1 Oct 10	▲◆

✓: audit report not modified

E : audit report contains an emphasis of matter

Q : audit report contains a qualification

A: audit report contains additional statutory disclosure

☞: financial year end date other than 30 June 2010

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

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

## Portfolio overview

**5.28** 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.

**5.29** The portfolio's responsibilities include providing advice and services to the Commonwealth in the following areas:

- access to justice, administrative, civil, family and international law;
- international adoptions and child abduction;
- federal courts and tribunals;
- domestic and international human rights issues;
- Indigenous justice, legal assistance and native title;
- personal properties securities, bankruptcy, law reform and constitutional policy;
- censorship, copyright and legislative drafting;
- international crime cooperation, federal criminal law, law enforcement and prosecutions;
- national security and emergency management;
- customs and border control; and
- the administration of Australia's non-self-governing territories and management of the Australian Government's interest in Australia's self-governing territories, including the Australian Capital Territory.



## Attorney-General's Department

### Summary of Financial Results

#### Departmental Items

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	236.6	235.3
Appropriation revenue	236.3	233.5
Surplus/(deficit)	(0.2)	(1.7)
Total other comprehensive income	0	3.0
Total comprehensive income	(0.2)	1.3
Total assets	231.8	246.4
Total liabilities	67.2	78.3

**5.30** Appropriation revenue has increased due to a new measure relating to the 2009 Victorian bushfires royal commission. This increase has been partly offset by a reduction in appropriations for the family relationship services program and a return of no-win no-loss funding<sup>23</sup> for the Office of Film and Literature Classification.

**5.31** Assets decreased mainly due to a reduction in the appropriation receivable balance as a result of the AGD returning \$12.1m of appropriation receivable during the year relating to unused depreciation funding from prior years.<sup>24</sup>

**5.32** Liabilities reduced mainly due to a decrease in unearned revenues reflecting the transfer of unspent Proceeds of Crime Act funds to the administered special account, Services on Behalf of Other Governments and Non-Public Bodies.

<sup>23</sup> No-win no-loss funding arrangements provide for a budget-neutral outcome to be achieved where there is some uncertainty as to the amount of funding required for certain activities. The uncertainty can be from difficulties in predicting annual workloads or required delivery levels, or from factors outside an agency's control such as movements in foreign exchange rates.

<sup>24</sup> Commencing from 2009–10, revised funding arrangements relating to non-cash expenses including depreciation progressively came into effect. Under the revised arrangements, agencies are no longer funded for depreciation expense. Instead, agencies are appropriated capital funds to acquire assets on an as-needed basis. As part of introducing these arrangements, in 2009-10, agencies were required to return unused depreciation funding from prior years.

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

<b>Key financial measures for year</b>	<b>2009–10 \$m</b>	<b>2008–09 \$m</b>
Total income	121.5	47.9
Total expenses	597.1	847.1
Total assets	1 202.4	813.2
Total liabilities	42.3	727.6

**5.33** Income increased mainly as a result of a one-off gain reflecting assets entered onto the asset register for the first time following the conduct of an extensive stocktake and revaluation of administered territories assets. The stocktake and revaluation adjustments significantly increased the balance of assets at year-end.

**5.34** The decrease in total expenses reflects the full year effect of the transfer of the payment function for legal aid grants to the Department of the Treasury in January 2009. The transfer of the responsibility for the payment of Judges' and Federal Magistrates pensions to the Department of Finance and Deregulation (Finance) in January 2010 also contributed to the decrease in total expenses.

**5.35** Assets have increased as a result of an asset revaluation during the year and also the results of the stocktake of territories assets discussed above. Increases also occurred in administered entity investments, principally as a result of a revaluation of the High Court of Australia, and the continuing refurbishment of the Law Courts building in Sydney.

**5.36** Liabilities have decreased due to the transfer of the accrued personal benefits provision associated with the Judges' pension scheme to Finance.

### **Areas of audit focus**

**5.37** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the mid-year valuation of the Judges' pension provision and subsequent transfer of the Judges' Pension Scheme to Finance;
- two new IT systems relating to billing and employee timesheets;

- key financial statement items that rely on estimated future indices including employee provisions and concessional loans. The assessment of future salary growth rates and the resultant impact on employee provisions was also reviewed;
- IT general and application controls as they relate to the financial statements; and
- the development and capitalisation of intangibles, in particular the Personal Properties Security Register software application.

**5.38** The calculation of the Judges' pension provision and transfer disclosures was of particular audit interest in view of their significance and the complexity of the assumptions adopted to derive the accounting estimate. The AGD obtained an actuarial assessment from the Australian Government Actuary (AGA) to value the Judges' pension provision to be transferred. The ANAO reviewed the assessment to gain assurance over the balance disclosed in the financial statements. The value of liabilities transferred on 1 January 2010 was \$745m.

## **Audit results**

### *Summary of audit findings*

**5.39** The results of our 2009–10 audit were satisfactory except in relation to AGD's financial statement preparation process which is discussed at paragraph 5.42 below.

### *Outstanding audit issue*

**5.40** The ANAO reported one moderate control weakness in the interim phase of the 2008–09 audit that had not been adequately resolved during the 2009–10 interim phase. This issue related to weaknesses in stocktake control and oversight procedures, poor quality review of returned count sheets, and weaknesses in the documentation of stocktake results and associated follow-up activities.

**5.41** During the 2009–10 interim audit the ANAO noted that improved stocktake processes had been implemented but as the 2009–10 stocktake had not been completed the moderate finding could not be fully reviewed. During the 2009–10 final audit, the ANAO identified that stocktake processes had significantly improved. This has resulted in the moderate finding being down

graded to a minor audit finding, with full resolution being dependent on the successful completion of the stocktake in 2010–11.

*New moderate audit issue*

**5.42** During the final audit an additional moderate issue was raised in relation to the AGD’s financial statement preparation process. The ANAO found that the AGD did not have adequate resources and processes in place to ensure the timely and accurate preparation of the annual financial statements. The ANAO found weaknesses in the quality assurance review process, the preparation of work papers to support the financial statements and the preparation of specific notes to the financial statements, including the appropriations note.

**5.43** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2009–10 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>

\* One issue relating to stocktake controls has been downgraded to a Category C finding.

## Australian Customs and Border Protection Service

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	1 023.8	1 020.5
Appropriation revenue	1 028.3	1 008.7
Surplus/(deficit)	4.5	(11.8)
Total other comprehensive income	(1.7)	20.4
Total comprehensive income	2.8	8.6
Total assets	664.0	634.0
Total liabilities	256.9	234.9

**5.44** Appropriation revenue increased as a result of additional funding for measures to strengthen anti-people smuggling activities, as well as funding received for an extension of the lease for the northern patrol vessel, ACV Triton, and the Bay Class vessel replacement project.

**5.45** A small surplus was reported for 2009–10, compared with a deficit in 2008–09 which was the result of one-off adjustments arising from an actuarial assessment of liabilities and a review of the fair value of assets.

**5.46** Assets increased predominantly due to the completion and capitalisation of fit outs at a new office and at leased premises at two airports.

**5.47** The movement in liabilities mainly relates to an increase in the provision for employee entitlements resulting from an expected growth in salaries that are used in the calculation of the provision, and a make good obligation included in a lease of a new vessel.

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

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	6 456.5	6 920.8
Total expenses	1.2	14.2
Total assets	129.9	118.8
Total liabilities	7.5	8.1

**5.48** Administered income decreased primarily due to a reduction in some tariff rates for certain textiles, footwear and clothing items. This decrease was partially offset by an increase in passenger movement charges during the year as a result of a higher number of international travellers.

**5.49** Administered expenses have reduced due to the 2008–09 balance being unusually high as it reflected two large receivables, being fines that were assessed as uncollectable.

**5.50** Administered assets increased due to an increase in receivables, particularly in relation to Passenger Movement Charge (PMC) receivables as a result of an increased number of outbound passengers compared to 2008–09.

### **Areas of audit focus**

**5.51** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the accuracy and completeness of customs duty that is based on a self-assessment regime, the complexity of the IT infrastructure used to collect and record customs duty, and the complexity of tariffs and concession entitlements;
- the accuracy and completeness of other border related revenue, including the PMC and import processing charges;
- the accuracy of Customs and Border Protection's asset register in the light of previous years' audit findings that, for a number of assets, the location recorded in the asset register was not correct; and
- IT general and application controls as they relate to the financial statements.

**5.52** The accuracy and completeness of the PMC revenue, which totalled \$571.3 million in 2009–10, was of particular audit interest as air and sea carriers are responsible for the collection and remittance of the charge to Customs and Border Protection.

**5.53** The outcome of the 2009–10 audit was satisfactory except in relation to: the recognition and management of administered receivables; the collection of the PMC; the documentation of the administered financial statement process; and the management of IT security controls. These matters are discussed further below.

## Audit results

### *Summary of audit findings*

#### *Outstanding audit issues*

**5.54** The ANAO reported four moderate control weaknesses in the interim phase of the 2009–10 audit. These issues relate to:

- management of administered receivables: Customs and Border Protection does not have a centralised administered receivables system to ensure that these receivables are recognised and consistently managed.
- Passenger Movement Charge (PMC): the 2009–10 interim audit identified a number of weaknesses in the management of PMC, including a lack of analysis related to a threshold used to assess variances between amounts estimated to be received by Customs and Border Protection and the amounts actually remitted by carriers.
- documentation of financial statement processes: Customs and Border Protection's administered financial statements are based on complex transactions. There were, however, no documented procedures to assist staff in the preparation of the administered statements and to describe the flow of administered transactions from Customs and Border Protection's operations.
- IT security controls: Both the ANAO and Customs and Border Protection's Internal Audit function identified a number of weaknesses in the management of Customs and Border Protection's IT Security Policy, including insufficient complexity of passwords, lack of monitoring of privileged users and instances where there was inappropriate approval of new users, and weaknesses in the management of user access to the Integrated Cargo System.

**5.55** The 2009–10 final audit confirmed that Customs and Border Protection has commenced work to address each of these issues. The ANAO will review progress made during the 2010–11 audit.

**5.56** No new significant or moderate issues were identified during the 2009–10 final audit.

5.57 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	4	0	0	4
<b>Total</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>4</b>

## Australian Federal Police

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	1 101.8	1 006.0
Appropriation revenue	1 106.0	1 005.8
Income tax expense	0.0	0.3
Surplus/(deficit)	4.2	(0.5)
Total other comprehensive income	(0.4)	15.0
Total comprehensive income	3.8	14.5
Total assets	953.3	827.2
Total liabilities	354.0	283.7

5.58 The net cost of services and appropriation revenue increased due to an increase in the Australian Federal Police's (AFP) international deployment services. These include international police development services being provided in Afghanistan, Timor-Leste, and the Pacific region. Other significant appropriation funding increases reflect budget measures to increase police numbers and cyber safety.

5.59 Assets have increased significantly due to the construction of the office fit out and the purchase of computer and office equipment for the Edmund Barton Building, which the AFP commenced occupying from April to June 2010.



**5.60** Liabilities have increased mainly due to increases in: activities in international police development services just prior to year end; lease liability provisions relating to the new Edmund Barton Building lease; and employee leave provisions.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	0.0	0.0
Total expenses	15.2	6.8
Total assets	0.0	0.2
Total liabilities	2.0	2.0

**5.61** Expenses have increased due to an increase in administered programs in 2009–10. These include the Regional Assistance Mission to the Solomon Islands, increasing Australia's law enforcement contribution to Pakistan and combating people smuggling, as well as the continuation of programs for Timor-Leste and police development in the Pacific that commenced in 2008–09.

### Areas of audit focus

**5.62** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the relocation in April to June 2010 of the AFP from various offices around the Australian Capital Territory into one office building;
- the estimation of the salary growth rate used to calculate employee entitlements;
- appropriations reporting, including the calculation of appropriations revenue and receivables, the presentation of the appropriations note and the calculation of no-win no-loss budget funding estimates;
- IT general and application controls that impact the financial statements; and
- the preparation and presentation of the Schedule of Commitments in the financial statements.

**5.63** The relocation of the AFP into one office building was of particular audit interest in 2009–10. The relocation resulted in many assets previously

held in the vacated offices becoming impaired or obsolete, in particular, leasehold fitouts and various items of furniture and fittings. The ANAO reviewed the AFP's assessment of the financial impacts flowing from the relocation that included a desktop valuation by an independent valuer commissioned by the AFP, to test that the valuation of assets was reasonable.

**5.64** Audit coverage of these matters was finalised during the 2009–10 final audit.

## Audit results

### *Summary of audit findings*

**5.65** No new significant or moderate issues were identified during the 2009–10 audit.

## Australian Government Solicitor

### Summary of Financial Results

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	117.9	121.1
Total expenses	110.2	114.3
Income tax expense	2.5	2.1
Net profit	5.2	4.7
Total other comprehensive income	0.7	0.5
Total comprehensive income	5.8	5.2
Total assets	88.9	88.6
Total liabilities	44.3	49.4

**5.66** The reduction in income reflects the changing needs of clients of the Australian Government Solicitor (AGS) and the impact that generally tighter operating budgets in 2009–10 had on AGS clients. Movements in other measures are the result of normal business activity for the AGS.

## Areas of audit focus

5.67 The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the management and accountability of client and other third party funds;
- the ongoing consolidation and rationalisation of IT services and infrastructure;
- IT general and application controls as they relate to the financial statements;
- the completeness and accuracy of the AGS tax liability;
- the calculation of competitive neutrality payments;
- the calculation and reporting of surplus lease space;
- the calculation of dividends to be paid to Government, based on the profitability of AGS; and
- the calculation and reporting of performance bonuses and redundancy provisions.

5.68 Audit coverage of these matters was finalised during the 2009–10 final audit.

## Audit results

### *Summary of audit findings*

5.69 No new significant or moderate issues were identified during the 2009–10 audit.

# Australian Security Intelligence Organisation

## Summary of Financial Results

### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	366.1	335.5
Appropriation revenue	405.5	352.7
Surplus	39.4	17.1
Total other comprehensive income	(0.8)	0.0
Total comprehensive income	38.6	17.1
Total assets	530.2	519.4
Total liabilities	69.7	64.9

**5.70** The appropriation revenue increase reflects funding increases to enable the Australian Security and Intelligence Organisation (ASIO) to strengthen and expand its capabilities to collect and assess security intelligence. The majority of the increase resulted from Government decisions following an independent review of ASIO's resources conducted in 2005–06.

**5.71** The net cost of services increase reflects the new measures mentioned above with the majority of the increase being higher employee benefit expenses.

**5.72** Asset and liability increases, while small overall, reflect two offsetting factors. In 2009–10 ASIO recorded a surplus of \$39.4m and also received an equity injection of \$16.5m. This increase was mostly offset by the return of \$49.1m of unused appropriation funding relating to accumulated prior year depreciation.<sup>25</sup>

### **Areas of audit focus**

**5.73** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

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<sup>25</sup> Op.cit. (Refer to Footnote No. 24, page 57)

- IT general and application controls as they relate to the financial statements;
- accounting for the work-in-progress being undertaken on the fitout component of ASIO's new headquarters building;
- asset accounting and disclosure issues relating to the revaluation of assets during the year;
- accounting for appropriations and appropriation adjustments;
- the accounting and disclosure requirements for leases; and
- the completeness and accuracy of employee entitlement provision calculations for both annual leave and long service leave, including reviewing the actuarial assessment obtained by ASIO.

5.74 The outcome of our 2009–10 audit was satisfactory except in relation to the accuracy of long service leave liability reports produced from ASIO's human resources management information system (HRMIS), referred to below.

## Audit results

### Summary of audit findings

5.75 The 2009–10 audit identified that long service leave liability reports produced from the HRMIS, used as a basis for supporting the long service provision in the financial statements, contained inaccuracies. ASIO had put in place manual checking processes to ensure long service leave applied for and paid out is accurately recorded. ASIO has indicated that resolving the employee entitlement reporting issues is a high priority during 2010–11.

5.76 The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2009–10 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	1	1
<b>Total</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>

# Family Court of Australia

## Summary of Financial Results

### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	151.5	126.8
Appropriation revenue	152.6	127.3
Surplus/(deficit)	1.0	0.5
Total other comprehensive income	4.1	3.4
Total comprehensive income	5.1	4.0
Total assets	58.4	56.5
Total liabilities	38.0	28.6

5.77 The net cost of services and appropriation revenue have increased mainly due to the transfer of \$20.9m of appropriation funding previously allocated to the Federal Magistrates Court of Australia (Magistrates Court). The transfer was included in the 2009–10 Budget to reflect the proposed federal courts restructure planned to commence on 1 January 2010. The restructure has been delayed and the funding has been transferred back to the Magistrates Court for their continuing operations.

5.78 Additional appropriation funding was also provided for increases in lease costs for Commonwealth law court buildings, and for Judges' salary increases.

5.79 Liabilities increased mainly due to contributions to the Magistrates Court outstanding at year end.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income*	1.0	1.1
Total expenses	0.0	0.0
Total assets	0.0	0.0
Total liabilities	0.0	0.0

\* Administered income relates to court filing and hearing fees.

## Areas of audit focus

**5.80** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the disclosure and presentation, together with legal compliance, of the funding transferred from the Family Court of Australia (Family Court) to the Magistrates Court for the period 1 January 2010 to 30 June 2010;
- the revaluation of leasehold improvements and the associated make-good provision; and
- the measurement and disclosure of Family Court Judges' annual superannuation expense due to the significance of the amount (approximately \$7.5m per annum) and the complexity of its calculation.

**5.81** The disclosure and presentation of the transfer of funding from the Family Court to the Magistrates Court during 2009–10 of \$20.9m was of particular interest. During 2009–10, the Government planned to transfer the functions of the Magistrates Court to the Family Court and the Federal Court of Australia. This meant that the Family Court received additional appropriation funding for the period 1 January 2010 to 30 June 2010. However, the transfer of functions was not finalised as at 1 January 2010 and the Family Court contributed the transferred funding back to the Magistrates Court. The appropriation transfer has been separately disclosed in the Family Court's Statement of Comprehensive Income, and additional disclosure explaining the transfer has been provided in the notes to the financial statements.

**5.82** Audit coverage of the areas of audit focus was finalised during the 2009–10 final audit.

## Audit results

### Summary of audit findings

5.83 No new significant or moderate issues were identified during the 2009–10 audit.

## High Court of Australia

### Summary of Financial Results

#### Departmental Items

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	17.1	16.7
Revenue from government	16.5	15.2
Surplus/(deficit)	(0.6)	(1.5)
Total other comprehensive income	23.6	(1.3)
Total comprehensive income	23.1	(2.8)
Total assets	217.9	194.0
Total liabilities	2.7	3.2

5.84 The increase in total other comprehensive income and total assets is the result of an increase in the value of the High Court of Australia's (High Court) land and building assets, which were revalued during the year.

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

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income*	1.0	1.0
Total expenses	0.0	0.0
Total assets	0.0	0.0
Total liabilities	0.0	0.0

\*Administered income relates to court filing and hearing fees.



## Areas of audit focus

5.85 The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- revaluation of property plant and equipment, including the land and buildings associated with the High Court;
- the calculation of employee benefit liabilities; and
- the impact of foreign exchange movements on the valuation of that part of the High Court's library assets that are sourced from overseas.

5.86 Audit coverage of these matters was finalised during the 2009–10 final audit.

## Audit results

### *Summary of audit findings*

5.87 No new significant or moderate issues were identified during the 2009–10 audit.

## National Capital Authority

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	13.9	13.6
Appropriation revenue	14.1	13.6
Surplus/(deficit)	0.2	0.0
Total other comprehensive income	0.4	0.4
Total comprehensive income	0.6	0.4
Total assets	21.2	20.5
Total liabilities	7.4	7.2

5.88 Movements in these 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	2009–10 \$m	2008–09 \$m
Total income	1.4	3.2
Total expenses	19.0	16.1
Total assets	726.0	693.2
Total liabilities	1.2	0.6

**5.89** Administered assets increased mainly due to the addition of \$29.9 million in infrastructure, plant and equipment items, and a net revaluation increase of \$21.1 million, partially offset by \$18.5 million depreciation and write-down costs relating to these assets.

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

### **Areas of audit focus**

**5.91** Areas of audit focus in 2009–10 that were significant in terms of their potential impact on the 2009-10 financial statements were valuation of the National Capital Authority's (the Authority) infrastructure assets and accounting for major construction projects during the year. Audit coverage of these matters was finalised during the 2009–10 final audit

### **Audit results**

#### *Summary of audit findings*

**5.92** In 2009–10, a moderate audit issue was identified relating to the authority's future financial sustainability. During 2009–10, the Authority's Chief Executive wrote to the Minister for Home Affairs, the Attorney-General's Department and the Department of Finance and Deregulation in relation to the financial sustainability of the Authority which has been an issue of management concern for several years. As a consequence, the Minister for Home Affairs has established an inter-departmental committee to examine the Authority's sustainability.

**5.93** The Authority considered it was appropriate to prepare the 2009–10 financial statements on a going concern basis as it had sufficient available cash and uncommitted appropriation receivable to cover the forecast deficit for

2010–11. The ANAO agreed with that assessment. The ANAO will monitor the Authority's assessment of its financial and operational sustainability during future reporting periods.

## Comments on non-material entities

**5.94** Moderate audit issues that were identified during the audits of the Australian Transaction Reports and Analysis Centre (AUSTRAC) and the Office of the Commonwealth Director of Public Prosecutions (CDPP) are referred to below. No significant or moderate issues were identified in other non-material entities in the portfolio.

### Australian Transaction Reports and Analysis Centre

**5.95** During the interim phase of the 2009–10 audit the following moderate issues relating to contract management, delegations and purchasing and payment processes:

- Weaknesses were identified in the procurement framework supporting the contract management processes. These resulted in a number of information technology service contracts being let in breach of the mandatory requirements of the Commonwealth Procurement Guidelines (CPGs) in that the services were not always adequately market tested, and reasons for the departures from the CPGs were not documented. A proper assessment of value for money was therefore not always evidenced.
- A review of controls in a newly implemented financial management information system (FMIS) identified that: controls in relation to delegation limits in the FMIS were not applied for part of the year and did not always reflect the Chief Executive's approved limits; the preparation and approval of purchase orders was not always timely; there was inadequate retention of appropriate supporting documentation; and there was a lack of formal guidance to support policies and work practices.

**5.96** After the reporting of the interim audit findings, AUSTRAC took prompt action to upgrade its procurement policies and procedures to comply with the CPGs, and have also updated delegation levels to accord with the approved Chief Executive's amounts. AUSTRAC has also advised that it has commenced steps towards resolving the key elements of the weaknesses identified in the new FMIS.

**5.97** The ANAO raised a moderate audit finding in relation to inadequacies in the financial statement preparation process after reviewing a trial statement preparation process undertaken by AUSTRAC prior to year end. Issues identified included inadequate quality assurance and review and a lack of adequate working papers to support the financial statement balances and disclosures. While improvements in these areas were made during the final phase of the audit, significant gaps and weaknesses were still evident. These caused delays in both the preparation and audit of the 2009–10 financial statements. AUSTRAC has agreed to take remedial action to address the weaknesses identified.

**5.98** During the final audit, the following two additional moderate audit issues were identified:

- inconsistent asset recording between the asset register and the general ledger cast doubt over the integrity of the asset register and its ability to support general ledger balances. The monthly reconciliation process between the asset register and the general ledger was also inadequate and did not properly identify discrepancies between the two ledgers; and
- the audit found weaknesses in the procedures and systems used to record the administered revenue and payment transactions managed by AUSTRAC.

**5.99** The ANAO will review the actions taken to address the issues referred to above as part of the 2010–11 audit.

## **Office of the Commonwealth Director of Public Prosecutions**

**5.100** The 2007–08 and 2008–09 audits identified a number of weaknesses in the security framework surrounding the CDPPs' financial management information system. During the 2009–10 audit, the ANAO reviewed the issues outstanding and noted that the CDPP had addressed the specific issues identified during the previous audits. However, the 2009–10 audit also identified that the CDPP was not adequately logging or monitoring the use of privileged user access accounts. In view of this situation, the ANAO considered that CDPP should conduct a full security review.

**5.101** During the 2008–09 audit the ANAO noted that CDPP bank reconciliations did not include the associated clearing accounts and therefore

were not complete reconciliations. Audit testing during 2009-10 confirmed that the CDPP has revised its reconciliation processes to address this issue.

**5.102** The 2007-08 and 2008-09 audits identified a number of weaknesses in the financial statement preparation process, including inadequate quality assurance and review. While some improvements were evident in 2009-10, significant issues still remained, including weaknesses and gaps in financial statement preparation and the absence of quality assurance reviews prior to presenting the financial statements for audit. The issues resulted in delays in both the preparation and audit of the 2009-10 financial statements. The ANAO has recommended a range of improvements in future financial statement preparation processes and the CDPP has agreed to take remedial action.

**5.103** During the 2009-10 final audit weaknesses and potential inconsistencies in the CDPP's underlying asset accounting policies and procedures, particularly in relation to revaluations and year end processes, were identified. The CDPP has advised that it will undertake a full review of these matters during 2010-11.

**5.104** The ANAO will include a review of remedial actions taken on the outstanding issues referred to above as part of the 2010-11 audit.

# Broadband, Communications and the Digital Economy Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit report issued	Audit issues identified
Department of Broadband, Communications and the Digital Economy	Yes	✓	20 Sept 10	21 Sept 10	
Australian Broadcasting Corporation	Yes	✓	30 Jul 10	30 Jul 10	
Australian Communications and Media Authority	Yes	✓	24 Sept 10	24 Sept 10	
Australian Postal Corporation	Yes	✓	26 Aug 10	26 Aug 10	◆
NBN Co Limited	Yes	✓	5 Oct 10	6 Oct 10	
- NBN Tasmania Limited	No	✓	11 Oct 10	12 Oct 10	
Special Broadcasting Service Corporation	Yes	✓	18 Aug 10	18 Aug 10	
- Multilingual Subscriber Television Ltd.	No	✓	18 Aug 10	18 Aug 10	
- Pan TV Ltd	No	✓	18 Aug 10	18 Aug 10	

✓: audit report not modified

E : audit report contains an emphasis of matter

Q : audit report contains a qualification

A: audit report contains additional statutory disclosure

☞: financial year end date other than 30 June 2010

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

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

## Portfolio overview

**5.105** 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 the Department of Broadband, Communications and the Digital Economy (DCBDE) and a number of portfolio entities, including the Australian Postal Corporation (the Corporation), the NBN Co Limited (NBN Co), the Australian Broadcasting Corporation (ABC) and the Special Broadcasting Services Corporation (SBS).

**5.106** The 2009–10 financial year is the first full year of operation of NBN Co. The company was formed as a government business enterprise to build, own and operate the national broadband network with the objective of making

high-speed broadband available to all Australians. The company is in the process of rolling out fibre-based broadband services to 93% of Australian premises, wireless to four per cent, and satellite to the remaining three per cent. The company plans to operate as a wholesale-only network available to retail service providers on a non-discriminatory basis.

## Department of Broadband, Communications and the Digital Economy

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	148.1	113.0
Appropriation revenue	153.8	117.1
Surplus/(deficit)	5.7	4.0
Total other comprehensive income	1.9	1.5
Total comprehensive income	7.6	5.5
Total assets	99.5	99.8
Total liabilities	38.6	26.8

**5.107** The net cost of services and appropriation revenue have increased primarily due to increased funding in relation to the National Broadband Network implementation study undertaken during 2009–10.

**5.108** Liabilities increased mainly due to higher trade creditors, the recognition of a provision for the settlement of a broadband contract and an increase in the provision for employee entitlements relating to a new Enterprise Agreement.

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

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	173.5	515.6
Total expenses	1 311.3	1 235.5
Total assets	3 641.2	3 640.5
Total liabilities	40.1	22.6

**5.109** Administered income decreased mainly due to a reduction in the dividend received from the Australian Postal Corporation and a reduction in interest received in comparison to 2008–09 as a result of the closure of the Communications Fund on 1 January 2010.

**5.110** Administered expenses increased primarily due to an increase in payments to the ABC and SBS to assist with the switchover from analogue to digital television broadcasting.

**5.111** Although administered assets remained relatively stable, individual movements in the value of administered investments were significant. Valuation of DBCDE's administered investment in the Australian Postal Corporation decreased by \$291 million. This decrease was partly offset by a \$222.3 million increase in DBCDE's administered investment in NBN Co. Other increases in assets were primarily attributable to the development of broadband infrastructure under the Regional Backbone Blackspots program.

**5.112** Accrued expenditure relating to activity on the Regional Backbone Blackspots program accounted for a majority of the increase in administered liabilities.

### **Areas of audit focus**

**5.113** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the valuation of DBCDE's \$3.6 billion administered investments in the Commonwealth entities forming part of the broadband, communication and digital economy portfolio; and
- IT general and application controls as they relate to the financial statements.

**5.114** DBCDE's administered investment in the Australian Postal Corporation was valued at \$2.2 billion at year end using a discounted cash flow approach, previously based on the net assets valuation approach. DBCDE's \$232.2 million administered investment in NBN Co Limited, continued to be valued on a net assets basis in view of the company's limited cash flows for the year ended 30 June 2010. The ANAO's review of the valuation of administered investments was completed during the 2009–10 final audit.



## Audit results

### Summary of audit findings

**5.115** A moderate audit issue identified during the 2009–10 interim audit related to the use of generic system support accounts in the financial management information system, which gave access to the production environment without leaving an audit trail that allowed individual users to be identified. During the 2009–10 final audit the ANAO confirmed that DBCDE had addressed this matter by the removal of these access privileges and by implementing a system to proactively monitor system access.

**5.116** No new or significant or moderate audit findings were identified during the 2009–10 final audit.

## Australian Broadcasting Corporation

### Summary of Financial Results

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	916.8	844.5
Revenue from Government	915.0	858.4
Surplus/(deficit)	(1.8)	13.9
Total other comprehensive income after income tax	26.7	(5.4)
Total comprehensive income	24.9	8.5
Total assets	1 242.3	1 224.7
Total liabilities	265.5	278.6

**5.117** Revenue from Government increased as a result of the ABC being granted additional funding for the financial years commencing 1 July 2009 to 30 June 2012. The additional funding was used for new programming and capital works projects. The ABC's net cost of services has increased by a corresponding amount.

**5.118** The fluctuation in other comprehensive income after tax relates to increases in valuations of land, buildings and leasehold improvements.

## **Areas of audit focus**

**5.119** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- land and building valuations;
- the ABC's program amortisation policies
- accounting for the MediaHub Pty Limited (MediaHub) joint venture with WIN Television Network Pty Ltd. The joint venture was formed to improve the cost effective regionalisation and introduction of new services; and
- IT general and application controls as they relate to the financial statements.

**5.120** Audit coverage of the areas of focus was completed during the 2009–10 final audit.

## **Audit results**

### *Summary of audit findings*

**5.121** There were no significant or moderate audit findings arising from the 2008–09 or 2009–10 audits.

## Australian Communications and Media Authority

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	107.1	96.6
Appropriation revenue	108.2	95.3
Surplus /(deficit)	1.1	(1.3)
Total other comprehensive income	1.1	(0.8)
Total comprehensive income	2.2	(2.1)
Total assets	65.0	65.0
Total liabilities	27.8	28.8

**5.122** The net cost of services increased mainly due to higher expenses associated with digital transition activities.

**5.123** The movements in other measures were the result of fluctuations in normal business activity.

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

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	687.7	757.2
Total expenses	183.3	160.4
Total assets	356.6	355.5
Total liabilities	3.0	6.7

**5.124** Administered income reduced mainly due to a rebate introduced in 2009–10 for commercial TV broadcasters and a decrease in broadcasting licence revenue associated with a decline in broadcasters' taxable revenue.

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

## **Areas of Audit Focus**

**5.126** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the valuation of property, plant and equipment and intangible assets; and
- the recognition and measurement of administered revenue (broadcasting licence fees).

**5.127** Audit coverage of these matters was finalised during the 2009–10 final audit.

## **Audit results**

### *Summary of audit findings*

**5.128** There were no significant or moderate audit findings arising from the 2009–10 audit.

## Australian Postal Corporation

### Summary of Financial Results

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	4 856.2	4 974.5
Total expenses	4 739.1	4 566.4
Profit (loss) after income tax	89.5	260.5
Total other comprehensive income after income tax	(203.6)	(796.1)
Total comprehensive income	(114.1)	(535.6)
Total assets	3 915.2	4 270.2
Total liabilities	2 356.1	2 425.1

**5.129** Income reduced largely due to a decrease in postal revenue, with the Corporation experiencing a decline in mail volume.

**5.130** The Corporation announced a business renewal program in April 2010. The increase in expenses is predominantly the result of a redundancy provision established to recognise liabilities arising from this program. The related impact on liabilities was partially offset by a significant decrease in deferred tax liabilities due to the tax effect of a decrement in superannuation investments following an actuarial assessment. This also decreased the overall asset balance.

**5.131** In 2009–10 other comprehensive income after tax included a significantly smaller actuarial loss on defined benefit plans than recognised in 2008–09.

**5.132** Other movements were the result of fluctuations in normal business activity.

### Areas of audit focus

**5.133** Changing economic conditions and business issues associated with the global shift towards digital communications have adversely impacted the Corporation's earnings. This has had important implications for growth and cost reduction to sustain the Corporation. The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the recognition and disclosure of provisions;

- assessment of indicators of asset impairment relating to investment assets;
- areas of significant judgement and estimates particularly those associated with long service leave, workers' compensation, the Corporation's defined superannuation benefit plan, and the valuation of investment properties; and
- IT general and application controls as they relate to the financial statements.

**5.134** The impact of the economic conditions referred to above and the Corporation's productivity initiatives on the Corporation's financial statements were of particular audit interest in 2009–10. Of significance were initiatives covering the Corporation's business restructuring program and cost containment measures such as a reduction of staff numbers in head offices (approximately \$142 million was included in provisions for business restructuring with total redundancy costs for the year amounting to \$150 million); and the review of investment asset values and the associated impairment expense of approximately \$20 million.

## **Audit results**

### *Summary of audit findings*

**5.135** Audit coverage of the areas of audit focus was finalised during the 2009–10 final audit and the outcome was satisfactory except in relation to the issues referred to below.

**5.136** The ANAO identified the following three moderate audit issues during the 2009–10 audit:

- Balances recorded by the Corporation relating to the property management services were not fully substantiated in the first instance. Additional investigation was required by the Corporation to substantiate the balances recorded. In these circumstances, and given the large number of financial statement balances impacted, there was an increased risk of material misstatement in the financial statements.

- The ANAO's review of change management procedures identified weaknesses within processes used to manage changes in the FMIS. This increases the risk of inaccurate or unauthorised system changes being made in the production environment.
- The Corporation's asset management policy required staff to manually enter the appropriate useful life for the creation of property and property related assets into the FMIS. Our audit of property, plant and equipment identified non-compliance with the Corporation's policy. Non-compliance increased the risk of an understatement of depreciation expense and a corresponding overstatement of asset values. This risk was mitigated through the introduction of a manual review process as part of the financial statements year end preparation process.

**5.137** The Corporation advised that it is addressing these issues, and progress will be examined by the ANAO during the 2010–11 audit.

**5.138** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2009–10 audit.

Ratings	Opening position (at end 2009 audit)	Issues resolved (during 2010 audit)	New issues identified (during final audit phase)	Closing position (at conclusion of final audit)
A	0	0	0	0
B	4	(4)	3	3
<b>Total</b>	<b>4</b>	<b>(4)</b>	<b>3</b>	<b>3</b>

## NBN Co Limited

### Summary of Financial Results

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	3.9	0.0
Total expenses	83.7	0.0
Profit (loss) after income tax	(79.8)	0.0
Total other comprehensive income after income tax	0.0	0.0
Total comprehensive income	(79.8)	0.0
Total assets	259.5	10.0
Total liabilities	27.5	0.0

**5.139** The 2009–10 balances for expenses, assets and liabilities reflect financial transactions for the first full financial year in which the company continued the roll-out of the national broadband network. The company received an initial equity injection of \$312 million in the form of ordinary shares held by the Minister for Finance and Deregulation and the Minister for Broadband, Communications, and the Digital Economy. At 30 June 2010, total assets comprised primarily \$212.3 million cash, \$20.8 million network assets under construction, and \$10.1 million internally developed software assets relating to the company's enterprise resource planning system.

**5.140** Company expenditure comprised mainly external suppliers, legal and support costs, and employee related expenses. Except for interest earned on unspent funds, the company had no income.

### Areas of audit focus

**5.141** Being a new infrastructure company, high levels of capital expenditure will be incurred by NBN during the life of the national network build. The ANAO's audit approach identified the capitalisation of \$20.8 million in costs relating to network assets under construction as an area of audit focus in relation to the 2009–10 financial statements.

**5.142** Audit coverage of this matter was completed during the 2009–10 final audit.



## Audit results

### Summary of audit findings

**5.143** There were no significant or moderate audit findings arising from the 2009–10 audit.

## Special Broadcasting Service Corporation

### Summary of Financial Results

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services*	206.5	186.8
Revenue from Government	207.1	190.3
Surplus/(deficit)	0.9	4.0
Total other comprehensive income after income tax	0.0	2.0
Total comprehensive income	0.9	6.0
Total assets	257.6	257.5
Total liabilities	93.1	98.8

\*The SBS received \$107.1m own source income (2008–09: \$77.8m).

**5.144** Movements in the key financial measures were not significant and were the result of fluctuations in normal business activity. The increase in own-source income largely relates to an increase in advertising revenue related to the 2010 International Federation of Association Football (FIFA) World Cup.

### Areas of audit focus

**5.145** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the accounting treatment of the 2010 FIFA World Cup; and
- IT general and application controls as they relate to the financial statements.

**5.146** The significance of the 2010 FIFA World Cup event to SBS's 2009–10 financial statements stems from the size of broadcasting fees, related advertising revenue and the timing of the event across the 2009–10 and 2010–11 financial years. Advertising revenue is important to the overall

financing of the SBS and significantly contributes to the 'own-source' income of the SBS which amounted to \$107 million in 2009–10.

5.147 During the final audit, the ANAO conducted a review of the accounting treatment applied to the broadcasting fees that were paid and the recognition of advertising revenue.

## **Audit results**

### *Summary of audit findings*

5.148 There were no significant or moderate audit findings arising from the 2009–10 audit.

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

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

# Climate Change and Energy Efficiency Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit report issued	Audit issues identified
Department of Climate Change and Energy Efficiency	Yes	✓	21 Sept 10	21 Sept 10	
Australian Carbon Trust Ltd	No	✓	14 Oct 10	14 Oct 10	
Office of the Renewable Energy Regulator	No	✓	13 Sept 10	13 Sept 10	

✓: audit report not modified

E : audit report contains an emphasis of matter

Q : audit report contains a qualification

A: audit report contains additional statutory disclosure

☞: financial year end date other than 30 June 2010

☞: 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

**5.150** The Department of Climate Change and Energy Efficiency (DCCEE) was created as a standalone portfolio agency with oversight over the Office of the Renewable Energy Regulator and the Australian Carbon Trust Limited, as part of the machinery of government changes that took effect on 8 March 2010.

**5.151** DCCEE leads the development and coordination of Australia's climate change and energy efficiency policy. It is responsible for policy advice, policy implementation and program delivery to reduce Australia's greenhouse gas emissions including by promoting energy efficiency, adapting to the impacts of climate change, and negotiation of an effective global solution, through the development and implementation of a national response to climate change, and bilateral, regional and multilateral engagement internationally.

**5.152** The Office of the Renewable Energy Regulator (ORER) is responsible for implementing the Australian Government's mandatory renewable energy target, which is to be achieved over the period 2001 to 2020. ORER is a statutory and prescribed agency operating under the *Renewable Energy (Electricity) Act 2000*.

**5.153** Australian Carbon Trust Limited is responsible for providing information and tools for households and businesses to effectively participate in Australia's climate change response.

## Department of Climate Change and Energy Efficiency

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	128.9	84.6
Appropriation revenue	122.0	79.5
Surplus/(deficit)	(6.9)	(5.1)
Total other comprehensive income	0.3	0.0
Total comprehensive income	(6.6)	(5.1)
Total assets	104.6	45.7
Total liabilities	44.0	32.8

**5.154** The net cost of services, appropriation revenue, assets and liabilities increases relate to an increase in expenditure and funding for climate change programs. Expenditure in 2009–10 included work associated with an Emissions Trading Scheme, and energy efficiency programs that were transferred to DCCEE from the then Department of Environment, Water, Heritage and the Arts on 8 March 2010.

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

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	0.0	0.0
Total expenses	492.7	38.4
Total assets	8.9	0.1
Total liabilities	299.1	2.0

**5.155** Expenses have increased as a result of additional grant programs transferred to the department under the machinery of government changes of 8 March 2010. These programs provide rebates to individuals and organisations to improve energy efficiency.

**5.156** Assets have increased largely due to normal fluctuations in GST receivables associated with a substantial increase in grant programs.

**5.157** Included in total liabilities is a component of the expected inspection and remediation costs for the Home Insulation Safety Program (HISP) and the

Foil Insulation Safety Program (FISP). The remainder of the liabilities relates to unpaid grant expenditure, including expenditure under the Home Insulation Program.

### **Areas of audit focus**

**5.158** In 2009–10 the ANAO’s audit approach identified the transfer of energy efficiency programs to the department and accounting matters associated with the Home Insulation Program as areas of audit focus that were significant in terms of their potential impact on the 2009–10 financial statements.

**5.159** Both issues were appropriately accounted for and disclosed in the department’s 2009–10 financial statements. DCCEE has disclosed in its 2009–10 financial statements that the \$147 million liability included for HISP and FISP did not represent all future payments as adequate information was not available to reliably estimate the full costs associated with these programs, including costs to address safety and related issues. The ANAO was satisfied that all HISP and FISP liabilities that could have been reliably measured at the date of signing the 2009–10 financial statements were included in the financial statements, and issued an unqualified auditor’s report.

### **Audit results**

#### *Summary of audit findings*

**5.160** There were no significant or moderate issues identified during the 2009–10 audit.

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

**5.161** 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 report issued	Audit issues identified
Department of Defence	Yes	✓	14 Sept 10	14 Sept 10	▲◆
Army and Air Force Canteen Service	No	✓	31 Aug 10	2 Sept 10	
Army Amenities Fund	No	⇐	⇐	⇐	
Army Amenities Fund Company	No	⇐	⇐	⇐	
Australian Military Forces Relief Trust Fund	No	✓	14 Sept 10	14 Sept 10	
Australian War Memorial	Yes	✓	11 Aug 10	11 Aug 10	
Australian Strategic Policy Institute Ltd	No	✓	7 Oct 10	11 Oct 10	
Defence Housing Australia	Yes	✓	5 Aug 10	6 Aug 10	
Defence Materiel Organisation	Yes	✓	10 Sept 10	10 Sept 10	▲◆
Defence Service Homes Insurance Scheme	No	✓	27 Aug 10	27 Aug 10	
Department of Veterans' Affairs	Yes	✓	27 Aug 10	27 Aug 10	▲
Messes Trust Fund	No	⇐	⇐	⇐	
Military Superannuation and Benefits Board of Trustees No. 1	No	✓	3 Sept 10	3 Sept 10	
Military Superannuation and Benefits Scheme	No	✓	3 Sept 10	3 Sept 10	▲
RAAF Welfare Recreational Company	No	✓	28 Oct 10	28 Oct 10	
RAAF Central Welfare Trust Fund	No	✓	28 Oct 10	28 Oct 10	
Royal Australian Air Force Veterans' Residences Trust Fund	No	✓	11 Oct 10	11 Oct 10	
Royal Australian Air Force Welfare Trust Fund	No	✓	27 Aug 10	27 Aug 10	
Royal Australian Navy Central Canteen Board	No	✓	23 Sept 10	23 Sept 10	
Royal Australian Navy Relief Trust Fund	No	✓	23 Sept 10	23 Sept 10	

✓: 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 2010

⇐: 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

**5.162** 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.

**5.163** 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	2009–10 \$m	2008–09 \$m
Net cost of services	20 969.6	21 191.8
Appropriation revenue	21 503.9	20 411.9
Surplus/(deficit)	534.4	(779.9)
Total other comprehensive income	407.9	800.8
Total comprehensive income	942.3	20.8
Total assets	65 079.6	61 576.8
Total liabilities	4 844.3	4 715.9

**5.164** The net cost of services has decreased primarily due to increased gains resulting from the revaluation of assets, combined with the effect of increases in various expense and income items that mainly offset each other.

**5.165** Appropriation revenue increased mainly due to additional funding for Defence operational activity, the maintenance of Defence funding growth at 3 per cent (in line with the Defence White Paper), and an adjustment to appropriations under Defence's operational and foreign exchange no-win/no-loss arrangements<sup>26</sup>. The increase in appropriation revenue primarily

<sup>26</sup> Op cit (Refer to footnote No.23, p. 57)

contributed to the surplus, as much of this additional revenue was redirected to capital expenditure.

**5.166** Assets have increased mainly due to an increase in the value of land and buildings, Specialised Military Equipment (SME) and inventories, partially offset by a significant decrease in prepayments. The value of Defence's assets increased as a result of acquisitions, expansion and redevelopment projects.

**5.167** Significant movements in land and buildings are the result of acquisitions associated with the Edinburgh - Hardened Army Network project; the expansion and redevelopment of several establishments including RAAF Pearce, the Mulwala redevelopment and several facilities supporting the Multi Role Helicopters and Super Hornets assets.

**5.168** In addition, the revaluation of land, building and infrastructure resulted in a smaller revaluation increment than in 2009–10. The decrease in the revaluation increment resulted in a decrease in other comprehensive income.

**5.169** Defence's SME assets increased due to increased expenditure on large scale projects and the completion and roll out of a number of significant assets, including the Airborne Early Warning and Control aircraft, Multi-Role Helicopters, the Landing Helicopter Docks (LHDs) ships, the Air Warfare Destroyer, and Air-to-Air Refuellers.

**5.170** The increase in inventories reflects the acquisition of explosive ordnance consistent with Defence increasing operating requirements and the strategic objective to increase Defence's reserve stock holdings through the progressive acquisition of a range of explosive ordnance items under the Explosive Ordnance reserve stock project.

**5.171** The decrease in prepayments is attributable to the full use of funding, by the Defence Materiel Organisation (DMO), under the materiel sustainment and acquisition agreements.

**5.172** No significant movement in Defence's liabilities occurred in 2009–10.



*Items administered on behalf of the Australian Government*

Key financial measures for year	2010–09 \$m	2008–09 \$m
Total income	1 162.8	917.2
Total expenses	3 663.1	3 501.0
Total assets	2 403.8	2 032.2
Total liabilities	48 282.7	42 697.4

**5.173** Administered income has increased largely due to an increase in military superannuation contributions. This increase is attributable to the effects of a change in the retirement age for members, inclusion of a number of allowances for military employees, the continuing operational tempo resulting in higher retention rates, and an increase in members' salaries.

**5.174** Administered liabilities have increased reflecting the effect of the superannuation liability for the Defence Force Retirement and Death Benefits Scheme and the Military Superannuation and Benefits Scheme. The liabilities associated with these schemes increased as a result of an increase in members accruing benefits, salaries, reduced exit rates of members, and the effect of a reduction in the interest rates used in estimating the liability.

**5.175** The movements in administered expenses and assets were the result of fluctuations in normal business activity.

### Areas of audit focus

**5.176** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- Inventory and Asset Management accounting, valuation and business processes for General Stores and Repairable Items, and Explosive Ordnance inventory; Special Military Equipment (SME); and General Assets;
- Inventory system (SDSS) data cleansing activities, intended to remediate the historical data issues in SDSS (previously resulted in significant and moderate audit findings) and prepare for the data transfer to Military Inventory and Logistics Information System (MILIS);

- assurance activities relating to Defence's business process and controls testing of inventory and assets at Defence and contractor establishments;
- remediation activity to address weaknesses in the Financial Management Framework, in particular, bureau service arrangements between Defence and DMO in relation to the oversight of DMO expenditure made on behalf of Defence;
- control environment supporting the human resource management systems;
- the complex estimation and allocation processes associated with a number of balances in Defence's financial statements, including provisions for decommissioning of SME, decontamination and restoration of Defence sites both nationally and overseas; and
- Defence's 'Purchase to Pay' operations that include a number of management systems, processes and security protocols.

**5.177** The accounting and disclosure of Inventory and specialised military assets (valued at \$5.1 billion and \$36 billion respectively as at 30 June 2010) were of particular audit interest in view of the activities associated with the implementation of the new logistics system and the valuation of specialised military equipment.

**5.178** In 2009–10 Defence and DMO undertook significant activities associated with the implementation of a new logistics system, the Military Inventory and Logistics Information System (MILIS). The ANAO's audit coverage included a review of these activities, including adjustments made to inventory and asset balances as a result of data cleansing. The ANAO also reviewed the reconciliation of data converted from SDSS and the financial management information systems (ROMAN).

**5.179** The 2010-11 year will be the first year that MILIS will be operational and the application and the related purchasing, inventory, and asset controls, will remain an area of particular audit activity in future audits.

**5.180** Audit coverage of the remaining areas of audit focus was finalised during the 2009–10 final audit.

## Audit results

**5.181** The results of the 2009–10 financial statements audit reflect Defence’s ongoing focus on improving its financial management and reporting, and the remediation of issues. As a consequence, the number of significant and moderate audit issues continues to trend downward.

**5.182** An unqualified audit report was issued on 14 September 2010.

### *Summary of audit findings*

**5.183** During the final phase of the 2009–10 audit, the ANAO confirmed that Defence had resolved six moderate audit issues previously identified. At the conclusion of the 2009–10 audit, one significant and 17 moderate audit issues remained outstanding. The majority of these audit issues relate to Defence’s inventory and asset management.

### *Financial Management Framework*

**5.184** The business and operational model between Defence and the DMO includes arrangements that involve DMO managing and processing financial transactions and business processes, on behalf of Defence. These arrangements require Defence to have in place structured monitoring and oversight activities to provide assurance that controls over purchasing, logistics, and the acquisition of specialised military equipment are effective. Weaknesses in these controls increase the risk of inaccurate balances being reported in Defence’s financial statements.

**5.185** The ANAO continues to identify and report weaknesses in the internal control of each agency that is not addressed within the bureau of service arrangements or other formal arrangements. At the completion of the 2008–09 audit, the issue in relation to the management and oversight of service bureau arrangement between DMO and Defence remained outstanding.

**5.186** Defence is undertaking a review of the financial management framework which is expected to be finalised in 2010–11.

### *Logistics Management General Stores Inventory and Specialist Military Equipment (Repairable items)*

**5.187** Consistent with prior years, Defence and the ANAO continue to perform resource intensive activities to gain assurance that the inventory and asset balances included in Defence’s financial statements are materially correct. Our audit coverage focused on reviewing remediation activities undertaken by

Defence and the DMO to address inventory and asset quantity and legacy pricing issues.

**5.188** During the 2009–10 final audit, the ANAO completed activities to validate controls over purchasing, supply chain systems and processes, and stocktaking at Defence establishments across Australia. This program of activity was coordinated with, and where appropriate integrated into, Defence’s assurance activities performed as part of an inventory assurance strategy initiated by Defence in 2009–10. This strategy provides Defence logistic compliance and assurance teams with a methodology to test and identify controls weaknesses across SDSS processes.

**5.189** Previous audits have identified issues relating to the currency and alignment of policies and procedures to the supply chain processes used within Defence establishments, the need to increase awareness of changes to specific policies and processes within these establishments, and the need to improve management assurance activities supporting supply chain processes. These issues have been resolved as a result of Defence implementing and testing the Business Process Testing regime and undertaking targeted training of personnel at Defence and DMO sites.

**5.190** During 2009–10, controls testing by the ANAO and Defence identified improvements in the effectiveness of purchasing controls at Defence and DMO establishments. Continued focus on sustaining the 2009–10 results will increase the ANAO’s ability to place reliance on these controls in 2010–11.

**5.191** Notwithstanding the above, a number of significant and moderate audit issues remain outstanding in relation to a need to:

- strengthen controls, documentation and the reporting of the cyclical stock-take program of inventory and assets;
- address deficiencies in the underlying controls that affect the quality of data within the inventory system;
- improve the analysis and management of variances as a result of the reconciliation of the inventory system and the financial management information system (ROMAN);
- improve IT and business process controls necessary to ensure the timely and accurate processing of inventory returns;
- 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.

**5.192** While no new significant or moderate audit issues were identified during the 2009–10 audit, the risks associated with Defence’s management of assets and inventory continued to limit the ANAO’s ability to place reliance on specific inventory management controls in 2009–10.

*Asset Management (General and Specialist Military Equipment)*

**5.193** At the completion of the 2008–09 audit, the ANAO reported two moderate audit issues which remain outstanding. These related to the need to improve documentation and controls supporting the roll out of assets from assets under construction (AUC) and the verification and accounting of certain specialist military equipment (SME) assets.

**5.194** In 2009–10 two new moderate audit issues were identified in relation to the need for Defence, and DMO on behalf of Defence, to:

- improve the timeliness of AUC asset roll outs to specialist military equipment and the completeness of the AUC accrual balances; and
- strengthen the management assurance processes for repairable items assets held by third parties, including the sampling and verification methods used to gain assurance of stock holdings held by contractors.

**5.195** DMO, on behalf of Defence, has commenced a review of existing procedures to calculate accruals and a review of the third party assurance strategy. DMO expect both activities to be completed in 2010–11.

*Financial Management Information System*

**5.196** In 2008–09, the ANAO reported user access management issues associated with: users having the ability to perform financial transaction or system functions that should be separated; and a high number of users with access to sensitive financial transactions; and weaknesses in relation to configuration settings within the Financial Management Information System. These issues remained outstanding at the completion of the 2009–10 audit.

*Purchase to Pay*

**5.197** In 2008–09, the ANAO reported control weaknesses in the purchasing and payment systems, and in business processes known as ‘Purchase to Pay’. These issues related to accounts payable management, the Card Management

System<sup>27</sup> (CMS), the Master Supplier Register<sup>28</sup> (MSR) and the ISIS System, 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.

**5.198** Throughout 2009–10, Defence undertook extensive remediation activity for each issue and as a result these issues have been resolved.

#### *Human Resource Management*

**5.199** 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 2008–09 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 reconcile records from the PMKeyS interface with ADFPay.

**5.200** As a result of improvements to procedures for civilian commencements and terminations; increased quality assurance activity over military payroll and leave processing; the implementation of a change management process for exception reporting; and a long service leave application tracking database for Military employees, one moderate audit issue has been resolved.

**5.201** The moderate audit issue relating to reconciling records between PMKeyS and ADFPay remains outstanding. Defence expects to resolve this issue by March 2011.

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<sup>27</sup> The Card Management System is the system used to manage Defence's corporate credit card transactions.

<sup>28</sup> The Master Supplier Register is Defence's single authoritative source for vendor related data.

*IT Governance*

**5.202** The 2009–10 financial statement audit focused on specific areas of Defence’s IT governance and IT control environment that support and maintain systems involved in the production of Defence’s financial statements.

**5.203** In 2009–10 the ANAO reported one new moderate audit issue in relation to business continuity management within Defence. The ANAO’s testing of Defence’s multilevel business continuity approach identified that:

- group level Business Impact Analysis (BIA) had not been completed;
- business continuity planning requirements needed to be completed based on the BIA and endorsed; and
- specific key Business Continuity Plans (BCPs) for systems supporting the production of the financial statements were not available.

**5.204** Defence has advised the ANAO that an extensive project has commenced in relation to business continuity, which includes the preparation of BIAs by group and BCPs. The project is expected to be completed by July 2011.

**5.205** The following table provides a summary of the status of previously reported audit issues and new issues raised in the 2009–10 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>	1	0	0	1
<b>B</b>	20	(6)	3	17
<b>Total</b>	<b>21</b>	<b>(6)</b>	<b>3</b>	<b>18</b>

# Australian War Memorial

## Summary of Financial Results

### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	38.5	38.4
Appropriation revenue	31.4	38.6
Surplus/(deficit)	(7.1)	0.2
Total other comprehensive income	0.0	(23.0)
Total assets	1 152.6	1 151.3
Total liabilities	8.9	9.4

**5.206** The deficit in 2009–10 is due to a reduction in revenue from Government as a result of the cessation of the appropriation for depreciation funding, now recognised directly in equity.

**5.207** Total other comprehensive income for 2009–10 was nil, following a \$23 million revaluation of the Memorial's buildings in the previous year.

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

### **Areas of audit focus**

**5.209** The ANAO's audit approach identified the valuation and capitalisation of intangible assets, land and buildings, and the valuation of the Memorial's collection as areas of focus that were significant in terms of their potential impact on the 2009–10 financial statements. Audit coverage of these matters was finalised during the 2009–10 final audit.

### **Audit results**

#### *Summary of audit findings*

**5.210** There were no significant or moderate audit issues identified during the 2008–09 or 2009–10 audits.



## Defence Housing Australia

### Summary of Financial Results

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	869.7	782.3
Total expenses	764.6	696.8
Profit (Loss) after income tax	87.7	78.9
Total other comprehensive income after income tax	87.7	78.9
Total assets	1 997.6	1 745.4
Total liabilities	706.8	644.4

**5.211** The increase in financial measures is attributed to strong residential property market conditions and the funding associated with the Federal Government's Nation Building - Economic Stimulus Plan (NBESP). Under the NBESP, Defence Housing Australia (DHA) will build houses for Defence families over two years commencing from April 2009. This is in addition to the construction of houses already part of DHA construction schedule in support of Defence operational requirements. The increase in construction activity is primarily responsible for the increase in expenses, assets and liabilities.

### Areas of audit focus

**5.212** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the valuation and reporting of inventory, investment properties and construction in progress asset balances;
- DHA's revenue from housing services provided to Defence and the sale of inventories, including DHA's revenue recognition policy;
- the presentation and disclosures of discontinued operations resulting from loss of previously held contracts with Defence;
- IT general and application controls as they relate to the financial statements; and

- the accounting treatment and reporting of the funding received under the Economic Stimulus Plan.

**5.213** Audit coverage of these matters was finalised during the 2009–10 final audit and the results were satisfactory.

## Audit results

### *Summary of audit findings*

**5.214** There were no significant or moderate audit issues identified during the 2008–09 and 2009–10 audits.

## Defence Materiel Organisation

### Summary of Financial results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	792.9	23.9
Appropriation revenue	898.6	95.0
Surplus/(deficit)	105.7	71.1
Total other comprehensive income	0	0
Total comprehensive income	105.7	71.1
Total assets	2 203.3	2 112.8
Total liabilities	1 785.7	1800.9

**5.215** The net cost of services increased primarily due to an increase in the cost of goods sold to Defence. This is attributable to an increase in expenditure associated with Assets under Construction, such as, delivery of the first two Wedgetail Early Warning aircraft, Air Warfare Destroyer Build, the Landing Helicopter Dock and the Additional Troop Lift Helicopter.

**5.216** Appropriation revenue increased primarily due to the Defence Material Organisation (DMO) receiving a direct appropriation for all its Workforce and Operating Costs (WF&OC), from 1 July 2009. Prior to 2009–10, the majority of this funding was provided to the DMO from Defence. The changes in the funding arrangements were recommended by the Mortimer Review.

**5.217** Under the Business Model arrangement between the DMO and Defence, the DMO is funded for expenses incurred in undertaking acquisition

and sustainment activities on behalf of Defence. The DMO recognises revenue as expenses are incurred. The increase in the surplus is primarily due to recognition of appropriation revenue for the costs associated with WF&OC

**5.218** Assets have increased mainly due to an increase in trade and other receivables largely due to an increase in appropriation receivable associated with the WF&OC appropriation.

**5.219** The DMO reported no material movements in asset revaluations. The independent valuers advised that there were no material movements in the fair value of assets between 30 June 2009 and 30 June 2010 thereby an adjustment to the value of these assets in the financial statements was not required. Accordingly, the increase in other comprehensive income only reflects the movement in the net cost of services and appropriation revenue.

**5.220** The movement in liabilities is largely the result of an increase in supplier expenditure associated with major projects, such as, Wedgetail Early Warning Aircraft, Multi Role Helicopter, satellite communications, Multi Role Tanker Transport activities, upgrade of M113 Armoured Vehicles, and Bushmaster Protected Mobility Vehicle. The increase in suppliers was partially off-set by a decrease in unearned revenue attributed to high levels of expenditure associated with acquisition and sustainment activities.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	2.8	8.1
Total expenses	0	0
Total assets	0.2	0
Total liabilities	0	0

**5.221** Overseas bank accounts are established by the DMO to assist with the administration of international acquisition and sustainment projects. DMO deposits funds into specific departmental bank accounts managed by specific acquisition and sustainment project teams. The value and volume of transactions processed through these accounts is influenced by the nature of the contractual agreements, the disbursement schedule, and timing of project deliverables.

**5.222** The DMO's administered statements report interest received, and associated interest receivable, on deposits held in overseas bank accounts. The

value of interest earned will depend on current interest rates and the length of time funds are held prior to paying suppliers. In 2009–10 the DMO experienced an increase in the level of acquisition and sustainment, resulting in amounts being held in these accounts for a shorter period of time. The decrease in income reflects this activity and the decrease in interest rates between 2008-09 and 2009–10.

## **Areas of audit focus**

**5.223** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the IT applications, ROMAN, SDSS and PMKeyS, and their related processes that are used in the preparation of key financial information across DMO's acquisition, sustainment and corporate activities;
- service delivery arrangements between the DMO and Defence affecting: the IT general control environment; key financial information systems; personnel management; and year-end financial reporting processes;
- ongoing system and data integrity issues within the Standard Defence Supply System (SDSS) which is the key operational information system used to record and report inventory and repairable items purchased on behalf of Defence;
- remediation activity to address weaknesses in the financial controls framework and associated assurance activities; and
- issues relating to the accuracy and completeness of the recording and reporting of financial commitments.

**5.224** The business and operational model referred to at paragraph 5.184 above also involves Defence managing a number of systems and processes on behalf of DMO. In 2009-10, the ANAO continued to review the effectiveness of these arrangements. The ANAO's audit coverage particularly focused on the management of the financial management information systems and supporting systems and the accounting and reporting of approximately \$9 billion of financial transactions between Defence and DMO, including prepayments and unearned revenue.

**5.225** During the 2009–10 final audit, our coverage of the areas of focus was completed with no significant or new moderate audit issues identified.

## Audit results

**5.226** At the conclusion of the 2009–10 audit, three moderate audit issues remained outstanding. These issues relate to the DMO's financial reporting framework, the reporting of the commitments in the financial statements, and the need to improve bureau service arrangements between Defence and the DMO.

**5.227** The DMO has been proactive in actioning issues identified by the ANAO. This is reflected in the decrease in the number of audit issues and as a result four moderate audit issues have been resolved.

**5.228** An unqualified audit report was issued on 10 September 2010.

### *Summary of audit findings*

**5.229** Three moderate audit issues relating to cash management, purchasing controls, and business continuity have been resolved. This is the result of an increased focus by DMO, which included additional management and internal audit assurance activities on financial controls during 2009–10. In addition, DMO has published, and tested, its enterprise wide business continuity plan.

**5.230** As a result of the ANAO's and Defence's testing of the inventory and repairable items purchasing controls, the issue relating to bureau service arrangements for supply chain systems and process has been downgraded to a Category C finding. The increase in reliance on inventory and repairable items purchasing controls, provides further assurance over the cost of goods sold balance reported in the financial statements.

**5.231** No new moderate or significant audit issues were reported during the 2009–10 final audit.

### *Financial reporting framework – Financial management and reporting*

**5.232** At the completion of the 2008–09 audit, the ANAO reported a moderate audit issue relating to the design and operation of the financial reporting framework (the framework). The audit identified weaknesses in the design of specific controls over financial statement balances and testing of the operational effectiveness of these controls. In addition, the framework did not include assurance activities and controls for specific transactions reported in the financial statements. Accordingly, the ANAO performed extensive audit procedures to conclude that the financial statements were materially correct.

**5.233** During 2009–10, the DMO undertook a significant number of assurance activities to substantiate that the processing of financial transactions were

complete and accurate and the financial statements were free from material misstatement. The DMO has also commenced a major project to revise the financial reporting framework and develop and execute a controls testing regime. The DMO expect this project to be finalised during 2010–11.

### *Commitments*

**5.234** During the 2008–09 audit, the ANAO recommended that DMO develop and implement a program of regular reviews over commitments and maintain appropriate documentation to support the value of commitments.

**5.235** At the completion of the 2009–10 final audit, the ANAO identified improvements in the accuracy of the schedule of commitments reported in the financial statements. The improvements are attributed to an increase in financial management and internal audit assurance activities over the preparation of the commitments schedule, review of appropriate GST treatment, and testing of reported commitments.

**5.236** While improvements in the reporting and testing of commitments at year end were identified, it is important that the DMO strengthen its assurance program by implementing regular reviews, sustaining the types of assurance activities performed in 2009–10, and increasing the level of coverage over the commitments balance reported in the financial statements.

### *Bureau service arrangements between Defence and the DMO*

**5.237** IT systems and business processes managed by Defence are an integral part of DMO's internal control framework supporting the production of its financial statements.

**5.238** The DMO expects to receive assurance over the integrity of transactions processed by the systems managed by Defence, and the effectiveness of manual controls supporting these processes, as these transactions are reported in the DMO's financial statements. However, existing arrangements between Defence and the DMO do not provide mechanisms that assist the DMO to obtain the necessary assurance from Defence over the effectiveness of controls in the following systems and processes:

- the financial management controls and financial management information system;
- the human resource management controls and associated system; and
- system security and change management processes.

**5.239** The ANAO has previously reported that existing shared service agreements, or other formal agreements, incorporate control and monitoring activities that allow the DMO to obtain the necessary assurance from Defence over the effectiveness and adequacy of controls in the areas referred to above.

**5.240** In June 2010, Defence and the DMO signed a shared services agreement relating to IT Bureau services. This arrangement, and the DMO's monitoring activities over the work undertaken by Defence, will be reviewed as part of the 2010–11 audit.

**5.241** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2009–10 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>	7	(4)*	0	3
<b>Total</b>	<b>7</b>	<b>(4)</b>	<b>0</b>	<b>3</b>

\* One moderate audit issues relating to bureau service arrangements for supply chain systems and process has been downgraded to a Category C audit issue.

## Department of Veterans' Affairs

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	308.8	316.1
Appropriation revenue	316.1	326.6
Surplus / (deficit)	7.2	10.5
Total other comprehensive income	0.0	(1.7)
Total comprehensive income	7.2	8.8
Total assets	193.6	170.4
Total liabilities	125.4	113.7

5.242 Assets have increased primarily due to an increase in appropriation receivable arising from an underspend of appropriations.

5.243 Liabilities have increased due to increased liabilities at year end relating to IT and legal services, and the Defence Service Homes Insurance Scheme.

5.244 Movements in other measures were the result of fluctuations in normal business activity.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	10	10
Total expenses	11 887	11 616
Total assets	1 535	1 487
Total liabilities	3 206	2 718

5.245 Administered expenses have increased primarily due to increases in health care costs.

5.246 Administered liabilities have increased mainly as a result of an actuarial review of the Military Compensation provisions. The review took into account increases in health care costs, increases in incapacity payments due to life expectancy assumptions, and the recognition in 2009–10 of a liability for death benefits in respect of long latency diseases, such as those related to asbestos exposure.

**Areas of audit focus**

5.247 The ANAO’s audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- allocation of residential aged care payments between DVA and other agencies;
- estimation of the military compensation provision and associated future claims;
- the significant amount of high volume, low value pension payments being processed on a regular basis by DVA using complex and ageing information systems;



- IT general and applications controls as they relate to the financial statements;
- the recognition, measurement, impairment and reporting of intangible assets; and
- the quality assurance framework over benefit payments.

5.248 Audit coverage of these areas was finalised during the 2009–10 final audit.

## **Audit results**

### *Summary of audit findings*

#### *Outstanding audit issues*

5.249 During the interim phase of the 2009–10 financial statement audit four moderate audit issues were reported.

#### *Residential aged care payments*

5.250 The ANAO reported that there were limited controls in place to provide assurance that payments are made from DVA appropriations to residential care facilities for DVA veterans. The business rules over the source data used to calculate residential aged care payments were not applied effectively and DVA had limited monitoring and reconciliation controls to ensure that business rules are operating correctly. There was no Business Partnership Agreement with related agencies outlining the terms and conditions of processing and reporting of residential aged care payments.

5.251 A Business Partnership Agreement for residential aged care has now been signed by DVA and Department of Health & Ageing and DVA has commenced monitoring controls over residential aged care payments. Accordingly, this issue has been downgraded to a Category C finding at the final phase of the audit.

#### *Electronic purchasing process*

5.252 DVA implemented an electronic purchasing process in 2009–10 to streamline the purchasing and payment of goods and services. The audit identified that the delegations in the electronic purchasing process did not fully reflect the delegations issued by the Secretary and were not accurately applied to each invoice. DVA has introduced actions to address this issue and the finding has been downgraded to a Category C finding.

### *Reconciliation procedures*

**5.253** A review of the reconciliations to support payroll and asset balances in the general ledger identified that reconciliations were not always completed and reviewed in a timely manner, with large variances remaining unresolved for a significant period of time. At the final phase of the audit the ANAO noted that DVA investigated and cleared the identified variances, and the reconciliations are being carried out appropriately. This issue is now resolved.

### *Quality assurance framework*

**5.254** DVA has established a quality assurance framework over benefit payments to veterans to obtain assurance that payments are accurate, complete and made in a timely manner. The audit identified that the quality assurance framework over the payments made under the *Military Rehabilitation and Compensation Act* and *Safety Rehabilitation and Compensation Act* required strengthening by addressing business risks, completing reviews and reporting results to management in a timely manner. Recent internal audit reviews also identified a significant number of issues relating to the quality assurance process.

**5.255** DVA is addressing the issues by introducing a quality control at the front end of the benefit payment process and improving the overall quality assurance process.

5.256 The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2009–10 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	4	(3)*	0	1
<b>Total</b>	<b>4</b>	<b>(3)</b>	<b>0</b>	<b>1</b>

\*Two moderate audit issues relating to residential aged care payments and the electronic purchasing process have been downgraded to Category C audit findings.

## Conclusion

5.257 DVA have been proactive in actioning issues identified by the ANAO. As a result, two moderate audit issues have been downgraded and one moderate audit issue resolved. No new moderate or significant audit issues were reported at the final phase of the audit.

## Comments on non-material entities

5.258 Details of progress in addressing moderate audit issues identified during prior year audits of the Defence Services Homes Insurance Scheme, and the Military Superannuation and Benefits Scheme and the Royal Australian Navy Central Canteens Board are referred to below.

5.259 There were no new significant or moderate audit issues noted in non-material entities within the portfolio during 2009–10.

### Defence Service Homes Insurance Scheme

5.260 One moderate audit issue was identified during the 2008–09 audit relating to recognition of earned and unearned premium revenues. In 2009–10 the scheme introduced a reconciliation process to address this issue.

5.261 There were no new moderate or significant audit issues identified during the 2009–10 audit.

### Military Superannuation and Benefits Scheme

5.262 Military Superannuation and Benefits Scheme (MSBS) is continuing to address the moderate risk audit issue, identified as part of the 2008–09 audit,

relating to the provision of appropriate support for the valuation of an investment with a carrying value of \$93 million as at 30 June 2009. A related issue was identified during the 2009–10 audit concerning improvements that should be made to strengthen MSBS’s approach to assessing indicators of impairment for unlisted investments at year end. Insufficient assessment of indicators of impairment could result in the overstatement of the value of unlisted investments and consequential errors in the unit price, which is the means by which the net assets of the MSBS are attributed to individual MSBS members. The value of these units is calculated daily and fluctuates with changes in asset values and investment returns. MSBS has indicated that it is addressing this issue.

### **Royal Australian Navy Central Canteens Board**

**5.263** During the 2008–09 audit, a moderate audit issue was identified concerning the existence and valuation of assets. Notably, Royal Australian Navy Central Canteens Board (RANCCB) was unable to provide a measurement of the asset revaluation reserve for each class based on actual increments posted to the Asset Revaluation Reserve; revaluations were not performed for all assets in the asset class; and stocktakes were not performed on the fixed assets identified in the other infrastructure plant and equipment balance at the parks or Royal Australian Navy Central Canteens Fund. The ANAO recommended a range of improvements in future financial statement preparation processes. RANCCB has implemented the recommendations made, resolving this issue.

# Education, Employment and Workplace Relations Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit report issued	Audit issues identified
Department of Education, Employment and Workplace Relations	Yes	✓	10 Sept 10	10 Sept 10	
Australian Curriculum Assessment and Reporting Authority	No	✓	20 Sept 10	23 Sept 10	
Australian Fair Pay Commission Secretariat ☞ 31 July 2009	No	✓	24 Sept 10	24 Sept 10	
Australian Industrial Registry ☞ 31 December 2009	No	✓	8 Sept 10	9 Sept 10	
Australian Institute for Teaching and School Leadership Limited	No	✓	27 Aug 10	1 Sept 10	
Australian Learning and Teaching Council Limited	No	✓	7 Sept 10	10 Sept 10	
Australian National University ☞ 31 December 2009	No	✓	26 Mar 10	26 Mar 10	
- ANU Enterprise Ltd ☞ 31 December 2009	No	✓	23 Mar 10	23 Mar 10	
- ANU Section 68 Pty Ltd ☞ 31 December 2009	No	✓	2 Mar 10	23 Mar 10	
- Australian Scientific Instruments Pty Ltd ☞ 31 December 2009	No	✓	23 Mar 10	23 Mar 10	
Coal Mining Industry (Long Service Leave Funding) Corporation	Yes	✓	13 Oct 10	13 Oct 10	
Comcare Australia	Yes	✓	7 Sept 10	7 Sept 10	
Fair Work Australia	No	✓	30 Sept 10	30 Sept 10	
Office of the Australian Building and Construction Commissioner	No	✓	26 Aug 10	27 Aug 10	
Office of the Fair Work Ombudsman	No	✓	8 Sept 10	9 Sept 10	
Safe Work Australia	No	✓	12 Oct 10	12 Oct 10	

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit opinion issued	Audit issues identified
Seafarers' Safety, Rehabilitation and Compensation Authority (Seacare Authority)	No	✓	5 Oct 10	5 Oct 10	
Workplace Authority ☞ 31 January 2010	No	✓	8 Sept 10	9 Sept 10	

✓: audit report not modified

E : audit report contains an emphasis of matter

Q : audit report contains a qualification

A: audit report contains additional statutory disclosure

☞: financial year end date other than 30 June 2010

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

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

## Portfolio overview

**5.264** 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	2009–10 \$m	2008–09 \$m
Net cost of services	883.8	1 886.2
Appropriation revenue	849.7	1 883.9
Surplus/(deficit)	(34.1)	(2.3)
Total other comprehensive income	0.0	15.9
Total comprehensive income	(34.1)	13.6
Total assets	497.5	457.4
Total liabilities	279.0	228.6

**5.265** The net cost of services and appropriation revenue decreased significantly in 2009–10 due to amounts previously paid under a purchaser-provider arrangement for the delivery of personal benefit payments now being directly appropriated to Centrelink.

**5.266** Assets increased primarily due to a significant increase in leasehold improvements held, following DEEWR's move to new premises in 2009–10.

**5.267** Contributing to the increase in liabilities was an increase in lease incentives relating to DEEWR's move to new premises, a provision for voluntary redundancies which was not present in 2008–09 and an increase in employee provisions, due to changes in a number of the rates used by an actuary in estimating the provision.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	1 930.3	1 231.7
Total expenses	42 180.9	39 377.3
Total assets	18 072.1	15 469.2
Total liabilities	6 225.8	5 421.6

**5.268** Administered income increased mainly due to the revenues received from the Education Investment Fund (EIF), which commenced in May 2009, and a fair value gain recognised for the movements in the valuation of the Higher Education Loan Programme (HELP) receivable. This increase is mainly due to a change in the discount rate used. The increases in administered income were partially offset by a decrease in interest revenue following the transfer of the Higher Education Endowment Fund (HEEF) to the Department of Finance and Deregulation in December 2008.

**5.269** Administered expenses increased significantly in 2009–10 mainly due to increases in personal benefit payments and grant payments. The increased personal benefit payments in 2009–10 reflect the economic conditions experienced during the year. The increase in grant payments related to payments under the Building the Education Revolution program that commenced in 2009–10, and the EIF program, which commenced in May 2009.

**5.270** Assets increased mainly due to the valuation for the HELP receivable which increased significantly in 2009–10 due to changes in the discount rate used to reflect the time value of money.

**5.271** Administered liabilities increased mainly due to an increase in the provision for grants relating to Unfunded University Superannuation. The increase is predominantly due to changes in the discount rate, as well as other economic factors used as the basis for the actuarial calculation.



## Areas of audit focus

**5.272** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- review and assessment of the compliance activities and assurance processes underpinning personal benefits, child care and employment related payments;
- a continued focus on assessing the robustness of actuarial estimates in DEEWR's financial statements;
- the accounting and reporting processes for grants;
- an assessment of the completeness and accuracy of the accrual elements of administered programs required to be reported at year end; and
- an IT review of significant changes made to the IT environment.

**5.273** In 2009–10 the ANAO particularly focussed its review of the significant estimates included in the financial statements, prepared by the department with actuarial assistance, on the \$13.7 billion Higher Education Loan Programme (HELP) receivable. The ANAO engaged an independent actuary to assess a number of aspects of the department's actuarial estimate, including compliance with actuarial standards, and the reasonableness of the methodology and assumptions. In doing this, some of the elements considered by the independent actuary were the income and demographic characteristics of debtors, estimates of debts not expected to be paid, voluntary and compulsory repayments and the present value of payments that will be received over many years in the future. Overall the ANAO was satisfied with the robustness of the actuarial estimate; however our review did result in a change to methodology used to calculate the discount rate. This led to an increase in the estimate of the HELP receivable balance reported at year end of approximately \$500 million.

**5.274** Audit coverage of the remaining matters was finalised during the 2009–10 final audit.

## Audit results

### Summary of audit findings

#### Outstanding audit issue

5.275 A moderate audit finding regarding FMIS user access was identified during the 2009–10 interim audit. The department undertook immediate remedial action when notified of the issue. Our subsequent review of remedial action taken has confirmed that the risk exposure has been addressed and the issue is now resolved.

5.276 No new significant or moderate issues were noted during the 2009–10 final audit.

5.277 The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2009–10 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	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

#### Departmental Items

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of (contribution by) services	(42.6)	(195.9)
Revenue from Government	97.6	90.4
Surplus/(deficit)	55.0	(105.5)
Total other comprehensive income after income tax	0.0	0.0
Total comprehensive income	55.0	(105.5)
Total assets	665.6	541.4
Total liabilities	743.4	674.1

**5.278** The movement in the net cost of services and in the surplus for the year is primarily attributable to the movement in investments. The fair value of investments increased in 2009–10 due to improvements in the performance of equity markets.

**5.279** Assets increased mainly due to increases in the fair value of investments as described above. The increase in liabilities arose from fluctuations in normal business activities.

### Areas of audit focus

**5.280** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the valuation of illiquid investments that can be complex and have been impacted by changes in the economic environment; and
- the calculation of the long service leave provision.

**5.281** Audit coverage of these matters was finalised during the 2009-10 final audit with satisfactory results.

## Comcare

### Summary of Financial Results

#### Departmental Items

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of (contribution by) services	(112.6)	(78.9)
Revenue from Government	120.2	71.4
Surplus/(deficit)	7.6	(7.5)
Total other comprehensive income	0.3	(3.8)
Total comprehensive income	7.9	(11.3)
Total assets	2 307.7	2 273.3
Total liabilities	2 302.2	2 275.7

**5.282** The net cost of services movement can primarily be attributed to an increase in workers compensation claim expenses, partially offset by a decrease in the overall expense relating to common law asbestos claims, increased workers compensation insurance premium revenue and increased revenue from the sale of good and services.

**5.283** Revenue from Government increased due to increases in the provision for outstanding workers' compensation claims.

#### Areas of audit focus

**5.284** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- measurement of workers' compensation and asbestos claim liabilities of approximately \$2.3 billion, due to the inherent uncertainties surrounding the estimation of outstanding claims;
- the impact of legislative changes on compensation payments and related outstanding claims balances; and
- management of the IT control environment, which supports the data integrity and restricts access to Comcare's databases.

**5.285** Audit coverage of these matters was finalised during the 2009–10 final audit.

## **Audit results**

### *Summary of audit findings*

**5.286** No significant or moderate issues were identified during the 2009–10 audit.

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

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

# Environment, Water, Heritage and the Arts Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit report issued	Audit issues identified
Department of the Environment, Water, Heritage and the Arts	Yes	✓	17 Sept 10	17 Sept 10	◆
Australia Council	No	✓	2 Sept 10	3 Sept 10	
Australian Business Arts Foundation Ltd	No	✓	12 Oct 10	12 Oct 10	
Australian Film, Television and Radio School	No	✓	3 Sept 10	6 Sept 10	
Australian National Maritime Foundation	No	⇒	⇒	⇒	
Australian National Maritime Museum	No	✓	15 Sept 10	15 Sept 10	
Bundanon Trust Limited	No	✓	5 Sept 10	8 Sept 10	
Bureau of Meteorology	Yes	✓	23 Aug 10	27 Aug 10	
Director of National Parks	No	✓	9 Sept 10	9 Sept 10	
Great Barrier Reef Marine Park Authority	No	✓	20 Sept 10	27 Sept 10	
Murray–Darling Basin Authority	No	✓	15 Sept 10	15 Sept 10	
National Environment Protection Council Service Corporation	No	✓	15 Sept 10	20 Sept 10	
National Film and Sound Archive	No	✓	14 Sept 10	16 Sept 10	
National Gallery of Australia	Yes	✓	3 Sept 10	3 Sept 10	◆
National Gallery of Australia Foundation	No	✓	3 Sept 10	3 Sept 10	
National Library of Australia	Yes	✓	6 Aug 10	6 Aug 10	
National Museum of Australia	Yes	✓	30 Jul 10	30 Jul 10	
National Water Commission	No	✓	17 Aug 10	17 Aug 10	
Natural Heritage Trust of Australia Account	No	✓	17 Sept 10	17 Sept 10	
Screen Australia	No	✓	22 Sept 10	23 Sept 10	
Sydney Harbour Federation Trust	No	✓	3 Sept 10	3 Sept 10	

✓ : 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 2010

⇒ : 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

**5.288** The role of the Environment, Water, Heritage and the Arts portfolio during 2009–10 was 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.

**5.289** In March 2010, the responsibility for energy efficiency programs was transferred to the Climate Change and Energy Efficiency portfolio. In September 2010, the arts and culture functions were transferred to the Prime Minister and Cabinet portfolio and responsibility for sustainability, population and communities’ functions were added to the portfolio.

**5.290** The specific responsibilities of the Department of the Environment, Water, Heritage and the Arts (DEWHA) during 2009–10 were 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	2009–10 \$m	2008–09 \$m
Net cost of services	584.4	472.2
Appropriation revenue	494.7	442.7
Surplus/(deficit)	(89.7)	(29.6)
Total other comprehensive income	(11.7)	(24.1)
Total comprehensive income	(101.4)	(53.7)
Total assets	633.7	651.4
Total liabilities	438.8	354.3

**5.291** The net cost of services increased significantly mainly due to the growing costs to maintain and restore the Antarctic base and an increase in the number of employees associated with the energy efficiency programs.

**5.292** Appropriations revenue increased largely due to the funding for energy efficiency programs and water reform initiatives.

**5.293** Assets decreased mainly due to the transfer of appropriation receivable for the energy efficiency function to the Department of Climate Change and Energy Efficiency (DCCEE) and changes to funding arrangements for capital acquisitions.

**5.294** Liabilities increased primarily due to a re-assessment of the make-good provision for the Antarctic region.

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

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	61.2	542.9
Total expenses	3 834.8	1 922.4
Total assets	9 129.0	8 134.5
Total liabilities	47.5	128.3



**5.295** Administered income decreased significantly due to the one-off de-recognition of administered investments, mainly associated with the revised Commonwealth–State agreement for the Murray Darling Basin.

**5.296** 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 Australian 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 Australian Government.

**5.297** Administered expenses increased largely due to the energy efficiency expenses associated with the Home Insulation Program, the Solar Homes and Communities Plan, the Hot Water Rebate and the Green Loans Program.

**5.298** Administered assets increased significantly mainly due to the capitalisation of water entitlements purchased by DEWHA on behalf of the Australian Government under the Water Reform initiatives. The growth in the value of DEWHA’s investment in subsidiaries, mainly the Sydney Harbour Federation Trust, National Film and Sound Archive and the National Gallery of Australia, also contributed to the increase in administered assets.

**5.299** Liabilities decreased mainly due to the transfer of energy efficiency programs to DCCEE as a result of Machinery of Government changes in March 2010.

### **Areas of audit focus**

**5.300** The ANAO’s audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- grants financial management and reporting processes, in particular the Solar Homes and Communities Plan, Solar Hot Water Rebate, Home Insulation Program, National Solar Schools Plan and the Green Loans Program;
- IT general and application controls as they relate to the financial statements;
- the implementation and the integration of the new grants management system, Clarity, with the Financial Management Information System;

- complexities of accounting and valuation issues, in particular for water entitlements, and the make good obligations for the Antarctic; and
- asset management, including the stocktake of Antarctic asset holdings.

**5.301** The financial management of the Home Insulation Program (HIP), and Green Loans were of particular interest, as performance audits were being conducted at the same time. Reports of these audits have subsequently been tabled in Parliament – ANAO Report No.12, 2010–11 *Home Insulation Program* and ANAO Report No.9, 2010–11 *Green Loans Program*.

**5.302** The ANAO’s financial statement audit concluded that the \$1.6 billion in expenditure for HIP recorded in DEWHA’s statements was materially correct. In relation to this expenditure, DEWHA has disclosed in the notes to the financial statements that ‘some installers may have been paid for works not completed or not in accordance with the program requirements’.

**5.303** The ANAO performance audit of HIP also highlighted, among other things, that cases of potential fraud had been identified, although the extent of fraud was unknown and it would take many more months for investigations of cases to be complete. Further audit findings relating to HIP, arising from our financial statement audit, are set out in the audit results section below.

**5.304** Although the Green Loans Program performance audit report reported a number of significant matters related to the management of the program, these matters did not have a material impact on the 2009–10 financial statements.

**5.305** The ANAO issued an unqualified auditor’s report on DEWHA’s 2009–10 financial statements.

**5.306** Audit coverage of the remaining areas of audit focus were finalised during the 2009–10 final audit.

## **Audit results**

### *Summary of audit findings*

#### *Home Insulation Program*

**5.307** The ANAO’s audit of DEWHA’s 2009–10 financial statements concluded that there was evidence to support, with a reasonable level of confidence, that payments made under HIP were consistent with claims received by Medicare from installers registered for the program. However there was a risk that payments for fraudulent claims and for services not

delivered in accordance with program guidelines occurred. The program's pre-payment controls were weak and there was insufficient evidence that they operated effectively during 2009–10. The post payment controls could have been stronger if they were more consistent with recommended methodology developed prior to 1 July 2009. The post-payment controls were also late in being implemented and analysis of the results of compliance activities was limited and in many instances the necessary follow up action did not occur. As a result of these controls weaknesses, many of the inherent risks identified were not adequately addressed. The ANAO has raised a significant audit finding in relation to the administration of this program.

**5.308** The remediation actions related to HIP are now the responsibility of DCCEE. That department is investigating the extent of payments made for fraudulent claims and for services not delivered in accordance with program guidelines. The ANAO will follow up this matter as part of the 2010–11 financial statement audit of DCCEE.

#### User access to the FMIS

**5.309** During 2009–10 interim phase of the audit, the ANAO conducted a security review of DEWHA's FMIS and identified that privileged user access was not being monitored. Privileged users are able to edit and change data within the FMIS and to by-pass controls designed to ensure the appropriate segregation of duties. This exposed DEWHA to an increased risk of unauthorised changes to FMIS data and put at risk the reliability of financial information in DEWHA's FMIS system. Our subsequent review of DEWHA actions has confirmed that the risk exposure has been addressed and the issue is now considered resolved.

**5.310** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2009–10 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>	1	(1)	0	0
<b>Total</b>	<b>1</b>	<b>(1)</b>	<b>1</b>	<b>1</b>

## Bureau of Meteorology

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	243.8	237.0
Appropriation revenue	251.1	244.8
Surplus/(deficit)	7.3	7.8
Total other comprehensive income	1.2	23.3
Total comprehensive income	8.5	31.1
Total assets	451.8	419.1
Total liabilities	124.7	111.0

**5.311** Assets increased due to a capital injection for the purchase of new radar facilities and the implementation of systems as part of the Water for the Future initiative.

**5.312** Movements in other measures were the result of fluctuations in normal business activity.

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

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	6.2	18.4
Total expenses	19.7	19.5
Total assets	0.0	3.4
Total liabilities	0.0	0.0

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

### Areas of audit focus

**5.314** Our 2009–10 audit approach identified a major upgrade of the Bureau of Meteorology's Financial Management Information System as an area of audit focus that was significant in terms of its potential impact on the 2009–10 financial statements. Audit coverage of this matter was finalised during the 2009–10 final audit with satisfactory results.

## Audit results

### Summary of audit findings

**5.315** There were no significant or moderate audit issues identified during the 2009–10 audit.

## National Gallery of Australia

### Summary of Financial Results

#### Departmental Items

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	28.5	33.2
Revenue from Government	31.5	41.8
Surplus /(deficit)	3.0	8.6
Total other comprehensive income after income tax	117.5	437.2
Total comprehensive income	120.5	445.8
Total assets	4 259.0	4 095.7
Total liabilities	23.0	13.2

**5.316** The net cost of services decreased as a result of: an increase in bookshop sales and admissions revenue for exhibitions; and an increase in donations and corporate sponsorships. These increases were partially offset by a decrease in artworks received as gifts to the National Gallery of Australia (the Gallery) and an increase in supplier expenses, exhibition, and other administrative costs.

**5.317** Revenue from Government decreased mainly due to changes in appropriation funding arrangements that took effect from 2009–10.

**5.318** Total other comprehensive income comprises the asset revaluation adjustment resulting from the revaluation of the Gallery's heritage and cultural assets.

**5.319** Assets increased mainly due to the effect of a revaluation of the Gallery's heritage and cultural assets and buildings, and an increase of over \$56 million relating to improvements to the Gallery's main entrance and new exhibition areas.

**5.320** Liabilities in 2009–10 included a \$9 million loan from the Australian Government to help fund the Gallery’s continuing construction program over the next three years.

### **Areas of audit focus**

**5.321** In 2009–10, the ANAO’s audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- valuation of the Gallery’s \$3.9 billion art collection;
- capitalisation of \$105.5 million work in progress associated with new building works;
- accounting for a \$9 million loan received from the Australian Government during the year; and
- IT general and application controls as they relate to the financial statements.

**5.322** Audit coverage of these matters was finalised during the 2009–10 final audit.

### **Audit results**

#### *Summary of audit findings*

#### *General IT environment change management*

**5.323** One moderate audit finding was raised by the ANAO during the 2009–10 audit relating to the adequacy of change control processes in place for the Gallery’s admission ticketing system. The audit identified weaknesses in the documentation and authorisation of IT programming changes and controlled user access to the system.

**5.324** The Gallery has advised that action has been taken to improve change control and user access, and to improve data integrity. The ANAO will review this matter during the 2010–11 audit.

**5.325** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2009–10 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	1	0	0	1
<b>Total</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>1</b>

## National Library of Australia

### Summary of Financial Results

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	60.1	54.2
Revenue from Government	50.6	60.0
Surplus /(deficit)	(9.5)	5.8
Total other comprehensive income after income tax	6.8	(14.0)
Total comprehensive income	(2.7)	(8.2)
Total assets	1 710.2	1 702.3
Total liabilities	16.8	16.0

**5.326** The movement in net cost of services was the result of fluctuations in normal business activity. The decrease in revenue from Government was mainly attributable changes in appropriation funding arrangements that took effect from 2009–10.

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

### Areas of audit focus

**5.328** In 2009–10 the ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- IT general and application controls as they relate to the financial statements;
- accounting for the valuation of \$1.4 billion heritage and cultural assets; and

- intangible assets, including the digitisation of library resources.

5.329 Audit coverage of these matters was finalised during the 2009–10 final audit.

## Audit results

### *Summary of audit findings*

5.330 There were no significant or moderate audit issues identified during the 2009–10 audit.

## National Museum of Australia

### Summary of Financial Results

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	42.4	40.3
Revenue from Government	40.2	40.3
Surplus /(deficit)	(2.2)	0.0
Total other comprehensive income after income tax	6.7	3.4
Total comprehensive income	4.5	3.4
Total assets	406.7	400.1
Total liabilities	9.3	9.0

5.331 Movements in these items were not significant and were the result of fluctuations in normal business activity.

### Areas of audit focus

5.332 An area of audit focus in 2009–10 was the \$219.9 million fair value of the Museum’s heritage and cultural assets, including the national historic collection.

5.333 Audit coverage of these matters was finalised during the 2009–10 final audit with satisfactory results.

## Audit results

### *Summary of audit findings*

5.334 There were no significant or moderate audit issues identified during the 2009–10 audit.



## Comments on non-material entities

**5.335** There were no significant or moderate audit issues identified in relation to non-material entities within the portfolio during the 2009–10 audits. In 2008–09 one moderate audit issue was reported for Screen Australia in relation to weaknesses in change management controls, including a lack of documentation of change management policies and procedures. 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. These issues were satisfactorily resolved in 2009–10, with appropriate procedures being developed, documented and implemented.

# Families, Housing, Community Services and Indigenous Affairs Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit report issued	Audit issues identified
Department of Families, Housing, Community Services and Indigenous Affairs	Yes	✓	31 Aug 10	31 Aug 10	
- Aboriginals Benefit Account	No	✓	31 Aug 10	31 Aug 10	
- Aboriginal and Torres Strait Islander Land Fund Account	No	✓	31 Aug 10	31 Aug 10	
Aboriginal Hostels Ltd 26 June 2010	No	✓	28 Sept 10	28 Sept 10	▲
Anindilyakwa Land Council	No	✓	8 Sept 10	11 Sept 10	
Central Land Council	No	✓	9 Sept 10	13 Sept 10	
Equal Opportunity for Women in the Workplace Agency	No	✓	11 Aug 10	11 Aug 10	
Indigenous Business Australia	Yes	✓	16 Sept 10	16 Sept 10	
- Cape Don Pty Ltd	No	✓	9 Nov 10	12 Nov 10	
- CDC Nominees (GRC) Pty Ltd T/A Wildman Wilderness Lodge	No	✓	21 Oct 10	22 Oct 10	▲
- Consolidated Manufacturing Enterprises Pty Limited	No	✓	23 Oct 10	3 Nov 10	
- Darwin Hotel Holdings Trust	No	✓	1 Nov 10	3 Nov 10	
- Gagudju Crocodile Hotel Trust	No	✓	1 Nov 10	3 Nov 10	
- Gagudju Lodge Cooina Trust	No	✓	1 Nov 10	3 Nov 10	
- Hotel Enterprises Pty Ltd	No	✓	3 Nov 10	3 Nov 10	
- Hotel Holdings Trust	No	✓	1 Nov 10	3 Nov 10	
- Indigenous Fishing Trust	No	✓	2 Nov 10	3 Nov 10	
- Indigenous Investment Trust	No	✓	2 Nov 10	3 Nov 10	
- Kakadu Tourism (GCH) Pty Ltd	No	✓	22 Sept 10	28 Sept 10	
- Kakadu Tourism (GLC) Pty Ltd	No	✓	22 Sept 10	28 Sept 10	
- Larrakia Darwin Hotel Partnership	No	✓	1 Nov 10	3 Nov 10	
- Leonora Investment Trust	No	✓	3 Sept 10	7 Sept 10	
- Mungo Lodge Pty Limited	No	✓	27 Oct 10	27 Oct 10	▲
- National Indigenous Property Trust	No	✓	1 Nov 10	3 Nov 10	
- Port Botany Transfer Station Trust	No	✓	1 Nov 10	3 Nov 10	

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit report issued	Audit issues identified
- Scarborough House Office Trust	No	✓	1 Nov 10	3 Nov 10	
- Scarborough House Investment Trust	No	✓	1 Nov 10	3 Nov 10	
- South Hedland Indigenous Property Trust	No	✓	1 Nov 10	3 Nov 10	
- Swanbrook Road Holding Trust	No	✓	1 Nov 10	3 Nov 10	
- Tennant Creek Land Holding Trust	No	✓	1 Nov 10	3 Nov 10	
- Tennant Creek Foodbarn Partnership	No	✓	3 Sept 10	7 Sept 10	
- Tjapukai Aboriginal Cultural Park Partnership	No	✓	12 Oct 10	15 Oct 10	
Indigenous Land Corporation	No	✓	25 Aug 10	27 Aug 10	
- National Centre of Indigenous Excellence Limited	No	✓	7 Oct 10	12 Oct 10	
- National Indigenous Pastoral Enterprises Pty Ltd	No	✓	25 Aug 10	27 Aug 10	
Outback Stores Pty Ltd	No	✓	27 Aug 10	27 Aug 10	
Northern Land Council	No	✓	2 Nov 10	4 Nov 10	
Tiwi Land Council	No	✓	7 Sept 10	7 Sept 10	
Torres Strait Regional Authority	No	✓	1 Sept 10	3 Sept 10	
Wreck Bay Aboriginal Community Council	No	✓	7 Sept 10	7 Sept 10	
Wreck Bay Enterprises Ltd	No	✓	7 Sept 10	7 Sept 10	

✓: audit report not modified

E : audit report contains an emphasis of matter

Q : audit report contains a qualification

A: audit report contains additional statutory disclosure

☞: financial year end date other than 30 June 2010

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

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

## Portfolio overview

**5.336** 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 provided 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	2009–10 \$m	2008–09 \$m
Net cost of services	583.3	1 662.2
Appropriation revenue	573.2	1 657.8
Surplus/(deficit)	(10.1)	(4.4)
Total other comprehensive income	10.8	12.1
Total comprehensive income	0.6	7.7
Total assets	392.3	428.6
Total liabilities	131.9	211.6

**5.337** The net cost of services and appropriation revenue reduced significantly as a result of the change to the funding arrangements under which Centrelink was funded for the cost of providing services on behalf of policy agencies. In 2009-10 Centrelink received direct appropriations, whereas previously Centrelink received the majority of its funding from policy agencies.

**5.338** The increased deficit was, largely due to certain expenses incurred by FaHCSIA associated with the transition to Centrelink's direct funding arrangements in 2009–10.

**5.339** The decrease in total other comprehensive income is not significant and relates to differences between the respective revaluation increments recorded in each financial year.

**5.340** Assets decreased largely due to a fall in appropriation receivables that resulted from the changes to the funding arrangements for Centrelink.

**5.341** Liabilities decreased as a result of a reduction in amounts payable to Centrelink due to the changed funding arrangements referred to above.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	727.1	659.7
Total expenses	67 789.7	75 737.0
Total assets	4 763.2	4 657.9
Total liabilities	7 576.9	7 845.8

**5.342** Administered income increased as a result of higher recoveries in personal benefits paid and increased revenues relating to the Indigenous Employment programs.

**5.343** Administered expenses reduced significantly mainly due to the one-off personal benefit payments made under the Government's Economic Stimulus Package in 2008–09. In addition, a reduction in the level of grant payments is the result of the full year effect of the new COAG arrangements whereby the Department of the Treasury has been funded to make these payments.

**5.344** Administered assets increased mainly due to increases in the investment in deposits and government securities.

**5.345** Administered liabilities decreased due to a reduction in the personal benefit payables, as no payments under the Government's Economic Stimulus Package were outstanding at the end of 2009–10. This reduction was partly offset by an increase in the personal benefit provision.

### **Areas of audit focus**

**5.346** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- personal benefit payments and related debts that are processed by Centrelink;
- FaHCSIA's controls over the personal benefit payments as it has ultimate responsibility for administration, funding and reporting of the benefit payments;
- actuarial valuation of the personal benefit provision and related receivables;
- accounting processes and controls over grant payments;

- valuation of investments in fixed deposits and government securities;
- accounting processes and controls with asset valuation and asset recording;
- appropriations reporting and disclosure resulting from an increase in the number of outcomes; and
- IT general and application controls as they relate to the financial statements.

**5.347** The personal benefit provision (\$5.8 billion) and the associated receivables (\$1 billion) account for approximately 77 per cent of FaHCSIA's administered liabilities and 21 per cent of FaHCSIA's administered asset base respectively. In view of the materiality of these items, they are of particular audit interest. The balances of these items included in the financial statements are based on estimates which are determined by an actuary taking into account key variables including the impact of lodgement profiles, the influence of tax bonus payments and government policy settings.

**5.348** In view of the sensitivity of these balances to movements in the above-mentioned variables, the ANAO engaged its own actuary to independently review FaHCSIA's estimates to obtain assurance over the balances included in the financial statements.

**5.349** Audit coverage of the areas of audit focus was finalised during the 2009–10 final audit.

## **Audit results**

### *Summary of audit findings*

**5.350** There were no new significant or moderate audit issues identified during the final phase of the 2009–10 audit.

### *Outstanding audit issues*

**5.351** In 2008–09 the ANAO reported two moderate audit issues relating to the integrity of the fixed asset register and the administration of grants. FaHCSIA has carried out an independent valuation of its fixed assets and has updated its asset register. This issue has now been resolved. In addition, considerable work has been undertaken by FaHCSIA to address the matters relating to grants administration and this matter has been downgraded to a Category C finding pending successful implementation of new processes and procedures.

5.352 The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2009–10 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)*	0	0
<b>Total</b>	<b>2</b>	<b>(2)</b>	<b>0</b>	<b>0</b>

\* One audit issue relating to grants administration was downgraded to a Category C finding.

## Indigenous Business Australia

### Summary of financial results

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	97.6	1.0
Revenue from Government	38.8	37.4
Surplus/(deficit) after income tax expenses*	(59.2)	33.6
Total other comprehensive income after income tax	5.2	(5.2)
Total comprehensive income	55.7	27.2
Total assets	967.3	1,046.9
Total liabilities	35.1	59.5

\* The surplus/(deficit) also reflects income tax expenses of \$0.3m (2008–09 \$1.1m), the share of the operating surplus of associates \$2.6m (2008–09 \$1.6m) and the share of the surplus from non-controlled interests \$2.7m (2008–09 \$3.4m).

**5.353** The net cost of services increased significantly mainly due to:

- losses incurred on the disposal of assets and as a result of the accounting for a valuation decrement due to the re-measurement of loans. By contrast the 2008–09 year contained a significant gain on re-measurement;
- a decrease in the sale of goods and services revenues resulting from the transfer of Outback Stores; and
- a decrease in interest income associated with smaller cash holdings.

**5.354** The movement in other comprehensive income after income tax was due to asset valuation increments. By contrast the 2008–09 year contained asset valuation decrements.

**5.355** Assets decreased mainly due to reduced cash holdings associated with the transfer of Outback Stores to FaHCSIA on 1 March 2010, and a decrease in the value of the loans portfolio. The decrease in liabilities was due to the transfer of Outback Stores and a decrease in construction liabilities.

## **Areas of audit focus**

**5.356** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- accounting for and disclosure of the loan portfolio;
- review of the risk margin applied to the fair value measurement of the loan book;
- accounting for and disclosure of the investment portfolio; and
- valuation of investments in associate companies.

**5.357** Audit coverage of these matters was finalised during the 2009–10 final audit.

## **Audit results**

### *Summary of audit findings*

**5.358** There were no significant or moderate audit issues identified during the 2009–10 audit.

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

**5.359** Moderate audit issues were identified during the 2009–10 audits of CDC Nominees (GRC) Pty Ltd T/A Wildman Wilderness Lodge and Mungo



Lodge Pty Limited. These issues are referred to below, together with progress made by Aboriginal Hostels Limited (AHL) in addressing a number of issues identified during the 2008–09 audit.

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

### **CDC Nominees (GRC) Pty Ltd T/A Wildman Wilderness Lodge**

**5.361** The ANAO identified one moderate audit issue relating to the lack of policies and procedures for inventory stocktakes and failure to review stock for obsolescence. These issues were also reported in 2008–09.

**5.362** The company advised it is taking action to address these issues.

### **Mungo Lodge Pty Limited**

**5.363** The ANAO identified one moderate audit issue relating to the absence of documentation to support the Indigenous Business Australia's approval of working capital transfers to the company. This issue was also reported in 2008–09.

**5.364** The company advised it is taking action to address this issue.

### **Aboriginal Hostels Limited**

**5.365** The ANAO reported a number of moderate audit issues during the 2008–09 audit that were outstanding from prior years. These issues related to weaknesses in controls supporting:

- key reconciliations in relation to bank accounts, fixed assets, and payroll;
- employee commencements and terminations;
- employee leave processing;
- general IT security controls; and
- IT security over the financial management system.

**5.366** The 2009–10 audit identified that the situation relating to key reconciliations had improved and the finding has been downgraded to a Category C finding. In addition, AHL has implemented a new financial management system which has resolved the IT security issue.

**5.367** Three moderate audit issues remained outstanding at the end of the 2009–10 audit. AHL has provided advice on the steps taken to resolve these

issues with the introduction of the new financial management information system. The ANAO will review the system and related controls during the 2010–11 audit.

**5.368** There were no new significant or moderate issues identified during the 2009–10 audit.

# Finance and Deregulation Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit report issued	Audit issues identified
Department of Finance and Deregulation	Yes	✓	27 Aug 10	28 Aug 10	
Albury- Wodonga Corporation	Yes	✓	15 Sept 10	15 Sept 10	
ASC Pty Ltd	Yes	✓	19 Aug 10	19 Aug 10	
Australian Electoral Commission	Yes	✓	18 Oct 10	19 Oct 10	◆
Australian Industry Development Corporation	Yes	✓	16 Aug 10	16 Aug 10	
Australian Reward Investment Alliance	No	✓	16 Sept 10	16 Sept 10	
Australian River Co	No	✓	1 Mar 10	1 Mar 10	
Commonwealth Superannuation Scheme	No	✓A	16 Sept 10	16 Sept 10	
ComSuper	No	✓	3 Sept 10	3 Sept 10	
Construction and Development Company Limited	No	✓	30 June 10	30 June 10	
Future Fund Management Agency	Yes	✓	27 Sept 10	27 Sept 10	
Medibank Private Ltd	Yes	✓	30 Aug 10	30 Aug 10	
- Australian Health Management Group Pty Limited	No	✓	30 Aug 10	30 Aug 10	
- Medibank Health Solutions Pty Ltd (formerly Health Services Australia Pty Ltd)	No	✓	30 Aug 10	30 Aug 10	▲
Public Sector Superannuation Accumulation Plan	No	✓A	16 Sept 10	16 Sept 10	
Public Sector Superannuation Scheme	No	✓A	16 Sept 10	16 Sept 10	
Tuggeranong Office Park Pty Ltd	No	✓	30 June 10	30 June 10	

✓: audit report not modified

E : audit report contains an emphasis of matter

Q : audit report contains a qualification

A: audit report contains additional statutory disclosure

☞: financial year end date other than 30 June 2010

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

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

## Portfolio overview

**5.369** The Finance and Deregulation portfolio provides a broad array 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; asset sales; the administration of the Government's general insurance fund, investment funds and superannuation schemes; Commonwealth land policy; discretionary compensation mechanisms and the administration of Parliamentarians' entitlements. The portfolio also has responsibility for ensuring best practice Government regulation.

## Department of Finance and Deregulation

### Summary of financial results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net Cost of Services	243.2	285.0
Appropriation revenue	230.7	246.3
Surplus/(deficit) after income tax expenses *	(25.3)	(49.3)
Total other comprehensive income	24.2	43.8
Total comprehensive income	(1.1)	(5.5)
Total assets	1 971.0	1 883.3
Total liabilities	452.2	393.1

\* The surplus/(deficit) also reflects income tax expenses of \$12.8m (2008–09: \$10.6m).

**5.370** The net cost of services has decreased primarily due to a smaller loss on revaluation of the domestic property portfolio compared to the prior year, as the economy has recovered from the global financial slowdown. In addition, expenditure on insurance claims managed through Comcover has reduced due mainly to a decrease in one-off large claims. This has been partially offset by a reduction in the reinsurance recovery amount associated with a number of large claims in the prior year.

**5.371** Appropriation revenue has decreased from the prior year as a result of the winding up of the Australian Government Online Service Point (AGOSP) Program and the transfer of the Office of Evaluation and Audit to the ANAO.

**5.372** Assets have increased mainly as a result of: an equity appropriation receivable increasing due to unspent monies relating to the Anzac Park West and ASIO building projects; and an increase in special accounts due primarily

to cash generated from insurance premiums and income from the sale of assets.

**5.373** Liabilities have increased due to revenue being received in advance in relation to building improvements at Anzac Park West. There has also been an increase in the proposed return of equity to the Australian Government at year end due to the divestment of three investment properties.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	2 520.0	1 773.1
Total expenses	8 288.3	6 993.9
Total assets	24 097.3	23 616.6
Total liabilities	93 411.3	82 360.5

**5.374** Administered income has increased as a result of the recognition of a full year of income from the Nation Building Funds.

**5.375** Administered expenses have increased due to an increase in the superannuation liability and increased payments out of the Nation Building Funds. The increase in the superannuation liability and expense is mainly due to the growth in employee wages and the length of service of Australian Government employees and lower interest rates. This was partially offset by the effect of a reduction in the number of members in schemes now closed to new members. Payments from the Nation Building Fund have increased due to a full year of payments being recognised and an increase in activity due to the Government's stimulus package.

**5.376** Administered liabilities have increased mainly as a result of an increase in the superannuation liability referred to above.

### Areas of audit focus

**5.377** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the complexity of the assumptions and calculations underpinning the actuarial assessment of the public sector unfunded superannuation liabilities;

- the valuation of the Australian Government's domestic property portfolio and the adequacy of asset management procedures;
- the assumptions and calculations of the liabilities arising from the Australian Government's self-managed general insurance fund (Comcover);
- the validity and accuracy of entitlements paid to Parliamentarians and their staff;
- the oversight and valuation of assets of the Nation Building Funds; and
- IT general and application controls as they relate to the financial statements.

**5.378** The calculations of the unfunded superannuation liabilities (\$92.7 billion at 30 June 2010) and the Comcover insurance liability (\$243.8 million at 30 June 2010) were of particular audit interest in view of the complexity of the assumptions that underpin both calculations. Both liabilities were based on actuarial assessments obtained by the department. The ANAO also engaged actuaries to gain assurance over the balances included in the financial statements.

**5.379** Audit coverage of these matters was finalised during the 2009–10 final audit.

## **Audit results**

### *Summary of audit findings*

#### *Outstanding audit issue*

**5.380** During the 2009–10 interim audit, the ANAO identified a security weakness in Finance's HRMIS. The issue related to the username and password for a superuser being available in free text on a network drive that a significant number of Finance staff had access to. Finance took remedial action to address the situation by undertaking a thorough review of access to the HRMIS and reviewed the accuracy of data held in the HRMIS. No significant issues were identified from this review.

**5.381** There were no new significant or moderate audit issues identified during the 2009–10 final audit.

**5.382** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2009–10 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>

## Albury-Wodonga Development Corporation

### Summary of financial results

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of (contribution) by services	2.2	(0.9)
Revenue from Government	0.0	0.0
Surplus/(deficit)*	3.0	(0.4)
Total other comprehensive income	10.0	(5.7)
Total comprehensive income	13.0	(6.1)
Total assets	145.7	154.3
Total liabilities	23.8	25.3

\* The surplus also includes the Corporation's share of surpluses in associates and joint ventures of \$0.8m (2008–09: \$0.6m)

**5.383** The net cost of services increased mainly due to stronger sale activity for land during the year.

**5.384** The increase in total other comprehensive income relates to the higher valuation of land assets brought to account during the year compared to the net decrease in the valuation of land for the prior year.

**5.385** The decrease in assets is associated stronger sale activities for land resulting in a reduction in related assets.

## Areas of audit focus

5.386 The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- land valuations;
- the capitalisation of development costs; and
- accounting for joint ventures.

5.387 Audit coverage of these matters was finalised during the 2009–10 final audit.

## Audit results

### *Summary of audit findings*

5.388 There were no significant or moderate audit issues identified during the 2009–10 audit.

## ASC Pty Ltd

5.389 ASC Consolidated Group (ASC) 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.

5.390 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	2009–10 \$m	2008–09 \$m
Total income	516.2	352.0
Total expenses	511.9	333.6
Profit (loss) after income tax	4.3	18.4
Total other comprehensive income after income tax	25.5	1.4
Total comprehensive income	29.8	19.8
Total assets	523.4	446.4
Total liabilities	315.0	262.8

**5.391** Income and expenses increased primarily as a result of increased activity for the Air Warfare Destroyer (AWD) project.

**5.392** Assets increased due to working capital requirements for activity associated with AWD and an increase in the value of ASC's buildings as a result of a valuation conducted in 2009–10.

**5.393** Liabilities have increased as a result of increased purchases in relation to the AWD project and the timing of billing resulting in an increase in unearned income.

### Areas of audit focus

**5.394** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- profit recognition on ASC's major contracts including the current Through Life Support Agreement (TLSA);
- accounting for the Air Warfare Destroyer (AWD) contract;
- estimation of warranty obligations for potential warranty claims arising from ASC's design, engineering and maintenance activities;
- accounting for ASC's defined benefit superannuation fund: ASC engage an expert to perform an independent assessment of the defined benefit superannuation fund;

- self insurance for workers compensation: ASC self insures the costs associated with workers' compensation and engages an expert to perform an independent assessment of this liability; and
- IT general and application controls as they relate to the financial statements.

**5.395** ASC's activities include the maintenance, design development, engineering and upgrading of submarines for the Royal Australian Navy and the design and construction of three Hobart Class Australian Warfare Destroyers. The accounting treatment, in particular revenue recognition, in relation to these contracts is complex and subject to significant estimation and judgement. The ANAO reviewed the assessment and application of ASC's policies and processes for capturing and recording costs, the allocation of costs to projects, and the recognition of profits on these long term construction contracts.

**5.396** ASC includes an estimate for the warranty obligation arising from its design, engineering and maintenance activities as a liability in its financial statements. The provision for potential repair and restoration costs arising from warranty claims is subject to estimation and uncertainties and ASC engaged an actuary to undertake an assessment of this provision. In 2009–10 the ANAO reviewed the accounting policy and the actuarial assessment underpinning the estimate.

## **Audit results**

### *Summary of audit findings*

**5.397** There have been no significant or moderate audit issues identified during the 2009–10 audit.

## Australian Electoral Commission

### Summary of financial results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net Cost of Services	113.4	97.2
Appropriation revenue	109.0	101.5
Surplus/(deficit)	(4.4)	4.3
Total other comprehensive income	0.1	2.6
Total comprehensive income	(4.3)	6.9
Total assets	55.9	56.4
Total liabilities	33.0	31.2

**5.398** The net cost of services increased largely due to higher supplier expenses associated with the preparation for the Federal election, and secretariat support for Redistribution Committees undertaking redistributions of federal election boundaries for Queensland and New South Wales. These expenses were partially offset by an increase in appropriation funding for these programs resulting in a net deficit at 30 June 2010.

**5.399** Other comprehensive income in 2008–09 related to a revaluation increment following an asset revaluation program. No equivalent revaluation increment arose in 2009–10, resulting in a decrease to other comprehensive income.

**5.400** Other movements were a result of fluctuations in normal business activities.

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

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	0.1	0.2
Total expenses	0.3	0.5
Total assets	0.0	0.0
Total liabilities	0.0	0.0

**5.401** There were no significant movements in administered items as there was no Federal Election activity during either 2009–10 or 2008–09.

## Areas of audit focus

**5.402** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- Appropriation accounting and disclosure;
- quantification and reporting of commitments and contingencies;
- accounting for intangible assets; and
- IT general and application controls as they relate to the financial statements.

**5.403** Audit coverage of these areas of audit focus was finalised during the 2009–10 final audit.

## Audit results

### *Summary of audit findings*

#### *Outstanding audit issue*

**5.404** During the 2009–10 interim audit, the ANAO identified two moderate audit issues relating to Business Continuity Management and IT security.

**5.405** At the time of the interim audit, the AEC had not developed Disaster Recovery Plans (DRPs) for all IT systems and had not undertaken testing of its Business Continuity Plan (BCP). This increases the risk that in the event of an interruption to business operations, an accident, or a disaster, the AEC will be unable to restore critical business systems within acceptable timeframes.

**5.406** The ANAO also identified that the AEC was not complying with a number of mandatory requirements of the Australian Government Information Security Manual (ISM). Non-compliance with the requirements of the ISM increases the risk that the AEC will not be able to appropriately secure its data and information.

**5.407** The AEC has commenced activity to address these issues and the ANAO will review progress during the 2010–11 audit. There were no new significant or moderate audit issues identified during the final audit phase.

**5.408** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2009–10 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	2	0	0	2
<b>Total</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>2</b>

## Australian Industry Development Corporation

### Summary of financial results

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	0.5	1.0
Total expenses	0.1	0.6
Surplus/(deficit)	0.4	0.4
Total other comprehensive income after income tax	0.0	0.0
Total comprehensive income	0.4	0.4
Total assets	4.2	9.6
Total liabilities	0.2	2.6

**5.409** Income and expenses decreased as a direct result of the wind down of the Corporation in accordance with the *AIDC Sale Act 1997*.

**5.410** A return of capital was made to the Australian Government resulting in a reduction in assets and a decrease in interest income. Assets were further reduced as Australian Government bonds were settled during the year.

**5.411** Liabilities decreased as a result of the maturity of interest rate swaps during the financial year.

### Areas of audit focus

**5.412** The ANAO's audit approach identified the following area that is significant in terms of its potential impact on the 2009–10 financial statements:

- the accounting for the settlement of the final Government bond assets and swap liabilities during 2009–10.

**5.413** Audit coverage of this matter was finalised during the 2009–10 final audit.

## Audit results

### Summary of audit findings

**5.414** There were no significant or moderate audit issues identified during the 2009–10 audit.

## Future Fund Board of Guardians and the Future Fund Management Agency

### Summary of financial results

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	6 660.4	(3 189.4)
Total expenses	339.9	129.5
Profit (loss)	6 320.5	(3 318.9)
Total other comprehensive income	0.0	0.0
Total comprehensive income	6 320.5	(3 318.9)
Total assets	70 601.3	62 757.3
Total liabilities	3 319.3	1 795.7

**5.415** The increase in income is mainly attributable to a gain on investments held at fair value which reflects the improved performance of the global investment markets. Foreign exchange gains also contributed to the increase in income. Dividends and distributions were slightly below the amounts reported in the previous year as a result of the divestment of a portion of the Telstra holdings early in the financial year.

**5.416** Expenses have increased primarily due to movements in fees paid to investment managers. Further diversification of the Fund's investments has led to an increase in the number of investment managers appointed, which has increased investment manager fees. Improved performance of the Fund, coupled with the fact that a number of managers have now worked with the Fund for multiple years, has also resulted in an increase in performance fees accruing to investment managers.

**5.417** Net assets have increased due to improved investment values and the reinvestment of income received. The Fund's Telstra share holding was partially sold down in August 2009.

**5.418** Liabilities have increased mainly due to an increase in the Fund's derivative liabilities (currency contracts and interest rate swaps).

### **Areas of audit focus**

**5.419** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- valuation of investments – the valuation of illiquid investments is complex and has been further impacted by changes in the economic environment;
- review of the continually evolving Comprehensive Compliance Monitoring and Reporting Systems which strengthens the internal assurance process;
- review of the impact of changes in accounting standards applicable for the year ended 30 June 2010. A significant change for the Future Fund's financial statements was enhanced financial instrument disclosure requirements;
- review of the processes for monitoring external providers particularly the investment custodian;<sup>29</sup>
- review of the tax implications relating to the five wholly owned subsidiaries; and
- the administration and investment of the three Nation Building Funds (Building Australia Fund, Education Investment Fund and Health and Hospitals Fund) with a focus on the new investment mandates for these funds.

**5.420** Audit coverage of the areas of audit focus confirmed that the valuation of investments and the changes made in relation to the enhanced disclosure requirements were appropriately reflected in the Fund's financial statements.

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<sup>29</sup> The Future Fund's investment custodian is Northern Trust Corporation. The role of the custodian is to ensure the Future Fund's assets around the world are securely held, all investment transactions are settled and detailed records of transactions are kept.

## Audit results

### Summary of audit findings

5.421 There were no significant or moderate issues identified during the 2009–10 audit.

## Medibank Private Limited

### Summary of financial results

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	4 733.3	4 023.5
Total expenses	4 428.2	3 932.3
Profit after income tax	305.1	91.2
Total other comprehensive income	7.4	0.5
Total comprehensive income	312.5	91.7
Total assets	2 900.6	2 560.7
Total liabilities	1 180.6	1 120.4

5.422 Income has increased due to an increase in premiums and the number of members. The current year's results also include a full year of income from Australian Health Management Group Pty Ltd (AHM) and Medibank Health Solutions Pty Ltd (MHS), which was acquired during 2008–09.

5.423 Expenses have increase due to an increase in claims expenses, which, in part, is due to a full year of claims expenses being recognised for AHM and MHS, and the increase in the number of members.

5.424 Assets have increased due to an increase in investment returns and increases in other assets as a result of growth in Medibank Private Limited's (Medibank) health insurance business.

5.425 Liabilities have increased mainly as a result of an increase in the tax liability due to Medibank becoming a taxpayer for the first time.

### Areas of Audit Focus

5.426 The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:



- complex actuarial assessments of the outstanding claims provision model, package bonus provision and financial statement disclosures;
- recognition of contribution revenue and premium liability;
- goodwill relating to Medibank subsidiaries, AHM and MHS;
- Medibank's change in status from a not-for-profit entity to a for-profit entity and the impact of becoming a tax paying entity;
- implementation of new IT systems including the iMed system for managing medical claims; and
- IT general and application controls as they relate to the financial statements.

## **Audit results**

### *Summary of audit findings*

**5.427** There were two moderate audit issues raised in 2008–09 that have now been resolved. There have been no significant or moderate audit issues raised during the 2009–10 audit.

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

**5.428** Details of audit findings relating to the Commonwealth Superannuation Scheme, the Public Sector Superannuation Scheme, the Public Sector Superannuation Accumulation Plan, Medibank Health Solutions Pty Limited (formerly Health Services Australia Pty) and ComSuper are referred to below.

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

## **Commonwealth Superannuation Scheme**

### **Public Sector Superannuation Scheme**

### **Public Sector Superannuation Accumulation Plan**

**5.429** The ANAO issued unqualified audit reports on the financial statements of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS) and the Public Sector Superannuation Accumulation Plan (PSSap). In addition to the financial statements audits, the ANAO is required to provide an opinion on compliance with selected sections

of the *Superannuation Industry Supervision Act 1993* (SIS Act), the *Corporations Act 2001*, the *Financial Sector (Collection of Data) Act 2001* and associated regulations.

**5.430** Section 89(3) of the SIS Act 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 27 October 2009 and this position has not yet been filled by the Minister. To reflect this breach, the ANAO issued a qualified audit opinion in respect of compliance with s.89 (3) of the SIS Act for the CSS, PSS and the PSSap.

### **Medibank Health Solutions Pty Limited**

**5.431** In 2007–08 a number of moderate audit findings were identified in relation to Business Continuity Management and IT change management. In 2008–09 and 2009–10, the ANAO identified that Medibank Health Solutions Pty Limited (MHS) had implemented a significant number of process improvements to address the finding relating to IT change management. However, the 2009–10 audit identified that MHS's Business Continuity Plans and Disaster Recovery Plans were still not specific to MHS's business and operational environment and there was no evidence of formal testing of these plans.

**5.432** MHS advised that this issue will be addressed once the MHS business is fully integrated into Medibank Private. The ANAO will review remedial actions taken during the 2010–11 audit.

### **ComSuper**

**5.433** Our 2009–10 audit identified that a moderate audit issue relating to business continuity and disaster recovery, that was identified as part of the 2008–09 audit of ComSuper, is being addressed through the progressive implementation of new disaster recovery arrangements. As a result, the finding has been downgraded to a Category C finding. The ANAO will review progress in addressing the issue during the 2010–11 audit.

# Foreign Affairs and Trade Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit report issued	Audit issues identified
Department of Foreign Affairs and Trade	Yes	✓	8 Sept 2010	8 Sept 2010	
Australian Agency for International Development	Yes	✓	2 Sept 2010	2 Sept 2010	
Australian Centre for International Agricultural Research	No	✓	31 Aug 2010	31 Aug 2010	◆
Australian Secret Intelligence Service	No	✓	20 Oct 2010	20 Oct 2010	
Australian Trade Commission	Yes	✓	11 Aug 2010	12 Aug 2010	
Export Finance and Insurance Corporation	Yes	✓	20 Aug 2010	20 Aug 2010	

✓: audit report not modified

E : audit report contains an emphasis of matter

Q : audit report contains a qualification

A: audit report contains additional statutory disclosure

☞: financial year end date other than 30 June 2010

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

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

## Portfolio overview

**5.434** 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.

**5.435** 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	2009–10 \$m	2008–09 \$m
Net cost of services	805.4	759.4
Appropriation revenue	895.0	871.7
Surplus/(deficit)	89.6	112.4
Total other comprehensive income	(78.7)	61.4
Total comprehensive income	10.9	173.8
Total assets	2 880.3	2 809.4
Total liabilities	252.0	240.2

**5.436** Assets have increased mainly due to an increase in the appropriation receivable balance (\$135m). This was offset by a decrease in the land and buildings balance following a revaluation decrement (of \$76m), which also significantly impacted other comprehensive income.

**5.437** The movements in the remaining balances are 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	2009–10 \$m	2008–09 \$m
Total income	383.2	335.3
Total expenses	346.4	382.8
Total assets	425.4	402.4
Total liabilities	106.9	101.1

**5.438** Administered income increased largely due to an increase in passport revenue and higher dividend revenue from EFIC.

**5.439** Administered expenses decreased in 2009–10 reflecting lower costs associated with the Australian Pavilion for the 2010 Shanghai World Trade Expo after significant set up costs were incurred in 2008–09. There was also a decrease in the cost of contributions to international organisations due to the appreciation of the Australian dollar.

**5.440** Administered assets increased mainly due to an increase in the fair value measurement of the investment in EFIC.

### Areas of audit focus

**5.441** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the measurement and associated disclosures of the administered balances relating to the National Interest Account (NIA) managed by EFIC;
- the basis for the valuation of the administered investment in EFIC;
- passport operations;
- overseas property management encompassing the revaluation process;
- overseas operations; and
- IT general and application controls as they relate to the financial statements.

5.442 Audit coverage of passport operations, valuation of the administered investment in EFIC, overseas operations and IT controls was undertaken during the interim audit with satisfactory results.

5.443 The remaining two areas of audit focus referred to above were completed during the 2009–10 final audit.

## Audit results

### *Summary of audit findings*

5.444 There were no moderate or significant audit issues identified during the 2009–10 audit.

## Australian Agency for International Development

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	134.0	130.9
Appropriation revenue	141.3	130.2
Surplus(deficit)	7.3	(0.5)
Total other comprehensive income	0.3	0.0
Total comprehensive income	7.6	(0.5)
Total assets	62.3	52.0
Total liabilities	32.7	30.3

5.445 Appropriation revenue increased mainly reflecting the cost of delivering new Australian overseas aid budget measures, including the introduction of the Australian Civilian Corps function.

5.446 Assets have increased primarily due to an increase in appropriations receivable at year end. The 2009–10 surplus reflects an underspend against budget for the Australian Civilian Corps function and the quarantining of \$1.9m of appropriation funding relating to overseas property costs.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	347.2	2.4
Total expenses	3 058.1	3 566.3
Total assets	1 244.1	948.0
Total liabilities	1 104.9	1 394.6

**5.447** The significant increase in administered income reflects foreign exchange gains and adjustments from re-measuring financial liabilities relating to overseas grants and multilateral aid programs, primarily as a result of the appreciation of the Australian dollar. Liabilities decreased for similar reasons.

**5.448** Administered expenses decreased reflecting lower levels of Australia Indonesia Partnership for Reconstruction and Development (AIPRD) grant and loan expenditure, a reduction in financing costs associated with International Development Association/Asian Development Fund (IDA/ADF) subscription payments, and the fact that no new multi-year funding replenishments were entered into in 2009–10. These decreases were partially offset by an increase in international development assistance payments. The 2008–09 balance also included significant financial instrument write-down and impairment expenses due to the global economic crisis.

**5.449** Administered assets increased as a result of an increase in the value of IDA/ADF subscription assets due to a combination of factors such as lower discount rates and higher foreign currency exchange rates.

### **Areas of audit focus**

**5.450** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- valuation, accounting and reporting disclosures associated with AIPRD loan agreements;
- accounting, reporting and disclosures relating to international payments and subscriptions, primarily IDA/ADF, and multi-lateral liabilities and grant funding;
- appropriation accounting and disclosures;

- administered and departmental classification of items;
- IT general and application controls as they relate to the financial statements; and
- financial statement preparation processes.

5.451 Audit coverage of these matters was finalised during the 2009–10 final audit.

## Audit results

### *Summary of audit findings*

5.452 There were no significant or moderate audit issues identified during the 2009–10 audit.

## Australian Trade Commission

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	185.2	190.8
Appropriation revenue	189.8	189.6
Surplus/(deficit)	4.6	(1.3)
Total other comprehensive income	0.1	0.3
Total comprehensive income	4.7	(1.0)
Total assets	109.2	99.7
Total liabilities	49.4	46.0

5.453 Assets increased reflecting the 2009–10 surplus and an equity injection of \$1.3m. The surplus includes the quarantining of \$2.5m of appropriation funding relating to overseas property costs.



*Items administered on behalf of the Australian Government*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	0.0	1.7
Total expenses	211.2	200.2
Total assets	0.1	0.3
Total liabilities	14.6	11.6

**5.454** Administered income decreased mainly due to a one-off recovery of \$1.1m in 2008–09 of debts under the now lapsed International Trade Enhancement Scheme, and prior year grant recoveries relating to the Export Market Development Grants program of \$0.5m.

**5.455** All other movements reflect fluctuations in normal business operations.

**Areas of audit focus**

**5.456** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- IT general and application controls as they relate to the financial statements;
- the revaluation of property plant and equipment;
- export market development grants due to the significant size of this grant program;
- appropriation accounting and disclosures; and
- controls over the management and financial oversight of overseas posts, due to the significant portion of expenditure involved.

**5.457** Audit coverage of these matters was finalised during the 2009–10 final audit.

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

**5.458** There were no significant or moderate audit issues identified during the 2009–10 audit.

## Export Finance and Insurance Corporation

### Summary of Financial Results

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	133.2	155.9
Total expenses	94.9	122.3
Profit (loss) after income tax	38.3	33.6
Total other comprehensive income after income tax	9.4	21.7
Total comprehensive income	47.7	55.3
Total assets	2 700.1	2 674.0
Total liabilities	2 292.5	2 297.3

**5.459** The decrease in income reflects changes in global interest rates as well as depreciation of the US dollar. The record low in global interest rates throughout 2009–10 coupled with adverse volatility in credit markets also led to an overall decrease in expenses. These factors also contributed to the movement in profit after income tax.

**5.460** The movement in other comprehensive income mainly reflected the accounting for a change in the fair value of available for sale investments. A significant amount of the 2009–10 balance relates to a revaluation increase for these investments.

**5.461** Movements in assets and liabilities were the result of fluctuations in normal business activities.

### Areas of audit focus

**5.462** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- a) the impact of the global financial crisis on areas such as availability of funds, the valuation of financial instruments and the cost of funding;
- b) complex treasury activities, including highly structured and complex business transactions;

- c) the valuation of loans and guarantees; and
- d) IT general and application controls as they relate to the financial statements.

**5.463** Audit coverage of these matters was finalised during the 2009–10 final audit.

## **Audit results**

### *Summary of audit findings*

**5.464** There were no significant or moderate audit issues identified during the 2009–10 audit.

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

**5.465** Other than a moderate audit finding identified in the 2009–10 audit of the Australian Centre for International Agricultural Research (ACIAR), there were no significant or moderate audit issues noted in non-material entities within the portfolio.

## **Australian Centre for International Agricultural Research**

**5.466** As a result of a Government decision, the ACIAR's functions were segregated between departmental, administered and a special account for the first time. Weaknesses in cash drawdown controls resulted in discrepancies in ACIAR's cash balances for departmental, administered and the special account as a result of certain transactions being paid from incorrect accounts. These transactions were subsequently adjusted and corrected. The ANAO considered that ACIAR should review and strengthen its internal control mechanisms governing the payment of expenditure and the related drawdown of funds.

# Health and Ageing Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit report issued	Audit issues identified
Department of Health and Ageing	<b>Yes</b>	✓	17 Aug 10	17 Aug 10	
- Therapeutic Goods Administration	No	✓	17 Aug 10	17 Aug 10	
Aged Care Standards and Accreditation Agency Ltd	No	✓	13 Sept 10	15 Sept 10	
Australian Institute of Health and Welfare	No	✓	23 Sept 10	23 Sept 10	
Australian Organ and Tissue Donation and Transplantation Authority	No	✓	9 Sept 10	9 Sept 10	
Australian Radiation Protection and Nuclear Safety Agency	No	✓	6 Sept 10	8 Sept 10	
Australian Sports Commission	<b>Yes</b>	✓	3 Sept 10	8 Sept 10	
Australian Sports Foundation Limited	No	✓	26 Aug 10	26 Aug 10	
Australian Sports Anti-Doping Authority	No	✓	15 Oct 10	18 Oct 10	
Cancer Australia	No	✓	22 Oct 10	22 Oct 10	
Food Standards Australia New Zealand	No	✓	16 Sept 10	16 Sept 10	
General Practice Education and Training Ltd	No	✓	25 Sept 10	25 Sept 10	
Health Workforce Australia	No	✓	5 Oct 10	5 Oct 10	
National Blood Authority	<b>Yes</b>	✓	9 Aug 10	9 Aug 10	
National Health and Medical Research Council	<b>Yes</b>	✓	8 Sept 10	8 Sept 10	
National Breast and Ovarian Cancer Centre	No	✓	24 Aug 10	31 Aug 10	
Private Health Insurance Administration Council	No	✓	10 Sept 10	10 Sept 10	
Private Health Insurance Ombudsman	No	✓	20 Aug 10	20 Aug 10	
Professional Services Review	No	✓	22 Sept 10	22 Sept 10	

✓: audit report not modified

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▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

## Portfolio overview

**5.467** 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 aid in assessing their effectiveness in achieving entity-specific outcomes.

**5.468** 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	2009–10 \$m	2008–09 \$m
Net cost of services	582.4	575.2
Appropriation revenue	585.2	574.1
Surplus/(deficit)	2.7	(1.1)
Total other comprehensive income	0.0	0.0
Total comprehensive income	2.7	(1.1)
Total assets	377.6	327.2
Total liabilities	270.2	229.6

**5.469** The net cost of services increased primarily due to an increase in employee benefits expenses as a result of an increase in staff numbers.

5.470 Assets increased mainly due to higher leasehold improvement costs relating to new office accommodation in the Australian Capital Territory.

5.471 The increase in liabilities was primarily the result of a significant lease incentive relating to the new office accommodation referred to above, as well as an increase in employee benefit provisions due to increases in staff numbers and pay rates.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	788.0	626.3
Total expenses	41390.4	49730.7
Total assets	1114.8	757.4
Total liabilities	2789.5	2607.6

5.472 Administered income increased mainly due to increases in the Private Health Insurance Administration Council Levy.

5.473 Administered expenses decreased mainly as a result of the transfer of National Partnership Payments from DoHA to the Treasury under the Council of Australian Governments financial reforms. The decrease has been partially offset by an increase in expenditure on the Medicare Benefit Scheme, the Pharmaceutical Benefit Scheme and Private Health Insurance Rebates.

5.474 Administered assets have increased mainly due to the acquisition of additional National Medical Stockpile inventory, an increase in cash balances aligned to increased appropriation revenue and the investment in Health Workforce Australia.

5.475 Liabilities increased primarily due to higher grants payable to private sector not-for-profit organisations and an increase in personal benefits subsidy liabilities at year end.

**Areas of audit focus**

5.476 The ANAO’s audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- administered grants and subsidies expenses, including aged care payments;
- administered personal benefits expenses and liabilities;
- medical indemnity liabilities that are based on actuarial assumptions;
- appropriations reporting and disclosure in view of the complexity arising from DoHA's 15 outcomes; and
- accounting for fixed assets, due to DoHA's move to new office accommodation in 2009–10.

5.477 The calculation of medical indemnity liabilities, \$379 million as at 30 June 2010, was of particular audit interest in view of the complexity of the underlying calculation of the liability. The calculation was based on an actuarial assessment from the Australian Government Actuary (AGA). The ANAO reviewed the assessment to gain assurance over the balance included in the financial statements.

5.478 Audit coverage of the remaining areas of audit focus was finalised during the 2009–10 final audit.

## **Audit Results**

5.479 There were no significant or moderate audit issues identified during the 2009–10 audit.

# Australian Sports Commission

## Summary of Financial results

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	221.7	220.8
Revenue from Government	223.0	219.8
Surplus/(deficit)	1.3	(1.0)
Total other comprehensive income after income tax	22.1	0.0
Total comprehensive income	23.4	(1.0)
Total assets	293.5	265.8
Total liabilities	33.5	29.2

**5.480** Assets increased primarily due to an increase in the valuation of land and buildings.

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

### Areas of audit focus

**5.482** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the management of fixed assets, including the maintenance of the asset register, due to the material nature of fixed assets and audit findings reported in prior years;
- the accounting treatment of costs incurred for training facilities being developed in Varese, Italy; and
- the entry of income and expenses for commercial activities into the FMIS for the first time.

**5.483** Audit coverage of these matters was finalised during the 2009-10 final audit. Comments on the status of the audit finding in relation to the management of fixed assets are provided below.



## Audit results

### Summary of audit findings

#### Outstanding audit issues

**5.484** A significant audit finding relating to inadequate controls surrounding the management of fixed assets was identified in 2008–09. During the 2009–10 audit, the ANAO noted that the Australian Sports Commission (ASC) had implemented controls to mitigate the risks identified. The finding has now been resolved. The ANAO will monitor the implementation of, and compliance with, the new fixed asset management policies and procedures in the 2010–11 audit.

**5.485** During the 2008–09 audit, a moderate audit finding was reported relating to a lack of formal procedures for backup of data. In 2009–10 the ASC formalised procedures for data backup and testing of its systems, and the ANAO is satisfied that the ASC has taken sufficient action to resolve the control weaknesses previously identified.

**5.486** The following table provides a summary of the status of previously reported audit issues. No new issues were raised in the 2009–10 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>	1	(1)	0	0
<b>B</b>	1	(1)	0	0
<b>Total</b>	<b>2</b>	<b>(2)</b>	<b>0</b>	<b>0</b>

# National Blood Authority

## Summary of Financial Results

### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	5.7	5.8
Appropriation revenue	5.7	5.9
Surplus/(deficit)	0.0	0.1
Total other comprehensive income	0.2	0.0
Total comprehensive income	0.2	0.1
Total assets	10.9	10.9
Total liabilities	3.7	3.9

5.487 There were no significant movements in these measures in 2009–10.

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

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	872.6	829.2
Total expenses	859.2	793.1
Total assets	78.3	75.9
Total liabilities	39.5	36.9

5.488 Administered income and expenses have increased due to fluctuations in normal business activities in relation to increased demand and cost for blood and blood products.

## Areas of audit focus

5.489 The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the valuation of NBA's blood and blood products, which are accounted for as inventory; and
- the classification of departmental and administered expenditure.

**5.490** Audit coverage of these matters was finalised during the 2009–10 final audit.

## Audit results

### *Summary of audit findings*

**5.491** There were no significant or moderate audit findings identified during the 2009–10 audit.

## National Health and Medical Research Council

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	39.8	40.4
Appropriation revenue	40.8	39.4
Surplus/(deficit)	1.1	(1.0)
Total other comprehensive income	0.0	0.0
Total comprehensive income	1.1	(1.0)
Total assets	33.8	31.7
Total liabilities	13.1	12.7

**5.492** There were no significant movements in these measures in 2009–10.

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

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	18.8	26.3
Total expenses	708.4	707.3
Total assets	6.0	18.4
Total liabilities	13.7	16.2

**5.493** Administered income decreased mainly due to a decrease in services to related entities due to some grant programs administered by the National Health and Medical Research Council (NHMRC) on behalf of other government entities ceasing in 2009, including Palliative Care Research, GP Clinical Research and National Adaption Research.

**5.494** Administered assets decreased is mainly as a result of a decrease in the cash balance needed at 30 June 2010 for additional grant payments that were not part of the regular quarterly payments cycle and a reduction in receivables due to a decrease in outstanding grant acquittals.

**5.495** The decrease in administered liabilities is mainly due to a reduction in grant monies payable at year end.

## **Areas of audit focus**

**5.496** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- accounting for grant programs, including the development and implementation of a new Research Grants Management System;
- appropriations reporting and disclosure; and
- implementation of a new Financial Management Information System.

**5.497** Audit coverage of these matters was finalised during the 2009–10 final audit.

## **Audit results**

### *Summary of audit findings*

**5.498** There were no significant or new moderate audit findings identified during the 2009-10 audit.

**5.499** The 2008–09 audit reported a moderate finding relating to a lack of procedures to follow up on grant acquittal documentation and financial statements from grant recipients. This finding was also reported in 2007-08. During the 2009-10 final audit, the ANAO reviewed the controls and processes surrounding grant acquittals and noted a significant reduction in outstanding acquittals and a number of actions being taken by the NHMRC to address this issue. Accordingly, no finding was raised as part of the 2009–10 audit.

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

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

# Human Services Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit report issued	Audit issues identified
Department of Human Services	Yes	✓	9 Sept 10	9 Sept 10	
Australian Hearing	Yes	✓	27 Aug 10	30 Aug 10	
Centrelink	Yes	✓	3 Aug 10	3 Aug 10	
Medicare Australia	Yes	✓	31 Aug 10	31 Aug 10	

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◆: new significant or moderate issues noted

## Portfolio overview

**5.501** The Human Services portfolio covers a broad range of human services delivery matters and services including:

- directing, coordinating and improving 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 benefit payment programs;
- providing people with a better quality of life by managing their hearing impairment; and
- providing occupational health, safety and medical assessments.

**5.502** 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.

**5.503** In December 2009, the then Minister for Human Services announced major reforms to Australian Government service delivery, including the

proposed amalgamation of Centrelink, DHS and Medicare Australia into one Department of State, scheduled for 1 July 2011. Until legislative changes are made to amend governance arrangements, the Secretary of DHS and Chief Executive's of Centrelink and Medicare Australia will continue to exercise their responsibilities under the FMA Act, including the preparation and presentation for audit financial statements and maintaining an audit committee. Centrelink, DHS and Medicare Australia are working together on these service delivery reforms.

## Department of Human Services

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	531.3	493.7
Appropriation revenue	557.5	504.2
Surplus/(deficit) after income tax expenses*	26.1	10.0
Total other comprehensive income	3.6	1.2
Total comprehensive income	29.7	11.2*
Total assets	362.7	329.6
Total liabilities	180.7	170.9

\* The surplus/(deficit) also reflects income tax expenses of \$0.1m (2008–09: \$0.6m).

**5.504** The net cost of services increased as a result of additional budget funding for the Child Support Agency. This additional funding also contributed to DHS increasing its surplus for 2009–10.

**5.505** Assets increased due to an increase in the appropriation receivable that resulted from DHS drawing less departmental funds from the *Official Public Account* than was budgeted for in 2009–10.

**5.506** The movements in total other comprehensive 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	2009–10 \$m	2008–09 \$m
Total income	1 252.3	1 242.0
Total expenses	1 229.9	1 339.8
Total assets	663.2	632.0
Total liabilities	654.9	606.3

**5.507** Administered expenses decreased as a result of the Job Capacity Assessment Program transferring to the Department of Education, Employment and Work Place Relations on 1 July 2009.

**5.508** Administered assets and liabilities increased primarily due to changes to the estimates for the child support receivable, provision for doubtful debts and child support provision balances as at 30 June 2010.

**5.509** The movement in administered income was not significant and was the result of fluctuations in normal business activity.

### **Areas of audit focus**

**5.510** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- child support transactions, specifically focusing on child support assessment controls and IT business system controls;
- the valuations of assets and liabilities, primarily being land and buildings, infrastructure plant and equipment, intangible assets, and employee entitlement provisions; and
- IT general and applications controls as they relate to the financial statements.

**5.511** Audit coverage of these matters was finalised during the 2009–10 final audit.

### **Audit results**

#### *Summary of audit findings*

**5.512** There were no moderate or significant audit issues identified during the 2009–10 audit.

# Australian Hearing

## Summary of Financial Results

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	190.1	176.0
Total expenses	180.8	167.8
Profit (loss) after income tax	9.3	8.2
Total other comprehensive income after income tax	0.0	0.0
Total comprehensive income	9.3	8.2
Total assets	87.9	82.0
Total liabilities	57.2	55.0

**5.513** Australian Hearing's income and expenses increased as a result of increased activity following the opening of six new permanent hearing centres, 20 new visiting sites and the relocation of three hearing centres to more accessible locations, as well as new revenue initiatives.

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

### Areas of audit focus

**5.515** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- Australian Hearing's major revenue streams, which are complex and involve a large number of small transactions requiring specific focus on revenue and IT business system controls;
- the valuation of liabilities, primarily, employee entitlement provisions; and
- IT general and applications controls as they relate to the financial statements.

**5.516** Audit coverage of these matters was finalised during the 2009-10 final audit.



## Audit results

### Summary of audit findings

5.517 There were no significant or moderate audit issues noted during the 2009–10 audit.

## Centrelink

### Summary of Financial Results

#### Departmental Items

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	2 786.1	561.9
Appropriation revenue	2 810.2	610.2
Surplus	24.1	48.3
Total other comprehensive income	21.8	(4.0)
Total comprehensive income	45.9	44.3
Total assets	1 147.0	1 058.4
Total liabilities	796.0	750.3

5.518 The net cost of services and appropriation revenue increased significantly as a result of changes to funding arrangements under which Centrelink receives direct appropriation funding for the cost of providing services on behalf of policy agencies.

5.519 The variation in the surplus was a direct reflection of the fluctuation in cost of processing benefit payments on behalf of other agencies.

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

## Areas of audit focus

5.521 The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the non-disclosure by customers of changes in circumstances that may affect the integrity of personal benefit payments disclosed in the financial statements of the relevant policy agencies;
- IT system changes in Centrelink in response to new payment initiatives;
- changes in policy and legislation that could result in delays in unplanned changes to relevant systems and reports by policy agencies;
- actuarial assessments and management decisions relating to the calculation of the employee benefit provisions;
- the valuation of non-financial assets, particularly relating to assets under construction;
- the identification and calculation of the costs relating to internally developed software; and
- IT general and applications controls as they relate to the financial statements.

5.522 Audit coverage of these matters was finalised during the 2009-10 final audit.

## Audit results

### *Summary of audit findings*

5.523 There were no significant or moderate audit issues noted during the 2009–10 audit.

## Medicare Australia

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	613.9	619.9
Appropriation revenue	652.0	611.5
Surplus/(deficit)	38.1	(8.4)
Total other comprehensive income	17.6	0.0
Total comprehensive income	55.8	(8.4)
Total assets	407.3	326.4
Total liabilities	210.5	193.2

**5.524** Assets have increased mainly due to a revaluation of Medicare Australia's non financial assets during the year and asset additions relating to leasehold improvements and internally developed software. The asset revaluation adjustment was reflected in other comprehensive income.

**5.525** The net cost of services decreased and appropriation revenue increased as a result of normal business activities that resulted in a surplus in 2009–10. Liabilities increased mainly due to unearned revenue for the Healthcare Identifier project funded by the National e-Health Transition Authority.

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

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	0	0
Total expenses	3.6	4.7
Total assets	0.0	0.0
Total liabilities	0.0	0.4

**5.526** Administered expenses and liabilities decreased as a result of the termination, in December 2009, of financial assistance provided to medical practices to assist with set up costs to enable patients to claim their Medicare rebate at medical practices.

## Areas of audit focus

**5.527** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the valuation of non-financial assets, including the use of an independent valuer to conduct the valuation;
- Medicare Australia's service delivery responsibilities to the Department of Environment, Water, Heritage and the Arts (DEWHA) under the Home Insulation Program (HIP), including the registration of installers and the processing of claims and associated payments;
- calculation and disclosure of appropriations in the financial statements, including compliance with the funding agreement with the Department of Finance and Deregulation;
- programs and related payments delivered by Medicare Australia on behalf of other agencies, including the Department of Health and Ageing and the Department of Veterans' Affairs;
- accounting for Medicare Australia's lease transactions, including makegood provision and lease incentives;
- significant IT systems from which a number of financial statement balances are sourced;
- Medicare Australia's national compliance program that focuses on the integrity of Government programs it delivers; and
- IT general and applications controls as they relate to the financial statements.

**5.528** ANAO Audit Report No 50 2009-10 noted that certain aspects of Medicare Australia's responsibilities in relation to HIP were being reviewed, in conjunction with the ANAO's financial statement audit of DEWHA, and any significant or moderate issues would be reported in the end of year report to the Parliament.

**5.529** The ANAO's review of Medicare Australia's HIP responsibilities during the 2009-10 final audit did not identify any significant or moderate audit issues impacting Medicare Australia's financial statements.

**5.530** ANAO Audit Report No 12 2010-11 *Home Insulation Program* sets out the results of the ANAO's assessment of the key aspects of the establishment and administration of HIP, including Medicare Australia's responsibilities. In conducting the final audit of Medicare Australia's 2009-10 financial statements, the ANAO took into account the audit coverage and work undertaken as part of the performance audit.

**5.531** Audit coverage of the remaining areas of audit focus was finalised during the 2009-10 final audit.

## **Audit results**

### *Summary of audit findings*

**5.532** There were no moderate or significant audit issues noted during the 2009-10 audit.

# Immigration and Citizenship Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit report issued	Audit issues identified
Department of Immigration and Citizenship	Yes	✓	3 Sept 10	3 Sept 10	
Migration Review Tribunal and Refugee Review Tribunal	No	✓	10 Sept 10	14 Sept 10	

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▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

## Portfolio overview

**5.533** 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.

**5.534** The Migration Review Tribunal and Refugee Review Tribunal 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	2009–10 \$m	2008–09 \$m
Net cost of services	1 178.7	1 256.2
Appropriation revenue	1 184.2	1 208.6
Surplus/(deficit)	5.5	(47.6)
Total other comprehensive income	63.5	(3.4)
Total comprehensive income	69.0	(51.0)
Total assets	1 268.8	1 168.2
Total liabilities	909.9	789.7

**5.535** The net cost of services and appropriation revenue decreased as a result of the ongoing transfer of Detention Centre expenditure from departmental to administered, and a decrease in funding for visa processing.

**5.536** DIAC reported a small surplus in 2009–10, compared with a deficit in 2008–09. This movement is largely attributable to DIAC's recognition of employee separation and onerous lease expenses in 2008–09 and ongoing measures to reduce expenditure in a number of areas.

**5.537** Assets have increased largely due to an increase in appropriation receivable, and increases in the fair value of land, buildings and leasehold improvements that resulted from an asset revaluation completed in 2009–10.

**5.538** The movement in liabilities was a reflection of fluctuations in normal business activity.

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

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	968.9	848.3
Total expenses	662.5	466.5
Total assets	39.5	24.8
Total liabilities	188.7	141.7

**5.539** Administered income increased as a result of increased visa application charges, partially offset by fluctuations in normal business activity relating to the processing of visa applications.

**5.540** Administered expenses and liabilities increased as a result of increases in Irregular Maritime Arrivals and the ongoing transfer of Detention Centre related expenditure from departmental to administered.

**5.541** The increase in administered assets was the result of fluctuations in normal business activity.

### **Areas of audit focus**

**5.542** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- DIAC's control environment and the establishment of adequate controls to enable compliance with aspects of relevant financial management legislation, particularly in relation to visa application charge revenue, and supplier and employee expenses;
- IT general and application controls as they relate to the financial statements;
- appropriation revenue recognised under DIAC's funding agreement with Finance;
- land and buildings, infrastructure, plant and equipment which are located in more than 100 sites worldwide; and
- the valuation of internally developed software, employee entitlements and surplus lease space provisions, all of which have been subject to accounting issues in prior years.

**5.543** Audit coverage of these matters was finalised during the 2009–10 final audit.



## Audit results

**5.544** There were no new moderate or significant audit issues identified during the 2009–10 audit.

### *Summary of audit findings*

#### *Resolved moderate audit issues*

##### Asset management

**5.545** The 2008–09 final audit identified weaknesses in DIAC’s asset management processes. These related to delays in the completion of asset stocktakes; 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.

**5.546** During the 2009–10 final audit, the ANAO confirmed that DIAC has satisfactorily addressed these issues. This was achieved through a range of process improvements, which included:

- the revaluation and re-assessment of useful lives for fixed assets that was undertaken with the assistance of an independent valuer;
- an increase in management review of DIAC’s software assets, particularly in relation to work in progress; and
- an increased level of reporting to DIAC’s Audit Committee.

##### Expenditure authorisation processes

**5.547** The 2008–09 interim audit identified weaknesses in DIAC’s purchase order process that increased the risk that commitment information within DIAC’s FMIS for both financial statement and budget forecasting purposes was incomplete. The 2009–10 final audit confirmed that DIAC had implemented system enhancements to the FMIS to better facilitate the contract registration and purchase order process. These system enhancements have been complemented by the ongoing education of staff in relation to procurement requirements. This issue had been reassessed to a Category C issue pending the ANAO’s review of the effectiveness of these improvements during the 2010–11 interim audit.

5.548 The following table provides a summary of the status of prior year 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	(2)*	0	0
<b>Total</b>	<b>2</b>	<b>(2)</b>	<b>0</b>	<b>0</b>

\* One issue in relation to Expenditure Authorisation Processes has been downgraded to a Category C finding.

## Comments on non-material entities

5.549 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 report issued	Audit issues identified
Department of Infrastructure, Transport, Regional Development and Local Government	Yes	✓	30 Jul 10	11 Aug 10	
Airservices Australia	Yes	✓	25 Aug 10	27 Aug 10	
Australian Maritime Safety Authority	No	✓	21 Sept 10	24 Sept 10	
Australian Rail Track Corporation Ltd	Yes	✓	25 Aug 10	25 Aug 10	◆
Australian Transport Safety Bureau	No	✓	29 Sept 10	1 Oct 2010	
Civil Aviation Safety Authority	Yes	✓	27 Aug 10	31 Aug 10	▲◆
National Transport Commission	No	✓	6 Sept 10	6 Sept 10	

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▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

## Portfolio overview

**5.550** During 2009–10, the Infrastructure, Transport, Regional Development and Local Government portfolio comprised the Department of Infrastructure, Transport, Regional Development and Local Government (DITRD LG) and a number of statutory authorities. The portfolio was responsible for:

- improved infrastructure across Australia through investment in and coordination of transport and other infrastructure;
- an efficient, sustainable, competitive, safe and secure transport system for all transport users through regulation, financial assistance and safety investigations; and
- coordinated community infrastructure and services in rural, regional and local government areas through financial assistance.

**5.551** On 1 July 2009 the Australian Transport Safety Bureau (ATSB) was established as an independent Australian Government statutory agency by the

*Transport Safety Investigation Act 2003*. The functions of the ATSB were previously managed by the DITRDLG.

## Department of Infrastructure, Transport, Regional Development and Local Government

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	209.0	245.5
Appropriation revenue	208.8	242.5
Surplus/(deficit)	(0.2)	(3.0)
Total other comprehensive income	0.3	(1.8)
Total comprehensive income	0.1	(4.8)
Total assets	126.1	172.8
Total liabilities	58.6	68.9

**5.552** The net cost of services and appropriation revenue decreased mainly as a result of the establishment of the ATSB as a statutory agency on 1 July 2009. ATSB previously operated as a division within DITRDLG with related appropriation revenue and expenses reported by the department.

**5.553** Assets reduced mainly as a result of a transfer to the ATSB of intangibles valued at \$3.8 million, and a \$28.3 million reduction in the department's appropriation receivable for depreciation costs and lease make-good obligations that were not required.

**5.554** Liabilities decreased, mainly reflecting the adoption of a paperless accounts payable system that facilitated efficiencies in accounts processing and payment cycles.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	688.8	1 173.1
Total expenses	3 909.0	8 642.7
Total assets	3 560.5	2 737.8
Total liabilities	65.4	17.2

**5.555** Administered income reduced mainly as a result of a net reduction of \$594 million in Building Australia Fund (BAF) grants, comprising a \$742 million decrease in BAF road funding and a \$148 million increase in BAF rail funding. The decrease was partially offset by \$80.1 million returned to the department from the NSW Government in respect of the West Metro road project, as a result of the indefinite postponement of the project.

**5.556** Administered expenses reduced substantially as a result of the transfer of responsibility for Nation Building grant programs from DITRDLG to the Department of the Treasury. There was also a reduction in BAF programmed work as a result of the reduction in funding mentioned above.

**5.557** Administered assets increased as a result of a significant appreciation in the value of administered investments. Capital injections of \$766.9 million were applied to the Australian Rail Track Corporation (ARTC), increasing the value of this administered investment, while the valuation of Airservices Australia appreciated by \$407.7 million. These increases were partially offset by a \$348.8 million reduction in prepaid infrastructure grants relating to the Improving the National Network, Supplementary Roads to Recovery and Strategic Regional Supplementary programs.

## Areas of audit focus

**5.558** The ANAO's audit approach identified the following areas that are significant in terms of their potential impact on the 2009–10 financial statements:

- the financial management of \$3.6 billion grant and subsidy programs administered by the department;
- DITRDLG's IT control environment, including an FMIS and a newly integrated paperless accounts payable system implemented in October 2009;

- the valuation of Infrastructure’s \$3.4 billion administered investments, which represent a significant asset balance in the department’s financial statements; and
- IT general and application controls as they relate to the financial statements.

5.559 The ANAO’s audit coverage of these areas of audit focus was finalised during the 2009–10 audit.

## Audit results

### Summary of audit findings

5.560 There were no significant or moderate audit issues identified during the 2009–10 audit.

## Airservices Australia

### Summary of Financial Results

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	806.3	784.9
Total expenses	755.7	699.4
Profit /(loss) after income tax	50.6	85.5
Total other comprehensive income after income tax	(25.1)	(103.5)
Total comprehensive income	25.5	(18.0)
Total assets	1 128.3	1 055.3
Total liabilities	770.3	713.3

5.561 Income increased mainly due to an increase in international airline activity in relation to the North East Asia, South East Asia, and the Middle Eastern routes.

5.562 Expenses increased mainly as a result of asset impairments relating to an Airservices investment associated with a navigation augmentation system being written down to its recoverable amount. Other increases in expenditure items were the result of fluctuations in normal business activity.

**5.563** The movement in other comprehensive income was mainly due to a reduction in actuarial losses relating to Airservice's defined benefit superannuation fund obligations.

**5.564** Assets increased mainly due to the commissioning of assets previously under construction, asset additions, and an increase in deferred tax assets.

**5.565** Liabilities increased mainly due to an increase in the actuarial valuation of Airservice's defined benefit fund obligations. Other liabilities relating to lease make-good and employee entitlements also increased.

### **Areas of audit focus**

**5.566** The ANAO's audit approach identified the following areas that are significant in terms of their potential impact on the 2009–10 financial statements:

- accounting for a number of complex areas including: assets under construction; defined benefit superannuation obligations; deferred tax assets; remediation costs for land contamination; cross border leases; and consolidation of a US-based subsidiary, Airservices Pacific Incorporated; and
- IT general and application controls as they relate to the financial statements.

**5.567** Audit coverage of these matters was finalised during the 2009-10 final audit.

### **Audit results**

#### *Summary of audit findings*

**5.568** There were no moderate or significant audit issues identified during the audit for 2009–10.

# Australian Rail Track Corporation Ltd

## Summary of Financial Results

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	604.8	564.5
Total expenses	510.5	1 108.4
Profit (loss) after income tax	94.3	(543.9)
Total other comprehensive income after income tax	(1.4)	(89.1)
Total comprehensive income	92.9	(633.0)
Total assets	3 151.1	2 350.3
Total liabilities	653.2	712.3

**5.569** Income has increased mainly due to revenue increases resulting from a rate rise related to rail access and increased coal network revenue.

**5.570** Expenses decreased significantly due to a reduction in impairment losses of \$171.4 million and a reduction of \$280.3 million in income tax expense accrued in 2008–09 arising from a disputed income tax assessment that was settled with the ATO in 2009–10. Associated with this is a reduction of \$160.5 million in finance costs due to the reversal in 2009–10 of an \$81 million accrual for a general interest charge relating to the ATO disputed assessment.

**5.571** The large movement from loss to profit resulted from the above movements in income and expenses.

**5.572** The decrease in other comprehensive loss is primarily attributable to a \$100 million infrastructure revaluation reversal that was recorded in 2008–09.

**5.573** Assets increased largely due to assets additions of over \$1 billion related to major capital works, partly offset by reductions in cash and deferred tax assets, the sale of sleepers and increased accumulated depreciation.

**5.574** Liabilities decreased primarily due to decreases in current and deferred tax liability balances and a decrease in payables relating to the ATO settlement referred to above, partly offset by an increase in deferred government grants and interest bearing liabilities.



## Areas of audit focus

5.575 The ANAO's audit approach identified the following areas that are significant in terms of their potential impact on the 2009–10 financial statements:

- infrastructure asset valuation and impairment determinations relating to ARTC's three cash generating rail corridors, particularly in relation to the models used that incorporate cash flow assumptions and the weighted average cost of capital;
- capitalisation of assets in relation to ARTC's extensive capital works program and significant ongoing maintenance costs ;
- the recognition and accrual of revenues based on factors such as regulatory approved pricing, forecasted volumes from coal producers, an agreement to provide management services, and provisions for the reimbursement or settlement of eligible costs;
- incident provision in relation to derailments and injury or fatality-related litigations;
- calculation of deferred tax balances and tax expenses that are complex and utilise historical tax losses and tax shields;
- capitalisation of borrowing costs in light of ARTC's increased external debt funding; and
- IT general and application controls as they relate to the financial statements.

5.576 Audit coverage of these matters was finalised during the 2009–10 final audit.

## Audit results

5.577 The results of the 2009–10 audit were satisfactory except in relation to the issues raised below.

### *Summary of audit findings*

5.578 The following three moderate audit issues were identified during the 2009–10 audit:

- refinement of the impairment model for infrastructure assets: In assessing the recoverable amount of its infrastructure assets, ARTC

uses a value-in-use model, incorporating weighted average cost of capital calculations (WACC). The model and WACC include a number of variables and calculation methodologies that can be subject to considerable change and interpretation. The audit considered that the Corporation should conduct an analysis of certain variables and calculations to enhance and refine the current model to ensure it aligns with the operations of ARTC and its changing economic environment;

- Accounting for infrastructure asset disposals: The 2009–10 final audit identified there was \$24 million of infrastructure asset disposals in 2009–10. The audit also identified that no asset disposal values had been processed in the Corporation’s fixed asset register in either 2008–09 or 2009–10. ARTC advised the ANAO that, historically, infrastructure assets were not written-off in the fixed asset register because the individual assets had been difficult to identify due to the poor quality of data provided for individual items, and the low values at the time of the transfer to ARTC, which meant they did not have a material impact on the carrying value of the assets. Notwithstanding this, the ANAO considered that an appropriate system to identify and account for infrastructure asset disposals should be put in place; and
- Hunter Valley constrained coal provision: In the review of the calculation of the Hunter Valley Coal Revenue Provision, the ANAO identified that some of the supporting data was outdated and certain estimates did not have detailed support at the time of our audit. For the provision to be materially correct at year-end, the data and estimates to support the calculation should be based on up-to-date information and be fully documented.

**5.579** ARTC has advised that it is addressing each of these issues.

**5.580** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2009–10 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	3	3
<b>Total</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>3</b>

## Civil Aviation Safety Authority

### Summary of Financial Results

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	131.3	122.3
Revenue from Government	129.5	124.2
Surplus/(deficit)	(1.8)	1.9
Total other comprehensive income after income tax	3.0	0.0
Total comprehensive income	1.2	1.9
Total assets	105.6	99.0
Total liabilities	42.8	37.5

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

### Areas of audit focus

**5.582** The ANAO's audit approach identified the following areas that are significant in terms of their potential impact on the 2009–10 financial statements:

- the capitalisation, carrying value, and impairment of \$14.4 million internally developed software; and
- CASA's IT general and application controls as they relate to the financial statements.

**5.583** Audit coverage of CASA's internally developed software was finalised during the 2009–10 final audit. The status of audit findings in respect of CASA's IT control framework is outlined below.

### Audit results

#### *Summary of audit findings*

**5.584** The ANAO identified two moderate audit issues during the 2009–10 audit. These issues related to developer access to the IT production environment and user access for the FMIS and HRMIS databases.

**5.585** The 2008–09 audit identified three moderate audit issues that have been addressed as follows:

- IT network user access: CASA has resolved this matter with the implementation of stronger user access controls;
- Financial Management Information System controls: CASA resolved this matter with the implementation of stronger user access controls and improved documentation of these processes; and
- Human Resource Management Information System controls: CASA has partially addressed this matter with the implementation of stronger user access controls, and it has been downgraded to a Category C finding. Improved system documentation of these processes remains outstanding.

### *New moderate audit findings identified*

#### *Developer access to the IT production environment*

**5.586** The 2009–10 audit identified that there was a lack of segregation of duties in respect of personnel who could make changes to the FMIS and HRMIS in both the IT development and production environment, and also provide day-to-day support for these systems. The ANAO also identified that a system-generated audit trail to log information about changes made in the IT development and production environments for the FMIS and the HRMS was not maintained.

**5.587** As a result, CASA had not complied with the Australian Government IT Security Manual and CASA’s own internal IT security policies. The lack of segregation of duties increased the risk of unauthorised, erroneous and/or untested program changes being implemented into production, as well as increasing the risk of inappropriate changes to the production environment that may not be detected in a timely manner. This situation increases the risk of CASA’s system integrity and data availability being compromised.

**5.588** CASA considered that the introduction of increased segregation of duties may not be cost effective in the current environment, however CASA agreed with the audit findings and intends to build appropriate systems-based audit logs into the new FMIS and HRMIS systems planned for the latter part of 2010–11. The ANAO will follow up and test the status of this matter in the next audit.

#### *User access to the FMIS and HRMIS*

**5.589** A review of the FMIS and HRMIS user access controls identified the use of a number of user accounts that had default passwords not subject to

password complexity controls. These accounts were not uniquely identifiable to an individual. This situation also provided higher levels of privileged access than required. It was also noted that automatic logging of user access and database administration tasks was not enabled. These weaknesses represent an increased risk of inappropriate and undetected changes to the structure and content of system information.

**5.590** CASA also agreed with this finding and indicated that individual identifiable user accounts have been implemented. CASA will increase the complexity of passwords. The ANAO will follow up and test the status of this matter in the next audit.

**5.591** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2009–10 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	(3)*	2	2
<b>Total</b>	<b>3</b>	<b>(3)</b>	<b>2</b>	<b>2</b>

\* One issue relating to procedures and controls over CASA’s HRMIS was downgraded to a Category C finding.

## Comments on non-material entities

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

# Innovation, Industry, Science and Research Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit report issued	Audit issues identified
Department of Innovation Industry Science & Research	Yes	✓	19 Aug 10	19 Aug 10	
Anglo-Australian Telescope Board	No	✓	21 Oct 10	22 Oct 10	
Australian Institute of Aboriginal and Torres Strait Islander Studies	No	✓	21 Sept 10	21 Sept 10	
Australian Institute of Marine Science	No	✓	23 Aug 10	7 Sept 10	◆
Australian Nuclear Science and Technology Organisation	Yes	✓	16 Aug 10	16 Aug 10	
- PETNET Australia Pty Limited	No	✓	6 Aug 10	6 Aug 10	
Australian Research Council	Yes	✓	9 Sept 10	9 Sept 10	
Commonwealth Scientific and Industrial Research Organisation	Yes	✓	25 Aug 10	27 Aug 10	
- Science and Industry Endowment Fund	No	✓	25 Aug 10	27 Aug 10	
- WLAN Services Pty Limited	No	✓	24 Aug 10	27 Aug 10	
CVC Reef Limited	No	✓	29 Oct 10	29 Oct 10	
- Wind Corporation Australia Limited	No	✓	29 Oct 10	29 Oct 10	
IIF Foundations Pty Limited	No	✓	27 Oct 10	27 Oct 10	
IIF Investments Pty Limited	No	✓	27 Oct 10	27 Oct 10	
IP Australia	No	✓	28 Sept 10	29 Sept 10	

✓: audit report not modified

E : audit report contains an emphasis of matter

Q : audit report contains a qualification

A: audit report contains additional statutory disclosure

☞: financial year end date other than 30 June 2010

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

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

## Portfolio Overview

**5.593** 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

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	297.6	280.7
Appropriation revenue	301.4	281.9
Surplus	3.8	1.2
Total other comprehensive income	3.6	0.0
Total comprehensive income	7.4	1.2
Total assets	251.2	239.4
Total liabilities	104.8	96.8

**5.594** The surplus increased mainly due to a \$2.5 million revaluation gain in relation to leasehold improvements.

**5.595** The balance of other comprehensive income in 2009–10 relates to the revaluation of assets other than leasehold improvements at balance date.

**5.596** Movements in other financial measures were not significant and were the result of fluctuation in normal business activities.

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

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	429.0	40.6
Total expenses	4 013.4	3 486.1
Total assets	2 943.5	2 630.8
Total liabilities	343.4	250.1

**5.597** Administered income and expenses have increased due to funding received for the Education Investment Fund (EIF) under the *Nation-Building Fund Act 2008*. Funds were received as administered income in relation to payments for the Super Science program, including Space and Astronomy,

Centre for Climate Change and Energy Research and Institute for Marine and Antarctic Studies.

**5.598** Assets have increased due to an increase in the fair value of administered investments for Australian Nuclear Science and Technology Organisation (ANSTO) and Commonwealth Scientific and Industrial Research Organisation (CSIRO).

**5.599** Liabilities have increased due to larger subsidy debts owing under the Automotive Competitiveness and Investment Scheme. Fewer credits were utilised in 2009–10, and the unused credits have been held as a liability.

## **Areas of audit focus**

**5.600** The ANAO's audit approach identified the accounting treatment of grant programs as an area of audit focus that was significant in terms of its potential impact on the 2009-10 financial statements. The audit identified that the Department of Innovation, Industry, Science and Research (DIISR) has an effective process to account for grant expenditure.

## **Audit results**

### *Summary of audit findings*

#### *Outstanding audit issue*

**5.601** The 2009–10 interim audit identified weaknesses in the electronic transmittal of payment data as the transmittal process did not include sufficient security and access controls. As a result, there was a risk that the data transferred could be manipulated leading to the misuse of funds. DIISR has revised its procedures and implemented controls to address this issue.

**5.602** No significant or moderate audit issues were identified during the 2009–10 final audit.



**5.603** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2009–10 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>

## Australian Nuclear Science and Technology Organisation

### Summary of Financial Results

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	147.1	177.2
Revenue from Government	155.2	173.1
Income tax expense/ (benefit)	(0.1)	(0.1)
Surplus/(deficit)	8.2	(4.0)
Total other comprehensive income after income tax	68.8	48.5
Total comprehensive income	77.0	44.5
Total assets	1 069.1	944.3
Total liabilities	207.3	159.5

**5.604** The net cost of services decreased primarily due to an increase in own sourced revenue as a result of a grant received from the Australian Government's Education Investment Fund for the enhancement of instrumentation for the nuclear reactor and additional infrastructure with the purchase of two accelerators.

**5.605** Revenue from government has decreased due to the expected reduction of spent fuel shipment and decommissioning cost.

**5.606** Other comprehensive income has increased due to a change in the asset revaluation reserve consistent with the required accounting treatment for decommissioning cost.

**5.607** The significant increase in assets in the consolidated accounts of ANSTO was due to an increase in property, plant and equipment and major

facilities, restoration costs, decommissioning costs and capitalisation costs associated with an upgrade of the FMIS.

**5.608** The significant increase in consolidated liabilities was due to the increase in decommissioning cost provision as per the required accounting treatment.

### **Areas of audit focus**

**5.609** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- licensing arrangements with external service providers;
- ability to generate expected income level to maintain current operations;
- ANSTO subsidiaries and related accounting for changes in operations;
- asset valuations, particularly valuation and impairment of assets; and
- decommissioning costs and calculations relating to ANSTO site and equipment.

**5.610** Audit coverage of these matters was finalised during the 2009-10 final audit.

### **Audit results**

#### *Summary of audit findings*

**5.611** There were no significant or moderate audit issues identified during the 2009–10 audit.

## Australian Research Council

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	19.5	19.8
Appropriation revenue	20.2	15.9
Surplus/(deficit)	0.7	(3.9)
Total other comprehensive income	0.0	0.0
Total comprehensive income	0.7	(3.9)
Total assets	23.4	19.2
Total liabilities	5.0	5.9

**5.612** Appropriation revenue increased as a result of funding provided for the implementation of the Excellence in Research for Australia policy proposal.

**5.613** The asset balance movement is attributed to increases in the value of internally developed computer software.

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

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	5.2	5.2
Total expenses	654.7	580.8
Total assets	5.0	3.7
Total liabilities	239.4	234.6

**5.614** Administered expenses increased due to new programs and policy measures that commenced in 2009–10. These included the Excellence in Research in Australia program, as well as programs relating to bionic vision technology and fellowships.

## Areas of audit focus

5.615 The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the accounting and internal controls over administered grant payments; and
- the capitalisation and impairment of intangible assets, with a particular focus on those intangibles that are internally developed.

5.616 Audit coverage of these matters was finalised during the 2009-10 final audit.

## Audit results

### *Summary of audit findings*

5.617 There were no significant or moderate audit issues identified during the 2009–10 audit.

## Commonwealth Scientific and Industrial Research Organisation

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	723.8	546.0
Revenues from Government	704.9	668.0
Surplus /(deficit)	(18.9)	122.0
Total other comprehensive income	16.8	(46.6)
Total comprehensive income	(2.1)	75.4
Total assets	2 232.3	2 182.8
Total liabilities	512.3	489.7

5.618 The Commonwealth Scientific and Industrial Research Organisation (CSIRO) prepared consolidated financial statements for the first time in 2009–10. Accordingly, the key financial measures for 2009–10 include the financial results of the Science and Industry Endorsement Fund and WLAN

Services Pty Ltd. In previous years the values of these subsidiary entities were immaterial.

**5.619** The CSIRO was successful in gaining revenue from patent litigation legal settlements in 2008–09, providing a \$205 million increase in own sourced revenue that was not repeated in 2009–10. This accounts for the increase in net cost of services in 2009–10.

**5.620** The overall surplus decreased as a result of the net impact of the decrease in own source revenue from legal settlements which was partially offset by increased budgeted revenue from government.

**5.621** Other comprehensive income increased in 2009–10, due to the positive changes in the value of available for sale investments which were recognised in other reserves.

**5.622** Assets increased due to capital expenditure relating to land and buildings

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

### **Areas of audit focus**

**5.624** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the accounting treatment and calculations applied to research project income, work-in-progress and deferred revenue balances;
- the accounting for CSIRO's financial instruments, largely consisting of investments in listed and unlisted start-up companies, with a particular focus on the valuation and disclosure of these investments; and
- the valuation and classification of CSIRO's property, plant and equipment assets.

**5.625** The valuation of CSIRO's investments in listed and unlisted start-up companies, totalling \$32.6 million at 30 June 2010, was an area of particular interest. This was in view of CSIRO's strategy to commercialise its intellectual property through these investments. The investments are carried at fair value based on assumptions and complex calculations in applying valuation methods. Audit work focussed on the appropriateness and accuracy of

assumptions and techniques used in the valuation, such as the tracking of company performance against budgets, as well as a detailed assessment of impairment indicators, such as significant fluctuations in share prices.

**5.626** Audit coverage of the matters was finalised during the 2009–10 final audit.

## **Audit results**

### *Summary of audit findings*

**5.627** There were no significant or moderate audit issues identified during the 2009–10 audit.

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

**5.628** Other than for the Australian Institute of Marine Science, there were no significant or moderate audit issues identified in non-material entities within the portfolio.

### **Australian Institute of Marine Science**

**5.629** The ANAO identified a moderate audit issue during the 2009–10 audit in relation to the use of credit notes. Part of the Australian Institute of Marine Science's (AIMS) revenue is raised from rendering research to external parties. These activities are conducted under specific contract terms and conditions. The audit identified that AIMS did not have an appropriate authorisation processes for credit notes and a large number were not authorised.

**5.630** AIMS has advised that it is implementing revised procedures for the authorisation of credit notes.

# Parliamentary Departments

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit report issued	Audit issues identified
Department of Parliamentary Services	Yes	✓	13 Aug 10	13 Aug 10	
Department of the House of Representatives	No	✓	9 Sept 10	9 Sept 10	
Department of the Senate	No	✓	6 Sept 10	10 Sept 10	

✓: audit report not modified

E : audit report contains an emphasis of matter

Q : audit report contains a qualification

A: audit report contains additional statutory disclosure

☞: financial year end date other than 30 June 2010

⇒: 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 Department's overview

**5.631** There are three parliamentary departments supporting the Australian Parliament:

- Department of Parliamentary Services (DPS);
- Department of the House of Representatives (DHoR); and
- Department of the Senate (DoS).

**5.632** 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.

**5.633** The DHoR 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. DHoR 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.

**5.634** 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	2009–10 \$m	2008–09 \$m
Net cost of services	115.5	116.0
Appropriation revenue	90.9	116.9
Surplus/(deficit)	(24.5)	0.9
Total other comprehensive income	0.0	2.1
Total comprehensive income	(24.5)	3.0
Total assets	110.3	131.5
Total liabilities	28.7	25.4

**5.635** Changes to funding for capital acquisitions resulted in decreases in appropriation revenue, assets and the deficit. DPS is no longer funded progressively for capital replacement; instead DPS will receive capital funding when assets are replaced. All other movements in departmental items are a result of fluctuations in normal business activities.

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

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	0.0	0.0
Total expenses	20.6	18.5
Total assets	2 153.5	1 895.6
Total liabilities	0.5	0.4

**5.636** Administered assets increased due to a revaluation of Parliament House in 2009–10. All other movements in administered items were a result of fluctuations in normal business activities.

### Areas of audit focus

**5.637** The valuation of administered land and buildings was highlighted as an area for specific audit coverage in 2009–10. The ANAO assessed the methodology used by the independent valuer engaged to conduct the



valuation and concluded that the methodology used was appropriate, having regard to the unique nature of Parliament House.

## **Audit results**

### *Summary of audit findings*

**5.638** There were no significant or moderate issues identified during the 2009–10 audit.

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

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

# Prime Minister and Cabinet Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit report issued	Audit issues identified
Department of the Prime Minister and Cabinet	Yes	✓	5 Aug 10	5 Aug 10	
Australian Institute of Family Studies	No	✓	27 Aug 10	27 Aug 10	
Australian National Audit Office	No	✓	17 Aug 10	17 Aug 10	
Australian Public Service Commission	No	✓	15 Sept 10	16 Sept 10	
National Archives Australia	Yes	✓	11 Aug 10	11 Aug 10	
National Australia Day Council Limited	No	✓	9 Sept 10	9 Sept 10	
Office of National Assessments	No	✓	24 Sept 10	24 Sept 10	
Office of the Commonwealth Ombudsman	No	✓	8 Sept 10	8 Sept 10	
Office of the Inspector-General of Intelligence and Security	No	✓	14 Sept 10	14 Sept 10	
Office of the Official Secretary to the Governor-General	No	✓	30 Sept 10	30 Sept 10	
Office of the Privacy Commissioner	No	✓	30 Aug 10	1 Sept 10	
Old Parliament House	No	✓	22 Sept 10	22 Sept 10	

✓: audit report not modified

E : audit report contains an emphasis of matter

Q : audit report contains a qualification

A: audit report contains additional statutory disclosure

☞: financial year end date other than 30 June 2010

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

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

## Portfolio overview

**5.640** The Prime Minister and Cabinet portfolio agencies produce a range of outputs required for well-coordinated, efficient and accountable public administration supported by a values based Australian Public Service.

**5.641** The portfolio undertakes the following responsibilities:

- coordination of government administration;
- assistance to Cabinet and its members;
- policy advice and administrative support to the Prime Minister;
- intergovernmental relations and communications with state and territory governments;

- the consideration and promotion of awards and national symbols;
- oversight of Government ceremonial and hospitality activities;
- counter terrorism and national security policy coordination;
- work and family policy coordination;
- administration of privacy and freedom of information legislation;
- management of government records; and
- over-sight of Old Parliament House, which incorporates the Museum of Australian Democracy.

## Department of the Prime Minister and Cabinet

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	111.3	101.9
Appropriation revenue	114.7	102.6
Surplus/(deficit)	3.4	0.7
Total other comprehensive income	2.5	0.1
Total comprehensive income	5.9	0.8
Total assets	72.6	70.8
Total liabilities	32.0	29.7

**5.642** The net cost of services increase is attributable to an increase in employee and supplier expenses. Employee expenses increased as a result of an increase in average staffing levels, while the increase in supplier expenses is due to expenditure in relation to the Pacific Island Forum and an increase in ICT costs as a result of additional ICT services being provided to other government agencies in 2009–10.

**5.643** Appropriation revenue has increased mainly as a result of additional funding for the establishment of the Office of the Australian Information Commissioner, CHOGM 2011 and for the COAG reform council.

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

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	0.0	0.4
Total expenses	9.3	14.9
Total assets	43.3	43.0
Total liabilities	11.7	27.8

**5.644** Administered liabilities have reduced significantly due to the transfer of the management of the former Governors-General personal benefits (superannuation entitlements) to the Department of Finance and Deregulation on 1 July 2009. The amount transferred was \$16.0m.

### **Areas of audit focus**

**5.645** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- valuation of the Prime Minister's residences;
- valuation of the former Governors-General 'other entitlements' provision;
- valuation of employee liability provisions, including the estimation of the future salary growth rate;
- financial reporting of the Commonwealth Heads of Government Meeting; and
- IT general and application controls as they relate to the financial statements.

**5.646** Of particular audit interest was the valuation of the former Governors-General 'Other Entitlements' provision. The Department of the Prime Minister and Cabinet (PM&C) recognised a non-cash benefit provision for former Governors-General for the first time in 2009–10. The provision relates to the liability for future payment of former Governors-General entitlements such as the provision of office facilities, administrative support and travel. PM&C obtained an actuarial assessment to determine the value of the provision for 2009–10 and the comparative year. The liability was valued at just over \$11m.

## Audit results

### Summary of audit findings

5.647 There were no significant or moderate audit issues identified during the 2009–10 audit.

## National Archives of Australia

### Summary of Financial Results

#### Departmental Items

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	55.0	61.1
Appropriation revenue	62.3	66.3
Surplus/(deficit) attributable to the Australian Government	7.3	5.2
Total other comprehensive income after income tax	2.6	270.0
Total comprehensive income	9.9	275.2
Total assets	1 424.8	1 502.7
Total liabilities	15.2	16.9

5.648 The net cost of services decreased mainly due to an increase in the annual collection from gifts and donations.

5.649 Other comprehensive income reduced due to a revaluation of the heritage and cultural collection in 2008–09. The collection was not revalued in 2009–10.

5.650 Assets decreased primarily due to an \$86 million reduction in the appropriation receivable relating to the depreciation of heritage and cultural assets, and a \$10 million reduction in costs relating to the depreciation, impairment and disposal of a portion of these assets. This was partly offset by additions of \$16.3 million to heritage and cultural assets.

### Areas of audit focus

5.651 Our 2019–10 audit approach identified the valuation, capitalisation and depreciation of heritage, cultural and other assets including the Archive's digitised collection, as areas of audit focus that potentially impacted the financial statements.

5.652 Audit coverage of these matters was finalised during the 2009–10 final audit.

## **Audit results**

### *Summary of audit findings*

5.653 There were no significant or moderate audit issues identified during the 2009–10 audit.

# Resources, Energy and Tourism Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit report issued	Audit issues identified
Department of Resources, Energy and Tourism	Yes	✓	6 Aug 10	6 Aug 10	
Australian Solar Institute Limited	No	✓	13 Aug 10	13 Aug 10	
Geoscience Australia	No	✓	6 Sept 10	6 Sept 10	
National Offshore Petroleum Safety Authority	No	✓	20 Aug 10	31 Aug 10	
Tourism Australia	Yes	✓	27 Aug 10	30 Aug 10	

✓: audit report not modified

E : audit report contains an emphasis of matter

Q : audit report contains a qualification

A: audit report contains additional statutory disclosure

☞: financial year end date other than 30 June 2010

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

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

## Portfolio overview

**5.654** The portfolio is responsible for improving the strength, competitiveness and sustainability of the resources, energy and tourism industries; providing geoscientific research and geospatial information; delivering health and safety regulation for the offshore petroleum industry; and positioning Australia as a quality tourism destination.

## Department of Resources, Energy and Tourism

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	86.7	86.2
Appropriation revenue	86.7	85.2
Surplus/(deficit)	0.0	(1.0)
Total other comprehensive income	0.0	0.0
Total comprehensive income	0.0	(1.0)
Total assets	38.5	30.1
Total liabilities	37.8	29.4

**5.655** The surplus in 2009–10 was due to higher revenue from the provision of services to Tourism Australia and additional contributions to the Energy Special Account. The increase in revenue was partially offset by higher employee expenses as the number of full-time equivalent employees increased.

**5.656** Assets increased due to additional fit-outs for newly leased premises and appropriations receivable relating to the monies available in the Energy Special Account. This Account receives contribution from the Commonwealth, State and Territory governments that are held in this Account until they are utilised. The department also recognises a corresponding liability until the monies are expended.

**5.657** The movement in liabilities was due to an increase in unspent monies in the Energy Special Account at year end, together with higher employee provisions consistent with an increase in the number of employees during the financial year.

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

Key financial measures for year	2009–10 \$m	2008–09 \$m
Administered income	1 506.6	1 594.5
Administered expenses	566.2	1 004.0
Total assets	774.9	561.5
Total liabilities	20.0	50.6



**5.658** Administered expenses decreased substantially due to royalty payments being transferred to the Department of Treasury under the *Federal Financial Relations Act 2009* in the prior year. These payments are no longer made by the Department of Resources, Energy and Tourism (RET). The decrease in administered expenses was partially offset by increases in grant programs under new government initiatives.

**5.659** Administered assets increased due to gains in the fair value of the investments in Snowy Hydro Limited (SHL) and Australian Solar Institute Limited.

**5.660** Administered liabilities have decreased due to fewer one-off accruals recognised for grant programs in 2009–10.

### **Areas of audit focus**

**5.661** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the valuation of assets including administered investments, particularly the valuation of the investment in SHL. The 2008–09 financial statements were qualified in respect of the investment in SHL;
- accrued revenue relating to petroleum royalties, given the volatility of revenue streams and their impact on the financial statements; and
- the financial sustainability of the department in the light of prior year losses and limited equity reserves.

**5.662** Audit coverage of these matters was finalised during the 2009–10 final audit.

### **Audit results**

#### *Summary of audit findings*

##### *Outstanding audit issue*

**5.663** In 2008–09 the valuation methodology for the investment in SHL utilised the forecast cash flow data included in the Corporate Plan of SHL in determining the fair value. RET was unable to obtain sufficient documentation to support the data. In accordance with the Australian Auditing Standards this led to a qualification relating to the limitation on the scope of the audit.

**5.664** This issue has now been resolved. The 2009–10 financial statement balance for the Commonwealth’s share of the investment in SHL, being \$480 million, was based on an independent valuation using an acceptable method of valuation and appropriate source data that could be effectively verified.

**5.665** The following table provides a summary of the status of previously reported audit issues. There were no new issues raised in the 2009–10 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>	1	(1)	0	0
<b>B</b>	0	0	0	0
<b>Total</b>	<b>1</b>	<b>(1)</b>	<b>0</b>	<b>0</b>

## Tourism Australia

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	124.4	148.0
Revenue from government	141.6	137.6
Surplus/(deficit)	17.2	(10.4)
Total other comprehensive income after tax	0.4	0.1
Total comprehensive income	17.6	(10.3)
Total assets	35.3	26.2
Total liabilities	10.2	18.6

**5.666** The net cost of services decreased due to lower offshore expenses as a result of the appreciation of the Australian dollar against foreign currencies, as well as the transfer of the business unit Tourism Research Australia to the Department of Resources, Energy and Tourism in November 2009.

**5.667** The surplus is mainly due to the lower offshore expenses described above. In the prior year, there was a deficit mainly as a result of higher

offshore expenses arising from a depreciation of the Australian dollar against foreign currencies.

**5.668** The increase in assets was due to increased cash balances this year.

**5.669** Liabilities decreased due to the timing of business activities that resulted in a number of payables being cleared by year-end.

## Areas of audit focus

**5.670** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the impact of exchange rates on operational resource budgets and commitments;
- revenue sources from partners to fund tourism campaigns; and
- procurement, payroll and banking controls at local and offshore locations.

**5.671** Audit coverage of these matters was finalised during the 2009–10 final audit.

## Audit results

### *Summary of audit findings*

#### *Prior year outstanding audit issues*

**5.672** The following two issues identified during the 2008–09 audit have been resolved during 2009–10:

- a lack of IT policies and procedures for the management of user access and documentation of system changes. This issue has been resolved by improved policy documentation for the change management process; and
- the Business Continuity Plan (BCP) had not been communicated to all business stakeholders, staff were not appropriately trained on the BCP implementation and responsibilities for BCP processes including testing and updating the BCP were not clearly defined. This issue has been resolved through the roll out of the BCP and testing with relevant stakeholders during 2009–10.

**5.673** The following table provides a summary of the status of previously reported audit issues. There were no new significant or moderate issues raised in the 2009–10 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>	0	0	0	0
<b>B</b>	2	(2)	0	0
<b>Total</b>	<b>2</b>	<b>(2)</b>	<b>0</b>	<b>0</b>

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

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

# Treasury Portfolio

Reporting Entity	Material entity	Type of audit report	Date financial statements signed	Date audit report issued	Audit issues identified
Department of the Treasury	Yes	✓	17 Sept 10	17 Sept 10	▲ ◆
Australian Bureau of Statistics	Yes	✓	9 Aug 10	10 Aug 10	◆
Australian Competition and Consumer Commission	No	✓	26 Aug 10	26 Aug 10	◆
Australian Office of Financial Management	Yes	✓	27 Aug 10	27 Aug 10	
Australian Prudential Regulation Authority	No	✓	24 Aug 10	25 Aug 10	
Australian Reinsurance Pool Corporation	Yes	✓	20 Sept 10	21 Sept 10	
Australian Securities and Investments Commission	Yes	✓	29 Jul 10	30 Jul 10	
Australian Taxation Office	Yes	✓A	22 Sept 10	22 Sept 10	▲ ◆
Australian Valuation Office	No	✓	30 Aug 10	31 Aug 10	
Commonwealth Grants Commission	No	✓	23 Sept 10	24 Sept 10	
Corporations and Markets Advisory Committee	No	✓	16 Aug 10	17 Aug 10	
HIH Claims Support Ltd	No	✓	19 Oct 10	19 Oct 10	
Office of the Australian Accounting Standards Board	No	✓	8 Sept 10	9 Sept 10	
Office of the Auditing and Assurance Standards Board	No	✓	8 Sept 10	9 Sept 10	
Office of the Inspector General of Taxation	No	✓	30 Aug 10	31 Aug 10	
National Competition Council	No	✓	27 Aug 10	27 Aug 10	
Productivity Commission	No	✓A	26 Aug 10	27 Aug 10	
Reserve Bank of Australia	Yes	✓	16 Aug 10	16 Aug 10	
Reserve Bank of Australia Note Printing Australia Ltd	No	✓	22 Jul 10	22 Jul 10	
Reserve Bank of Australia Officers' Superannuation Fund	No	✓	20 Oct 10	20 Oct 10	
Royal Australian Mint	No	✓	6 Sept 10	7 Sept 10	

✓: audit report not modified

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☞: financial year end date other than 30 June 2010

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

▲: significant or moderate issues reported previously not yet resolved

◆: new significant or moderate issues noted

## Portfolio overview

5.675 The Treasury portfolio consists of the Department of the Treasury (the Treasury) and a range 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 and the effective implementation and administration of policies that fall within the portfolio Ministers' responsibilities.

## Department of Treasury

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	160.5	152.5
Appropriation revenue	165.9	148.7
Surplus/(deficit)	5.5	(3.9)
Total other comprehensive income	0.0	(0.0)
Total comprehensive income/(loss)	5.5	(3.9)
Total assets	133.3	117.2
Total liabilities	52.9	46.8

5.676 The Treasury was provided with additional Appropriation funding in the 2009–10 Budget to support the provision of policy advice.

5.677 The Treasury is responsible for implementing the Standard Business Reporting (SBR) project and the value of assets increased as a result of capitalising internally developed software for this project. The system became available for use on 1 July 2010.

5.678 Other key financial measures have not moved significantly, reflecting fluctuations in normal business activity.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	12 532.0	4 711.2
Total expenses	88 000.4	54 061.1
Total assets	23 839.4	28 644.9
Total liabilities	14 102.5	9 043.1

**5.679** The Council of Australian Governments (COAG) reforms relating to the federal financial relations framework continue to have a significant impact on the Treasury's administered financial measures in 2009–10.

**5.680** Both administered income and expenses increased substantially as a result of the first full year of the Treasury assuming responsibility for making payments relating to a range of programs and Special Purpose Payments.

**5.681** The increase in administered income also related to:

- revenue received from fees associated with the guarantees for large deposits and wholesale funding and State and Territory borrowings;
- an increase in dividend revenue from the Reserve Bank of Australia (RBA) arising from the RBA's 2008–09 result; and
- foreign exchange gains realised in 2009–10.

**5.682** Administered assets have decreased primarily as a result of a decrease in the value of the investments in the RBA and the International Monetary Fund (IMF) quota. This decrease was partially offset by the recognition of a contractual fee receivable for the guarantee scheme for State and Territory borrowing and a receivable from the IMF for the maintenance of value associated with the movement in the Australian dollar.

**5.683** Administered liabilities have increased significantly in 2009–10 primarily relating to an additional allocation of Special Drawing Rights by the IMF to increase the liquidity of member countries. Australia's allocation increased by approximately \$4.8 billion.

## Areas of audit focus

**5.684** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the Australian Government guarantees over States and Territory borrowings;
- administration of the National Partnership payments to the States reported in the Treasury's financial statements;
- the Ozcar, Special Purpose Vehicle;
- arrangements for a significant concessional loan to Indonesia;
- recognition and capitalisation of the internally generated software, SBR project;
- the Australian Government deposit and wholesale funding guarantees;
- recognition of General Revenue Assistance payments, in particular the Goods and Services Tax (GST) to the States and Territories;
- follow-up of progress against the ANAO 2009–10 finding in relation to the need to improve the segregation of duties and employee expenses reconciliations; and
- IT general and applications controls as they relate to the financial statements.

**5.685** Audit coverage of these matters was finalised during the 2009–10 final audit. The audit coverage included consideration of the accounting policy in each of the audit focus areas. The ANAO also undertook a review of controls within the Treasury and in other agencies that contributed to the Treasury's financial statement balances in specific areas. The RBA's administration of the Australian Government guarantees over States and Territories borrowings and deposit and wholesale funding arrangements were included in audit testing.

**5.686** The various guarantees reported in the Treasury financial statements were of particular interest in 2009–10. The Australian Government guarantees over large deposits and wholesale funding relating to eligible authorised deposit-taking institutions closed for new guarantees as at 31 March 2010. Guarantees under the scheme at this date will remain in place, for a fee, for the period of the underlying funding arrangements. In 2009–10



the Treasury disclosed in its financial statements administered fee revenue of \$1,265 million. The total amount of large deposits and wholesale funding guaranteed at 30 June 2010 was \$162,953 million. This amount was reported as a contingent liability and the Treasury considered the likelihood of the guarantees being called on as remote.

**5.687** In July 2009 the Australian Government commenced guarantees of State and Territory borrowings. Use of the guarantees is voluntary and in 2009–10 New South Wales and Queensland were the only States to access the guarantee. In 2009–10 the Treasury disclosed in its financial statements administered fee revenue of \$102 million relating to the guaranteed amounts. The total amount of guaranteed State borrowings at 30 June 2010 was \$69,752 million. The Treasury reported this as a contingent liability in the notes to the financial statements and considered the likelihood of the guarantees being called on as remote.

**5.688** The Australian Government also guaranteed all non AAA-rated securities issued by the Ozcar Special Purpose Vehicle to facilitate the purchase of those securities by Australia's four major domestic banks. The *Car Dealership Financing Guarantee Appropriation Act 2009* provides an appropriation to support the Australian Government guarantee of those securities. As at 30 June 2010, the Ozcar Special Purpose Vehicle owed \$4.9 million in guaranteed liabilities over and above available cash assets of \$136 million. As a result, the Treasury recognised an impairment expense and equivalent liability of \$4.9 million in the 2009–10 financial statements.

## **Audit results**

### *Summary of audit findings*

**5.689** The results of our 2009–10 audit were satisfactory except in relation to the matters referred to below.

#### *Outstanding audit issue from the 2009–10 interim audit*

**5.690** The 2009–10 interim audit identified that the Treasury did not maintain a complete central register of agreements and associated plans to support the National Partnership payments and reporting obligations under the *Federal Financial Relations Act 2009* (FFR Act) and the Intergovernmental Agreement Federal Financial Relations (IGA).

**5.691** The Treasury has commenced work on a project to develop a database to centrally register agreements and associated implementation plans to

support the National Partnership payment processing and reporting obligations.

**5.692** The ANAO will review progress in relation to this matter during the 2010–11 audit.

*New moderate audit issue*

**5.693** The 2009–10 final audit identified that the financial statement preparation process could be improved through better co-ordination of year end reporting of accruals relating to Commonwealth payments to the States.

**5.694** The Treasury has agreed to improve these processes and proposes to formalise arrangements for co-ordinating year end reporting. The ANAO will review the actions undertaken by the Treasury during the 2010–11 audit.

**5.695** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2009–10 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	1	2
<b>Total</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>2</b>

## Australian Bureau of Statistics

### Summary of Financial Results

#### Departmental Items

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	323.7	296.3
Appropriation revenue	327.9	282.6
Surplus/(deficit)	4.2	(13.7)
Total other comprehensive income/expense	0	(1.1)
Total comprehensive income	4.2	(14.8)
Total assets	183.8	170.8
Total liabilities	128.9	121.1

**5.696** As a result of a higher level of activity associated with the next Census to be held in August 2011, there has been an increase in the net cost of services. Appropriation revenue reflect the higher level of activity associated with the Census to be held in August 2011 and new measures, including assistance in implementing a performance reporting framework to measure the progress of key initiatives of the Council of Australian Governments, and the establishment of a quarterly Pensioner and Beneficiary Living Cost Index.

**5.697** Assets increased due mainly to an increase in appropriation receivables.

**5.698** The main reason for the increase in liabilities was an increase in suppliers and employee benefit provisions.

#### Areas of audit focus

**5.699** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- capitalisation of internally-generated software;
- the management of special accounts; and
- IT general and applications controls as they relate to the financial statements.

**5.700** The value of the software assets of the Australian Bureau of Statistics (ABS) is substantial (\$82.6 million at 30 June 2010) and represents approximately 60 per cent of the ABS's non-financial assets. The capitalisation of software costs was therefore an area of particular audit interest. The capitalisation of internally generated software is required to be undertaken in accordance with Australian Accounting Standard AASB 138 Intangible Assets, with particular emphasis on whether an asset exists and how the software is valued. In conjunction with the ANAO's cross-agency performance audit on the capitalisation of software, the ANAO reviewed the capitalisation of internally generated software to gain assurance over the balances in the 2009–10 financial statements. The outcomes of the audit were reported in the ANAO Audit Report No. 14 2009-10 Capitalisation of Software. The ANAO's performance audit identified certain costs had been inappropriately capitalised, the need to update and further improve guidance and the need to formalise project closure processes. The ABS advised it is implementing the ANAO's recommendations.

## **Audit results**

### *Summary of audit findings*

#### *Outstanding audit issue from the 2009–10 interim audit*

**5.701** The ANAO reported during the final phase of the 2009–10 audit one moderate audit finding in relation to the ABS HRMIS. The risk exposure is in relation to the number of users able to both process changes to the HRMIS master data and also process transactions. Further review found the absence of compensating controls to address this risk.

**5.702** The ABS has agreed to take remedial action to address this matter with the implementation of a control designed to detect unauthorised transactions.

<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>	0	0	0	0
<b>B</b>	0	0	1	1
<b>Total</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>

## Australian Office of Financial Management

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	14.1	6.5
Appropriation revenue	12.6	8.5
Surplus/(deficit)	(1.5)	2.0
Total other comprehensive income	0.0	0.0
Total comprehensive income/(loss)	(1.5)	2.0
Total assets	14.7	18.0
Total liabilities	2.0	1.6

**5.703** The increase in the net cost of services by the Australian Office of Financial Management (AOFM) was largely attributable to an increase in supplier expenses relating to a syndicated debt issue of Treasury Indexed Bonds. Increased appropriation revenue was received in 2009–10 to support activities associated with the additional debt issuance.

**5.704** Assets decreased as a result of a reduction in the appropriation receivable balance.

**5.705** Fluctuations in normal business activity have resulted in minor movement in the value of liabilities.

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

Key financial measures for year *	2009–10 \$m	2008–09 \$m
Total income	1 436.6	2 530.9
Total expenses	6 348.0	4 962.4
Total assets	33 405.3	38 320.8
Total liabilities	157 375.6	107 313.9

\* The AOFM also recognised a loss of \$52.3 million (2008–09 gain of \$1 033.2 million) and a re-measurement loss of \$2 772.7 million (2008–09 \$232.2 million).

**5.706** Administered income has decreased mainly due to a reduction in interest revenue from investments in financial assets and from interest rate swap contracts. Whilst average investment balances during 2009–10 were

greater than the prior year, the yields earned on these investments were significantly lower. In addition, in 2009–09 the AOFM began reducing its portfolio of interest rate swaps and in 2009–10 the last interest rate swap contract matured. The reduction in interest revenue from interest rate swap contracts from 2008–09 to 2009–10 was over \$900 million.

**5.707** Assets decreased largely as a result of less a reduction in term deposits held at 30 June 2010.

**5.708** The increase in administered expenses is largely a result of an increase in Commonwealth Government Securities on issue to meet the Government's financing requirements. This has been partially offset by reduced interest expenses on interest rate swap contracts. Liabilities have increased as a result of additional debt on issuance during 2009–10.

### **Areas of audit focus**

**5.709** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- accounting treatment of newly issued financial instruments;
- capacity of AOFM to manage an increase in the volume of issuance of debt instruments;
- financial instrument presentation and disclosures;
- a scheduled upgrade of the debt and financial asset management system;
- AOFM's control environment and the establishment of adequate controls to enable compliance with aspects of relevant financial management legislation;
- the fair value measurement of financial assets and liabilities;
- recognition of gains and/or losses on divestment of legacy debt hedge portfolio assets and the fair value impact on the financial statements;
- AOFM's internal assurance activities including the Certificate of Compliance process and fraud prevention activities; and
- IT general and applications controls as they relate to the financial statements.

**5.710** The ANAO completed its review of these areas during the 2009–10 final audit. Our procedures incorporated specialist review of financial instrument presentation and disclosure.

## Audit results

### *Summary of audit findings*

**5.711** There were no significant or moderate audit issues identified in the 2009–10 audit.

## Australian Reinsurance Pool Corporation

### Summary of Financial Results

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	140.7	138.0
Total expenses	87.5	43.4
Operating result	53.2	94.5
Total assets	701.0	643.1
Total liabilities	96.5	91.9

**5.712** In January 2009, the ARPC commenced a retrocession<sup>30</sup> program to reduce the Commonwealth's risk in meeting excess liability under the terrorism insurance scheme. The increase in total expenses in 2009–10, and the associated impact on the operating result, is a result of recognising a full year of expenses arising from the retrocession program.

**5.713** Assets increased mainly due to an increase in term deposit investments.

**5.714** The movements in income and liabilities were not significant and are the result of fluctuations in normal business activity.

### Areas of audit focus

**5.715** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- capitalisation of software development costs;

<sup>30</sup> Retrocession is the transfer of risk from one reinsurer to another reinsurer.

- accounting for insurance premiums;
- reinsurance arrangements with third parties; and
- IT general and applications controls as they relate to the financial statements.

5.716 Audit coverage of these matters was finalised during the 2009–10 final audit.

## Audit results

### *Summary of audit findings*

5.717 There were no significant or moderate audit issues identified in the 2009–10 audit.

## Australian Securities and Investments Commission

### Summary of Financial Results

#### *Departmental Items*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	375.2	288.0
Appropriation revenue	370.2	307.8
Surplus/(deficit)	(5.0)	19.8
Total other comprehensive income	1.0	0.0
Total comprehensive income	(4.0)	19.8
Total assets	255.1	212.0
Total liabilities	138.0	99.4

5.718 The Australian Securities and Investments Commission's (ASIC) has had an increase in the net cost of services primarily due to increased settlement costs related to litigation and a program underway to refresh information technology (IT) environment.

5.719 The increase in appropriation revenue was attributable to additional government funding related to ASIC activities in response to the Global Financial Crisis, a refresh of ASIC's IT environment. A number of new matters are now eligible for funding through the Enforcement Special Account that is used to fund certain enforcement activities.



**5.720** Other comprehensive income has increased as a result of an upwards revaluation of leasehold improvements, partially offset by a reduced assessment of the future cost to make good some leased premises.

**5.721** Assets have also increased as the result of new office fitout, following a move to new premises, and new computer software arising from a refresh of the IT environment.

**5.722** Liabilities increased as the result of a lease being entered into for ASIC's new premises.

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

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	639.9	603.9
Total expenses	68.0	63.0
Total assets	90.0	89.4
Total liabilities	7.8	6.4

**5.723** Administered income has increased due mainly to increased fees collected under the *Corporations Act 2001* following an increase in the number of companies that were trading compared to the prior year.

**5.724** Administered expenses, assets and liabilities have not moved significantly in 2009–10.

### **Areas of audit focus**

**5.725** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- the capitalisation of internally generated computer software and the assessment of software at year end of indicators of impairment;
- the completeness and accuracy of the disclosure of contingent liabilities arising from the various legal matters in which ASIC is involved; and
- IT general and applications controls as they relate to the financial statements.

5.726 Audit coverage of these matters was finalised during the 2009–10 final audit.

## Audit results

### Summary of audit findings

5.727 The 2008–09 audit identified 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. The 2009–10 audit confirmed that ASIC has progressed work in both of these areas, and the issues have been downgraded to Category C findings.

5.728 The following table provides a summary of the status of previously reported audit issues. No new significant or moderate issues were identified in the 2009–10 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)*	0	0
<b>Total</b>	<b>2</b>	<b>(2)</b>	<b>0</b>	<b>0</b>

\* Two issues relating to IT disaster recovery planning and testing have been downgraded to Category C findings.

## Australian Taxation Office

### Summary of Financial Results

#### Departmental Items

Key financial measures for year	2009–10 \$m	2008–09 \$m
Net cost of services	2 965.8	2 936.5
Appropriation revenue	3 007.5	2 911.7
Surplus/(deficit)	40.7	(25.6)
Total other comprehensive income	24.3	2.9
Total comprehensive income	65.0	(22.7)
Total assets	1 036.2	920.8
Total liabilities	985.1	936.7

**5.729** The increase in the ATO's net cost of services was primarily due to increased staff costs, partially offset by reduced asset impairment, write-downs and write-offs.

**5.730** Appropriation revenue has increased mainly as a result of additional funding for: compliance activities; support for businesses and other taxpayers in financial distress; and other changes designed to benefit small businesses.

**5.731** The ATO implemented a significant cost reduction program that has resulted in a surplus in 2009–10.

**5.732** An increase in total comprehensive income is a consequence of the annual revaluation of fixed assets.

**5.733** Assets have increased primarily due to increased appropriation receivables and revaluation increments for property, plant and equipment.

**5.734** Liabilities have increased due to increased long service leave provisions, primarily as a result of the change in the discount rate from 2009, and a large, one-off trade creditor as at 30 June 2010. The increase was partially offset by a reduction in accrued performance pay following implementation of a new workplace agreement.

*Items administered on behalf of the Australian Government*

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	260 215	270 038
Total expenses	15 772	21 999
Total assets	25 261	25 491
Total liabilities	6 747	6 879

**5.735** Administered income decreased following a decline in income tax revenue attributed to rising interest rates, the carrying forward of capital losses and the impact of the reduction in individual income tax rates. This was partially offset by an increase in Goods and Services Tax (GST) revenue as a result of increased discretionary expenditure, in line with the Australian recovery from the Global Financial Crisis.

**5.736** Administered expenses decreased reflecting the removal of the one off tax bonus expense, partially offset by additional provisions for bad and doubtful debts.

**5.737** Although there was an increase in gross administered receivables (including overdue amounts) and accrued revenues, total administered assets decreased as a result of higher impairment losses and credit amendments.

**5.738** Administered liabilities have decreased as a result of fluctuations in normal business activity.

**Areas of audit focus**

**5.739** The ANAO’s audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- ATO’s enhancement of its business systems as part of the Easier, Cheaper and More Personalised program known as the Change Program. The current cost of this program is in excess of \$750 million. This program involves the progressive development and release into production of a number of system components relating to various aspects of ATO’s business, such as Income Tax, Superannuation and Fringe Benefits Tax (FBT). As a consequence, the review of the implementation of new business systems and associated processes, particularly in relation to data conversion, system interfaces and release

management procedures, forms a significant part of the ANAO's audit examination of internal controls;

- valuation risks including impairment of receivables, and the impact of economic conditions on major items in the financial statements;
- legislative compliance, including ATO's changes to Superannuation Co-contributions processes to ensure alignment with legislative requirements and the implementation of measures to ensure legislative compliance with *The Constitution* in light of a breach of section 83 identified in previous years;
- ATO's control environment and the establishment of adequate controls to enable compliance with aspects of relevant financial management legislation;
- administration of the collection and reporting of taxation revenues, including processes associated with self assessment and voluntary compliance;
- ATO's internal assurance activities including the Certificate of Compliance process, Internal Audit, Integrity Assurance, and fraud prevention activities;
- complex estimation and allocation processes associated with financial reporting where there is the application of judgement and specialist knowledge;
- significant IT systems from which a number of financial statement balances are sourced; and
- relevant implementation matters identified in the ANAO's performance audit report 2009–10 *No 8 The Australian Taxation Office's Implementation of the Change Program: a strategic overview*.

**5.740** The Change Program involves the development and implementation of the Integrated Core Processing (ICP) system that is used to process income tax returns. The deployment of the ICP system for income tax involved the transfer and reformatting of 27 million taxpayer records, 32 million accounts and 282 million forms. By 30 June 2010 the ATO processed over 4 million tax return forms using the new system. In the 2009–10 audit, the ANAO conducted end to end testing of the implementation of the income tax release to gain assurance over controls over income tax processing.

**5.741** The calculation of the impairment of the receivables provision for taxpayers with individual debts of less than \$1 million, which at the time of a mid-year valuation was \$4.8 billion, was of particular audit interest in view of the complexity of the underlying calculation of the provision. The calculation was based on an actuarial assessment from the Australian Government Actuary. The ANAO reviewed the assessment by engaging an independent actuary to gain assurance over the balance included in the financial statements.

**5.742** Audit coverage of the remaining areas of audit focus was finalised during the 2009–10 final audit.

## **Audit results**

### *Summary of audit findings*

**5.743** The 2009–10 financial statements made reference, in Note 25C, to a number of breaches of section 83 of *The Constitution*. These breaches were identified by the ATO during the 2009–10 Certificate of Compliance process. From time to time, as a result of processing errors outside the assessment process, incorrect payments are made by the ATO. In these circumstances, the 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.

**5.744** A total of 604 incorrect payments totalling \$5.4 million were identified during 2009–10. These payments comprise a very small percentage of the approximately 13 million payments made during the year. At the time of signing the financial statements, over 85% of the incorrect payments had been recovered.

**5.745** 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**

**5.746** Since the 2006–07 audit the ANAO has reported a significant audit finding in relation to the ATO's management of security classified information within its IT environment. During the final phase of the 2009–10 audit, the ANAO observed that the ATO had made significant progress in the design and

implementation of controls to mitigate the risk. The ANAO has downgraded the finding to a moderate control risk pending an assessment of the effectiveness of the enhanced control environment during the 2010–11 audit.

### **Moderate audit findings**

**5.747** The 2009–10 interim audit reported seven moderate audit issues. During the 2009–10 final audit, the ANAO observed the ATO had effectively addressed the moderate audit findings in relation to:

- the reconciliation of system information that provides assurance over the number of transactions received from system interfaces and the transfer of data through various system components. The ANAO's review of these reconciliations determined they were operating effectively; and
- departures from key elements of standards and guidelines on testing and reporting processes. The ANAO's review of management reporting and monitoring of testing found these processes were effective.

#### *Ongoing Moderate Audit Findings from the Interim Phase of the Audit*

##### *Change Program*

**5.748** The ATO has implemented changes to its business systems as part of the Easier, Cheaper and More Personalised program known as the Change Program. This program involves the progressive development and release into production of a number of system enhancements relating to various aspects of the ATO's business, including Superannuation, Fringe Benefits Tax (FBT) and Income Tax. During the final phase of the 2009–10 audit the ANAO reviewed the controls relating to the Income Tax release.

**5.749** Taxpayer information is processed through various system components which are connected through system interfaces. The effectiveness of controls over the processing of information through these interfaces is essential to ensure completeness and accuracy. During the final phase of the 2009–10 audit the ANAO tested the integrity of the controls over significant Income Tax system interfaces to assess whether they were operating effectively.

##### *Change Program—security and access findings*

**5.750** During the 2009–10 final audit, a review of aspects of the Income Tax processing release noted three continuing issues relating to the management of privileged user access rights, password change management and the operating effectiveness of reconciliation processes that provide assurance over the

transfer of data through various system components. The ANAO will review progress on these issues during the 2010–11 audit.

*Mainframe access—access control*

**5.751** The Resource Access Control Facility (RACF) is a mainframe operating system program that provides access control and audit functionality for ATO's mainframe. This program maintains critical management information that is used to manage and monitor all mainframe users. The ANAO noted there was a continuing risk that inappropriate or unauthorised access may be granted to certain categories of mainframe users.

**5.752** The ATO advised that the RACF access is being reviewed on a monthly basis. The ANAO will evaluate the outcomes of these reviews during the 2010–11 interim audit.

*Superannuation Co-contributions*

**5.753** The ATO has implemented a number of changes to systems, forms, information collection and business processes as a result of system defects which have resulted in an overpayment of the superannuation co-contribution. The ATO implemented the changes to enable compliance with existing Superannuation Co-contributions legislation. The ANAO will review these changes as part of the 2010–11 audit.

*Summary of moderate audit findings*

**5.754** Two new moderate control weaknesses were identified by the ANAO during the 2009–10 final audit.

*Change Program—control weaknesses in ICP*

**5.755** The ATO Change Program involves the development and implementation of the ICP system which is used to process income tax returns. ICP requires manual intervention where errors are identified on taxpayer returns. The ICP system does not readily maintain a visible audit trail of errors that are manually corrected. In addition, the ANAO was unable to confirm appropriate quality assurance processes were in place to assess the accuracy of the processing of returns. As part of the 2009–10 audit, the ANAO has performed extensive testing on manually corrected income tax returns to gain reasonable assurance over the accuracy of the processing of income tax returns.



*Change Program—ICP cash reconciliations*

**5.756** Reconciliations are performed between the ICP system and other IT systems to confirm the accuracy and completeness of financial data processed by these systems. The ANAO identified that these reconciliations were not being performed in a timely manner due to a lack of system functionality to generate reports from the ICP system, and inherent system differences between the ICP system and ATO's legacy IT systems. The ATO has advised that system and process changes are being developed to allow timely reconciliations to be performed.

**5.757** The following table provides a summary of the status of previously reported audit issues as well as new issues raised in the 2009–10 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>L1</b>	1	0	0	1
<b>A</b>	1	(1)*	0	0
<b>B</b>	7	(2)	3*	8
<b>Total</b>	<b>9</b>	<b>(3)</b>	<b>3</b>	<b>9</b>

\* This issue relating to the ATO's management of security classified information within its IT environment was downgraded from a Category A to a Category B finding.

**5.758** The ATO continues to implement strategies to address the above audit findings. A review of these strategies will be undertaken as part of the 2010–11 audit.

# Reserve Bank of Australia

## Summary of Financial Results

### Consolidated Items

Key financial measures for year	2009–10 \$m	2008–09 \$m
Total income	2 094	11 137
Total expenses	5 022	2 331
Profit (loss) after income tax	(2 928)	8 806
Total other comprehensive income after income tax	779	501
Total comprehensive income	(2 149)	9 307
Total assets	85 652	102 966
Total liabilities	75 258	90 423

**5.759** The RBA's income was significantly lower than in the previous year as the depreciation of the Australian dollar in 2008–09 resulted in significant gains on foreign investments and in higher income in that year.

**5.760** Due to the appreciation of the Australian dollar against major currencies in 2009–10, expenses increased because of the consequential net losses on foreign investments.

**5.761** Other comprehensive income has increased due to an increase in the value of gold held by the RBA.

**5.762** Total assets decreased mainly due to a reduction in the value of Australian dollar securities held by the RBA. Due to the appreciation of the Australian dollar, the value of foreign exchange investments has also decreased.

**5.763** Total liabilities have decreased due to a reduction in Australian and Foreign Government deposits. The distribution payable to the Australian government has also decreased from the previous year as no dividend is payable for the current year.

### Areas of audit focus

**5.764** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2009–10 financial statements:

- domestic operations including overnight settlement accounts, holdings of bonds and securities with Australian Government central borrowing authorities, and holdings of securities from Banks;
- international foreign exchange operations including holdings of securities issues by Governments including the USA, Germany, France and Japan, and bank deposits from high rated international banks, central banks and international organisations;
- holdings of gold and gold lending operations to financial institutions participating in the gold market;
- issuing and redeeming of currency notes to maintain the appropriate quality and quantity of notes in circulation;
- financial administration including the management and payment of suppliers and employees; and
- IT general and application controls as they relate to the financial statements.

**5.765** The valuation of foreign investments and currency has had a significant impact on the RBA's financial statements over the last two years given substantial movement in the valuation of the Australian dollar.

**5.766** Audit coverage of these matters was finalised during the 2009–10 final audit.

## **Audit results**

### *Summary of audit findings*

**5.767** There have been no significant or moderate audit issues raised during the 2009–10 audit.

## Comments on non-material entities

5.768 There were no significant or moderate audit issues, or legal and regulatory matters, noted in non-material entities within the portfolio except for the Australian Competition and Consumer Commission (ACCC) and the Productivity Commission.

### Australian Competition and Consumer Commission

5.769 During the 2009–10 audit, the ANAO identified that no reconciliation was undertaken between the case management system and the FMIS. In the absence of a reconciliation between these two systems, there is an increased risk that administered revenue reported in the financial statements is not accurate.

5.770 The ACCC undertook a reconciliation of this information to support the preparation of the 2009–10 financial statements and as a result the issue has been downgraded to a Category C finding. The ANAO will review the reconciliation in the 2010–11 audit to confirm the ongoing implementation of this control.

### Productivity Commission

5.771 The 2009–10 financial statements made reference, in Note 15, to a breach of section 83 of *The Constitution*. The breach related to certain payments made which were not covered by a Remuneration Tribunal determination. The payments amounted to \$54,268. A waiver for recovery of these payments was subsequently made pursuant to sub-section 34(1) of the FMA Act.

5.772 The audit opinion on the financial statements was unqualified as the financial statements fairly presented the financial operations and position of the Productivity Commission 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*.

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Ian McPhee  
Auditor General

Canberra ACT  
16 December 2010

# Appendices



## Appendix 1: Mandate Changes in 2009–10

The following is a listing of new entities in 2009–10 and entities that ceased to be audited by the Auditor-General in 2009–10.

### **New entities audited in 2009–10**

Australian Carbon Trust Ltd  
Australian Solar Institute Ltd  
Australian Transport Safety Bureau  
Cape Don Pty Ltd  
CDC Nominees (GRC) Pty Ltd T/A Wildman Wilderness Lodge  
Consolidated Manufacturing Enterprises Pty Ltd  
Darwin Hotel Holdings Trust  
Fair Work Australia  
Gagudju Crocodile Hotel Trust  
Gagudju Lodge Coinda Trust  
Health Workforce Australia  
Kakadu Tourism (GCH) Pty Ltd  
Kakadu Tourism (GLC) Pty Ltd  
Larrakia Darwin Hotel Partnership  
Leonora Investment Trust  
Mungo Lodge Pty Limited  
NBN Tasmania Ltd  
Office of the Fair Work Ombudsman  
Safe Work Australia  
Tennant Creek Foodbarn Partnership  
Tjapukai Aboriginal Cultural Park Partnership  
WLAN Services Pty Ltd

## **Entities that ceased to be audited by the Auditor-General**

### *Entities that ceased to exist*

Australian Membrane Technologies Pty Ltd

Biloara Pty Ltd

Biosecurity Australia

Bowen Basin Holdings Pty Ltd

Bowen Basin Holdings Trust

Bowen Basin Investments Pty Ltd

CRS Australia (business operation within the Department of Human Services)

Dairy Adjustment Authority

Food Science Australia

IIF (CM) Investments Pty Ltd

IIF Bioventures Pty Ltd

IIF Neo Pty Ltd

Intalysis Pty Ltd

Land and Water Resources Research and Development Corporation

Office of the Workplace Ombudsman

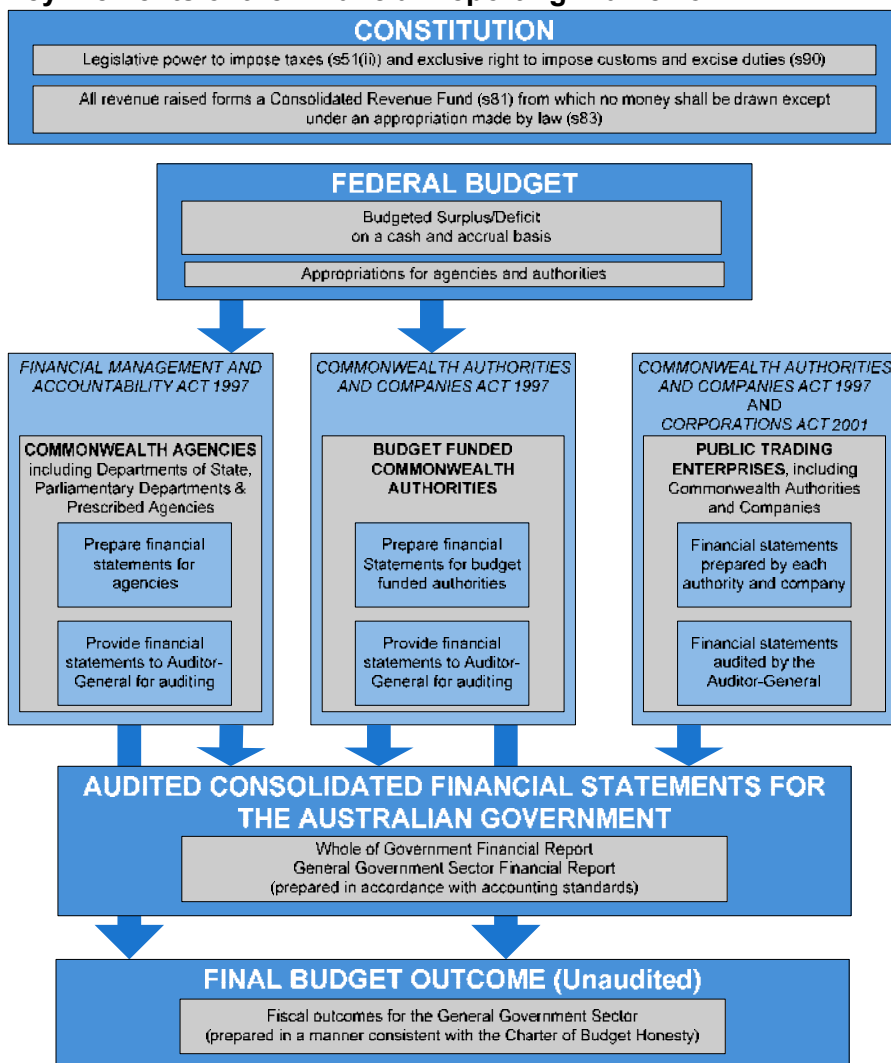


## Appendix 2: The Financial Reporting Framework

Key elements of the Australian Government’s financial reporting framework are outlined in the diagram below. An overview of the financial reporting requirements for the various types of Australian Government entities covered by the framework and the audit approach for the financial statements of these entities is also described below.

Figure A 1

### Key Elements of the Financial Reporting Framework



Source: ANAO

## Australian Government Reporting Entities

### Commonwealth Government of Australia

Section 55 of the *Financial Management and Accountability Act 1997* (FMA Act) requires the Finance Minister to prepare annual financial statements for the Commonwealth Government of Australia. These financial statements are a general purpose financial report consolidating the financial activities and financial position of all agencies, authorities and other entities controlled by the Commonwealth Government.

### Australian Government agencies

Australian Government agencies, comprising departments of state, parliamentary departments and prescribed agencies, are subject to the provisions of the FMA Act.

The FMA Act requires agency Chief Executives to prepare financial statements for their agencies in accordance with the Finance Ministers Orders (FMOs). The FMOs include a requirement that the financial statements comply with Australian Accounting Standards (AASs) and Interpretations 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 *Commonwealth Authorities and Companies Act 1997* (CAC Act).

The CAC Act requires the directors 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.

The 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 that the Commonwealth controls or over which it 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 maintaining records, internal controls, procedures and processes 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 of 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 considered in order to design audit procedures that are appropriate in the circumstances. In some audits, audit procedures concentrate primarily on substantiating the amounts appearing in the financial statements and do not include 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 FMOs.

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 AASs 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 FMOs, 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 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<sup>31</sup> of

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<sup>31</sup> Section 48 of the FMA Act requires the Chief Executive to keep proper accounts and records.

the FMA Act, the Auditor-General must state in the auditor's report, the particulars of the contravention.

The Auditor-General may also refer to contraventions of other statutory requirements that he considers significant.

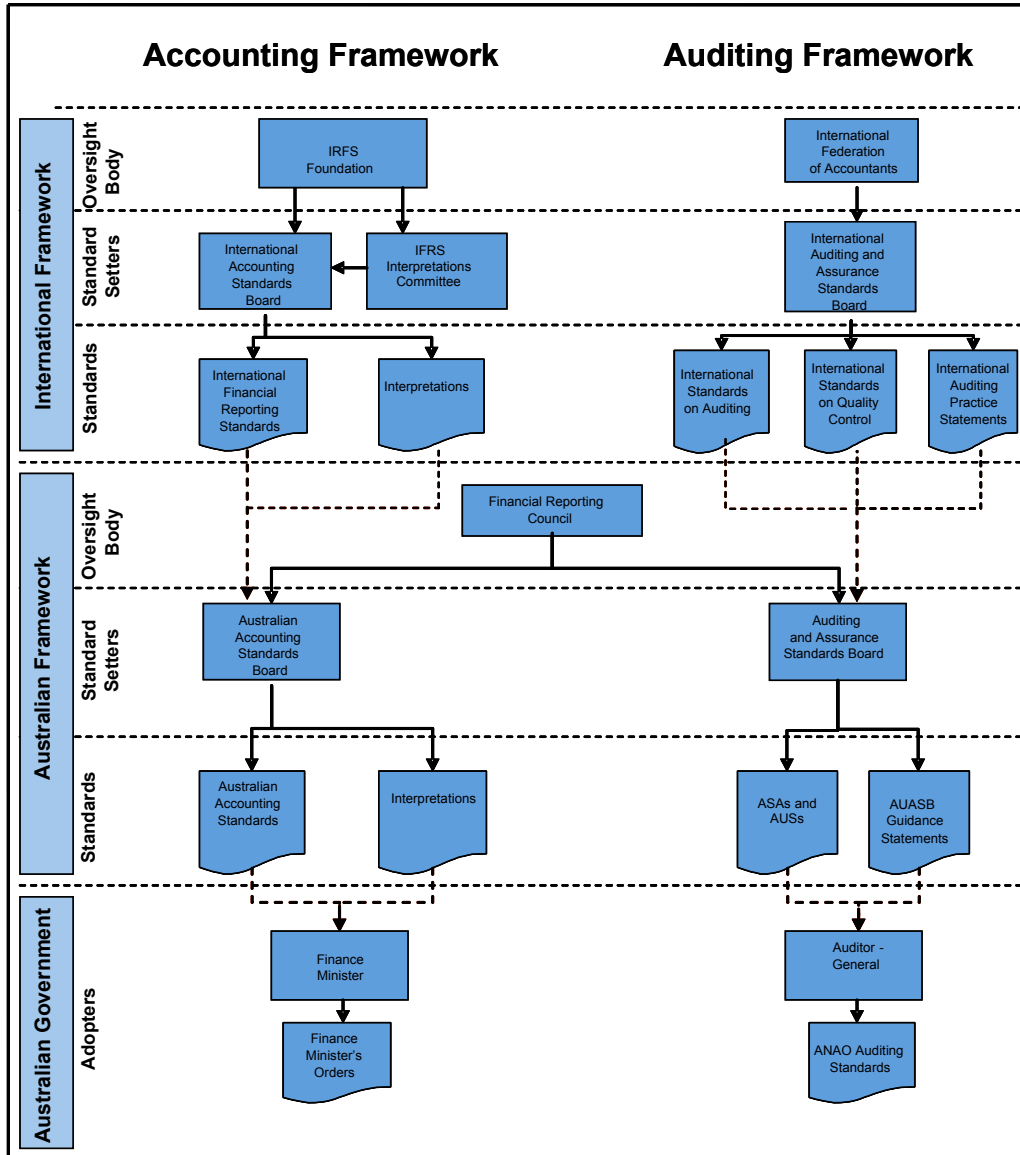
The Auditor-General is not required to audit the financial statements of overseas subsidiaries of Commonwealth authorities where it is impracticable or unreasonable for him to do so. In these cases, the auditor's report on the authority's consolidated financial statements must make relevant disclosures 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, in situations 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 2009–10 interim phase, for agencies covered by the interim audit report, ANAO Audit Report No 50 2009–10.

Entity	2009–10 Rating		2008–09 Rating	
	A	B	A	B
Department of Agriculture, Fisheries and Forestry	0	0	0	1
Attorney–General’s Department	0	0	0	3
Australian Customs Service	0	4	0	3
Department of Broadband, Communications and the Digital Economy	0	0	0	0
Department of Climate Change and Energy Efficiency	0	0	0	0
Department of Defence	1	20	2	25
Defence Materiel Organisation	0	7	0	12
Department of Veterans’ Affairs	0	4	0	1
Department of Education, Employment and Workplace Relations	0	1	0	1
Department of the Environment, Water, Heritage and the Arts	0	1	0	0
Department of Families, Housing, Community Services and Indigenous Affairs	0	2	0	0
Department of Finance and Deregulation	0	1	0	2
The Board of Guardians and the Future Fund Management Agency	0	0	0	0
Department of Foreign Affairs and Trade	0	0	0	5
Department of Health and Ageing	0	0	0	0
Department of Human Services	0	0	0	0
Centrelink	0	0	0	1
Medicare	0	0	0	0
Department of Immigration and Citizenship	0	2	0	3
Department of Infrastructure, Transport, Regional Development and Local Government	0	0	0	0
Department of Innovation, Industry, Science and Research	0	1	0	0
Department of the Prime Minister and Cabinet	0	0	0	0
Department of Resources, Energy and Tourism	1	0	0	0
Department of the Treasury	0	1	0	1
Australian Office of Financial Management	0	0	0	0
Australian Taxation Office	1	7	1	7
<b>Total</b>	<b>3</b>	<b>52</b>	<b>3</b>	<b>65</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 2009–10 audits.**

Entity	2009–10 Rating		2008–09 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	1	0	3
Australian Customs Service	0	4	0	3
Australian Federal Police	0	0	0	0
Australian Government Solicitor	0	0	0	0
Australian Security Intelligence Organisation	0	1	0	0
Family Court of Australia	0	0	0	0
High Court of Australia	0	0	0	0
National Capital Authority	0	1	0	0
Department of Broadband, Communications and the Digital Economy	0	0	0	0
Australian Broadcasting Corporation	0	0	0	0
Australian Communications and Media Authority	0	0	0	0
Australian Postal Corporation	0	3	0	4
NBN Co Limited	0	0	0	0
Special Broadcasting Service Corporation	0	0	0	0
Department of Climate Change and Energy Efficiency	0	0	0	0
Department of Defence	1	17	1	23
Australian War Memorial	0	0	0	0
Defence Housing Authority	0	0	0	0
Defence Material Organisation	0	3	0	7
Department of Veterans' Affairs	0	1	0	1
Department of Education, Employment and Workplace Relations	0	0	0	0
Coal Mining Industry (Long Service Leave Funding) Corporation	0	0	0	0
Comcare Australia	0	0	0	0
Department of Environment, Water, Heritage and the Arts	1	0	0	0
Bureau of Meteorology	0	0	0	0
National Gallery of Australia	0	1	0	0
National Library of Australia	0	0	0	0

Entity	2009–10 Rating		2008–09 Rating	
	A	B	A	B
National Museum of Australia	0	0	0	0
Department of Families, Housing, Community Services and Indigenous Affairs	0	0	0	2
Indigenous Business Australia	0	0	0	0
Department of Finance and Deregulation	0	0	0	1
Albury- Wodonga Corporation	0	0	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	0	0	2
Department of Foreign Affairs and Trade	0	0	0	4
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	0
National Blood Authority	0	0	0	0
National Health and Medical Research Council	0	0	0	1
Australian Sports Commission	0	0	1	1
Department of Human Services	0	0	0	0
Australian Hearing	0	0	0	0
Centrelink	0	0	0	0
Medicare Australia	0	0	0	0
Department of Immigration and Citizenship	0	0	0	3
Department of Infrastructure, Transport, Regional Development and Local Government	0	0	0	0
Airservices Australia	0	0	0	0
Australian Rail Track Corporation	0	3	0	0
Civil Aviation Safety Authority	0	2	0	3
Department of Innovation, Industry, Science and Research	0	0	0	0
Australian Research Council	0	0	0	0
Australian Nuclear Science and Technology Organisation	0	0	0	0
Commonwealth Scientific and Industrial Research Organisation	0	0	0	1

Entity	2009–10 Rating		2008–09 Rating	
	A	B	A	B
Department of Parliamentary Services	0	0	0	0
Department of the Prime Minister and Cabinet	0	0	0	0
National Archives of Australia	0	0	0	0
Department of Resources, Energy and Tourism	0	0	1	0
Tourism Australia	0	0	0	2
Department of the Treasury	0	2	0	1
Australian Bureau of Statistics	0	1	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	0	0	2
Australian Taxation Office	0	8	1	5
Reserve Bank of Australia	0	0	0	0
<b>Total</b>	<b>2</b>	<b>48</b>	<b>4</b>	<b>69</b>

Source: ANAO

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