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Financial Statement Audit

Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2014

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Canberra ACT
18 December 2014

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken the audits of the 2013–14 financial statements of Australian Government entities and examinations and inspections of the accounts and records of those entities 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 the report on these audits to the Parliament. The report is titled *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2014*.

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

Yours sincerely

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

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

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

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Contents

Glossary of commonly used accounting terms	10
Abbreviations and acronyms	12
Summary	15
Accounting and auditing framework developments	16
Summary of audit findings	16
Commentary on financial statement related matters	19
Preparation of entity financial statements	19
Future audit coverage	20
1. Introduction	21
Background	21
Acknowledgements	23
2. Financial Reporting and Auditing Frameworks	24
Introduction	24
Recent changes to the Australian public sector reporting framework	25
Future changes in the public sector reporting framework	26
Recent developments in auditing financial statements	27
Future changes in auditing financial statements	28
Conclusion	28
3. The Audit of the Consolidated Financial Statements	30
Background	30
Auditor's Report	31
Australian Government's financial outcome for 2013–14	32
Significant disclosures in the CFS	40
Future Accounting Standard requirements specific to the CFS	42
4. Commentary on Financial Statement Related Matters	44
Analysis of entities' financial statements	44
Machinery of government changes	50
5. Summary of Audit Results	57
Audit approach	57
Classification of entities	59
Summary of audit results	60
Summary of audit findings	67
Preparation of entity financial statements	69
Certificate of Compliance	72
6. Results of Financial Statement Audits by Portfolio	74
Introduction	74

Agriculture Portfolio	78
Portfolio overview	78
Department of Agriculture	79
Grains Research and Development Corporation	82
Comments on non-material entities	83
Attorney-General's Portfolio	85
Portfolio overview	86
Attorney-General's Department	87
Australian Federal Police	90
Australian Government Solicitor	92
Australian Security Intelligence Organisation	92
Family Court and Federal Circuit Court of Australia	94
High Court of Australia	96
National Archives of Australia	97
National Gallery of Australia	99
National Library of Australia	100
National Museum of Australia	101
Comments on non-material entities	102
Communications Portfolio	105
Portfolio overview	105
Department of Communications	105
Australian Broadcasting Corporation	108
Australian Communications and Media Authority	109
Australian Postal Corporation	111
NBN Co Limited	113
Special Broadcasting Service Corporation	115
Comments on non-material entities	116
Defence Portfolio	117
Portfolio overview	117
Department of Defence	118
Australian War Memorial	128
Defence Housing Australia	129
Defence Materiel Organisation	130
Department of Veterans' Affairs	135
Comments on non-material entities	142
Education Portfolio	143
Portfolio overview	143
Department of Education	144
Australian Research Council	150
Comments on non-material entities	152

Employment Portfolio	154
Portfolio overview	154
Department of Employment	154
Coal Mining Industry (Long Service Leave Funding) Corporation	158
Comcare	159
Comments on non-material entities	161
Environment Portfolio	162
Portfolio overview	162
Department of the Environment	162
Bureau of Meteorology	164
Clean Energy Regulator	166
Comments on non-material entities	168
Finance Portfolio	169
Portfolio overview	169
Department of Finance	170
Albury-Wodonga Development Corporation	174
ASC Pty Ltd	175
Australian Electoral Commission	177
Future Fund Management Agency and the Board of Guardians	180
Medibank Private Limited	181
Comments on non-material entities	183
Foreign Affairs and Trade Portfolio	184
Portfolio Overview	184
Department of Foreign Affairs and Trade	185
Australian Trade Commission	191
Export Finance and Insurance Corporation	193
Comments on non-material entities	195
Health Portfolio	196
Portfolio overview	197
Department of Health	197
Australian Sports Commission	202
National Blood Authority	203
National Health and Medical Research Council	204
Comments on non-material entities	206
Immigration and Border Protection Portfolio	208
Portfolio overview	208
Department of Immigration and Border Protection	209
Australian Customs and Border Protection Service	213
Comments on non-material entities	217

Industry Portfolio	218
Portfolio overview	218
Department of Industry	219
Australian Nuclear Science and Technology Organisation	222
Australian Renewable Energy Agency	223
Commonwealth Scientific and Industrial Research Organisation	225
Comments on non-material entities	226
Infrastructure and Regional Development Portfolio	228
Portfolio overview	228
Department of Infrastructure and Regional Development	229
Airservices Australia	231
Australian Rail Track Corporation	233
National Capital Authority	234
Comments on non-material entities	236
Parliamentary Departments	237
Portfolio overview	237
Department of Parliamentary Services	238
Comments on non-material entities	240
Prime Minister and Cabinet Portfolio	241
Portfolio overview	243
Department of the Prime Minister and Cabinet	243
Indigenous Business Australia	248
Comments on non-material entities	250
Social Services Portfolio	253
Portfolio overview	253
Department of Social Services	253
Australian Hearing	259
Department of Human Services	261
National Disability Insurance Scheme Launch Transition Agency	266
Comments on non-material entities	268
Treasury Portfolio	269
Portfolio Overview	270
Department of the Treasury	270
Australian Bureau of Statistics	273
Australian Office of Financial Management	276
Australian Reinsurance Pool Corporation	279
Australian Securities and Investments Commission	280
Australian Taxation Office	284
Clean Energy Finance Corporation	288
Reserve Bank of Australia	289
Comments on non-material entities	291

Government of Norfolk Island	293
Appendix 1 Portfolio and entity arrangements as at 30 June 2013 and 30 June 2014	298
Appendix 2 Changes in audit responsibilities in 2013–14	308
Appendix 3 The financial reporting framework for the 2013–14 financial statements	309
Appendix 4 The financial reporting and auditing standards frameworks for 2013–14	315
Appendix 5 Number of audit findings	317
Series Titles	322
Better Practice Guides	324

Tables

Table 4.1: Operating results categories	45
Table 4.2: Balance sheet categories	48
Table 5.1: Summary of auditors' reports issued and outstanding	61
Table 5.2: ANAO rating structure	68
Table 1.1: Significant, moderate and L1 findings for all entities at the conclusion of the 2012–13 and 2013–14 audits	76
Table A.1: Results reporting in ANAO Audit Report No.44 2013–14	317
Table A.2: Results reported for all material entities in 2013–14	318
Table A.3: Findings reported for all non-material entities in 2013–14	320

Figures

Figure 3.1: General Government net financial liabilities as a percentage of gross domestic product	33
Figure 3.2: Australian Government's net worth	34
Figure 3.3: Australian Government's total assets and total liabilities	34
Figure 4.1: Material entities by operating results category	45
Figure 4.2: Material entities by balance sheet category	49
Figure 5.1: Australian Government's assets, liabilities, income and expenses	60
Figure 5.2: Analysis of date of signing of the 2013–14 financial statements	71
Figure 6.1: Summary and category of audit findings	122

Glossary of commonly used accounting terms

Administered:	Those items that an agency does not control but over which it has management responsibility on behalf of the Government and which are subject to prescriptive rules or conditions established by legislation, or Australian Government policy, in order to achieve Australian Government outcomes.
Appropriation:	An authority under any Act or law to draw money from the Consolidated Revenue Fund.
Departmental:	Those items that the entity controls that are applied to the production of the entity's own purposes.
Fair value:	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Impairment loss:	The amount by which the carrying amount of an asset exceeds its recoverable amount.
Material:	Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of an item, or combination of both, could be the determining factor.
Net cost of services/Contribution by services:	Calculated as total expenses (excluding income tax expense, where applicable) less total own source income.

Own source income:	<p>Consists of all income except:</p> <ul style="list-style-type: none"> (a) annual appropriations; (b) special appropriations; and (c) amounts appropriated to the relevant portfolio agency for payment to the CAC Act authority (CAC Act body payment item). <p>It includes FMA Act section 31 relevant agency receipts and is adjusted for any repayments by the Commonwealth made under FMA Act section 28.</p>
Total comprehensive income:	<p>The change in equity during a period resulting from transactions and/or other events, other than those changes resulting from transactions with owners in their capacity as owners.</p>
Total other comprehensive income:	<p>Comprises items of income and expense (including reclassification adjustments) that are not recognised in profit and loss as required or permitted by other Australian Accounting Standards.</p>

Abbreviations and acronyms

AAO	Administrative Arrangements Order
AAS	Australian Accounting Standard
AASB	Australian Accounting Standards Board
ACBPS	Australian Customs and Border Protection Service
AGD	Attorney-General's Department
Agriculture	Department of Agriculture
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
CEO	Chief Executive Officer
CFO	Chief Finance Officer
CFS	Consolidated Financial Statements
CoC	Certificate of Compliance
CRF	Consolidated Revenue Fund

Communications	Department of Communications
Defence	Department of Defence
DFAT	Department of Foreign Affairs and Trade
DMO	Defence Materiel Organisation
DSS	Department of Social Services
DVA	Department of Veterans' Affairs
Education	Department of Education
Employment	Department of Employment
Environment	Department of the Environment
FASB	United States Financial Accounting Standards Board
FFMA	Future Fund Management Agency and the Board of Guardians
Finance	Department of Finance
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMIS	Financial Management Information System
FMOs	Finance Minister's Orders
GFS	Government Finance Statistics
GGs	General Government Sector
GST	Goods and Services Tax
Health	Department of Health
HRMIS	Human Resources Management Information System

IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
Immigration	Department of Immigration and Border Protection
Industry	Department of Industry
Infrastructure	Department of Infrastructure and Regional Development
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standards on Auditing
IT	Information Technology
JCPAA	Joint Committee of Public Accounts and Audit
MoG	Machinery of Government
OECD	Organisation for Economic Co-operation and Development
PM&C	Department of the Prime Minister and Cabinet
PGPA Act	<i>Public Governance, Performance and Accountability Act 2013</i>
RBA	Reserve Bank of Australia
Treasury	Department of the Treasury

Summary

1. The *Auditor-General Act 1997* establishes the mandate for the Auditor-General to undertake financial statement audits of all Australian Government entities including Commonwealth entities and Commonwealth companies.¹ The *Auditor-General Act 1997* also provides the authority for financial statement and other specified audits to be undertaken by arrangement in accordance with section 20 of that Act.

2. The preparation of audited financial statements in compliance with legislative requirements 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. 44 2013–14 Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the Year Ending 30 June 2014*, outlined the ANAO's assessment of audit findings relating to the internal controls of major entities, including governance arrangements, information systems and control procedures. The

1 In this report, the term Australian Government entities is used to refer to all entities owned or controlled by the Australian Government. Commonwealth entities and Commonwealth companies are defined in sections 10 and 89 respectively of the *Public Governance, Performance and Accountability Act 2013*.

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 Government².

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. While the Public Sector Reporting Framework remained relatively stable in 2013–14, a major change was the introduction of new rules on fair value measurement and disclosure. The new requirements are outlined in Australian Accounting Standard AASSB 13 *Fair Value Measurement* that applies to reporting periods beginning after 1 January 2013.

8. There are ongoing initiatives by both Australian and international standard setters to explore opportunities to simplify disclosures in financial statements to make them more useful to users. A number of other projects are also underway that have implications for the public sector including those relating to the disclosure of transactions with related parties, reporting of service performance and new accounting rules for grants, taxes and appropriations.

9. In February 2014, the International Auditing and Assurance Board released *A Framework for Audit Quality* that aims to raise awareness of key aspects of audit quality.

Summary of audit findings

10. The ANAO is responsible for the audits of the financial statements of all Australian Government entities. For the 2013–14 financial year, the Auditor-General and senior staff under delegation, issued 251 auditor's reports, all of which were unmodified. Eight of these reports included an

2 The report also includes the results of the audit of the 2013–14 financial statements of the Administration of Norfolk Island and its subsidiaries.

emphasis of matter³; and 15⁴ contained a reference to other legal and regulatory requirements⁵.

11. The reference to other legal and regulatory requirements mainly referred to actual or potential breaches of section 83 of the Constitution. A breach of section 83 of the Constitution occurs if payments are not made in accordance with conditions required by law. Where potential breaches have been reported, relevant agencies have indicated that the circumstances giving rise to this issue would continue to be investigated and legislative amendments developed where appropriate.

12. The auditor's report on the Consolidated Financial Statements also referred to the High Court's decision on Commonwealth expenditure in *Williams v Commonwealth* [2014] 288 HCA 23, and to the disclosure that the Australian Government will continue to monitor and assess risk and decide on any appropriate actions to respond to risks of expenditure not being consistent with constitutional requirements.

Consolidated financial statements

13. The Consolidated Financial Statements that present the consolidated whole of government financial results inclusive of all Australian Government controlled entities, as well as the General Government Sector financial report, were signed by the Minister for Finance on 20 November 2014.

14. The operating result attributable to the Australian Government disclosed in the 2013–14 Consolidated Financial Statements was a deficit of \$43.0 billion (2012–13: deficit of \$3.8 billion). At 30 June 2014, the reported fiscal balance was a deficit of \$42.2 billion (2012–13: deficit of \$28.0 billion) and the reported negative net worth position was \$264.3 billion (2012–13: negative \$210.5 billion). These outcomes reflect the financial effect of government policies and the economic environment for the year ended 30 June 2014 and the associated movement in assets and liabilities as at the financial year end, particularly as a result of the decrease in the long term government bond rate that is used to discount significant assets and liabilities.

3 An emphasis of matter is included in the auditor's report to draw the user's attention to a matter reported in the financial statements that is of such importance that it is fundamental to a user's understanding of the financial statements.

4 Includes the auditor's report on 12 material entities, two non-material entities and the Consolidated Financial Statements of the Australian Government.

5 All numbers are as at 30 November 2014.

15. The Consolidated Financial Statements provide explanations of variances between the original budget and 2013–14 actuals as part of the audited set of Australian Government financial statements. Commentary on these variances is provided in chapter 3 of this report.

16. The auditor’s report on the 2013–14 Consolidated Financial Statements was issued on 20 November 2014 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 2014 and their financial performance and cash flows for the year then ended. As mentioned above, the auditor’s report included a reference to the aggregate position relating to actual and potential breaches of section 83 of the Constitution and to the High Court’s most recent decision on Commonwealth expenditure in *Williams*.

Entity financial statements

17. As indicated above, no auditors’ reports of Australian Government entities were modified in 2013–14. This is a good result and reflects well on the integrity of financial reporting by all Australian Government entities.

18. There was a small increase in the number and significance of issues arising from the final phase of all 2013–14 financial statement audits of individual entities finalised by 30 November 2014. The 32 significant and moderate audit findings reported in 2013–14 was a small increase on the 30 findings reported in 2012–13. Issues that are common across a number of entities that were identified in the final audit phase that required attention by entities were in respect of: controls in entities’ IT environments, such as the management of user access and the segregation of duties (this issue has been identified consistently for a number of years); quality assurance and financial reporting, particularly the preparation of entity financial statements (these issues increased noticeably in 2013–14); and asset management processes including the valuation of assets and the reporting of inventory.

19. Our audits also found that generally entities had made good progress in addressing and resolving issues identified during the 2013–14 interim audit phase and previous audits.

20. The ANAO continues to include an assessment of compliance in relation to annual appropriations, special appropriations, special accounts and the investment of public moneys in its financial statement audits. There continues to be a high level of compliance in most of these areas. However, as

mentioned above, the auditor's report on the financial statements of a number of entities continued to mention actual or potential breaches of section 83 of the Constitution, and referred to the note disclosure in each entity's financial statements. The financial statements of a number of entities also referred to the Australian Government's intention to continue to have regard to developments in case law, including the High Court's decision on Commonwealth expenditure in *Williams*.

Commentary on financial statement related matters

Analysis of entities' financial statements

21. An analysis of material entities' operating results identified that, consistent with previous years, entities overall were appropriately managing their finances for the three year period ending 30 June 2014.

22. An analysis of the balance sheet positions of material entities as at 30 June 2014 identified that the majority of entities continued to have a strong balance sheet position. Nevertheless, the analysis of a small number of entities, in particular, should continue to monitor their financial position and improve it, where practicable.

Machinery of Government changes

23. The scale of the Machinery of Government (MoG) changes flowing from the Administrative Arrangements Order of 18 September 2013, was significant. Over 13 000 staff were affected and appropriations of approximately \$1 billion were transferred between entities.

24. Implementation of MoG changes can be complex and very resource intensive, requiring entities to manage a broad range of issues while at the same time continuing to deliver government services. Discussions with entities identified that a number of initiatives had been taken that contributed positively to the implementation of the MoG changes, including the identification of lessons learned. The ANAO has made a number of suggestions to assist with the management of future machinery of government changes.

Preparation of entity financial statements

25. A majority of entities' 2013–14 financial statements were finalised in the period July to September 2014, a situation consistent with previous years.

There was, however, a noticeable slippage in overall timeframes in which the financial statements were completed, with less entities meeting the deadline for audit cleared statements and 15 per cent more statements being signed in the period September to November 2014, compared with 2013. This contributed to late adjustments being made to the 2013–14 Final Budget Outcome and to a compressed timeframe for the preparation and audit of the 2013–14 Consolidated Financial Statements.

26. There was also deterioration in the 2013–14 financial statements preparation processes in a small number of entities. Areas that required improvement included quality assurance processes, adherence to timetables and the quality of supporting working papers. The 2013 MoG changes also affected the timetable for the preparation of the 2013–14 financial statements in a small number of entities.

Future audit coverage

27. 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

This chapter provides background to the audits of the financial statements 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 ANAO are reported to the Parliament in two reports. This report provides the 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 2014. The results of the interim phase⁶ of the audits of major agencies were reported in Audit Report No. 44 2013–14 *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2014*⁷. 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 legislative requirements 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 Standards. An audit performed in accordance with the Australian Auditing Standards is designed to provide reasonable assurance that a financial report, taken as a whole, is free from material misstatement whether due to fraud or

6 Financial statement audits are generally performed in two phases; interim and final. The interim phase focuses on an assessment of entities' 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 entities' financial statements.

7 The 23 entities covered in Audit Report No. 44 2013–14 represent approximately 95 per cent of total General Government Sector revenues and expenses.

error. Reasonable assurance as defined in the Australian Auditing Standards means a high, but not absolute, level of assurance. It is reached 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, as an audit has inherent limitations. This is because most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion is persuasive rather than conclusive.⁸

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 *The Audit of the Consolidated Financial Statements* outlines the results of the audit of the Consolidated Financial Statements of the Australian Government, which includes the whole of government and the General Government Sector financial reports, of the Australian Government for the year ended 30 June 2014.
- Chapter Four *Commentary on Financial Statement Related Matters* provides an analysis of entities' operating results and balance sheets, and a discussion of the 2013 Machinery of Government (MoG) changes.
- Chapter Five *Summary of Audit Results* includes: a summary of issues included in the auditors' reports on entities' 2013–14 financial statements including a commentary on actual and potential breaches of section 83 of the Constitution in a number of entities and the High Court's most recent decision on Commonwealth expenditure in Williams; a summary of other audit findings identified in the 2013–14 audits; and a commentary on the preparation of entities' 2013–14 financial statements and the 2013–14 Certificate of Compliance process.
- Chapter Six *Results of Financial Statement Audits by Portfolio* summarises the results of the 2013–14 financial statement audits of individual Australian Government entities. The chapter is structured in accordance with the portfolio arrangements established by the

8 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 18 September 2013, as amended on 3 October 2013. For reporting purposes, this reflects the portfolio arrangements that existed on 30 June 2014. A comprehensive table of the MoG changes that took effect on 18 September 2013 is at appendix 1, and a summary of MoG changes is included in relevant portfolio sections.

1.5 A glossary of commonly used accounting terms is on page 10 of this report.

Acknowledgements

1.6 I would like to acknowledge the professionalism and commitment of my staff in finalising the audits of 251 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 effort in providing information and assistance to the ANAO is much appreciated.

2. Financial Reporting and Auditing Frameworks

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). This framework is designed to support decision-making by, and accountability to, the Parliament. The financial reporting and auditing frameworks that applied for 2013–14 are illustrated in appendices 3 and 4 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 primarily for use by for-profit organisations, the AASB amends the IFRS to reflect the unique transactions and events of the public and not-for-profit private sectors. In doing so, it takes into account standards issued by the International Public Sector Accounting Standards Board (IPSASB). The Minister for Finance may prescribe additional financial reporting requirements for Australian Government entities other than companies; prior to 2014–15 this was achieved through the Finance Minister's Orders (FMOs) for financial reporting⁹.

2.3 Major changes to Australian Accounting Standards effective in 2013–14 included new requirements on fair value measurement and disclosure, and an option to remove certain disclosures from financial statements. To date, this option has not been endorsed by the Minister for Finance for application by Australian Government entities.

2.4 Major developments in accounting standards internationally will continue to be a significant driver of changes to Australian Accounting Standards. At the international level, there have been new standards on revenue and financial instruments. In addition, significant proposed changes to accounting for leases are well progressed.

⁹ From 2014–15, the FMOs will be replaced by Rules made under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

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

2.6 The international and Australian standards for auditing financial statements were subject to a major revision and re-issue which concluded in 2009. This ‘Clarity Project’ was a comprehensive program to enhance the clarity of the standards. The first major change since 2009 is in relation to the standard on using the work of internal audit. This change takes effect from 2014–15.

Recent changes to the Australian public sector reporting framework

Fair value measurement

2.7 Prior to 2011, accounting standards required, or allowed, entities to present their assets and liabilities at fair value in the balance sheet. However, the guidance on measuring fair value was high level, spread among several standards, and sometimes inconsistent.

2.8 In 2011, the IASB issued an accounting standard on fair value measurement. This standard clarifies the definition of fair value, provides a single framework for measuring fair value and enhances the associated disclosures. The AASB subsequently issued AASB 13 *Fair Value Measurement*, replicating the IASB standard. AASB 13 applies to reporting periods beginning on or after 1 January 2013.

Differential financial reporting – reduced disclosure requirements

2.9 In 2010, the AASB issued AASB 1053 *Application of Tiers of Australian Accounting Standards*, which applies to reporting periods beginning on or after 1 July 2013. AASB 1053 distinguishes two tiers of reporting requirements. Entities in the first tier must prepare financial statements in accordance with the full suite of Australian Accounting Standards. Federal, state and territory governments are included in this tier. Entities in the second tier would still present the same primary financial statements but with substantially reduced

note disclosure. Government controlled entities may opt for either tier, subject to the requirements of their regulator. This provides an opportunity to reduce the reporting burden for the majority of government entities.

2.10 The Minister for Finance, who performs the role of regulator for Australian Government entities, currently requires all Australian Government entities to apply the first tier reporting requirements.

2.11 Particularly in the context of identifying opportunities to reduce compliance requirements, the ANAO considers that the differential reporting regime provides an opportunity to reduce the administrative workload of Australian Government entities and make financial reports easier to read, while still preserving sufficient disclosures to satisfy the needs of the Parliament.

Budgetary Reporting

2.12 The Australian Government prepares its financial statements under AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. AASB 1049 requires governments to compare their financial results to their original budgets as presented to the Parliament, and to explain major variances where they are relevant to assessing performance and accountability.

2.13 The AASB has extended the budget reporting requirements to all not-for-profit entities in the General Government Sector (GGS). This change is contained in AASB 1055 *Budgetary Reporting*, issued in 2013 and applying to reporting periods beginning on or after 1 July 2014.

Future changes in the public sector reporting framework

2.14 There are ongoing initiatives by both Australian and international standard setters to explore opportunities to simplify disclosures in financial statements to make them more useful to users. In 2014, the AASB published a staff paper¹⁰ proposing ways in which entities can reduce unnecessary disclosures in their financial statements. Similarly, in 2013 the IASB commenced work to review disclosures in existing standards to identify and assess conflicts, duplication and overlaps¹¹.

10 *To disclose or not to disclose: Materiality is the question*; AASB staff papers are not authoritative pronouncements of the AASB.

11 This initiative follows on from the IASB hosted public discussion forum on financial reporting disclosure held early 2013.

2.15 Further changes to the framework are expected over the next few years, as projects by Australian and international accounting standard setters lead to new accounting standards for both the public and private sectors.

2.16 Projects specific to the public sector include: disclosure of transactions with related parties; reporting of service performance; and new accounting rules for grants, taxes and appropriations. Projects aimed primarily at the private sector, but with public sector implications, include major revisions to the accounting standards on financial instruments, revenue recognition and leasing.

Recent developments in auditing financial statements

A Framework for Audit Quality

2.17 In February 2014, the IAASB released *A Framework for Audit Quality*. The objectives of the framework include raising awareness of the key elements of audit quality, encouraging key stakeholders to explore ways to improve audit quality and facilitating greater dialogue between key stakeholders on the topic. The framework describes the input, process and output factors that contribute to quality at the engagement, audit firm and national levels and demonstrates the importance of appropriate interactions among stakeholders (including how those charged with governance can influence the quality of an audit) and the importance of various contextual factors.

Changes in Australian Auditing Standards

2.18 As reported in Audit Report No.44 2013–14, *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2014*, the AUASB has substantially revised ASA 610 *Using the Work of Internal Auditors*. The revision provides a more robust framework for evaluating and, where appropriate, using the work of an entity’s internal audit function. To help preserve external auditor independence, the revision includes an express prohibition on using internal auditors to perform audit procedures under the direction, supervision and review of the external auditor. The revised standard applies to reporting periods commencing on or after 1 January 2014.

2.19 There have been no other substantive changes to Australian Auditing Standards affecting the audit of entities’ 2014–15 financial statements.

Future changes in auditing financial statements

Auditor reporting

2.20 At its September 2014 meeting, the IAASB approved new and revised auditor reporting standards aimed at enhancing the value of auditor reporting on financial statements. The IAASB plans to release the standards in January 2015. The AUASB is aiming for a single public exposure of draft standards based on the finalised IAASB standards in mid-2015.

2.21 The most important change arising from the new and revised standards is the introduction of a new standard, ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*. This ISA will apply to audits of the financial statements of listed entities and also to circumstances when the auditor otherwise decides or is required by law to communicate key audit matters in the auditor's report.

2.22 The purpose of communicating key audit matters is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed. Communicating key audit matters provides additional information to intended users of the financial statements to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements. Communicating key audit matters may also assist intended users of the financial statements to understand the entity and the areas of significant management judgment in the audited financial statements.

Other changes to the auditing standards

2.23 The standard-setting Boards are also working on other new and revised auditing standards, including in relation to the auditor's responsibility for other information published with the audited financial statements and the auditing of financial statement disclosures.

Conclusion

2.24 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 will continue to assist Australian Government entities through client seminars and publications that explain new regulatory and accounting requirements.

2.25 While there were few changes in Australian Accounting Standards during 2013–14, significant changes to the financial reporting framework are under way, both internationally and in Australia. A number of the proposed changes will affect the Australian public sector over the next few years, particularly in relation to the reporting of financial instruments and lease accounting.

2.26 Enhancing audit quality and auditor communication continue to be the top priorities of international auditing standard boards.

3. The Audit of the Consolidated Financial Statements

This chapter outlines the results of the audit of the Consolidated Financial Statements of the Australian Government, which includes the whole of government and the General Government Sector financial reports for the year ended 30 June 2014, and the Australian Government's financial outcome for 2013–14.

Background

3.1 Government accountability and transparency is supported by the preparation and audit of the Australian Government's Consolidated Financial Statements (CFS). The CFS and the associated financial analysis provide information to assist users in assessing the annual financial performance and position of the Australian Government.

3.2 The CFS are one source of information on the Government's financial performance and position. Other information sources include the Budget and Budget updates presented to Parliament¹², the Final Budget Outcome¹³ and Intergenerational reports¹⁴. These various sources provide information on a range of policy and financial matters, including the medium-term and intergenerational effect of decisions.

3.3 The application of AASB 1049 *Whole of Government and General Government Sector Reporting*, has resulted in the closer harmonisation of the statistical and accounting standards for the reporting of budget and financial statement information. As a result, comprehensive and consistent financial information is presented in both the Budget Papers and the CFS. AASB 1049, by incorporating elements of the conceptual and accounting framework on which the Australian Bureau of Statistics' Government Finance Statistics (GFS) is based, provides a single framework for financial reporting by governments in Australia.

3.4 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 2013–14 CFS are

12 Available at <http://www.budget.gov.au/2014-15>.

13 Available at www.budget.gov.au/2013-14/content/fbo/html/.

14 Available at <http://www.treasury.gov.au/PublicationsandMedia/Publications/2007/Intergenerational-Report-2007>.

prepared in accordance with the regulations of the *Financial Management and Accountability Act 1997*¹⁵ and the requirements of the Australian Accounting Standards as mentioned above. The CFS operating statement and balance sheet are prepared on an accrual basis¹⁶, with the cash flow statement prepared on a cash basis.

3.5 Since 2009–10 the CFS has incorporated both the whole of government and GGS financial reports required by AASB 1049, and the 2013–14 CFS again includes both of these reports. The CFS and the auditor’s report can be accessed from the Department of Finance’s website¹⁷.

3.6 This chapter discusses the auditor’s report on the 2013–14 CFS, the high level impact of the economic conditions and associated government measures and decisions on the Australian Government’s financial position as represented in the CFS and the significant disclosures included in the CFS. The commentary in this chapter has focussed on the financial results at the consolidated whole of government level rather than at the GGS level. Significant variances between the actual GGS results and the original GGS budget presented to Parliament are discussed in paragraphs 3.29 and 3.30.

Auditor’s Report

3.7 The CFS were signed by the Minister for Finance on 20 November 2014 and an unmodified auditor’s report was issued on the same day.

3.8 The auditor’s report on the 2013–14 CFS, which includes the GGS report, expressed the opinion that the statements presented a true and fair view of the financial operations and position of the Australian Government.

3.9 A report on other legal and regulatory requirements was included in the auditor’s report following the opinion on the 2013–14 CFS to draw attention to the note disclosure included in the CFS in respect of:

- actual and potential breaches of section 83 of the Constitution. Further information on this matter is included at paragraphs 3.24 and 3.25;

15 As of 1 July 2014, the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) replaced the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*. Section 48 of the PGPA Act continues to require the annual preparation of the CFS.

16 Accrual accounting is a method that recognises expenses when they are incurred and revenue when it is earned rather than when cash is paid or received.

17 www.finance.gov.au.

- payments made under the National School Chaplaincy and Student Welfare Programme that were held by the High Court¹⁸ to be invalid on the grounds that they were not supported by a Commonwealth constitutional head of power. Further information on this matter is included at paragraph 3.26; and
- the Australian Government continuing to have regard to developments in case law, including the High Court's most recent decision on Commonwealth expenditure in *Williams v Commonwealth* [2014] HCA 23, and that the Australian Government will continue to monitor and assess risk and decide on any appropriate actions to respond to risks of expenditure not being consistent with constitutional or other legal requirements.

Australian Government's financial outcome for 2013–14

3.10 The reported 2013–14 operating result¹⁹ attributable to the Australian Government was a deficit of \$43.0 billion (2012–13: deficit of \$3.8 billion), the fiscal balance²⁰ was a deficit of \$42.2 billion (2012–13: deficit of \$28.0 billion) and the reported negative net worth²¹ position was \$264.3 billion (2012–13: negative \$210.5 billion). These outcomes reflect the financial effect of government policies and the economic environment for the year ended 30 June 2014 and the associated movement in assets and liabilities as at the financial year end, particularly as a result of the decrease in the long term government bond rate²² that is used to discount significant assets and

18 *Williams v Commonwealth* [2014] HCA 23.

19 The operating result is calculated as the net result of items of revenue, gains and expenses (including losses) recognised for the period excluding those that are classified as 'other non-owner movements in equity'.

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

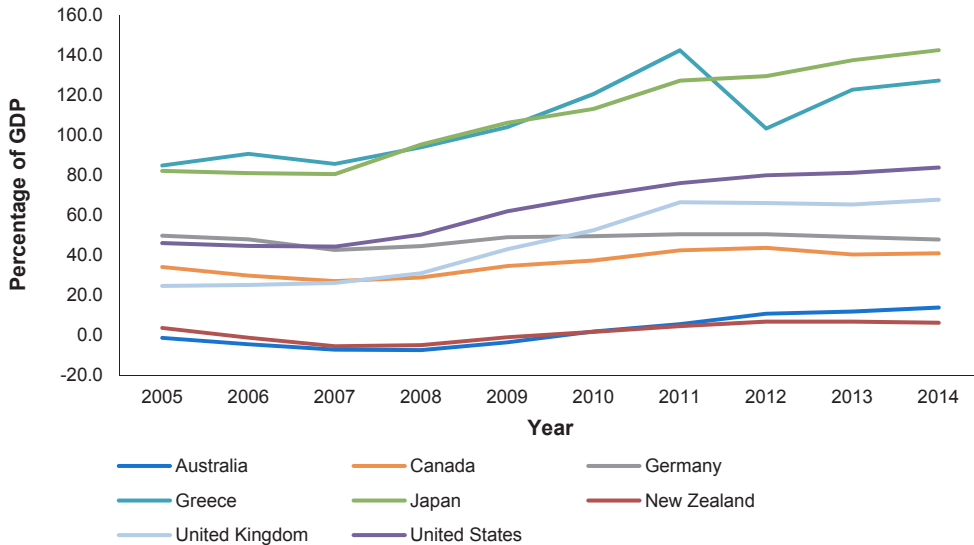
21 Net worth equals assets less liabilities.

22 Movements in interest rates directly affect the balance at year end of various liabilities, particularly provisions relating to long term employee benefits and superannuation, and some asset balances such as the Higher Education Loans Program. In accordance with Australian Accounting Standards, the reported values of these liabilities are to be calculated by discounting expected future payments, such as employee benefits and superannuation to their present value. The discount factor commonly used is the Australian Government long term bond rate. An increase in the bond rate between financial years increases the extent of discounting and reduces the present value of liabilities. Conversely, a decrease in the rate increases their present value. The period over which the future value of the liability is calculated is determined by the period over which payments are expected to become due and payable. During 2013–14, there was a decrease in the long term government bond rate. As a result, there was an increase in the reported value of some long term liabilities during 2013–14. An increase or decrease in liabilities and assets, associated with the movement in the rate used, is recognised as an adjustment to expenses or revenues that are reflected in an entity's operating result.

liabilities. Further information on the significant movements between 2012–13 and 2013–14 in the operating statement and the balance sheet is provided in the commentary that is published with the audited CFS, and is discussed below.

3.11 The following charts show the net financial liabilities of the Australian Government’s General Government Sector as a percentage of gross domestic product relative to some other OECD²³ countries, and the Australian Government’s negative net worth. These charts show that, in broad terms, the Australian Government is in a sound financial position relative to the governments of many other countries although there continues to be rising levels of interest bearing liabilities.

Figure 3.1: General Government net financial liabilities²⁴ as a percentage of gross domestic product²⁵



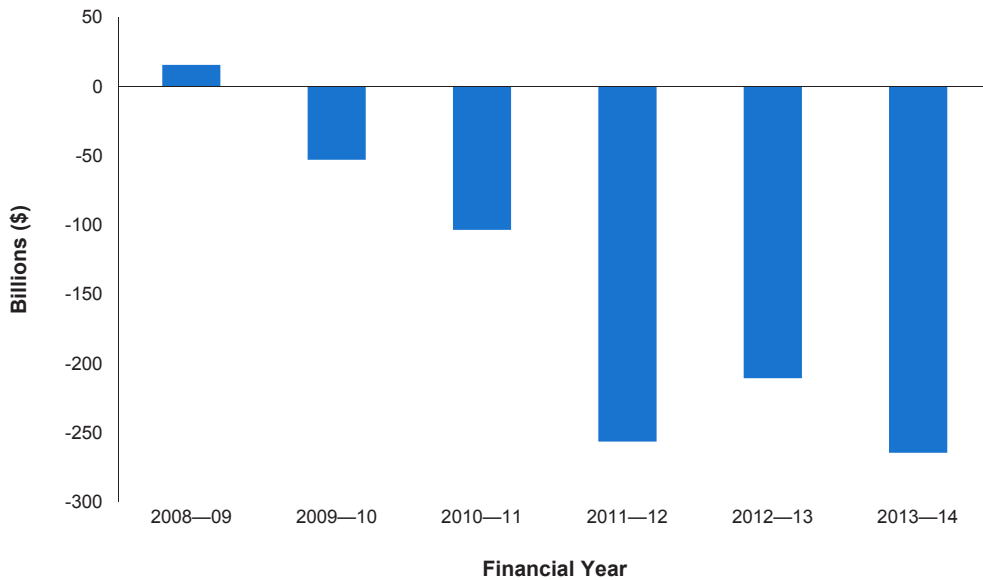
Source: OECD Economic Outlook 95 database at <http://www.oecd.org/statistics/>.

23 The Organisation for Economic Co-operation and Development.

24 Net financial liabilities are calculated as the gross financial liabilities less the financial assets of the General Government Sector. Gross financial liabilities are defined as the short and long term debt and other liabilities of all the institutions in the General Government Sector, subject to data availability. For the United States, Flow of Funds estimates are used, which value debt at face value. Financial assets may be cash, bank deposits, loans to the private sector, investment in private sector companies, holdings in public corporations or foreign exchange reserves, depending on the institutional structure of the country concerned and data availability.

25 Gross domestic product is equal to the total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports.

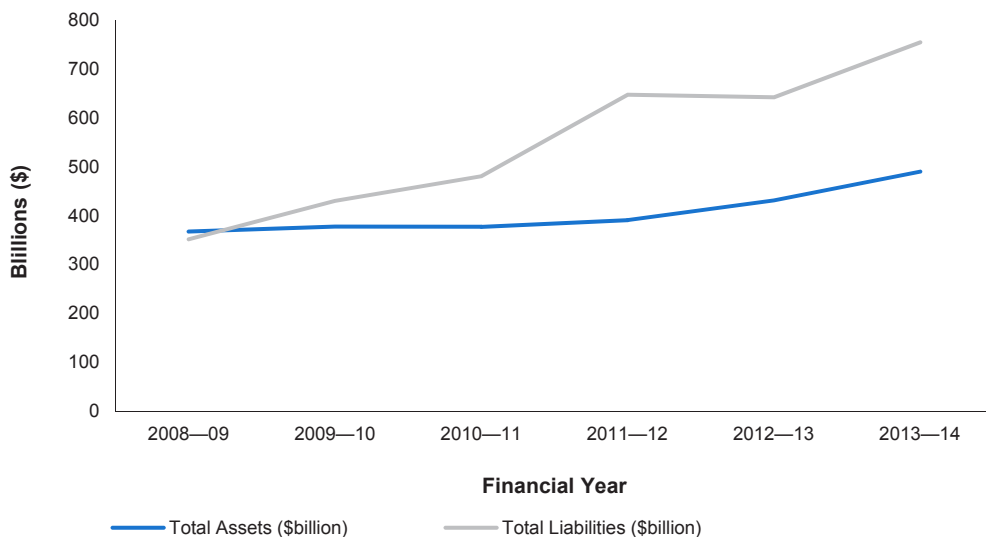
Figure 3.2: Australian Government's net worth



Source: Consolidated Financial Statements from 2008-09 to 2013-14.

3.12 There was a deterioration in the Australian Government's net worth in 2013-14 and net worth remains in a negative position as total liabilities continue to exceed total assets (see Figure 3.3).

Figure 3.3: Australian Government's total assets and total liabilities



Source: Consolidated Financial Statements from 2008-09 to 2013-14.

3.13 The significant movements in the CFS affecting the operating statement and the balance sheet of the Australian Government are explained below.

Operating statement

3.14 Total revenue of the Australian Government increased by \$15.7 billion in 2013–14 to \$386.2 billion. The movement in revenue reflected a \$14.6 billion increase in taxation revenue, primarily as a result of:

- an increase in income tax on individuals and other withholding taxation, reflecting growth in personal non-wage income;
- an increase in the goods and services tax (GST) in line with the overall growth in consumption of items subject to the GST;
- an increase in excise and customs duty revenue consistent with an increase in the volume of imported goods subject to customs duty and the introduction of a 12.5 per cent excise on tobacco from 1 December 2013;
- a relatively small increase in company tax, primarily reflecting weaker corporate profitability and the resolution of outstanding dispute matters; and
- a decrease in taxation from superannuation, due to lower than expected taxable contributions and earnings and the resolution of some outstanding disputed matters.

3.15 Total non-taxation revenues increased by \$1.1 billion in 2013–14, primarily due to:

- greater revenue from sales of goods and services, mainly associated with increases in Australia Post revenue as a result of growth in its parcel business; Medibank Private health insurance revenue; immigration visa application fees due to a CPI increase on visa application charges from 1 July 2013; and housing inventory sales by Defence Housing Australia. These revenue increases were partially offset by decreases in revenue relating to fees for the guarantee of large deposits and wholesale funding as these schemes wind down and unclaimed monies under the *Banking Act 1959*, *Life Insurance Act 1995* and *Corporations Act 2001*, resulting from legislative changes in 2012–13 which reduced the time before which unclaimed monies are transferred to the Commonwealth, as well as changes to the administrative

arrangements for managing unclaimed monies under the *Corporations Act 2001*;

- an increase in dividend income, primarily relating to the Future Fund's investment portfolio;
- a decrease in other revenue, primarily as a result of a decrease in revenue from unclaimed superannuation accounts as a result of changes in 2012–13 to the legislation surrounding the operation of lost superannuation accounts; and
- a decrease in interest income primarily in the Australian Government Nation Building Funds' and the Future Fund's investment portfolios and the Australian Office of Financial Management's residential mortgage backed securities investments. These decreases were partially offset by an increase in interest from Australian dollar securities held by the Reserve Bank of Australia.

3.16 The Australian Government's total expenses increased by \$25.5 billion in 2013–14. The major causes of this increase were:

- increased direct personal benefits, grants and subsidies expenses, primarily relating to increases in:
 - assistance to the aged, jobseekers, people with disabilities, carers and family tax benefit recipients due to payment indexation arrangements;
 - grants to state and territory governments, primarily for general revenue assistance, road investment, rail transport, Government and non-Government school support, healthcare services; non-profit institutions, mainly relating to home support, indigenous education, child care, indigenous land and housing, well-being and community safety; local government for road infrastructure; and the multi-jurisdictional sector, primarily relating to higher education support and the university superannuation programme;
 - mutually agreed write downs²⁶, mainly relating to penalty and interest charges, by the Australian Taxation Office;

26 Mutually agreed write downs occur when financial assets are written off where there was prior knowledge and consent by the counterparties.

- subsidy expenses primarily due to the stronger uptake of the research and development tax incentive, the fuel tax credits scheme and carbon pricing free permits associated with the carbon pricing scheme; and
- increased operating expenses, primarily due to:
 - increased expenses relating to the supply of goods and services, particularly in relation to Defence sustainment costs; the costs associated with detention centres and settlement; claims processed by Medibank Private; payments related to the Medicare Benefits Scheme which funds access to medical services; payments for pharmaceuticals and pharmaceutical services; and the costs of Australia Post services. These increases were partially offset by a decrease in supplier expenses across a number of entities;
 - higher wages and salaries, primarily due to an increase in separation and redundancy programs across a number of entities;
 - increased depreciation and amortisation expenses in line with the increase in non-financial assets; and
 - decreased service costs of the Australian Government’s unfunded superannuation liabilities. The service cost captures the movement in the superannuation liability that results from employee service in the reporting period. As the calculation of the amount is based on a present value, it is sensitive to changes in the discount rate used for the calculation²⁷. The longer the length of service, the greater the impact of discount rate changes. Under the relevant accounting standard, AASB 119 *Employee Benefits*, the discount rate used in the calculation of the service cost is based on the interest rate at the start of the year.
- increased interest expenses, primarily reflecting the interest associated with the issue of Treasury Bonds and an increase in exchange settlement balances held with the Reserve Bank of Australia; and
- increased superannuation interest expenses, mainly attributable to the higher nominal interest on superannuation, which is based on a

27 Op cit (refer footnote 22 on p. 32).

discount rate which was higher at the beginning of 2013–14 compared to 2012–13.

3.17 Other economic flows, which include asset and liability revaluation gains and losses, moved from a gain of \$69.8 billion in 2012–13 to a loss of \$21.2 billion in 2013–14. The primary drivers for this movement were:

- the effect of movements in the long term government bond rate²⁸ used to calculate the Australian Government superannuation liability. Even small movements in the bond rate can cause significant movements in the valuation of the liability. Between 30 June 2013 and 30 June 2014 the bond rate decreased by 0.2 per cent whereas between 30 June 2012 and 30 June 2013 the bond rate increased by 1.2 per cent, resulting in a \$13.0 billion negative flow in 2013–14 compared to a \$50.4 billion positive flow in 2012–13;
- an unrealised loss from the re-measurement of Commonwealth Government securities as at 30 June 2014 as a result of the effect of lower interest rates; and
- a change in indexation arrangements for military superannuation.

3.18 The net acquisition of non-financial assets increased by \$4.5 billion in 2013–14 to \$9.0 billion, primarily as a result of an increase in the purchase of non-financial assets, mainly for Defence related acquisitions and the construction of the National Broadband Network. This increase was partially offset by a decrease in the sale of non-financial assets compared to 2011–12, particularly in relation to the sale of spectrum licences.

Balance sheet

3.19 The 2013–14 CFS reported a \$53.8 billion decrease in the net worth position of the Australian Government from negative \$210.5 billion in 2012–13 to negative \$264.3 billion in 2013–14. This decline in the negative position was a consequence of a \$112.7 billion increase in liabilities, partially offset by a \$58.9 billion increase in assets as at 30 June 2014.

3.20 The value of the Australian Government's financial assets at 30 June 2014 increased by \$49.5 billion, compared to 30 June 2013. The primary reasons for this increase were:

28 Op cit (refer footnote 22 on p. 32).

- an increase in investments, loans and placements, mainly as a result of an increase in the Australian dollar securities and foreign exchange holdings of the Reserve Bank of Australia and an increase in investments held by the Future Fund, partially offset by a decrease in deposit investments by the Australian Office of Financial Management;
- an increase in equity investments as a result of an increased investment in listed equities and listed managed investment schemes by the Future Fund; and
- an increase in advances paid, primarily due to an increase in the value of student loans under the Higher Education Loan Program.

3.21 Total non-financial assets increased by \$9.5 billion in 2013–14 primarily due to increases in:

- the non-financial assets held by NBN Co Limited due to the ongoing implementation of the National Broadband Network;
- buildings held, primarily due to the finance lease arrangements for the Single Living Environment and Accommodation Precinct (LEAP) project;
- specialist military equipment and explosive ordnance held by the Department of Defence;
- intangible assets, mainly due to water entitlement acquisitions by the Department of the Environment;
- the value of land, following formal revaluations of these properties; and
- the value of heritage and cultural assets held across a number of collection institutions, following formal revaluations of these assets.

3.22 Interest bearing liabilities increased by \$82.2 billion in the 2013–14 year. This increase primarily related to:

- an increase in Commonwealth Government securities on issue, which is primarily driven by the need to fund the underlying cash deficit;
- an increase in deposits held, including the Reserve Bank of Australia exchange settlement balances;
- an increase in finance leases and right of use licences entered into by NBN Co Limited for its infrastructure assets and premises; and

- an increase in loans, primarily bills of exchange and promissory notes issued to the International Monetary Fund by the Department of the Treasury.

The above increases were partially offset by the improved performance of derivative contracts entered into by the Future Fund to manage its investment portfolio.

3.23 Provisions and payables increased by \$30.6 billion in 2013–14. The main causes of this movement were:

- an increase in the defined benefit obligations for Australian Government sponsored superannuation schemes at 30 June 2014, primarily due to the downwards movement in the long term government bond rate explained in paragraph 3.17 and an increase in the indexation arrangements for some military pensions;
- an increase in the value of Australian notes on issue in line with historical trends;
- an increase in other employee liabilities, mainly resulting from actuarial adjustments for claims under the *Military Rehabilitation and Compensation Act 2004* and allowances for separation and redundancy programs across a number of entities; and
- an increase in subsidies payable, primarily due to claims on hand for various subsidies administered by the Australian Taxation Office.

The above increases were partially offset by a decrease in supplier and grant payables across a number of entities.

Significant disclosures in the CFS

Actual and potential breaches of the Constitution

3.24 Note 1.27 to the CFS states that the Australian Government is aware of the risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where the payments do not accord with conditions included in the relevant legislation. Section 83 of the Constitution requires that no money shall be drawn from the Treasury of the Commonwealth except under an appropriation made by law.

3.25 Note 1.27 to the CFS provides information on the Australian Government’s continuing review during 2013–14 of its exposure to risks of not complying with statutory conditions on payments from special appropriations and special accounts. As disclosed in Note 1.27 to the CFS, payments were made in 2013–14:

- in breach of section 83 of the Constitution, totalling \$3.3 million across ten entities; and
- potentially in breach of section 83 of the Constitution, totalling \$1 024.5 million across eight agencies.

3.26 Note 1.27 to the CFS also discloses that during 2013–14, the High Court in *Williams v Commonwealth* [2014] 288 HCA 23 held that payments made under the National School Chaplaincy and Student Welfare Programme were invalid on the grounds that they were not supported by a Commonwealth constitutional head of power. Consequently, the payments made became debts owed to the Commonwealth. The Minister for Finance waived those debts, totalling \$156.1 million, under section 34(1)(a) of the *Financial Management and Accountability Act 1997* on 19 June 2014.

3.27 Further, Note 1.27 to the CFS also discloses that the Australian Government continues to have regard to developments in case law, including the High Court’s most recent decision on Commonwealth expenditure in *Williams v Commonwealth* [2014] 288 HCA 23, and that the Australian Government will continue to monitor and assess risk and decide on any appropriate actions to respond to risks of expenditure not being consistent with constitutional or other legal requirements.

3.28 The ANAO’s auditor’s report on the CFS included a report on other legal and regulatory requirements in respect of these matters. Further details on the breaches identified by each entity are included in chapter 6 of this report.

Significant differences between original budget and actual results

3.29 Australian Accounting Standard AASB 1049 requires significant variances between the original budget presented to the Parliament and the actual results to be disclosed in the audited financial statements. These explanations are included at Note 44 to the CFS. The Australian Government only presents a budget at the GGS level, and not at the whole of government level therefore variances between budget and actual are only presented for the GGS.

3.30 The main variances explained in this note relate to:

- a decrease of \$17.5 billion in actual revenue compared to the amount of revenue expected at the time the original budget was presented to Parliament in May 2013;
- a \$13.5 billion increase in actual expenses compared to the original budgeted amount;
- a \$12.7 billion increase in other economic flows compared to the original budget;
- an increase of \$0.9 billion in the net acquisition of non-financial assets compared to the original budget;
- a \$87.6 billion decrease in the net worth position when compared to the original budget; and
- a \$30.9 billion larger GFS cash deficit position than the position that was included in the original budget.

Events after balance sheet date

3.31 Note 39 to the CFS discloses one significant event that occurred after the balance sheet date of 30 June 2014. This concerned the sale of Medibank Private that at 30 June 2014 was a company limited by shares and wholly-owned by the Commonwealth of Australia. On 26 March 2014 the Australian Government announced a decision to proceed with the sale of Medibank Private through an initial public offering. The Medibank Private Share Offer prospectus was released on 20 October 2014. At the time of the signing of the CFS, it was expected that Medibank Private would be listed on the Australian Stock Exchange on 25 November 2014.²⁹

Future Accounting Standard requirements specific to the CFS

Ministerial remuneration

3.32 The 2013–14 CFS has continued the approach of prior years of incorporating disclosure of ministerial remuneration in Note 6 to the CFS. The disclosure includes Cabinet Ministers that served at any time during the

29 Medibank Private was listed on the Australian Stock Exchange on 25 November 2014. The sale raised \$5.679 billion.

financial year, including those who served under the former Government that ceased on 18 September 2013. The disclosure is provided at the aggregate level only and details of individual Cabinet Ministers' remuneration are not included.

3.33 In this context, at its May 2014 meeting the Australian Accounting Standards Board (AASB) decided to remove the not-for-profit public sector exemption from AASB 124 *Related Party Disclosures* with effect from 2016–17. From that time, Ministers would be considered 'key management personnel', and their remuneration, in aggregate, would need to be reported in the CFS for the following categories:

- short-term employee benefits;
- long-term employee benefits;
- post-employment benefits; and
- termination benefits.

3.34 Comparative year disclosure for 2015–16 will also need to be included in the 2016–17 CFS.

Defence weapons platforms

3.35 AASB 1049 requires the CFS to apply the principles and rules in the ABS GFS Manual, where this does not conflict with the Australian Accounting Standards. The Australian Accounting Standards allow these assets to be measured at fair value or at cost. The ABS GFS manual requires property, plant and equipment, which includes Defence Weapons Platforms (DWP), to be recorded at market value. As a result, the fair value basis, providing reliable measurement is possible, is the measurement approach that should be adopted in the CFS. In December 2012, a pronouncement from the Australian Accounting Standards Board was released that granted an extension of transitional relief from the adoption of AASB 1049 as it relates to DWPs. The transitional relief extended the date of implementation to the 2014–15 financial year. The Australian Government is progressing its consideration of this matter.

4. Commentary on Financial Statement Related Matters

This chapter provides an analysis by the ANAO of material entities' operating results and balance sheet position and commentary on Machinery of Government changes.

Analysis of entities' financial statements

4.1 Integral to the ANAO's financial statement audits is an understanding of the entity being audited and its environment. A key part of this process is identifying the main factors that influence an entity's financial results. While this is undertaken for each individual entity, analysis of the total population of entities can provide insights into any systemic issues that bear on the financial performance and the financial position of entities generally.

Operating results analysis

4.2 The responsibilities of Australian Government entities are established by legislation, or determined by government, and include responsibilities for functions such as policy development, regulatory oversight and/or service delivery. In performing these responsibilities, entities are expected to manage, efficiently and effectively, the public resources made available to them.

4.3 A key measure of an entity's financial management is its operating result for the year. Nevertheless, the operating result is not the sole measure of performance of a public sector entity as circumstances can result in an entity incurring deficits in the course of meeting its responsibilities. A history of significant deficits could, however, suggest the need for additional funding, elimination of non-value adding costs, reductions in service levels and/or improved entity financial management.

4.4 Against this background, the ANAO continued its practice of undertaking an analysis of the operating results of all material entities over a three year period. This year the analysis covered the period 2011–12 to 2013–14. This analysis is based on reported surpluses or deficits after adjusting for the amount of unfunded expenses³⁰, where relevant. This approach

30 The Government does not provide funding for make-good, depreciation and amortisation expenses for most entities. Instead, entities receive capital funding when assets need to be replaced. This means, for example, that the value of an entity's asset holdings may decline because the assets are depreciating, but because they are not yet due for replacement, no capital funding has been received from government.

highlights the full cost of operations, regardless of the particular funding model in place.

4.5 The ANAO grouped material entities into four categories, which are explained in Table 4.1 below.

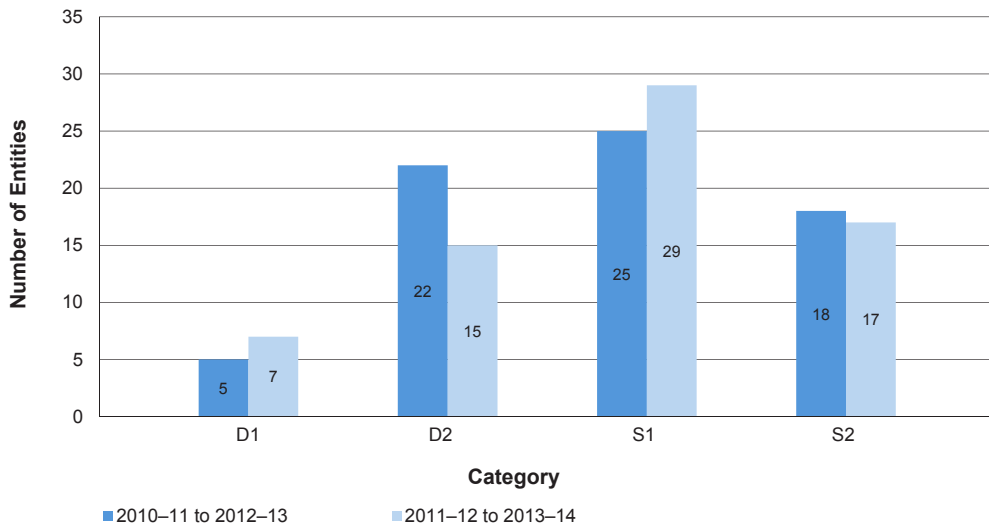
Table 4.1: Operating results categories

Category	Explanation
D1	Averaged a deficit/loss for the last three years and had two or three deficits/losses greater than five per cent of total expenses.
D2	Averaged a deficit/loss for the last three years and had one or zero deficits/losses greater than five per cent of total expenses.
S1	Averaged a surplus/profit for the last three years less than five per cent of total expenses.
S2	Averaged a surplus/profit for the last three years equal to or greater than five per cent of total expenses.

Source: ANAO analysis

4.6 Figure 4.1 presents the results of the ANAO analysis of entities' operating results in the periods 2010–11 to 2012–13 and 2011–12 to 2013–14.

Figure 4.1: Material entities by operating results category*



* Two entities classified as material but consolidated into other material entities and one entity with a limited history of financial information have been excluded from this analysis.

Source: ANAO analysis.

Reported material entities by operating results category

4.7 Significantly, and consistent with past results, the ANAO's analysis identified that 44 material entities (approximately 65 per cent of the total) made small surpluses/profits or deficits/losses over the three year period; these entities are grouped in categories D2 or S1 (see Figure 4.1). The high percentage of entities in these categories suggests that, overall, entities have been appropriately managing their finances for the period under analysis. A tightening budget environment is likely to increase budget pressures on individual entities.

4.8 Entities that averaged a deficit/loss over the three years, and incurred at least two annual deficits/losses over that period greater than five per cent of expenses, are grouped in category D1. Seven entities (approximately ten per cent of entities analysed) were in this category. As mentioned above, there can be particular circumstances that result in an entity incurring deficits, including the influence of external factors, and a brief explanation of the reasons why these entities have incurred deficits over the period covered by the analysis is provided below:

- the NBN Group has incurred losses in its start-up phase, as anticipated in its business plan projections;
- the High Court of Australia and the Australian Rail Track Corporation as both entities revalued downwards some of their physical assets;
- the Albury-Wodonga Development Corporation has experienced losses on the sale of assets as part of its winding up;
- the Australian Nuclear Science and Technology Organisation has not been fully funded for significant costs associated with the decommissioning of nuclear reactors;
- the Department of Agriculture experienced lower revenue due to a decline in trade volumes associated with biosecurity activities; and
- Comcare incurred higher expenses as a result of an increase in its liabilities for workers compensation, mainly due to a change in the composition of claims and claimants receiving benefits for longer periods, and also due to some changes in the methodology and economic variables used to measure these liabilities.

4.9 Seventeen entities (approximately 25 per cent of the total) incurred an average annual surplus/profit greater than five per cent of expenses. These

entities are grouped in category S2. In nine cases³¹, these surpluses/profits arose from the commercial operations of for-profit entities or the quasi-commercial operations of not-for-profit entities.

4.10 In respect of the other eight entities³² in category S2 there were a range of reasons for the surpluses/profits, including the receipt of donated assets, a reduction in expenses resulting from efficiency measures, drawing on reserves to meet peak expenditures, and increased primary producer levy receipts due to higher production.

4.11 In 2013–14, material entities generated, in aggregate, \$22.7 billion in surpluses/profits. In contrast, the operating result of the Australian Government as a whole was a deficit of \$43.0 billion, as reported in paragraph 3.10. As such, the aggregate results of material entities are not the major factor contributing to the operating results of the Australian Government; changes in the level of taxation revenue and transfer payments are much more significant³³.

Balance sheet analysis

4.12 While an entity’s operating result is an important aspect of its financial management, it is also important that an entity actively manages its underlying financial position, maintaining asset levels to support entity operations and ensuring that sufficient cash will be available to meet liabilities as they fall due.

4.13 Under Australian Accounting Standards, a distinction is made between those assets and liabilities that a government entity controls (departmental) and those that it administers on behalf of the Government (administered). An entity does not have full discretion over the use of administered assets, due to legislation or government policy, and is not required to settle administered liabilities from its own resources. While a large proportion of Australian

31 The nine entities are: Australian Government Solicitor; Coal Mining Industry (Long Service Leave Funding) Corporation; Defence Housing Australia; Reserve Bank of Australia, Export Finance and Insurance Corporation; Clean Energy Finance Corporation; Future Fund Management Agency and the Board of Guardians; Australian Reinsurance Pool Corporation; and Indigenous Business Australia.

32 The eight entities are: the Australian Office of Financial Management; the Australian War Memorial; the Australian Research Council; the Grains Research and Development Corporation; the National Archives of Australia; the National Library of Australia; the National Gallery of Australia; and the National Museum of Australia.

33 Taxation receipts, transfer payments and similar items are collected and paid by Australian Government entities, but are not included in their departmental operating results, as they are treated and reported as administered items. The 2013–14 operating result of the Australian Government as a whole is discussed in chapter 3 of this report.

Government assets and liabilities are administered³⁴, significant levels of assets and liabilities are departmental. As at 30 June 2014, Australian Government entities held \$299.3 billion in departmental assets and \$163.8 billion in departmental liabilities.

4.14 Determining the appropriate level of assets and liabilities for an entity is dependent on each entity’s particular circumstances. Judgements are necessarily influenced by the responsibilities of the entity, past entity decisions on resource allocation and the funding models put in place by government³⁵.

4.15 Consistent with past practice, the ANAO undertook an analysis of the balance sheet positions of material Australian Government entities as at 30 June 2014. While it is necessary to have regard to the public sector context, the following two aspects of entity balance sheets are important measures and are therefore focussed on in this analysis:

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

4.16 The ANAO grouped material entities into the following categories:

Table 4.2: Balance sheet categories

Category	Explanation
B1	Entities where financial assets were at least 50 per cent of total liabilities and where equity was at least 25 per cent of total assets. These entities have the strongest balance sheets.
B2	Entities where financial assets were less than 50 per cent of liabilities or where equity is less than 25 per cent of total assets. These entities had weaker balance sheets, either in liquidity or gearing terms.
B3	Entities where financial assets were less than 50 per cent of liabilities and where equity was less than 25 per cent of total assets. These entities are the most likely to need additional funding in the future.

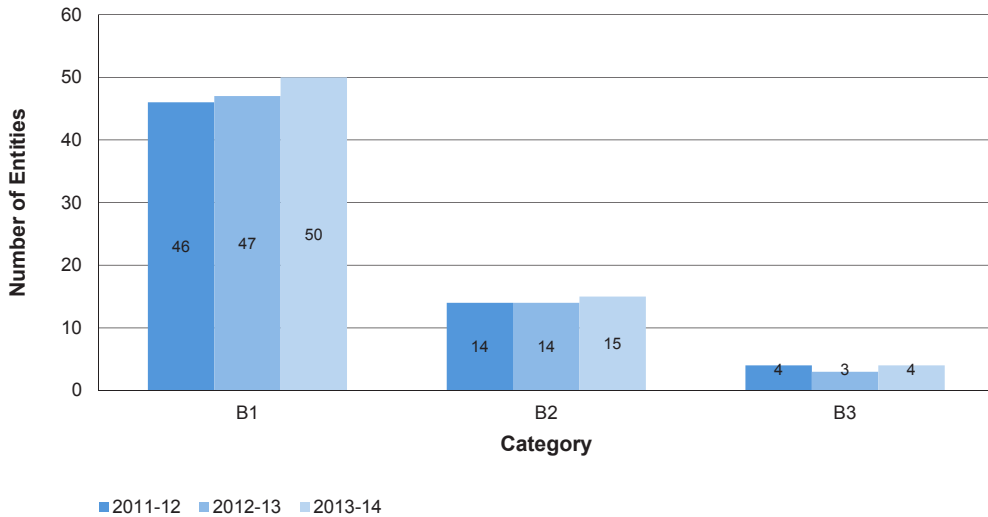
Source: ANAO analysis.

34 Of the total whole of government assets at 30 June 2014 of \$489.8 billion, administered assets constituted \$190.5 billion (39 per cent), mainly comprising investments and tax receivables. Of total liabilities of \$754.1 billion, \$590.3 billion (78 per cent) were administered, mainly comprising government debt and provisions for superannuation.

35 Op cit (refer footnote 30 on p. 44).

4.17 Results of the ANAO analysis are shown in Figure 4.2.

Figure 4.2: Material entities by balance sheet category*



* Two entities classified as material but consolidated into other material entities have been excluded from this analysis.

Source: ANAO analysis.

4.18 At 30 June 2014, material entities’ financial assets collectively were 163 per cent of liabilities, and equity was 59 per cent of total assets. This was broadly comparable to the situation at 30 June 2013. This suggests that the overall balance sheet position of material entities remains satisfactory.

4.19 It is also encouraging to observe that the large majority of entities continued to fall into category B1, which indicates a relatively strong balance sheet position. Fifteen entities were in category B2 and four in category B3. Similar to the position in 2011–12 and 2012–13, three of the entities in category B3 (the Australian Taxation Office, the Defence Materiel Organisation and the Australian Bureau of Statistics) are large government entities whose operations are dependent on Government policy and on continued funding by the Parliament. On this basis, and provided that appropriate attention is given to liquidity issues in the future, these entities are not at high risk of experiencing liquidity problems. Nevertheless, with a tightening fiscal outlook, it is important that entities in this category continue to monitor their financial position and improve it, where practicable. The remaining entity, the Department of the Environment had a significant unfunded liability relating to the rehabilitation of its Antarctic sites; the Government’s general policy is to

provide cash to meet agency rehabilitation liabilities at the time the work is undertaken. The Department of the Environment has indicated that the Australian Government is committed to maintaining Australia's ongoing physical presence in the Antarctic and the possible cessation of research activities and the requirement for funding to undertake the rehabilitation of its Antarctic sites is remote.

4.20 While the above analysis suggests that entities' balance sheets are generally sound, the analysis is based on benchmarks developed by the ANAO. There would be benefit in government developing performance targets or benchmarks against which entities' financial performance can be assessed. In addition, entities could benchmark their balance sheets over time and against like entities, as a measure of their financial management and to enhance their accountability.

Machinery of government changes

4.21 The implementation of the Machinery of Government (MoG) changes as a result of a new Administrative Arrangements Order (AAO) of 18 September 2013³⁶, following the change of government in September 2013, involved a significant change management process on the part of many entities. Successful implementation of MoG changes requires effective communication between all the parties affected by the changes, the full cooperation and commitment of both central and line agencies and sound project management arrangements to be developed and implemented in a timely manner. Where the MoG changes affect areas such as governance arrangements, appropriations, IT systems, internal controls and financial reporting, the ANAO takes these into account in developing its audit approach as part of the annual financial statement audits of Australian Government entities.

Scale of the MoG changes

4.22 The scale of the 2013 MoG changes was significant. In all, three departments were abolished, two new departments were established, one entity was integrated into an existing department, nine departments were renamed and a large number of functions and programs were transferred between departments. The most significant changes were:

36 Amendments to this Order were made on 3 October 2013.

- the responsibility for Indigenous Affairs policies, programs and service delivery, the Office of Women, and Office of Best Practice Regulation and Deregulation were transferred to the Department of the Prime Minister and Cabinet;
- the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education became the Department of Industry and a number of the former department's functions were transferred to other departments;
- the abolition of the Department of Education, Employment and Workplace Relations and the creation of the Departments of Education and Employment;
- the abolition of the Department of Regional Australia, Local Government, Arts and Sport with the functions of that department being transferred to a number of other departments; and
- the integration of Ausaid functions into the Department of Foreign Affairs and Trade.

4.23 The APSC 2013–14 annual report reported that over 13 000 staff were affected by the MoG changes with the transfer of staff between entities effected through determinations made by the Minister Assisting the Prime Minister for the Public Service under section 24(3) of the *Public Service Act 1999*³⁷. Appropriations totalling approximately \$1 billion were transferred between entities through determinations under section 32 of the FMA Act. Other appropriation adjustments were made through Appropriation Bills at the 2013–14 Additional Estimates and Supplementary Additional Estimates.

Implementing MoG changes

4.24 Implementing MoG changes can be complex and very resource-intensive as entities need to manage a range of issues including: reaching agreement on the staff and appropriations to be transferred; establishing communication mechanisms with both 'gaining' and 'losing' staff; connecting gaining staff to existing IT networks and disconnecting departing staff from IT systems; arranging accommodation requirements for staff being transferred; and negotiating the most effective way to maintain the delivery of services in

37 Two determinations were made, covering SES employees and non-SES employees. The determinations provided that as an interim measure, all employees who were to be transferred because of the MoG changes would continue to have the same terms and conditions of employment (including remuneration) as they had immediately before the making of the AAO.

both the short and longer term, particularly arrangements for the processing of employee entitlements and program payments.

4.25 Resolution of these matters requires entities to work cooperatively and openly and to make judgements in the longer term interests of the Australian Public Service so that the delivery of government services is not put at jeopardy.

4.26 By their very nature, entities affected by such changes will often have little or no notice of the specific changes that are determined by government. This is particularly the case in circumstances where there is a change of government, as occurred on 7 September 2013.

4.27 The *Implementing Machinery of Government Changes Guide* (the Guide), which was jointly issued by the Australian Public Service Commission (APSC) and the Department of Finance (Finance), emphasises that:

A key to achieving good results in implementing MoG changes is for agencies to take a whole-of-government approach. The need to take a cooperative and collegiate approach underpins the whole-of-government process whereby agencies are encouraged to work across organisational barriers to achieve Government objectives. In the implementation of MoG changes this means undertaking negotiations with a view to achieving the best outcome from a whole-of-government perspective rather than the best outcome for individual agencies. It is expected that agencies will communicate openly with one another, and with central agencies, to achieve the best outcome for the APS.

4.28 While there is no overall timeframe within which entities are required to implement the MoG changes, the Guide also states that:

While the transfer of staff under section 72 of the PS Act are unlikely to be completed by the time the new AAO is made, the Prime Minister expects agency heads to implement AAO changes cooperatively and as soon as possible, if necessary by administrative means such as issuing new delegations.

4.29 As mentioned earlier, entities will often have little or no notice of the specific changes made by government, although in some cases, potential MoG changes can be foreshadowed by policy announcements made by political parties. This requires all entities to be agile and responsive when the details of the changes are known and to devote sufficient resources to the task of implementing the changes within agreed timeframes. Entities are also expected

to implement changes in a way that has minimal impact on the efficient delivery of government policy and programs, while at the same time meeting relevant legislative and policy requirements and respecting the interests of APS staff.

4.30 In regard to the transfer of staff and appropriations, the Guide indicates that ‘the general principle of ‘staff follow function’ applies to MoG changes, as do the principles of ‘finances follow function’ and ‘records follow function’. The guide also states that:

While identification of program funding and related staff can be relatively straightforward, mapping of support functions (e.g. corporate service areas) or mapping of functions or programs that have been split can be more problematic. Agencies should recognise the need for cost sharing (e.g. sharing of fixed costs) and reach agreement that will meet the test of reasonableness.

Observations

4.31 Generally, the entities affected by MoG changes established a steering or implementation committee, supported by one or a number of working groups and identified senior staff members who were assigned responsibility for settling implementation issues. These committees included representatives of both gaining and losing entities. In some cases entities dedicated staff and applied formal project management arrangements to the implementation of the MoG changes in recognition of the scale and complexity of the changes.

4.32 Implementation of the MoG changes was assisted by the availability of the Guide referred to in paragraph 4.27 above and the preparation of a detailed Financial Management Checklist by Finance that outlined a range of issues relating to financial management that are affected by MoG changes.³⁸

4.33 Discussions with a number of entities involved in implementing the MoG changes confirmed that there were often difficulties in reaching agreement on the staff and appropriations to be transferred in relation to corporate functions, accommodation and systems, particularly in view of the fixed costs involved. Negotiations in relation to these matters were often protracted and strained relations between entities. At times, ‘gaining’ entities sought extensive documentation from ‘losing’ entities to enable them to

³⁸ This checklist was prepared as a companion to the Guide referred to in paragraph 4.27. The checklist addressed financial issues arising from MoG changes and key steps and timings to provide greater certainty of how these matters would be progressed. Both the Guide and the checklist recognise the particular issues faced by departments following the abolition of an entity.

undertake their own due diligence; this inevitably was very resource intensive for the entities concerned and at times created a lack of trust between the staff involved in the negotiations. Entities also suggested to the ANAO that, in at least some cases, negotiations were predicated on the basis of achieving the best outcome for the entity, rather than considering the best outcome from a whole-of-government perspective. Entities suggested to the ANAO that a tightening budgetary environment had contributed to this situation and contributed to entities taking a more detailed approach to negotiations rather than adopting a more global perspective.

4.34 Nevertheless, entities advised the ANAO that their responsibilities for the delivery of government policy and programs had not been adversely affected by the MoG changes.

4.35 Discussions with Finance, the APSC and a number of affected entities identified a number of initiatives that the entities involved advised had contributed positively to the implementation of the MoG changes.

4.36 In relation to Finance and the ASPC, these initiatives included:

- the availability of a revised *Implementing Machinery of Government Changes Guide*;
- Finance producing a checklist for CFO's referred to above;
- the conduct of planning discussions between Finance and entity Chief Financial Officers on issues likely to affect entities prior to the announcement of the MoG changes by the Government, and ongoing consultation during the implementation of the changes;
- Finance adopting a revised approach to the transfer of appropriations that involved the transfer of interim amounts of annual appropriations to enable the continued operation of government programs, with the settling of agreed appropriation transfers at a later date³⁹; and
- Finance adopting a mediation role to facilitate agreement on the transfer of appropriations between entities and taking a triage approach to the resolution of issues so that priority was given to higher priority issues and tasks.

39 Finance advised the ANAO these arrangements had resulted in a number of unforeseen outcomes and that future MoG related appropriation transfers would be effected through a streamlined transfer instrument under section 75 of the PGPA Act. Related administrative processes had also been strengthened.

4.37 In relation to entities affected by the MoG changes, these initiatives included:

- the development of agreed principles or protocols between gaining and losing entities designed to assist in settling the transfers of appropriations;
- agreements between entities on the utilisation of systems and staff that resulted in minimal impact on business as usual functions. One of the main ways this was achieved was for the gaining entity to continue to utilise the systems of the losing entity in delivering services in the short or longer term. In some cases, this also involved staff remaining in the existing accommodation during a transition period;
- the assignment of dedicated staff to manage the transition, at least for an initial period, in recognition of the number and complexity of the issues involved;
- the preparation by some entities of 'lessons learned' reports that involved an analysis of the processes followed in the implementation of the MoG changes and the identification of matters that were well managed and lessons learnt.

Preparation and audit of entity financial statements

4.38 As part of the audit of the 2013–14 financial statements of Commonwealth entities, the ANAO considered the effect that any MoG changes had on the preparation of entity financial statements. In most instances, MoG changes had been settled well before entities commenced the preparation of their 2013–14 financial statements and, as a result, they had little or no effect on the financial statement preparation process. In a small number of entities, the preparation of the 2013–14 financial statements was adversely affected by delays in settling matters relating to the MoG changes. In some cases, it was not evident that entities had given sufficient attention to the early identification and resolution of matters that remained outstanding, including the accounting treatment for particular transactions and the verification of the balances of employee entitlements transferred from other entities. A general discussion on the preparation of entities' 2013–14 financial statements is at paragraphs 5.50 to 5.60 of chapter 5 and details of audit findings in relevant entities is included in chapter 6 of this report.

Conclusion

4.39 It is encouraging to note that a number of entities have sought to identify lessons learnt from the implementation of the 2013 MoG changes. It is evident from discussions with entities that some approaches followed by entities were more successful than others, and it is important that entities continue to work together with the aim of implementing future machinery of government changes as efficiently and effectively as possible.

4.40 While recognising that more guidance and assistance has been available to entities than previously, the ANAO suggests that there is scope for central and line entities to:

- consider what further actions that entities can usefully take to be better prepared for future MoG changes, including having a clearer understanding of the extent of documentation to be available to assist 'gaining' entities for due diligence purposes; and
- consider the merits of committing to the establishment of a dedicated, multi-disciplinary team that is drawn from a number of entities that is tasked with assisting entities in implementing future significant MoG changes.

5. Summary of Audit Results

This chapter includes: a summary of issues included in our reports on entities' 2013–14 financial statements, including a commentary on actual and potential breaches of section 83 of the Constitution and the High Court's most recent decision on Commonwealth expenditure in Williams v Commonwealth (2014); a summary of other audit findings identified in the 2013–14 audits; observations on the preparation of entity 2013–14 financial statements; and a brief commentary on the 2013–14 Certificate of Compliance process.

Audit approach

5.1 Each year the Auditor-General is required to report to the relevant Minister on the financial statements of Australian Government entities.⁴⁰

5.2 As previously indicated, the ANAO conducts its financial statement audits in accordance with ANAO Auditing Standards, which incorporate the Australian Auditing Standards. An audit performed in accordance with the Australian Auditing Standards 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 Australian Auditing Standards means a high, but not absolute, level of assurance. It is reached 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. Absolute assurance cannot be provided because there are inherent limitations of an audit as most of the audit evidence on which the auditor draws conclusions on which the auditor's opinion is based is persuasive rather than conclusive⁴¹.

5.3 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 low, is accepted because of the significant costs and impracticability of performing an audit that accepts no, or an extremely low, level of risk. On this basis, the ANAO performs specific audit procedures including, for example, reviewing the operation of

40 In respect of 2013–14, the financial statements were prepared in accordance with the Finance Minister's Orders (FMOs). From 2014–15, the financial statements will be prepared in accordance with the PGPA Act.

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

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

5.4 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 entity, 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 entity, its environment and its internal controls and previous audit findings, helps the auditor design the work needed and respond to significant risks. Broad areas of audit focus, determined as a result of our planning approach, are discussed in chapter 6 in relation to each material entity covered by this report.

5.5 The ANAO's 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 the ANAO's 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.

5.6 Financial statement audits are generally performed in two phases: interim and final. The interim audit 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.

5.7 The ANAO's Audit Report No. 44 2013–14 reported the results of the interim audit phase of the 2013–14 audits of major General Government Sector agencies. The results of the 2013–14 audits of 251 Australian Government entities are presented in this report⁴².

42 Appendix 2 provides details of changes in audit responsibilities in 2013–14.

Classification of entities

5.8 Seventy-one of the entities consolidated into the Australian Government's Consolidated Financial Statements are classified as material entities as they comprise some 99 per cent of the assets, liabilities, income and expenses 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 the Department of Finance.

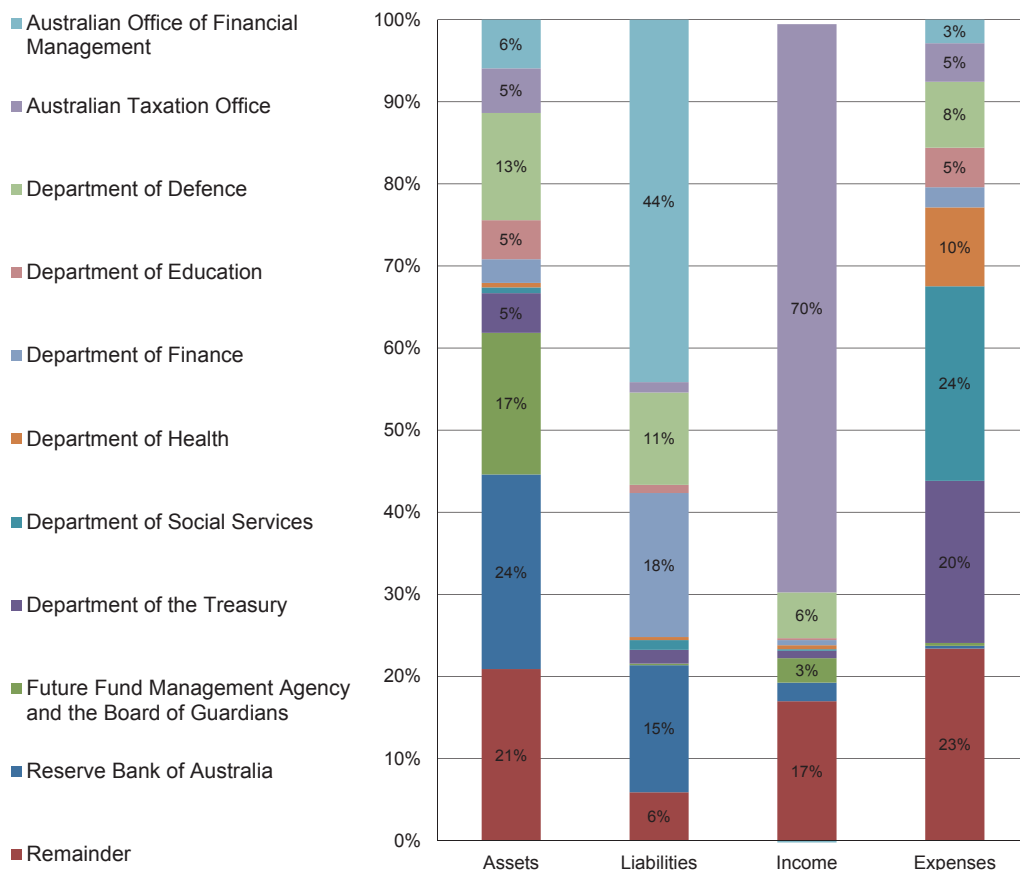
5.9 As at 30 June 2014, the following 10 entities represented over 80 per cent of the Australian Government's 2013–14 financial statement balances:

- Australian Office of Financial Management;
- Australian Taxation Office;
- Department of Defence;
- Department of Education;
- Department of Finance;
- Department of Health;
- Department of Social Services;
- Department of the Treasury;
- Future Fund Management Agency and the Board of Guardians; and
- Reserve Bank of Australia.

5.10 The contribution of these entities to the Australian Government's assets, liabilities, income and expenses balances⁴³ is shown in figure 5.1.

43 Prior to the elimination of inter entity transactions.

Figure 5.1: Australian Government’s assets, liabilities, income and expenses



Source: ANAO analysis.

Summary of audit results

Summary of reports issued

5.11 The Auditor-General and his delegates issued auditors’ reports on the 2013–14 financial statements of 251 Australian Government reporting entities. In each case the audit opinion was unmodified, as in the opinion of the auditor, the financial statements gave a true and fair view of the financial position, financial performance and cash flows of the entity in accordance with the applicable financial reporting framework. Where appropriate, an auditor’s report can, without affecting the audit opinion on the financial statements, also draw attention to matters of importance to the understanding of the financial

statements, or include a report on other legal and regulatory requirements. A summary of this information is in table 5.1 below. Appendix 3 explains in more detail the financial reporting frameworks applicable in the Australian Government and the form and content of auditor's reports.

Table 5.1: Summary of auditors' reports issued and outstanding

Financial Statement Auditor's Reports*	2013–14	2012–13
Unmodified auditor's reports**	251	252
- Includes emphasis of matter	8	5
- Includes other legal and regulatory requirements**	15	22
Modified auditor's reports	0	0
Total issued	251	252
Auditor's reports outstanding	8	8
Total number of audits	259	260

Source: ANAO analysis

* As at 30 November 2014.

** Includes the auditor's report on the Consolidated Financial Statements.

Entities auditors' reports containing an emphasis of matter

5.12 Eight auditor's reports for the 2013–14 year contained an emphasis of matter (five in 2012–13). The ANAO did not modify its audit opinions in respect of these matters.

Australian Institute for Teaching and School Leadership Limited

5.13 The auditor's report on the 2013–14 financial statements of the Australian Institute for Teaching and School Leadership Limited (AITSL) contained an emphasis of matter that draws attention to AITSL's funding agreement with the Department of Education that expires on 30 June 2015 and that the financial statements have been prepared on a going concern basis. The expiry of the current funding agreement may cast significant doubt on AITSL's ability to continue as a going concern. AITSL may therefore be unable to realise its assets and discharge its liabilities in the normal course of business.

ANU Section 68 Pty Ltd

5.14 The auditor's report for the ANU Section 68 Pty Ltd contained an emphasis of matter that draws attention to the fact that the financial report has been prepared on a liquidation basis as it was the expectation of the company that it would be wound up within a 12 month period.

General Practice Education and Training Limited

5.15 The auditor's report on the financial report of General Practice Education and Training Limited (GPET) contained an emphasis of matter that drew attention to the basis of accounting as disclosed in the notes to the 2013–14 financial report which stated that GPET is no longer a going concern. A direction was given by the Minister for Health for the company's closure, including the wind-up and transfer of its functions, assets and liabilities to the Commonwealth by 1 January 2015.

Grape and Wine Research and Development Corporation

5.16 The auditor's report on the financial statements of the Grape and Wine Research and Development Corporation contained an emphasis of matter that drew attention to the basis of accounting as disclosed in the notes to the 2013–14 financial statements which stated that following the passing of the *Grape and Wine Legislation Amendment (Australian Grape and Wine Authority) Act 2013*, the Grape and Wine Research and Development Corporation ceased to exist from 1 July 2014. At that time, all functions and staff transferred to the Australian Grape and Wine Authority (a new corporate Commonwealth entity).

IIF Investments Pty Ltd

5.17 The auditor's report on the 2013–14 financial report of IIF Investments Pty Ltd (IIF) contained an emphasis of matter that draws attention to the fact that the financial report has not been prepared on a going concern basis as it was the expectation that the company would be wound up during the 2015 financial year.

Low Carbon Australia Limited

5.18 The auditor's report on the 2013–14 financial statements of Low Carbon Australia Ltd contained an emphasis of matter that draws attention to the fact that the financial report has not been prepared on a going concern basis due to Low Carbon Australia Ltd ceasing trading in 2014–15 with the operations being integrated into the Clean Energy Finance Corporation.

Sugar Research and Development Corporation

5.19 The auditor's report on the financial statements of the Sugar Research and Development Corporation (SRDC) contained an emphasis of matter that drew attention to the notes to the 2013–14 financial statements which stated that following the passing of the *Sugar Research and Development Services Act 2013*, the *Sugar Research and Development Services (Consequential Amendments-*

Excise) Act 2013 and the Sugar Research and Development Services (Consequential Amendments and Transitional Provisions) Act 2013, SRDC ceased to exist on 30 September 2013. SRDC's functions, assets and research were transferred to the industry-owned company Sugar Research Australia Limited.

Wine Australia Corporation

5.20 The auditor's report on the financial statements of the Wine Australia Corporation contained an emphasis of matter that drew attention to the basis of accounting as disclosed in the notes to the 2013–14 financial statements which stated that following the passing of the *Grape and Wine Legislation Amendment (Australian Grape and Wine Authority) Act 2013*, the Wine Australia Corporation ceased to exist from 1 July 2014. At that time, all functions and staff transferred to the Australian Grape and Wine Authority (a new corporate Commonwealth entity).

Legislative compliance

5.21 In 2013–14 the financial framework that applied to all Australian Government entities included in this report was established by the FMA and CAC Acts and their subsidiary legislation. A key feature of the framework was that the Chief Executive or board of each entity was responsible for the financial management of their entity, including compliance with applicable laws and associated policies⁴⁴.

5.22 In reviewing an entity's control environment, the ANAO assesses whether management has established adequate controls to enable the entity to comply with key aspects of the financial framework.

5.23 In more recent years, the ANAO has given particular focus to legislative compliance as part of its financial statement audit coverage. This recognises the importance of the authority that the Parliament has conveyed to the Executive Government in relation to these arrangements and the concerns expressed by the JCPAA in the past in relation to legislative compliance by entities.

5.24 The coverage by the ANAO involves assessing key aspects of legislative compliance in relation to annual appropriations, special appropriations, special accounts and the investment of public monies. Audit testing includes confirming

⁴⁴ Although this framework was replaced by the *Public Governance, Performance and Accountability Act 2013* and supporting Rules on 1 July 2014, the Accountable Authority of each entity continues to be responsible for the financial management of their respective entities.

the presence of key documents or authorities, and testing of relevant transactions directed at obtaining reasonable assurance about entities' compliance with these key components of the financial management framework. ANAO audits also review the results of compliance self-assessment and processes and other reviews undertaken in the context of entities' Certificate of Compliance responsibilities that involve the annual reporting to the Finance Minister of any known breaches of the financial management framework.

Observations

5.25 As in previous years, the ANAO identified an overall high level of legislative compliance, except in respect of actual and potential breaches of section 83 of the Constitution. These matters are discussed at paragraphs 5.26 to 5.38 below.

Section 83 of the Constitution

5.26 Audit Reports No. 13 2013–14 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2013* and No. 44 2013–14 *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the Year Ended 30 June 2014*, again included a discussion of agencies' progress in addressing the risk of breaches of section 83 of the Constitution. Section 83 provides that no money should be drawn from the Treasury of the Commonwealth except under an appropriation made by law and requires that all spending by the Executive Government from the Consolidated Revenue Fund must be in accordance with an authority given by the Parliament. Breaches of section 83 can occur in a range of circumstances, including when payments are made from appropriations that do not comply with the specific requirements of the relevant legislation. This includes situations where an administrative error such as a duplicate payment occurs, even if the overpayment is able to be recovered.

5.27 As reported previously, all affected entities have over the last three years undertaken reviews based on guidance issued by the Department of Finance of payments made from special appropriations, including special accounts, to assess the risk of a breach of section 83. These reviews have identified a large number of actual or potential section 83 breaches in a number of entities. Details of these breaches have been included in the notes to their annual financial statements.

5.28 Over the last two years Parliament has passed legislation to regularise Commonwealth payments supported by special appropriations, including

special accounts, consistent with legislative requirements and section 83 of the Constitution.

5.29 In late 2012–13, the Department of Finance provided additional guidance, based on legal advice in relation to payments of long service leave and goods and services tax that, in certain circumstances, could be in breach of section 83.

5.30 The final phase of the 2013–14 financial statement audits of relevant entities continued to include a review of the results of risk assessments undertaken by entities in relation to potential section 83 breaches, and actions taken as a result of these assessments.

5.31 Consistent with the results of the 2012–13 audits, the 2013–14 audits identified that, at the date of the signing of their financial statements, the majority of entities had completed or updated their risk assessments and no section 83 breaches were identified or the risk of section 83 breaches had been assessed as low. For these entities, no reference was made to this issue in the respective auditor’s report on their 2013–14 financial statements.

5.32 In 15 entities, the risk assessments undertaken identified actual and/or potential breaches of section 83, details of which were included in the Notes to each entity’s 2013–14 financial statements and, where appropriate, the auditor’s report on the financial statements. The CFS and the auditor’s report on the CFS also included a reference to the aggregate number of actual and potential section 83 breaches reported by entities. The section 83 reference in the auditors’ reports was included under the heading of other legal and regulatory requirements due to the importance of this issue in a public sector context, but the reports were unmodified as the financial statements fairly represented the financial operations and position of the entity at year end.⁴⁵

5.33 Breaches identified by agencies in 2013–14 totalled approximately \$3.3 million and potential breaches totalled approximately \$1.025 billion⁴⁶. Consistent with the situation in 2012–13, the large majority of both breaches and potential breaches involve situations where entities rely on information from clients and other parties, including personal information such as

45 A report on other legal and regulatory requirements is a separate part of the auditor’s report on the financial statements and does not affect the auditor’s opinion as to whether the financial statements give a true and fair view of an entity’s financial position, the results of its financial operations and its cash flows.

46 These figures are derived from Note 1.27 of the Consolidated Financial Statements that disclosed details of actual and potential breaches of section 83 of the Constitution.

estimates of income and employment status, as the basis for the payment of benefits and other payments such as superannuation entitlements. An actual or potential breach of section 83 can occur when this information is subsequently found to be incorrect and the legislation does not explicitly provide for these inaccuracies. The risk assessments in a small number of agencies also identified that control weaknesses had resulted in, or at least contributed to, actual or potential breaches.

5.34 While in absolute terms the total number and amount of these section 83 breaches and potential breaches is relatively large, generally they continue to represent a small percentage of the total payments made by the entities concerned.

5.35 Entities have in place a range of controls and other mechanisms designed to ensure that payments to recipients are in accordance with legislative requirements. Consistent with the position in 2012–13, in the large majority of instances where there were section 83 breaches, entities are able to recover overpayments through normal mechanisms such as adjustments to future payments and routine debt recovery processes. In other instances, action was taken to obtain approval to waive or write off debts on the basis that it would be inequitable to recover the amounts overpaid or it would not be cost effective to do so in view of the relatively small amounts involved.

5.36 Entities have continued to adopt a practical and positive approach in addressing this complex issue. The legislative amendments mentioned above, together with entities' review of their own systems and controls, has resulted in a significant reduction in the number of actual and potential section 83 breaches and many entities assessed the risk of future breaches as low. Continuing diligence is nevertheless required by entities with the aim of ensuring that the risk of actual and potential section 83 breaches is kept to a minimum, and to develop further legislative changes to address situations where amendment to relevant legislation is the most appropriate response to a particular circumstance. Ongoing attention is required particularly in entities where risk assessments have identified control weaknesses.

5.37 The ANAO will continue to work with entities and the Department of Finance in this area in the context of our financial statement audit program and will continue to report to the Parliament in future reports the ongoing progress made in addressing, and where possible resolving, situations that may result in breaches of section 83 of the Constitution.

5.38 Each of the 14 entities which disclosed details of actual or potential section 83 breaches in its 2013–14 financial statements is identified in the relevant portfolio table in chapter 6.

Constitutional validity of Commonwealth expenditure

5.39 Audit Report No. 13 2013–14, at paragraphs 5.41 and 5.42, referred to the High Court’s judgement of 20 June 2012 in *Williams v Commonwealth* (2012) 288 ALR 410 (*Williams*) that payments made under the National School Chaplaincy program were constitutionally invalid, and to the passage by the Parliament on 28 June 2012 of the *Financial Framework Legislation Amendment Act (No. 3) 2012*. This Act was intended to provide Parliamentary authority for the Chaplaincy program and for over 400 other programs and arrangements identified at the time as not being supported by legislation other than an Appropriation Act.

5.40 In its judgement of 19 June 2014 in *Williams v Commonwealth* (2014) HCA 23, the High Court ruled that the *Financial Framework Legislation Amendment Act (No. 3) 2012* was not a valid law in its operation with respect to the National School Chaplaincy program, because it was not supported by a Commonwealth legislative power. As a consequence the payments made under that program were invalid, and became debts recoverable by the Commonwealth. The Minister for Finance subsequently waived those debts under section 34(1)(a) of the FMA Act. The amount waived was \$156.1 million.

5.41 The 2013–14 Australian Government’s Consolidated Financial Statements and the 2013–14 financial statements of relevant entities disclosed, in the notes to these statements, that the Australian Government continues to have regard to developments in case law, including the decision in *Williams*, as they contribute to the larger body of law relevant to the development of Commonwealth programs. In accordance with its general practice, the Australian Government has indicated that it will continue to monitor and assess risk and decide on any appropriate actions to respond to risks of expenditure not being consistent with constitutional and other legal requirements.

Summary of audit findings

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

Table 5.2: ANAO rating structure

Category	Description
A (Significant)	Issues that pose a significant business or financial management risk to the entity; these include issues that could result in a material misstatement of the entity's financial statements.
B (Moderate)	Issues that pose a moderate business or financial management risk to the entity; these may include prior year issues that have not been satisfactorily addressed.
C (Minor)	Issues that pose a low business or financial management risk to the entity; these may include accounting issues that, if not addressed could pose a moderate risk in the future.

Source: ANAO reporting framework.

5.43 In addition, the ANAO reports to entities and the Parliament any instances identified of non-compliance, or potential non-compliance, with: the Constitution; the entity's enabling legislation; legislation that the entity is responsible for administering; and the Commonwealth's financial legislation. These are reported as L1 findings. In addition, potential breaches of section 83 of the Constitution that are included in the auditor's report on the entity's financial statements are reported as L1 findings.

5.44 The final phase of the 2013–14 audits included a review of progress achieved by entities in addressing audit issues identified during the 2013–14 interim audit phase or carried forward from previous years. Similar to the experience in recent years, generally entities have made good progress in resolving outstanding audit issues.

5.45 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 other cases, the ANAO will review the actions taken by entities as part of the 2014–15 audits.

5.46 Issues identified during the final phase of the 2013–14 audits included issues relating to: controls in entities' IT environments, such as user access and the segregation of duties; quality assurance and financial reporting, particularly the preparation of the financial statements; and asset management processes including the valuation of assets and the reporting of inventory. While these issues are generally consistent with our audit findings in previous years, there was a noticeable increase in the number of issues relating to quality assurance and financial reporting.

5.47 Details of category A, B and L1 audit findings for each entity, together with a summary of the status of previously reported audit issues as well as

new issues identified during the final phase of the 2013–14 audit, are provided in chapter 6 of this report.

5.48 A summary of trends in category A, B and L1 findings between the 2012–13 and 2013–14 final audit phases for all entities is outlined below:

- there were two category A audit findings reported in 2013–14, which was an increase from the nil category A findings reported in 2012–13;
- the total number of category B audit findings reported in 2013–14 is 30. There were also 30 category B audit findings reported in 2012–13;
- there was a reduction in the number of category B findings in nine entities; 11 entities showed an increase in the number of category B findings; and seven entities reported the same number of category B findings; and
- the total number of category L1 findings decreased from 21 in 2012–13 to 14 in 2013–14.

5.49 The following information is provided in appendix 5:

- the number of category A, B and L1 audit findings for entities included in Audit Report No. 44 2013–14⁴⁷ at the conclusion of the interim phase of the 2013–14 audits (table A.1);
- the number of category A, B and L1 audit findings for all material entities at the conclusion of the final phase of 2013–14 audits (table A.2); and
- the number of category A, B and L1 audit findings in non-material entities at the conclusion of the final phase of 2013–14 audits (table A.3).

Preparation of entity financial statements

5.50 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 unmodified audit opinion. While acknowledging the challenges caused by tight completion requirements, rushed preparations, particularly if caused by

47 This report provides details of the results of the 2013–14 interim audit phase of 23 major General Government Sector entities. These agencies are listed in table A.1 of appendix 5 of this report.

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

5.51 Consistent with 2012–13, in 2013–14 material entities were required to submit audit cleared financial information to the Department of Finance by 15 August 2014. For non-material agencies, the date was 30 August 2014.

5.52 Seventy-nine per cent of material entities met the 15 August 2014 deadline and 61 per cent of non-material entities met the deadline of 30 August 2014. This represents a slight deterioration compared with 2012–13 when 80 per cent of material entities and 68 per cent of non-material entities met the audit clearance deadlines. These deadlines are set to assist the Australian Government to prepare the Final Budget Outcome (FBO) by 30 September and the Consolidated Financial Statements (CFS) by 30 November each year. At the time of publication of the Final Budget Outcome 2013–14 audit cleared financial statements were available for all material agencies, with the exception of the Departments of Education, Employment, and Veterans' Affairs and the closing statements for the Department of Education, Employment and Workplace Relations. The statements for the Department of Communications were audit-cleared, except for the valuation of investments. In 2012–13, two material agencies, the Departments of Defence and Veterans' Affairs, did not have audit cleared information available at the time of publication of the FBO.

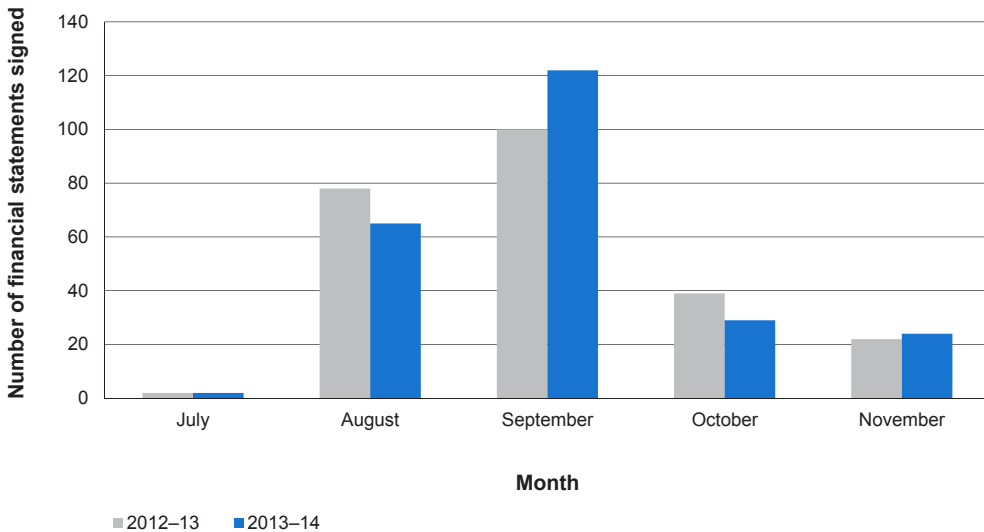
5.53 For those entities that did not meet the audit clearance deadlines, there was also a noticeable increase in the time between the deadline and the dates when audit clearance was provided. As a result, late adjustments were required to be made to the FBO 2013–14 and the timeframes for the preparation and audit of the 2013–14 CFS was compressed. Delays in the preparation of entity financial statements also resulted in approximately 15 per cent more financial statements being signed in the period September to November 2014 than in the corresponding period in 2013, as illustrated in figure 5.2 below.

5.54 There are no specific deadlines for the signing of the actual financial statements and the signing of the related audit opinion (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). There is, however, a

deadline of 31 October for the tabling of entities’ annual reports⁴⁸ that are required to include a copy of the signed financial statements and the auditor’s report. Ninety-eight percent of auditors’ reports on the 2013–14 financial statements were signed within two days of the signed financial statements which is consistent with the prior year.

5.55 An analysis of the dates on which entities’ financial statements were signed in 2012–13 and 2013–14 is provided in figure 5.2.

Figure 5.2: Analysis of date of signing of the 2013–14 financial statements*



Source: ANAO analysis.

* Includes financial statements signed up to 30 November 2014.

5.56 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 process

5.57 As part of the 2013–14 final audit phase, the ANAO reviewed entities’ financial statement preparation processes. The ANAO observed that the

48 Non-corporate are required to table their Annual Reports by 31 October. Corporate entities are required to provide their Annual Report to the responsible Minister by the 15th day of the fourth month after the end of the financial year, that is, 15 October.

majority of entities have an effective control framework necessary for the preparation of their 2013–14 financial statements.

5.58 However, compared with 2012–13, the ANAO identified deterioration in the financial statement preparation process for a number of entities. Areas where improvement was warranted included: quality assurance processes, adherence to financial statement preparation timetables; and the quality of working papers supporting the financial statements.

5.59 As mentioned at paragraph 4.38 of this report, the MoG changes also adversely affected the preparation of the 2013–14 financial statements of a small number of entities. Matters identified by the ANAO that contributed to delays in the preparation of financial statements included: difficulties in consolidating information from multiple systems; difficulties in reconciling different accounting approaches; and weaknesses in controls over the transfer of employee data between departments.

5.60 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. To assist entities to prepare their financial statements in an efficient and effective manner, the ANAO expects to publish an updated Better Practice Guide *Preparation of Financial Statements by Public Sector Entities* in early 2015.

Certificate of Compliance

5.61 Commencing from the 2006–07 financial year, Chief Executives of each FMA agency were required to provide an annual Certificate of Compliance. Directors of General Government Sector CAC Act authorities and wholly-owned companies were also required to provide a report on compliance with relevant aspects of CAC Act legislation. The certificate process is designed to promote awareness and understanding of the requirements of the financial management framework.

5.62 Consistent with established practice, the ANAO obtained, as part of the 2013–14 financial statement audit process, details of actual or potential breaches of the relevant financial framework referred to in entities' certificate or other records. The impact of any reported breaches on the financial statements was considered prior to the signing of the auditor's report.

5.63 Finance has advised that based on preliminary information for the 2013–14 reporting period, 109 entities submitted certificates with a total of

8 712 instances of non-compliance reported by entities. This represents a decrease in reported non-compliance of about 38 per cent, compared to the 14 027 instances reported in 2012–13. Final information is expected to be presented in the Minister for Finance’s 2013–14 Certificate of Compliance Report to the Parliament.

5.64 Finance advised that the significant decrease in non-compliance reflected continuous improvement by entities in addressing non-compliance issues and that no new significant financial management framework requirements were introduced during the reporting period.

5.65 Five public reports on the certificate results have been tabled in the Parliament. The sixth report covering the 2013–14 reporting period is expected to be tabled in early 2015.

6. Results of Financial Statement Audits by Portfolio

This chapter summarises the results of the audits of the 2013–14 financial statements of individual Australian Government entities by portfolio.

Introduction

6.1 For reporting purposes, the structure of this chapter reflects the portfolio arrangements existing at 30 June 2014⁴⁹.

6.2 The table for each portfolio indicates, for each portfolio entity:

- the nature of the audit opinion;
- the date the financial statements were signed; and
- the date the auditor's report was issued.

6.3 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 2013–14 audit.

6.4 Issues identified are rated in accordance with the seriousness of the particular matter. The rating scale of A, B, C, and L1, as outlined in chapter 5 of this report, indicates to the respective entity the relative importance of audit findings.

6.5 For each material entity⁵⁰, a table of the balances of key financial measures for 2012–13 and 2013–14 is provided, split between departmental and administered where applicable. A brief explanation of any significant fluctuations in these measures is also provided. The balances included in these tables are the key balances included in entities' financial statements, reflecting the requirements of the FMOs.

49 These arrangements were as established by the Administrative Arrangements Order (AAO) dated 18 September 2013, as amended on 3 October 2013. The Machinery of Government changes that took effect as a result of the AAO are summarised in each portfolio section and a comprehensive table of the changes is at appendix 1.

50 Sixty-nine 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 assets, liabilities, income and expenses of the Australian Government.

6.6 Two balances that fluctuate in many entities are:

- *Net cost of services*: this balance represents expenses less own-source income; and
- *Other comprehensive income*: this balance is used to account for items of income and expense that are excluded from an entity's operating result. The main item is the effect of the revaluation of certain non-financial assets⁵¹.

6.7 The net cost of services balances fluctuated in 2013–14 due to factors such as changes in program expenditure or employee expenses. Other comprehensive income balances fluctuated in 2013–14 mainly due to changes in the fair value of assets as a result of asset revaluations.

6.8 Broad areas of audit focus for each material entity determined as a result of our planning approach, or subsequently, which were significant in terms of their potential impact on the entity's 2013–14 financial statements, are also provided.

6.9 For each entity, the chapter also indicates the status of significant and moderate audit issues, and significant legislative issues (category A and B, and L1 issues respectively) identified in the 2013–14 interim audit phase, or in prior years. Issues related to major General Government Sector entities, were also reported in Audit Report No 44 2013–14. (These agencies are listed in table A.1 of appendix 5 of this report). The chapter also provides a summary of new significant or moderate audit issues and significant legislative issues arising from the final phase of 2013–14 audits.

6.10 A summary of significant, moderate and L1 findings arising from the 2013–14 audits for all entities is provided in the following table. A full listing of the results of audits for 2012–13 and 2013–14 is at tables A.2 and A.3 of appendix 5 of this report⁵².

51 Most Australian Government entities are required to report their non-financial assets at their fair value at the end of each year. Changes in the fair value from the previous year are generally taken to a reserve, so that they do not affect the entity's operating result. The exception to this is where an asset is revalued downwards by more than the balance of the reserve; in that case an expense is recognised. Movements in the asset revaluation reserve are shown in the Statement of Comprehensive Income, against the line item 'Other comprehensive income'.

52 These tables do not include the findings arising from the audit of the Administration of Norfolk Island and its subsidiaries, outlined at pages 293 to 296 of this report as these entities are not Australian Government entities and do not form part of the Consolidated Financial Statements.

Table 6.1: Significant, moderate and L1 findings for all entities at the conclusion of the 2013–14 and 2012–13 audits.

Entity	2013–14 Rating			2012–13 Rating		
	A	B*	L1	A	B	L1
Attorney–General’s Portfolio						
Attorney-General’s Department	–	1	–	–	–	1
Australian Financial Security Authority	–	–	1	–	–	–
Australian National Maritime Museum	–	–	–	–	1	–
Family Court and Federal Circuit Court of Australia	–	–	–	–	2**	–
Federal Court of Australia	–	1	–	–	2	–
National Film and Sound Archive of Australia	–	–	–	–	1	–
Communications Portfolio						
Australian Postal Corporation	–	–	–	–	2	–
NBN Co Limited	–	–	–	–	2	–
Defence Portfolio						
Department of Defence	–	8	1	–	8	1
AAF Company	–	1	–	–	–	–
Defence Materiel Organisation	–	1	–	–	1	–
Department of Veterans’ Affairs	–	2	1	–	2	2
Education Portfolio						
Department of Education	1	1	1	–	1	1
Employment Portfolio						
Department of Employment	–	1	–	–	–	–
Finance Portfolio						
Department of Finance	–	–	1	–	1	1
ComSuper	–	–	–	–	–	1
Foreign Affairs Portfolio						
Department of Foreign Affairs and Trade	–	2	–	–	–	–
Health Portfolio						
Department of Health	–	–	1	–	–	1
Australian Radiation Protection and Nuclear Safety Agency	–	2	–	–	–	–
Australian Sports Anti-Doping Authority	–	–	–	–	–	1
Immigration and Border Protection Portfolio						
Department of Immigration and Border Protection	–	1	–	–	–	2
Australian Customs and Border Protection Service	–	–	1	–	1	1

Results of Financial Statement Audits by Portfolio

Entity	2013–14 Rating			2012–13 Rating		
	A	B*	L1	A	B	L1
Industry Portfolio						
Department of Industry	–	–	1	–	–	1
National Offshore Petroleum Safety and Environmental Management Authority	–	–	–	–	1	1
Prime Minister and Cabinet Portfolio						
Department of the Prime Minister and Cabinet	–	1	1	–	–	–
Aboriginals Benefit Account	–	–	1	–	–	1
Anindilyakwa Land Council	–	–	–	–	–	1
Australian Public Service Commission	–	–	–	–	–	1
Northern Land Council***	1	–	–	–	1	–
Wreck Bay Aboriginal Community Council	–	–	–	–	1	–
Social Services Portfolio						
Department of Social Services	–	–	1	–	–	1
Department of Human Services	–	1	1	–	1	1
National Disability Insurance Agency	–	1	–	n/a	n/a	n/a
Treasury Portfolio						
Department of the Treasury	–	–	1	–	–	1
Australian Bureau of Statistics	–	1	–	–	1	–
Australian Prudential Regulation Authority	–	1	–	–	–	–
Australian Securities and Investments Commission	–	2	–	–	–	1
Australian Taxation Office	–	1	1	–	–	–
Royal Australian Mint	–	1	–	–	1	–
	2	30	14	–	30	21

* In addition to these findings, 12 moderate audit findings in seven entities were reported and resolved during the course of the 2013–14 financial statement audits. These findings are discussed in the relevant portfolio sections in this chapter.

** These findings relate to the former Family Court of Australia and the former Federal Circuit Court of Australia that were integrated on 1 July 2013 and became the Family Court and Federal Circuit Court of Australia.

*** These issues are findings reported in the financial years indicated, which relate to the previous financial years' audits.

Agriculture Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Agriculture	Yes	✓	1 Sept 14	1 Sept 14	☐
Australian Fisheries Management Authority	No	✓	11 Sept 14	11 Sept 14	
Australian Pesticides and Veterinary Medicines Authority	No	✓	16 Sept 14	16 Sept 14	
Cotton Research and Development Corporation	No	✓	18 Aug 14	18 Aug 14	
Fisheries Research and Development Corporation	No	✓	27 Aug 14	27 Aug 14	
Grains Research and Development Corporation	Yes	✓	7 Aug 14	8 Aug 14	
Grape and Wine Research and Development Corporation	No	✓E	18 Sept 14	18 Sept 14	
Rural Industries Research and Development Corporation	No	✓	24 Sept 14	24 Sept 14	
Sugar Research and Development Corporation	No	✓E☞	31 Jan 14	31 Jan 14	
Wine Australia Corporation	No	✓E	18 Sept 14	18 Sept 14	

✓: auditor's report not modified
 E: auditor's report contains an emphasis of matter

☐: significant or moderate issues and/or legislative matters identified in previous periods, or the 2013–14 interim audit phase, now downgraded or resolved
 ☞: financial year end date other than 30 June 2014

Portfolio overview

6.11 The Agriculture portfolio comprises the Department of Agriculture and a range of corporate and non-corporate entities. The department leads the development of policy advice in relation to agriculture, fisheries and forestry; provides services to improve the productivity, competitiveness and sustainability of agriculture, fisheries, forestry and related industries; and assists people and goods to move in and out of Australia, while managing the risks to the environment and animal, plant and human health.

Department of Agriculture

Summary of financial results

6.12 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(328.4)	(346.8)
Revenue from government	315.0	298.1
Deficit attributable to the Australian Government**	(13.4)	(48.7)
Total other comprehensive income	9.6	–
Total comprehensive loss attributable to the Australian Government	(3.8)	(48.7)
Total assets	267.8	261.8
Total liabilities	216.1	219.1
Total equity	51.7	42.7

* The ANAO's analysis of entities' operating results at paragraphs 4.2 to 4.11 of chapter 4 of this report refers to the department.

** The department is not funded for depreciation expense which affects the reported deficit.

6.13 The net cost of services decreased mainly due to an increase in revenue received from the Department of the Environment for the Sustainable Resource Management program, in addition to a reduction in supplier expenses. These movements were partially offset by an increase in employee expenses relating to the department's redundancy program.

6.14 Revenue from government increased mainly due to additional funding received for the department's redundancy program.

6.15 Other comprehensive income of \$9.6 million reflects an increase in the value of leasehold improvements.⁵³

6.16 Fluctuations in other balances reflect normal business activities.

53 Op cit (refer footnote 51 on p. 75).

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	892.8	791.1
Total income	469.2	451.0
Deficit	(423.6)	(340.1)
Total other comprehensive income	19.3	33.1
Total comprehensive loss	(404.3)	(306.9)
Total assets administered on behalf of Government	578.4	344.4
Total liabilities administered on behalf of Government	89.6	79.0
Net assets	488.8	265.4

6.17 Administered expenses increased mainly due to additional spending on the Tackling Climate Change and Sustainable Management programs, and increased expenses associated with the farm finance and drought assistance loan agreements introduced during 2013–14.

6.18 The increase in administered assets reflects an amount of \$214.4 million in respect of farm finance and drought assistance loans owed by state and territory governments at year-end, together with an increase in the value of the department's administered investment in the Grains Research and Development Corporation.

6.19 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.20 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the department's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the accuracy and completeness of primary industry levies and charges, in view of the complexity involved in estimating agricultural production on which the revenue is based, and the self-assessment nature of collections;
- arrangements for the collection of biosecurity revenue and receivables, of which a significant portion is collected by the Australian Customs and Border Protection Service on behalf of the department;

- levy disbursement processes, given the value and legislative complexities associated with payments to relevant industry bodies and research and development corporations;
- the collectability and accounting for farm finance loans and drought assistance packages to eligible farmers through agreements with state and territory governments, given the significant amounts involved; and
- the department's application of accounting standard AASB 13 *Fair Value Measurement*, which involves changes to the definition of fair value and significant additional disclosure requirements.

Audit results

Summary of audit findings

6.21 The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Category	Closing position (at the end of the 2012–13 final audit phase)	Issues resolved (during the 2013–14 interim audit phase)	New issues identified (during the 2013–14 interim audit phase)	Issues resolved (during the 2013–14 final audit phase)	New issues identified (during the 2013–14 final audit phase)	Closing position (at the end of the 2013–14 final audit phase)
A	0	0	0	0	0	0
B	0	0	1	(1)	0	0
L1	0	0	0	0	0	0
Total	0	0	1	(1)	0	0

Resolved audit issue

Monitoring of privileged user access

6.22 During the 2013–14 interim audit phase, the ANAO identified that privileged users could by-pass controls designed to ensure appropriate segregation of duties in relation to the department's levy management system, Pheonix. In addition, appropriate monitoring controls in relation to privileged users were not in place. This increased the risk of unauthorised or fraudulent transactions being processed, potentially compromising the integrity of data within Pheonix.

6.23 During the 2013–14 final audit phase, the ANAO identified that Agriculture had disabled the use of the Pheonix privileged user access account and strengthened controls over the monitoring of privileged users across the

department. As a result, this issue is resolved but should be subject to ongoing monitoring by the department.

6.24 No other significant or moderate audit issues were raised by the ANAO as a result of the audit coverage of the areas of audit focus to date. The 2012–13 audit did not identify any new significant or moderate audit issues.

Grains Research and Development Corporation

Summary of financial results

6.25 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(43.9)	(44.6)
Revenue from government	68.6	62.8
Surplus attributable to the Australian Government	24.7	18.4
Total other comprehensive loss	(1.5)	–
Total comprehensive income attributable to the Australian Government	23.2	18.4
Total assets	267.7	265.3
Total liabilities	63.9	84.7
Total equity	203.8	180.6

* The ANAO's analysis of entities' operating results at paragraphs 4.2 to 4.11 of chapter 4 of this report refers to the entity.

6.26 Total comprehensive income increased mainly due to an increase in revenue received from government and an increase in levies revenue as a result of higher grain production resulting from improved climatic conditions and grain prices. The increase in comprehensive income enabled the Corporation to increase research and development expenditure. The reduction in liabilities is predominantly related to a change in the timing of when the Corporation entered into research and development agreements, and the subsequent expenditure in accordance with these agreements.

6.27 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.28 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Corporation's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the valuation of investments in private companies; and
- the valuation of financial instruments, including managed funds.

Audit results

Summary of audit findings

6.29 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Comments on non-material entities

Audit results

Summary of audit findings

6.30 There were no significant or moderate audit issues or significant legislative matters noted in non-material entities within the portfolio. The auditor's reports on the financial statements of the Grape and Wine Research and Development Corporation, the Sugar Research and Development Corporation, and the Wine Australia Corporation, each contained an emphasis of matter, as discussed below.

Grape and Wine Research and Development Corporation

Emphasis of matter

6.31 The auditor's report on the financial statements of the Grape and Wine Research and Development Corporation contained an emphasis of matter. The emphasis of matter drew attention to the basis of accounting as disclosed in the notes to the 2013–14 financial statements which stated that, following the enactment of the *Grape and Wine Legislation Amendment (Australian Grape and Wine Authority) Act 2013*, the Grape and Wine Research and Development Corporation ceased to exist from 1 July 2014. At that time, all functions and staff transferred to a new corporate Commonwealth entity, the Australian Grape and Wine Authority.

6.32 The ANAO did not modify its audit opinion in respect of this matter.

Sugar Research and Development Corporation

Emphasis of matter

6.33 The auditor's report on the financial statements of the Sugar Research and Development Corporation (SRDC) contained an emphasis of matter. The emphasis of matter drew attention to the notes to the 2013–14 financial statements which stated that, following the enactment of the *Sugar Research and Development Services Act 2013*, the *Sugar Research and Development Services (Consequential Amendments-Excise) Act 2013* and the *Sugar Research and Development Services (Consequential Amendments and Transitional Provisions) Act 2013*, SRDC ceased to exist from 30 September 2013. SRDC's functions, assets and research were transferred to the industry-owned company Sugar Research Australia.

6.34 The ANAO did not modify its audit opinion in respect of this matter.

Wine Australia Corporation

Emphasis of matter

6.35 The auditor's report on the financial statements of the Wine Australia Corporation contained an emphasis of matter that drew attention to the basis of accounting as disclosed in the notes to the 2013–14 financial statements which stated that, following the enactment of the *Grape and Wine Legislation Amendment (Australian Grape and Wine Authority) Act 2013*, the Wine Australia Corporation ceased to exist from 1 July 2014. At that time, all functions and staff transferred to a new corporate Commonwealth entity, the Australian Grape and Wine Authority.

6.36 The ANAO did not modify its audit opinion in respect of this matter.

Attorney-General's Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Attorney-General's Department	Yes	✓	25 Aug 14	25 Aug 14	▲□
Administrative Appeals Tribunal	No	✓	1 Sept 14	1 Sept 14	
Australia Business Arts Foundation Limited	No	✓	10 Sept 14	10 Sept 14	
Australia Council	No	✓	26 Aug 14	26 Aug 14	
Australian Commission for Law Enforcement Integrity	No	✓	25 Sept 14	25 Sept 14	
Australian Crime Commission	No	✓	17 Sept 14	17 Sept 14	
Australian Federal Police	Yes	✓	5 Sept 14	5 Sept 14	
Australian Film, Television and Radio School	No	✓	29 Aug 14	29 Aug 14	
Australian Financial Security Authority	No	✓L	26 Sept 14	26 Sept 14	◆□
Australian Government Solicitor	Yes	✓	28 Aug 14	28 Aug 14	
Australian Human Rights Commission	No	✓	8 Sept 14	8 Sept 14	
Australian Institute of Criminology	No	✓	26 Sept 14	26 Sept 14	
Australian Law Reform Commission	No	✓	9 Sept 14	9 Sept 14	
Australian National Maritime Museum	No	✓	11 Sept 14	11 Sept 14	□
- Australian National Maritime Foundation	No	✓	11 Sept 14	11 Sept 14	
Australian Security Intelligence Organisation	Yes	✓	26 Aug 14	26 Aug 14	
Australian Transaction Reports and Analysis Centre	No	✓	1 Oct 14	2 Oct 14	
Bundanon Trust	No	✓	23 Sept 14	23 Sept 14	
CrimTrac Agency	No	✓	25 Sept 14	25 Sept 14	
Family Court and Federal Circuit Court of Australia	Yes	✓	22 Aug 14	22 Aug 14	□
Federal Court of Australia	No	✓	1 Sept 14	2 Sept 14	▲□
High Court of Australia	Yes	✓	18 Sept 14	18 Sept 14	
National Archives of Australia	Yes	✓	5 Sept 14	5 Sept 14	
National Film and Sound Archive of Australia	No	✓	26 Sept 14	26 Sept 14	□
National Gallery of Australia	Yes	✓	11 Sept 14	15 Sept 14	
- National Gallery of Australia Foundation	No	✓	8 Sept 14	8 Sept 14	
National Library of Australia	Yes	✓	8 Aug 14	8 Aug 14	

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
National Museum of Australia	Yes	✓	21 Aug 14	21 Aug 14	
National Portrait Gallery of Australia	No	✓	26 Sept 14	26 Sept 14	
Office of Parliamentary Counsel	No	✓	25 Sept 14	25 Sept 14	
Office of the Australian Information Commissioner	No	✓	8 Sept 14	8 Sept 14	
Office of the Commonwealth Director of Public Prosecutions	No	✓	24 Sept 14	25 Sept 14	
Old Parliament House	No	✓	19 Aug 14	19 Aug 14	
Screen Australia	No	✓	1 Sept 14	2 Sept 14	

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements

▲: significant or moderate issues and/or legislative matters reported previously not yet resolved

◆: new significant or moderate issues and/or legislative matters noted

□: significant or moderate issues and/or legislative matters identified in previous periods, or the 2013–14 interim audit phase, now downgraded or resolved

Portfolio overview

6.37 The Attorney-General's portfolio provides advice and services on a range of law and justice, national security, emergency management, and arts issues to the Attorney-General and the Minister for the Arts, the Minister for Justice and to government. The portfolio comprises the Attorney-General's Department (AGD) and a large number of entities and contributes to the Australian Government's priorities for a free and secure society and a culturally rich Australia by providing legal policy advice and legal services to the Commonwealth on a wide range of areas. The AGD is the central policy and coordinating department within the portfolio.

Attorney-General's Department

Summary of financial results

6.38 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(252.2)	(218.4)
Revenue from government	230.4	198.4
Deficit attributable to the Australian Government*	(21.8)	(20.0)
Total other comprehensive income	3.5	0.2
Total comprehensive loss attributable to the Australian Government	(18.3)	(19.8)
Total assets	248.0	183.7
Total liabilities	113.9	82.6
Total equity	134.1	101.1

* The entity is not funded for depreciation expense which affects the deficit.

6.39 As a result of the 2013 MoG changes, AGD assumed responsibility for the Arts (including the transfer of Art Bank) from the former Department of Regional Australia, Local Government, Arts and Sports (DRALGAS). Under these arrangements, responsibility of the indigenous justice programs was transferred to the Department of the Prime Minister and Cabinet.

6.40 The significant increase in the net cost of services is mainly as a result of increases in employee expenses and supplier expenses associated with the functions transferred to the AGD under the MoG changes referred to above. The increase was partially offset by an increase in revenue from Art Bank.

6.41 The increase in revenue from government largely reflects additional funding provided for the Arts functions, and to meet the costs of a number of Royal Commissions in 2013–14.

6.42 Assets increased mainly due to the recognition of Art Bank's art collection transferred to the department as part of the 2013 MoG changes.

6.43 Liabilities increased mainly as a result of income received in advance from the Department of Defence for activities related to the Defence Abuse Response Taskforce.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	952.8	626.9
Total income	28.9	30.9
Deficit	(923.9)	(596.0)
Total other comprehensive income	238.8	5.1
Total comprehensive loss	(685.1)	(590.9)
Total assets administered on behalf of Government	8 851.9	426.4
Total liabilities administered on behalf of Government	40.9	23.0
Net assets	8 811.0	403.4

6.44 As a result of the 2013 MoG changes, a number of entities transferred to the AGD portfolio. The significant increase in expenses is due to AGD making payments to these entities.

6.45 The recognition of a number of additional entities as administered investments significantly increased total comprehensive income and AGD's assets administered on behalf of Government.

6.46 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.47 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on AGD's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the transfer of funding, functions and staff from the former DRALGAS as a result of the MoG changes of 18 September 2013, given the extent of the changes and their impact on the department's financial statements;
- grant financial management arrangements, given grant expenditure is a major component of AGD's administered financial statements, and is maintained in a decentralised grants management system which involves multiple and varied practices;
- reporting of expenditure for the Royal Commission into Institutional Responses to Child Sexual Abuse, given the additional disclosure in the financial statements and an increased level of stakeholder scrutiny;

- reporting of revenue and unearned revenue, given that AGD generates significant own source revenue from a number of sources such as: services performed on behalf of other agencies; services associated with the Aviation Security Identification Card, Maritime Security Identification Card and National Health Security; and national security training; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution.

Audit results

Summary of audit findings

6.48 The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Category	Closing position (at the end of the 2012–13 final audit phase)	Issues resolved (during the 2013–14 interim audit phase)	New issues identified (during the 2013–14 interim audit phase)	Issues resolved (during the 2013–14 final audit phase)	New issues identified (during the 2013–14 final audit phase)	Closing position (at the end of the 2013–14 final audit phase)
A	0	0	0	0	0	0
B	0	0	1	0	0	1
L1	1	(1)*	0	0	0	0
Total	1	(1)	1	0	0	1

* The issue relating to potential breaches of section 83 of the Constitution was resolved during the interim audit phase as reported in Audit Report No. 44 2013–14.

Outstanding audit issue

IT network user access management

6.49 During the 2013–14 interim audit phase, the ANAO identified a number of weaknesses in AGD's management of user access to the AGD IT network. The system access rights of a number of employees whose employment had ceased had not been deactivated. In addition, a process for logging and monitoring privileged users' access to the IT network had not been implemented.

6.50 During the 2013–14 final audit phase, the ANAO identified that progress had been made by AGD to address the issue. The ANAO will review the remediation action taken by AGD in the 2014–15 audit.

Australian Federal Police

Summary of financial results

6.51 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(1 092.3)	(1 066.1)
Revenue from government	991.9	978.2
Deficit attributable to the Australian Government*	(100.4)	(87.9)
Total other comprehensive income	51.7	0.6
Total comprehensive loss attributable to the Australian Government	(48.7)	(87.3)
Total assets	864.3	873.3
Total liabilities	420.2	408.9
Total equity	444.1	464.4

* The entity is not funded for depreciation expense which affects the reported deficit.

6.52 The net cost of services increased mainly due to an increase in staff numbers and salaries and increased costs from redundancies. This was partially offset by a reduction in costs in an effort to decrease expenses through targeted savings measures.

6.53 The substantial increase in other comprehensive income reflects an increase in the fair value of assets that were revalued in 2013–14⁵⁴.

6.54 Fluctuations in other balances reflect normal business activities.

54 Op cit (refer footnote 51 on p. 75).

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	19.9	16.9
Total income	1.0	1.7
Deficit	(18.9)	(15.2)
Total other comprehensive income	–	–
Total comprehensive loss	(18.9)	(15.2)
Total assets administered on behalf of Government	0.2	0.7
Total liabilities administered on behalf of Government	1.6	1.1
Net liabilities	(1.4)	(0.4)

6.55 Administered expenses increased mainly due to development assistance provided to Papua New Guinea and expenses associated with the Operation Sovereign Borders program.

6.56 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.57 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Australian Federal Police's (AFP) financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the valuation of land and buildings and property, plant and equipment and their associated disclosures as a result of new reporting requirements;
- the accuracy and valuation of employee benefits and provisions, given the nature of AFP staffing and remuneration arrangements; and
- the accuracy and completeness of contractual commitments and their associated disclosures.

Audit results

Summary of audit findings

6.58 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Australian Government Solicitor

Summary of financial results

6.59 The following table provides key financial statement balances. The fluctuations in balances reflect normal business activities.

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Total expenses	107.1	107.8
Total income	112.7	113.9
Surplus after income tax**	3.9	3.7
Total other comprehensive income/(loss) after income tax	–	(0.3)
Total comprehensive income	3.9	3.4
Total assets	89.3	86.0
Total liabilities	53.2	47.3
Net assets	36.1	38.7

* The ANAO's analysis of entities' operating results at paragraphs 4.2 to 4.11 of chapter 4 of this report refers to the entity.

** Reflects income tax expense of \$1.7 million (2012–13: \$2.4 million).

Areas of audit focus

6.60 The ANAO's audit approach identified the recognition of revenue and supporting revenue management systems as significant in terms of the potential to impact on the Australian Government Solicitor's 2013–14 financial statements.

Audit results

Summary of audit findings

6.61 Audit coverage of the key area of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Australian Security Intelligence Organisation

Summary of financial results

6.62 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(392.5)	(384.7)
Revenue from government	346.2	329.7
Deficit attributable to the Australian Government*	(46.3)	(54.9)
Total other comprehensive income	–	9.8
Total comprehensive loss attributable to the Australian Government	(46.3)	(45.1)
Total assets	625.4	603.4
Total liabilities	112.8	104.7
Total equity	512.6	498.8

* The entity is not funded for depreciation expense which affects the reported deficit.

6.63 The deficit decreased mainly due to the useful lives of the Australian Security Intelligence Organisation's (ASIO) assets being extended at the time of the revaluation of non-financial assets during 2012–13, which resulted in the depreciation expense being spread over a longer period.

6.64 Assets increased mainly due to continuing work associated with the ASIO's new headquarters in Canberra.

6.65 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.66 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on ASIO's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the valuation of the Canberra headquarters and the associated assets, as this is a significant balance in the 2013–14 financial statements;
- the accuracy and completeness of employee benefits, including executive remuneration disclosure, due to the complexity and nature of the entity's operations; and
- the completeness and accuracy of supplier expenses and payables.

Audit results

Summary of audit findings

6.67 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Family Court and Federal Circuit Court of Australia

Summary of financial results

Departmental items

6.68 The following tables provide key financial statement balances. The Family Court and Federal Circuit Court of Australia were integrated on 1 July 2013 to form a new entity, the Family Court and Federal Circuit Court (the Courts). Prior year balances for the previous entities are presented separately.

Key financial balances for year	2013–14	2012–13	2012–13
	(\$m)	Family Court* (\$m)	Federal Circuit Court* (\$m)
Net cost of services	(164.5)	(100.8)	(57.2)
Revenue from government	172.1	94.0	55.7
Surplus/(deficit) attributable to the Australian Government**	7.6	(6.9)	(1.5)
Total other comprehensive income	–	2.5	0.9
Total comprehensive income/(loss) attributable to the Australian Government	7.6	(4.3)	(0.6)
Total assets	69.9	58.0	19.2
Total liabilities	48.5	37.3	13.9
Total equity	21.4	20.7	5.3

* The Family Court of Australia and Federal Circuit Court of Australia's 2012–13 balances are disclosed separately in the 2012–13 financial statements of each entity.

** The entity is not funded for depreciation expense which affects the reported surplus or deficit.

6.69 Revenue from government that had previously been appropriated to the former Family Court and the former Federal Circuit Court of Australia, but unspent at 30 June 2013, was not available to the new entity on 1 July 2013. The significant increase in revenue from government was a result of this one-off funding being appropriated to the Courts through the Additional Estimates in 2013–14, and recognised as revenue from government.

6.70 Fluctuations in other balances reflect normal business activities.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14	2012–13	2012–13
	(\$m)	Family Court*	Federal Circuit Court*
	(\$m)	(\$m)	(\$m)
Total expenses	1.1	–	0.3
Total income	55.1	3.0	39.0
Surplus	54.0	3.0	38.7
Total other comprehensive income	–	–	–
Total comprehensive income	54.0	3.0	38.7
Total assets administered on behalf of Government	0.9	–	0.7
Total liabilities administered on behalf of Government	–	–	–
Net assets	0.9	–	0.7

* The Family Court of Australia and Federal Circuit Court of Australia's 2012–13 balances are disclosed separately in the 2012–13 financial statements of each entity.

6.71 Income increased due to increased fees as a result of additional cases presented to the Courts and an increase in the number of applications for hearings.

6.72 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.73 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Court's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- a review of the prior year audit finding relating to unpaid court fees that had become payable due to a change in legislation, but had not been collected; and
- the merger of the former Family Court of Australia and former Federal Circuit Court of Australia financial records.

Audit results

6.74 There were no significant or moderate issues arising from the 2013–14 final audit phase. Two moderate audit issues were reported in Audit Report No. 13 2013–14 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2013*, relating to court fees that became payable from 1 July 2010 due to a change in legislation, but which had not been collected. During 2013–14, the Courts implemented effective processes to

address this issue. As a result, this issue is resolved but should be subject to ongoing monitoring by the Courts.

High Court of Australia

Summary of financial results

Departmental items

6.75 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(22.4)	(17.8)
Revenue from government	13.4	13.4
Deficit attributable to the Australian Government**	(9.0)	(4.4)
Total other comprehensive income	3.6	5.9
Total comprehensive income/(loss) attributable to the Australian Government	(5.4)	1.5
Total assets	233.2	233.5
Total liabilities	3.1	2.8
Total equity	230.1	230.7

* The ANAO's analysis of entities' operating results at paragraphs 4.2 to 4.11 of chapter 4 of this report refers to the entity.

** The Court is not funded for depreciation expense which affects the reported surplus or deficit.

6.76 The increase in net cost of services is primarily due to a decrease in the value of library assets in 2013–14⁵⁵.

6.77 Fluctuations in other balances reflect normal business activities.

55 Op cit (refer footnote 51 on p. 75).

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	–	–
Total income*	1.6	1.3
Surplus	1.6	1.3
Total other comprehensive income	–	–
Total comprehensive income	1.6	1.3
Total assets administered on behalf of Government	–	–
Total liabilities administered on behalf of Government	–	–
Net assets	–	–

* Administered income relates to court hearing and filing fees.

6.78 The movement in administered income is due to an increase in court hearing and filing fees.

Areas of audit focus

6.79 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the High Court's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the revaluation of land, buildings and library holdings assets which included the review of the new fair value measurement accounting disclosure requirements; and
- the completeness and accuracy of administered income relating to the High Court's hearing and filing fees.

Audit results

Summary of audit findings

6.80 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

National Archives of Australia

6.81 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(60.2)	(56.6)
Revenue from government	58.7	57.0
Surplus/(deficit) attributable to the Australian Government**	(1.5)	0.4
Total other comprehensive income	1.2	(2.1)
Total comprehensive loss attributable to the Australian Government	(0.3)	(1.7)
Total assets	1 490.3	1 486.4
Total liabilities	19.0	20.8
Total equity	1 471.3	1 465.6

* The ANAO's analysis of entities' operating results at paragraphs 4.2 to 4.11 of chapter 4 of this report refers to the entity.

** The entity is not funded for depreciation expense which affects the reported surplus or deficit.

6.82 The National Archives of Australia's (the Archives') deficit was mainly due to decreased revenue associated with less heritage and cultural assets acquired at no cost, as assets received free of charge are recognised as revenue.

6.83 Fluctuations in other balances reflect normal business activity.

Areas of audit focus

6.84 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Archives' financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- valuation of heritage and cultural assets, given these are a major component of the Archive's balances; and
- valuation of the digitised collection (intangibles), in view of the accounting judgements and estimation required.

Audit results

Summary of audit findings

6.85 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2013–14 or 2012–13 audits.

National Gallery of Australia

Summary of financial results

6.86 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(44.3)	(41.8)
Revenue from government	33.2	32.8
Deficit attributable to the Australian Government**	(11.1)	(9.0)
Total other comprehensive income	226.7	32.7
Total comprehensive income attributable to the Australian Government	215.6	23.7
Total assets	5 197.7	4 969.0
Total liabilities	10.4	13.8
Total equity	5 187.3	4 955.2

* The ANAO's analysis of entities' operating results at paragraphs 4.2 to 4.11 of chapter 4 of this report refers to the entity.

** The entity is not funded for depreciation expense which affects the reported deficit.

6.87 The net cost of services increased due to the write-down in the value of a work of art, partially offset by increases in revenue from donations.

6.88 Total other comprehensive income increased significantly in 2013–14 due to the revaluation of the National Gallery of Australia's (Gallery) heritage and cultural asset collection. In 2013–14, there was a significant increase in the value of the collection due to an overall improvement in the market popularity and importance of individual works of art⁵⁶.

6.89 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.90 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Gallery's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- valuation of the Gallery's art collection which involves significant judgement in assessing its value, and as it represents a significant balance in the financial statements;

56 Op cit (refer footnote 51 on p. 75).

- revenue from sales of goods and rendering of services, as this represents a significant source of funding for the Gallery’s operations; and
- the valuation of land and buildings due to the complexity of the valuation process.

Audit results

Summary of audit findings

6.91 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

National Library of Australia

Summary of financial results

6.92 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(59.8)	(59.2)
Revenue from government	50.2	49.7
Deficit attributable to the Australian Government**	(9.6)	(9.6)
Total other comprehensive income	41.4	5.4
Total comprehensive income/(loss) attributable to the Australian Government	31.8	(4.2)
Total assets	1 840.7	1 800.3
Total liabilities	16.9	18.1
Total equity	1 823.8	1 782.2

* The ANAO’s analysis of entities’ operating results at paragraphs 4.2 to 4.11 of chapter 4 of this report refers to the entity.

** The entity is not funded for depreciation expense which affects the reported deficit.

6.93 The National Library of Australia (the Library) is responsible for the National Collection (the Collection). The Collection and the Library’s land and building were revalued in 2013–14. This resulted in increases in other comprehensive income, assets and equity⁵⁷.

57 Op cit (refer footnote 51 on p. 75).

6.94 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.95 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Library's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the Collection, given the significance of the balance in the Library's financial statements that requires judgement in assessing the value; and
- accounting for income as the Library has a number of revenue streams that are material to its financial statements.

Audit results

Summary of audit findings

6.96 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

National Museum of Australia

Summary of financial results

6.97 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(42.9)	(42.6)
Revenue from government	41.6	40.9
Deficit attributable to the Australian Government**	(1.3)	(1.7)
Total other comprehensive income	15.5	10.3
Total comprehensive income attributable to the Australian Government	14.2	8.5
Total assets	466.7	452.5
Total liabilities	8.3	10.3
Total equity	458.4	442.2

* The ANAO's analysis of entities' operating results at paragraphs 4.2 to 4.11 of chapter 4 of this report refers to the entity.

** The entity is not funded for depreciation expense which affects the reported deficit.

6.98 During 2013–14, the National Museum of Australia (the Museum) revalued its assets, including its heritage and cultural assets. This resulted in increases in other comprehensive income, assets and equity⁵⁸.

6.99 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.100 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Museum's financial statements. The key area highlighted for specific audit coverage in 2013–14 was the valuation of the Museum's land and buildings and heritage and cultural assets given the significance of the balances to the Museum's financial statements and the judgements involved.

Audit results

Summary of audit findings

6.101 Audit coverage of the key area of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Comments on non-material entities

Audit results

Summary of audit findings

6.102 There were no significant or moderate audit issues or significant legislative matters noted in non-material entities within the portfolio in 2012–13 or 2013–14, except in relation to the Australian Financial Security Authority, Australian National Maritime Museum, Federal Court of Australia and National Film and Sound Archive of Australia discussed below.

Australian Financial Security Authority

Resolved audit issue

Monitoring of privileged user access

6.103 During the 2013–14 interim audit phase, the ANAO reported one moderate audit issue in relation to the lack of logging and monitoring of privileged user access by database administrators. The ANAO identified during

58 Op cit (refer footnote 51 on p. 75).

the 2013–14 final audit phase that the Authority had remediated this issue by strengthening controls and implementing formal procedures for monitoring and reviewing the activities of database administrators. As a result this finding has been resolved but should be subject to ongoing monitoring by the entity.

Unresolved legislative breaches

Actual breaches of section 83 of the Constitution

6.104 During 2013–14, the Australian Financial Security Authority (the Authority) undertook a review to determine the risk of payments being made in breach of section 83 of the Constitution from annual appropriations in relation to long service leave, Remuneration Tribunal determinations and GST.

6.105 The risk assessment and subsequent analysis identified one breach of section 83 of the Constitution totalling \$3 421 in relation to an overpayment made from the annual appropriation for long service leave. The amount has been recovered by the Authority.

6.106 The auditor's report on the Authority's 2013–14 financial statements included a report on other legal and regulatory requirements referring to the breach identified. This is not a qualification or modification to the audit opinion on the Authority's financial statements, as the financial statements fairly presented the financial operations and position of the Authority at year end.

6.107 Full details of the breach identified during 2013–14 is outlined in Note 25 of the Authority's 2013–14 financial statements, and a general discussion of this matter is at paragraphs 5.26 to 5.38 in chapter 5 of this report.

Australian National Maritime Museum

Resolved audit issues

Asset useful lives

6.108 During the 2011–12 audit, the ANAO identified potential weaknesses in the process for assessing useful lives of the Australian National Maritime Museum's (ANMM) non-financial assets, with the matter remaining unresolved at the conclusion of the 2012–13 audit. During 2013–14, ANMM finalised its asset useful life policy. As a result, this issue is resolved.

Valuation of non-financial assets

6.109 During the 2013–14 interim audit phase, the ANAO identified weaknesses in ANMM's valuation methodology in respect of land, buildings and floating vessels, which were subject to new valuation and reporting

requirements under AASB 13 *Fair Value Measurement*. During the final phase of the 2013–14 audit, ANMM strengthened its non-financial asset valuation methodology to address the new financial reporting requirements. As a result, this issue is resolved but should be subject to ongoing monitoring by the entity.

Federal Court of Australia

Resolved audit issue

Business continuity planning

6.110 During the 2012–13 audit, the ANAO reported that the Court’s business continuity plan and disaster recovery plans were not reviewed and procedures designed to test the plans had not been implemented. This matter was resolved during the 2013–14 audit following the reviews and testing of the plans by the Court but should be subject to ongoing monitoring by the entity.

Unresolved audit issue

Reconciliation procedures

6.111 In 2012–13 the ANAO also reported a moderate audit issue relating to a number of bank accounts held by the Court that were not recorded in the Court’s FMIS. As a result, these accounts were not subject to periodic reconciliation procedures. The Court advised it would consider recording these bank accounts in the FMIS in future years. This matter remained outstanding at the completion of the 2013–14 audit.

National Film and Sound Archive of Australia

Resolved audit issue

Heritage and cultural assets – change management and financial reporting processes

6.112 The 2012–13 audit identified one moderate audit issue relating to the National Film and Sound Archive of Australia (NFSA) change management and financial reporting processes for heritage and cultural assets.

6.113 The 2013–14 audit identified that NFSA had implemented a formal change management process but had not finalised the financial reporting processes for the heritage and cultural assets. As a result, this issue has been downgraded to a category C issue. The ANAO will review the progress in finalising this matter in the 2014–15 audit.

Communications Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Communications	Yes	✓	30 Sept 14	30 Sept 14	
Australian Broadcasting Corporation	Yes	✓	25 July 14	25 July 14	
Australian Communications and Media Authority	Yes	✓	3 Sept 14	4 Sept 14	
Australian Postal Corporation	Yes	✓	28 Aug 14	28 Aug 14	☐
- Australia Post Licensee Advisory Council Limited	No	✓	1 Sept 14	1 Sept 14	
- Australia Post Transaction Services Pty Ltd	No	✓	10 Oct 14	10 Oct 14	
NBN Co Limited	Yes	✓	14 Aug 14	14 Aug 14	☐
Special Broadcasting Service Corporation	Yes	✓	22 Aug 14	22 Aug 14	
Telecommunications Universal Service Management Agency	No	✓	29 Sept 14	30 Sept 14	

✓: auditor's report not modified

☐: significant or moderate issues and/or legislative matters identified in previous periods, or the 2013–14 interim audit phase, now downgraded or resolved

Portfolio overview

6.114 The Communications portfolio is responsible for the promotion of an innovative and competitive communications sector, broadcasting and related policies and codes of practice, in addition to the provision of services through the Department of Communications and a number of portfolio entities, including the Australian Postal Corporation, NBN Co Limited, the Australian Broadcasting Corporation and the Special Broadcasting Service Corporation.

Department of Communications

Summary of financial results

6.115 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(111.5)	(118.7)
Revenue from government	106.1	113.2
Deficit attributable to the Australian Government*	(5.4)	(5.5)
Total other comprehensive income	1.0	0.3
Total comprehensive loss attributable to the Australian Government	(4.4)	(5.2)
Total assets	45.6	105.5
Total liabilities	35.6	41.0
Total equity	10.0	64.5

* The department is not funded for depreciation expense which affects the reported deficit.

6.116 The net cost of services decreased primarily due to a reduction in the cost of contractors and consultants engaged by the department during 2013–14. In addition, employee expenses decreased due to a reduction in staff numbers. The decrease in revenue from government was mainly due to budget saving measures introduced by the government.

6.117 Assets decreased primarily due to a reduction in unspent appropriation at year end as a result of budget saving measures by the government.

6.118 Fluctuations in other balances reflect normal business activities.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	1 514.4	1 627.3
Total income	144.7	245.7
Deficit	(1 369.7)	(1 381.6)
Total other comprehensive loss	(1 281.3)	(2 403.2)
Total comprehensive loss	(2 651.0)	(3 784.8)
Total assets administered on behalf of Government	8 939.8	7 018.9
Total liabilities administered on behalf of Government	53.9	99.6
Net assets	8 885.9	6 919.3

6.119 Administered income decreased primarily due to a decrease in the dividend received from the Australian Postal Corporation.

6.120 The significant decrease in other comprehensive income is attributable to the movement in the value of administered investments in Australian Government portfolio entities, particularly the Australian Postal Corporation and NBN Co Limited.

6.121 Administered assets reflected an increase in the value of the administered investment in the Australian Postal Corporation and an increase in the equity holding of NBN Co Limited.

6.122 Fluctuations in other balances reflect normal business activities.

Area of audit focus

6.123 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the department's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the valuation of administered investments, particularly the significant investments in Australian Government portfolio entities;
- the valuation of the assets related to the Regional Backbone Blackspots program, which are reflected as an administered asset in the department's financial statements;
- presentation and disclosure of large administered contingent liabilities and commitments. This is due to the complex nature of the contracts associated with the National Broadband Network; and
- administered grants and subsidies expenses which represents a significant portion of total administered expenses.

6.124 The valuation of administered investments in portfolio entities, which includes the valuation of the Australian Postal Corporation and NBN Co Limited, was of particular interest in view of the nature and complexity of the respective businesses. The ANAO reviewed the valuation calculations to gain assurance over the values reported in the department's 2013–14 financial statements.

Audit results

Summary of audit findings

6.125 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Australian Broadcasting Corporation

Summary of financial results

6.126 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(1 061.6)	(1 009.0)
Revenue from government	1 053.9	1 023.7
Surplus/(deficit)	(7.6)	12.4
Total other comprehensive income	56.5	4.3
Total comprehensive income attributable to the Australian Government	48.9	16.7
Total assets	1 359.7	1 291.0
Total liabilities	304.6	227.2
Total equity	1 055.1	1 013.8

6.127 Revenue from government increased in accordance with the Australian Broadcasting Corporation's (ABC) July 2012 to June 2015 triennial funding arrangements.

6.128 Other comprehensive income increased predominantly due to the revaluation of land and buildings⁵⁹.

6.129 Liabilities increased mainly due to an increase in employee liabilities and the recognition of a loan which is being used to fund the construction of a purpose-built facility in Melbourne. The increase in employee liabilities is a result of a growth in leave balances, award increases in salaries, and a reduction in the rate used to discount these liabilities to their present value.

6.130 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.131 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the ABC's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the valuation of land and buildings, given the judgements involved;

59 Op cit (refer footnote 51 on p. 75).

- the valuation of programs, including their amortisation and impairment due to the assumptions involved; and
- recognition of commercial revenue and reporting of payroll expenses and employee provisions given their material impact on the financial statements.

Audit results

Summary of audit findings

6.132 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Australian Communications and Media Authority

Summary of financial results

6.133 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(99.7)	(109.7)
Revenue from government	92.4	99.3
Deficit attributable to the Australian Government*	(7.3)	(10.4)
Total other comprehensive income	0.1	0.4
Total comprehensive loss attributable to the Australian Government	(7.2)	(10.0)
Total assets	81.8	69.5
Total liabilities	29.4	28.9
Total equity	52.4	40.7

* The entity is not funded for depreciation expense which affects the reported deficit.

6.134 The net cost of services decreased mainly due to a reduction in employee expenses, contractors, and program expenditure during the year.

6.135 Assets increased primarily due to the capitalisation of leasehold improvements and computer software.

6.136 Fluctuations in other balances reflect normal business activities.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	–	145.5
Total income	657.0	2 022.1
Surplus after income tax	657.0	1 876.5
Total other comprehensive income after income tax	–	–
Total comprehensive income	657.0	1 876.5
Total assets administered on behalf of Government	206.6	213.9
Total liabilities administered on behalf of Government	278.1	62.4
Net assets/(liabilities)	(71.6)	151.5

6.137 Expenses decreased due to a change in arrangements for the payment of a subsidy to the National Relay Service. The subsidy is now paid by the Telecommunications Universal Service Management Agency that was established on 1 July 2012.

6.138 Income decreased substantially due to a reduction in renewals of spectrum licences, compared to 2012–13 when there was a significant number of renewals. These licences authorise the licensee to use a particular frequency band within a geographical area for a period up to 15 years.

6.139 Liabilities increased mainly due to spectrum licence fees received in advance of the commencement of the lease period.

6.140 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.141 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Australian Communications and Media Authority's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- administered revenue, due to the uncertainty in the estimation of broadcasting licence fees expected to be collected;
- the renewal and auction of spectrum licences, given its material impact on the financial statements;
- non-financial assets, particularly the significant investment in internally generated software and the capitalisation of intangibles;

- the completeness and accuracy of supplier expenses and payables; and
- legislative compliance, particularly the risk of breaches of section 83 of the Constitution in relation to payments from special accounts and special appropriations.

Audit results

Summary of audit findings

6.142 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Australian Postal Corporation

Summary of financial results

6.143 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total income	6 383.3	5 893.2
Total expenses	6 280.3	5 715.8
Net profit for the year	116.2	177.4
Total other comprehensive income for the year	106.8	242.3
Total comprehensive income for the year	223.0	419.7
Total assets	4 651.2	4 401.5
Total liabilities	2 888.5	2 719.5
Total equity	1 762.7	1 682.0

6.144 The increase in income reflects the additional income associated with the first full year of operation following the acquisition of a 100 per cent interest in AUX Investments Pty Ltd (AUXI) in November 2012. Income also increased as a result of the increase in the postage rate from 60 cents to 70 cents on 31 March 2014, and the recognition of a gain on the disposal of a property in 2013–14.

6.145 Expenses increased due to costs associated with the acquisition of AUXI mentioned above, and an increase in employee expenses associated with a significant redundancy program announced in 2014. This also resulted in an increase in liabilities as a provision was recognised for redundancy expenditure committed to be paid at 30 June 2014.

6.146 The balance of total other comprehensive income mainly reflects the movement in the actuarial assessment of the Corporation's obligations with respect to the defined benefit superannuation plan. The balance reflects that the gain realised on the defined benefit superannuation plan in 2013–14 was not as significant as the gain recognised in 2012–13.

6.147 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.148 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Corporation's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the valuation of goodwill and other intangibles acquired as part of the acquisition of 100 per cent interest in AUXI, as this is a material balance in the Corporation's financial statements;
- accounting for the gain on disposal of the Corporation's property assets;
- the capitalisation of costs associated with the Corporation's key development programs – MyPost Digital Mailbox and the e-Commerce Programs;
- areas of significant judgement and estimates particularly those associated with the voluntary redundancy provision, long service leave, workers' compensation, the Corporation's defined benefit superannuation plan, make good provision, postage in the hands of the public (PIHOP), and the valuation of investment properties;
- the accounting implications resulting from significant new contracts, mainly due to the significant revenue streams relating to the contracts;
- tax effect accounting due to the complexity of the calculations involved; and
- IT general and application controls as they relate to the financial statements.

Audit results

Summary of audit findings

6.149 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. No new significant or moderate audit issues were

identified in 2013–14. The following table summarises the status of audit issues reported by the ANAO in 2012–13.

Category	Closing position (at the end of the 2012–13 final audit phase)	Issues resolved (during the 2013–14 interim audit phase)	New issues identified (during the 2013–14 interim audit phase)	Issues resolved (during the 2013–14 final audit phase)	New issues identified (during the 2013–14 final audit phase)	Closing position (at the end of the 2013–14 final audit phase)
A	0	0	0	0	0	0
B	2	(2)	0	0	0	0
L1	0	0	0	0	0	0
Total	2	(2)	0	0	0	0

Resolved audit issues

Privileged user access to the financial management information system

6.150 During the 2012–13 final audit phase, the ANAO identified instances where users had been granted inappropriate privileged access to the FMIS. Users with privileged access to IT systems are able to edit and change data within systems and by-pass the controls designed to ensure appropriate segregation of duties. As part of the 2013–14 audit, the ANAO confirmed that controls had been strengthened over the monitoring of users with privileged user access. As a result, this issue has been resolved, but should be subject to ongoing monitoring by the Corporation.

User access management and monitoring controls

6.151 During the 2012–13 final audit phase, the ANAO identified that there was a lack of documentation supporting the approval of new user access to the Corporation's FMIS. During 2013–14, the ANAO confirmed that appropriate documentation supporting the approval of new user access granted during 2013–14 was being maintained by the Corporation. As a result, this issue has been resolved, but should be subject to ongoing monitoring by the Corporation.

NBN Co Limited

Summary of financial results

6.152 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Total expenses	1 728.2	1 010.1
Total income	101.5	66.2
Deficit after income tax	(1 643.8)	(931.7)
Total other comprehensive income/(loss) after income tax	(39.9)	28.6
Total comprehensive loss	(1 683.7)	(903.1)
Total assets	9 467.5	5 518.7
Total liabilities	4 543.5	2 101.1
Net assets	4 924.0	3 417.6

* The ANAO's analysis of entities' operating results at paragraphs 4.2 to 4.11 of chapter 4 of this report refers to the entity.

6.153 During 2013–14, NBN Co Limited (NBN) continued its expansion of the broadband network and the establishment of key financial processes to support the company's level of business activity.

6.154 Income increased resulting from a higher volume of telecommunication connections during 2013–14. Expenses continued to increase in line with the growth of NBN's business activities.

6.155 The increase in assets was associated with the progressive roll-out of the national broadband network.

6.156 The substantial increase in liabilities is primarily as a result of an increase in amounts due and payable to contractors at year-end due and an increase in finance leases entered into with Telstra relating to the use of Telstra's infrastructure assets and premises.

6.157 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.158 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the NBN's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- valuation of assets, primarily the broadband network and IT systems, including the capitalisation of the significant expenditure on network construction and IT software development;
- procurement processes, specifically the accounting treatment for contracts and finance leases; and

- the IT general and application controls for key systems that support the preparation of NBN's financial statements.

Audit results

Summary of audit findings

6.159 The ANAO's audit coverage of the key areas of audit focus did not identify any new significant or moderate audit issues.

6.160 The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Category	Closing position (at the end of the 2012–13 final audit phase)	Issues resolved (during the 2013–14 interim audit phase)	New issues identified (during the 2013–14 interim audit phase)	Issues resolved (during the 2013–14 final audit phase)	New issues identified (during the 2013–14 final audit phase)	Closing position (at the end of the 2013–14 final audit phase)
A	0	0	0	0	0	0
B	2	(2)	0	0	0	0
L1	0	0	0	0	0	0
Total	2	(2)	0	0	0	0

Resolved audit issues

IT access controls

6.161 The ANAO's review of monitoring of IT access controls identified that the previously reported moderate audit issues relating to monitoring of users' access, including privileged users, together with instances where approval of new users was not documented had been appropriately addressed. The 2013–14 audit also identified that NBN had implemented procedures for the regular monitoring of IT access controls. As a result, these issues have been resolved but should be subject to ongoing monitoring by NBN.

Special Broadcasting Service Corporation

Summary of financial results

6.162 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(266.6)	(246.4)
Revenue from government	267.0	246.9
Surplus attributable to the Australian Government	0.4	0.5
Total other comprehensive income	11.5	–
Total comprehensive income attributable to the Australian Government	11.9	0.5
Total assets	281.3	256.8
Total liabilities	82.8	69.6
Total equity	198.5	187.2

6.163 Fluctuations in balances reflect normal business activities.

Areas of audit focus

6.164 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the SBS's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the valuation of land and buildings as a result of the judgements involved;
- the valuation of programs due to the assumptions associated with this area; and
- reporting of payroll expenses and employee provisions, given their material impact on the financial statements.

Audit results

Summary of audit findings

6.165 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Comments on non-material entities

Audit results

Summary of audit findings

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

Defence Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Defence	Yes	√L	22 Sept 14	22 Sept 14	▲◆□
AAF Company	No	✓	23 Oct 14	23 Oct 14	◆
Army and Air Force Canteen Service	No	✓	2 Sept 14	2 Sept 14	
Australian Military Forces Relief Trust Fund	No	✓	3 Sept 14	3 Sept 14	
Australian Strategic Policy Institute Ltd	No	✓	2 Oct 14	3 Oct 14	
Australian War Memorial	Yes	✓	20 Aug 14	20 Aug 14	
Defence Housing Australia	Yes	✓	14 Aug 14	14 Aug 14	
- DHA Investment Management Limited	No	✓	27 Aug 14	27 Aug 14	
Defence Materiel Organisation	Yes	✓	9 Sept 14	9 Sept 14	◆□
Defence Service Homes Insurance Scheme	No	✓	14 Oct 14	16 Oct 14	
Department of Veterans' Affairs	Yes	√L	14 Oct 14	16 Oct 14	▲□◆
Military Superannuation and Benefits Scheme	No	✓	11 Sept 14	11 Sept 14	
Royal Australian Air Force Veterans' Residences Trust Fund	No	✓	26 Sept 14	26 Sept 14	
Royal Australian Air Force Welfare Recreational Company	No	✓	27 Oct 14	27 Oct 14	
Royal Australian Air Force Welfare Trust Fund	No	✓	19 Aug 14	19 Aug 14	
Royal Australian Navy Central Canteens Board	No	✓	8 Oct 14	8 Oct 14	
Royal Australian Navy Relief Trust Fund	No	✓	24 Sept 14	24 Sept 14	

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements

▲: significant or moderate issues and/or legislative matters reported previously not yet resolved

◆: new significant or moderate issues and/or legislative matters noted

□: significant or moderate issues and/or legislative matters identified in previous periods, or the 2013–14 interim audit phase, now downgraded or resolved

Portfolio overview

6.167 The Defence portfolio consists of the Department of Defence (Defence), the Defence Materiel Organisation (DMO), the Department of Veterans' Affairs (DVA), 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.

6.168 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 present and former members of the Australian Defence Force (ADF).

Department of Defence

Summary of financial results

6.169 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(23 709.9)	(22 427.4)
Revenue from government	24 197.2	22 707.9
Surplus attributable to the Australian Government*	487.3	280.5
Total other comprehensive income	162.6	14.1
Total comprehensive income attributable to the Australian Government	649.9	294.6
Total assets	74 912.2	71 868.8
Total liabilities	6 784.8	6 119.7
Total equity	68 127.4	65 749.1

* The department is not funded for depreciation expense which affects the reported surplus or deficit.

6.170 The net cost of services increased primarily due to an increase in supplier and employee expenses and a decrease in own-sourced revenue. This decrease was due to a reduction in the amount received as a result of the settlement of contract disputes.

6.171 Supplier expenses increased mainly due to increases in the use of inventory, an increase in communication and information technology expenses and expenses relating to the sustainment of military capability.

6.172 The increase in revenue from government is due to additional appropriations to support military operations. The increase in revenue was partially offset by a reduction in income associated with the amount received as a result of the settlement of contract disputes.

6.173 The increase in other comprehensive income is due to an increase in the amount recognised as income as a result of the revaluation of non-current assets during 2013–14, compared with 2012–13⁶⁰.

6.174 The increase in the surplus is due to the increased revenue received from government partially offset by the higher net cost of services.

6.175 Assets increased mainly due to the construction of new buildings, increased holdings of inventory and the construction of specialist military equipment (SME), partially offset by annual depreciation charges and disposals. The increase in the number of buildings is largely related to the ongoing delivery of facilities to support ADF personnel and SME infrastructure at various military sites across Australia.

6.176 Inventories increased due to the acquisition of explosive ordnance (EO) inventory, partially offset by an increase in the usage of all inventory types.

6.177 Liabilities increased due mainly to increases in the amount owing at year end to other government agencies for acquisition activities and employee superannuation, and an increase in the number of finance leases relating to facilities delivered under the Enhanced Land Force program.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	13 010.9	5 907.6
Total income	1 409.8	1 358.4
Deficit	(11 601.1)	(4 549.2)
Total other comprehensive income/(loss)	(3 681.9)	21 624.3
Total comprehensive income/(loss)	(15 283.0)	17 075.1
Total assets administered on behalf of Government	3 085.7	3 092.7
Total liabilities administered on behalf of Government	82 882.7	68 181.8
Net liabilities	(79 797.0)	(65 089.1)

6.178 Administered expenses increased substantially due to increases in superannuation benefits paid during 2013–14. The increase relates to fluctuations in the interest rate used in the actuarial calculation of servicing costs and pension increases for the Military Superannuation Benefits Scheme (MSBS) and the Defence Force Retirement and Death Benefits Scheme (DFRDB).

60 Op cit (refer footnote 51 on p. 75).

6.179 Administered liabilities increased due to increases in the military superannuation provisions. These provisions are calculated by an actuary and the movement in the provision balances is primarily affected by expected investment returns and pension increases for the MSBS and DFRDB.

6.180 Administered other comprehensive income decreased substantially due to actuarial losses calculated on superannuation defined benefit plans and losses recognised as a result of the revaluation of non-current assets during 2013–14, compared with 2012–13.

6.181 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.182 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on Defence's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- internal controls, in particular the realignment of control and assurance processes relating to financial services across Defence's business groups and DMO which may be affected by budgetary pressures, the Defence reform agenda, the government's efficiency program and changes stemming from the Defence Shared Services program⁶¹;
- the accounting for, and valuation of SME. This class of assets is material to Defence's financial statements and the assessment of asset values involves a high level of judgement and technical expertise. The valuation of SME assets also involves the accurate and complete recording of operational and capitalised expenditure associated with specialist military assets under construction (AUC). The financial and operational management of AUC is dispersed across a wide variety of projects that have complex multi-year contractual arrangements and project management requirements;
- inventory and asset management due to the material nature of the inventory and asset balances, and issues noted in prior years. These issues relate to errors in the recording of the underlying financial transactions that require ongoing adjustments to the inventory and asset balances; and

61 The Defence Shared Services program is an intra-departmental program which provides greater flexibility of planning and implementation and an ability to perform a more closely coordinated roll out of shared services.

- legislative compliance, particularly focusing on special appropriations and special accounts which are governed by complex reporting requirements.

6.183 In addition, the ANAO continued to undertake audit coverage in areas previously identified as significant to the financial statements including:

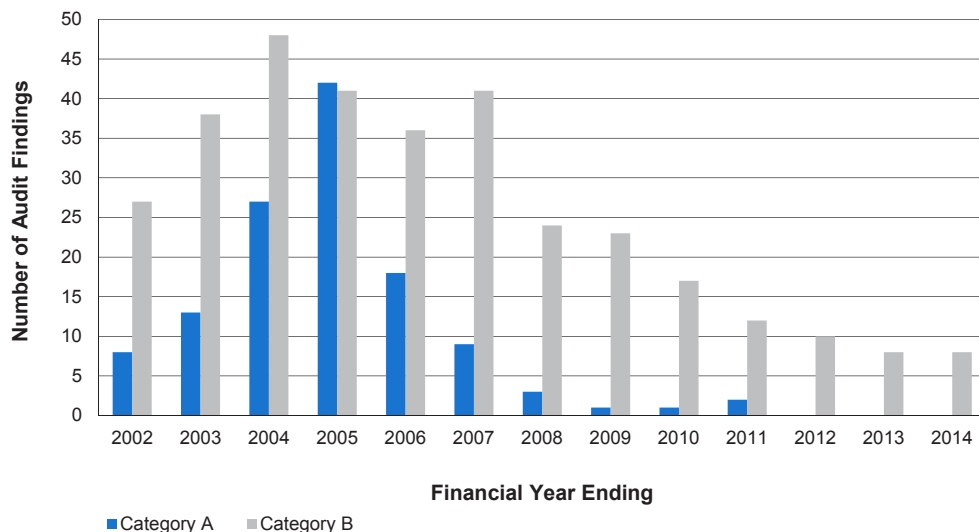
- the complex estimations involved in calculating a number of balances in Defence's financial statements, including provisions for decommissioning of SME, military superannuation, and decontamination and restoration in relation to a large number of Defence sites nationally and overseas;
- the compilation and reporting of extensive commitments and contingencies that are managed in a devolved environment;
- management of explosive ordnance, due to the sensitive and material nature of these assets;
- general asset management due to the material nature of the general asset balances, the high volume of purchases and capital works, the devolved location of the assets and related management activities and the susceptibility of the asset balances to large variations;
- the calculation and reporting of both civilian and military employee expenditure and entitlements that are highly dependent on complex and devolved human resource management systems; and
- IT general and application controls for key systems that support the preparation of Defence's financial statements.

Audit results

Summary of audit findings

6.184 The following figure illustrates the number of significant and moderate findings reported at the end of each financial year over the last 13 years. The figure highlights the downward trend in the number and category of findings since 2006–07 as a result of Defence's ongoing remediation and management focus on its financial controls and inventory and asset management controls.

Figure 6.1: Summary and category of audit findings



Source: ANAO analysis.

6.185 During the 2013–14 final audit phase, Defence resolved three moderate audit issues and partially resolved one moderate audit issue previously reported. The resolved issues relate to the quality of data in the Military Integrated Logistics Information System (MILIS), the management of civilian employee leave recording and management of termination benefits, and the accounting for liquidated damages received as a result of the settlement of contract disputes. The issue relating to the impairment of SME has been partially resolved and downgraded to a category C finding.

6.186 Two moderate audit issues were identified during the 2013–14 final audit phase. These relate to management of heritage and cultural assets and the accuracy and reporting of Defence’s commitments.

6.187 The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Category	Closing position (at the end of the 2012–13 final audit phase)	Issues resolved (during the 2013–14 interim audit phase)	New issues identified (during the 2013–14 interim audit phase)	Issues resolved (during the 2013–14 final audit phase)	New issues identified (during the 2013–14 final audit phase)	Closing position (at the end of the 2013–14 final audit phase)
A	0	0	0	0	0	0
B	8	0	2	(4)	2	8
L1	1	0	0	0	0	1
Total	9	0	2	(4)	2	9

Resolved audit issues

MILIS data quality

6.188 The moderate audit issue reported previously relating to the quality of MILIS data has been resolved. Defence has implemented a number of processes under a Data Quality Framework to provide oversight, accountability, and guidance on MILIS data quality. The ANAO's 2014–15 audit coverage will include a review of the operation of the enhanced framework, focussing on:

- the basis and reliability of the criteria used to monitor the quality of MILIS data; and
- the management of system defects, including the assessment of the financial impact of associated adjustments on the financial statements.

Human resource management

6.189 The moderate audit issue relating to the management of civilian employee expenses and provisions raised in the final phase of the 2012–13 audit has been resolved but should be subject to ongoing monitoring by Defence.

6.190 During the 2013–14 interim audit the ANAO identified a number of discrepancies between employee attendance records and information in the human resource management information system, PMKeyS. There were also instances where employee attendance was not approved. During the 2013–14 final audit phase these control weaknesses were still evident.

6.191 However, Defence implemented a quality control program for leave liabilities, performed statistical testing and made adjustments to the employee expenses and provisions so that these balances in the financial statements were materially correct. These activities have reduced the risk that systematic

control breakdowns would materially misstate the balances reported in the financial statements.

6.192 While these actions enabled the issue to be resolved, the ANAO will continue to review the results of the quality control program to assist in obtaining assurance that the balance of employee expenses and related provisions reported in the financial statements are materially correct.

Liquidated damages

6.193 Defence received significant settlements from liquidated damages resulting from negotiated settlements of contract disputes. Previous audits have identified that the accounting policies between Defence and DMO which were used as the basis to record the outcomes of these settlements were inconsistent; the register used to record the event that triggers recognition of a contract settlement was incomplete; and in some cases, assets and services received in lieu of cash settlements had no value attributed to them. In 2013–14 Defence issued a revised policy which outlines the process for recording and monitoring events which trigger liquidated damages. As a result, this issue is resolved but should be subject to ongoing monitoring by Defence.

SME assessment of impairment

6.194 One of the moderate audit issues relating to the application of Defence's impairment policy has been downgraded to a category C finding. Although the policy is consistent with the requirement of the accounting standards, the ANAO identified there were instances where the policy was not followed resulting in the omission of a number of impaired assets from the register, inconclusive documentation to support the decision to impair an asset and inaccurate assessments of impairment. These matters could result in an overstatement of the asset balances recorded in the financial statements. The ANAO will review the results of the impairment assessment process as a part of the 2014–15 audit.

Outstanding audit issues

General assets management

6.195 The ANAO previously identified two moderate audit issues relating to the application of Defence's general assets impairment policy and the integrity of data within the asset register. These issues remain outstanding.

6.196 An audit issue was reported following the 2012–13 interim audit phase in relation to the requirement to annually assess whether there is any indication that assets may be impaired, taking into account the condition and

use of the asset by Defence. The ANAO's review identified that the requirement was not consistently applied, including where:

- an assets condition was not considered;
- asset values reported in the fixed assets register had not been adjusted for known poor condition or discontinued use; and
- lack of comprehensive training on assessing assets for indicators of impairment.

6.197 While Defence had improved some aspects of its processes for assessing asset impairment, some 'nil' impairment returns were being submitted notwithstanding the aged profile of the Defence Estate and the limited funding available for maintenance. The ANAO will again review the impairment assessment process as a part of the audit of the 2014–15 financial statements.

6.198 The moderate audit issue relating to the integrity of data held in the financial management information system (ROMAN) asset register remains outstanding. The integrity of data within the asset register is important as it is used for stocktaking and asset revaluation purposes and underpins the asset balance reported in the financial statements. During the 2013–14 final audit phase, ongoing issues were identified in relation to the integrity of data in the ROMAN asset register including:

- inaccurate asset descriptions and location details;
- delays in processing details of assets no longer held or that should be transferred from AUC to assets in use;
- misclassification of assets; and
- the incomplete processing of stocktake results.

6.199 In addition, the revaluation of Defence's assets to their fair value is undertaken by an independent valuer. In view of the geographical spread of the Defence estate, a cyclical approach has been implemented, as Defence's valuer must sight all assets every three years. In the intervening years, a desktop review is performed by the valuer. ANAO identified errors in the valuation report, including:

- demolished assets being revalued;
- assets not being impaired when there was evidence that the assets had a limited future benefit to Defence; and

- revaluation journals that did not agree to the revaluation report.

The ANAO will review the revaluation process and report as a part of the audit of the 2014–15 financial statements.

Internal control and financial reporting

6.200 Special accounts are established for specific purposes and have particular conditions that must be met prior to payments being made. As reported in 2012–13, the ANAO's review of Defence's special accounts identified deficiencies in the retention of supporting documentation and inconsistencies with the stipulated conditions for payments from these special accounts. These issues remain outstanding.

Inventory and asset management

6.201 Two moderate audit issues relating to inventory and asset management were identified during the 2013–14 final audit phase.

6.202 Australian Accounting Standards require agencies to assess annually whether there is any indication that assets may be impaired. For Defence, the main factors to be taken into account are obsolescence and changes in the condition of assets and use of assets by Defence. The ANAO identified a number of weaknesses in relation to the assessment of impairment for Military Support Items (MSI) held on MILIS. These weaknesses included:

- errors in the value of MSI assets held on the MILIS asset register;
- errors in the useful life of MSI assets recorded in the asset register;
- the results of remediation activities not being processed in a timely manner; and
- the poor quality and lack of availability of evidence to support transactions processed within MILIS, including the annual assessment of impairment.

6.203 These weaknesses resulted in some adjustments to Defence's draft financial statements to correct identified errors and resulted in the need to conduct additional audit procedures to enable the ANAO to gain the required assurance over the MSI balances.

Privileged user access

6.204 During the interim phase of the 2013–14 audit, the ANAO identified two moderate audit issues relating to the management of privileged security

users to ROMAN and the IT general environment. The ANAO will examine new security measures implemented by Defence as part of the 2014–15 audit.

New audit issues

Heritage and cultural assets

6.205 Generally, physical assets have a limited useful life and are depreciated over the period determined. However, some heritage and cultural assets may be assigned an indefinite useful life where appropriate conservation policies are developed and implemented. In relation to some Defence heritage and cultural assets, appropriate conservation policies were developed but not appropriately implemented. As such, these assets should have been assigned a limited useful life and depreciated.

Accuracy of the schedule of commitments

6.206 A number of issues relating to the completeness and accuracy of Defence's Schedule of Commitments was identified by the ANAO during the 2013–14 final audit phase, and a significant adjustment to the draft financial statements was required to correct inaccuracies in the schedule.

Legislative breaches

Potential breaches of section 83 of the Constitution

6.207 During 2013–14, Defence undertook a further review to determine the risk of payments being made in breach of section 83 of the Constitution from the special appropriations and special accounts for which it is administratively responsible.

6.208 The risk assessment and subsequent analysis in 2013–14 identified 503 potential breaches of section 83 totalling approximately \$625 000 in relation to various payments under the *Defence Force (Home Loans Assistance) Act 1990* and the *Defence Home Ownership Assistance Scheme Act 2008*.

6.209 The auditor's report on Defence's 2013–14 financial statements included a report on other legal and regulatory requirements referring to the potential breaches identified. This is not a qualification or modification to the audit opinion on Defence's financial statements, as the financial statements fairly presented the financial operations and position of Defence at year end.

6.210 Defence has undertaken to continue to monitor its level of compliance with section 83 of the Constitution across all legislation for which it is administratively responsible. Defence expects that amendments to legislation

will be progressed with the aim of reducing the risk of future section 83 breaches, where appropriate.

6.211 Full details of the breaches identified during 2013–14 are outlined in Note 33 of Defence's 2013–14 financial statements, and a general discussion of this matter is at paragraphs 5.26 to 5.38 in chapter 5 of this report.

Australian War Memorial

Summary of financial results

6.212 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(50.8)	(46.3)
Revenue from government	40.9	39.4
Deficit attributable to the Australian Government**	(9.9)	(6.9)
Total other comprehensive income	16.9	0.4
Total comprehensive income/(loss) attributable to the Australian Government	7.0	(6.5)
Total assets	1 276.0	1 241.0
Total liabilities	13.5	10.8
Total equity	1 262.5	1 230.2

* The ANAO's analysis of entities' operating results at paragraphs 4.2 to 4.11 of chapter 4 of this report refers to the entity.

** The entity is not funded for depreciation expense which affects the reported deficit.

6.213 The net cost of services increased mainly due to an increase in employee expenses and supplier expenses. These increases were as a result of increased activities in connection with the First World War Centenary commemorations.

6.214 Other comprehensive income increased as a result of the revaluation of land and buildings during the year, which did not occur in 2012–13⁶².

6.215 Fluctuations in other balances reflect the increase in normal business activities.

62 Op cit (refer footnote 51 on p. 75).

Areas of audit focus

6.216 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the War Memorial's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the valuation of land and buildings and the asset collection; and
- the capitalisation of employee costs to the asset collection.

Audit results

6.217 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Defence Housing Australia

Summary of financial results

6.218 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Total expenses	1 102.8	957.4
Total income	1 192.8	1 042.5
Profit after income tax	90.0	85.1
Total comprehensive income	90.0	85.1
Total assets	2 224.0	2 168.8
Total liabilities	795.2	775.9
Net assets	1 428.9	1 392.9

* The ANAO's analysis of entities' operating results at paragraphs 4.2 to 4.11 of chapter 4 of this report refers to the entity.

6.219 Defence Housing Australia's (DHA) expenses increased mainly due to costs associated with sale and leaseback arrangements and housing-related expenditure associated with DHA supporting Defence's operational requirements. Housing expenditure increased as a result of an increase in the number of properties managed by DHA.

6.220 DHA's income increased primarily due to an increase in the number of land disposals and sale of properties, and a small increase in rental returns from Defence. This was partially offset by a small decrease in the recovery of

costs, such as, rates and insurance for properties rented by Defence, and a decrease in the amount of gains received from the disposal of investment properties, due to a reduction in the number of investment properties sold.

6.221 DHA has a comprehensive construction and acquisition program to meet Defence housing requirements. As a result, new properties are continually constructed or purchased, with the majority being sold and then leased back under a sale and lease back program. The movement in assets is mainly due to an increase in the value of land and properties held for sale, in comparison to land and properties held for sale in 2012–13.

6.222 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.223 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on DHA's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the accounting for, and reporting of, the value of DHA's inventory, investment properties and construction in progress asset balances;
- the accounting for, and reporting of, DHA's revenue from housing services provided to Defence and the sale of inventories, including DHA's revenue recognition policy; and
- IT general and application controls for key systems that support the preparation of DHA's financial statements.

Audit results

6.224 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Defence Materiel Organisation

Summary of financial results

6.225 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	835.4	878.5
Revenue from government	907.8	911.1
Surplus attributable to the Australian Government	72.4	32.6
Total other comprehensive income	–	–
Total comprehensive income attributable to the Australian Government	72.4	32.6
Total assets	2 244.4	2 470.1
Total liabilities	1 769.2	2 067.5
Total equity	475.1	402.7

* The ANAO's analysis of entities' financial positions at paragraphs 4.12 to 4.20 of chapter 4 of this report refers to the entity.

6.226 DMO is the primary service delivery entity responsible for the effective support of Australian Defence Force operations through the acquisition of equipment and supplies, sustainment of the Australian Defence Force, and the deployment of specialist staff. DMO also provides industry and procurement policy and advice to Defence and the Australian Government.

6.227 An increase in revenue due to income received from Defence for the delivery of acquisition and sustainment activities contributed to a decrease in the net cost of services.

6.228 Revenue from government decreased primarily due to a reduction in unspent monies at year-end associated with the reduction of personnel required under new shared service arrangements with Defence.

6.229 Assets decreased as a result of a significant decrease in monies owed by Defence in relation to acquisition and sustainment activities delivered in prior years. The monies owed by Defence represent the difference between cash received from Defence and expenses incurred by DMO. In 2013–14 Defence repaid a significant portion of the monies owed to DMO, reducing the overall balance of monies owed at year end.

6.230 The decrease in liabilities is mainly due to a decrease in monies owed by third party contractors to DMO. These monies relate to assets and services to be received in future years, as a result of negotiated settlements of contract disputes.

6.231 Fluctuations in other balances reflect normal business activities.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	–	–
Total income	2.0	0.3
Surplus	2.0	0.3
Total other comprehensive income	–	–
Total comprehensive income	2.0	0.3
Total assets administered on behalf of Government	1.5	2.1
Total liabilities administered on behalf of Government	1.5	–
Net assets	–	2.1

6.232 Administered expenses relate to foreign exchange losses made on levies, income and receivables in US dollars.

6.233 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.234 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on DMO's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the accounting for, and disclosure of, assets and revenues associated with liquidated damages or other compensation payable to or by Defence under DMO managed contracts. These assets and revenues comprise a range of benefits that may be delivered to Defence and DMO over multiple years and include receipt of goods-in-kind, offset of future sustainment service costs and/or cash settlements;
- the accounting for, and recording of, cost of goods sold and repairs and overhaul expenses, which involves a large number of transactions and a high level of complexity in terms of contractual arrangements and project management requirements, given the wide variety of agreements involved;
- the accounting for, and disclosure of, prepayments which are complex in nature, derived from a decentralised manual recording process and subject to material fluctuations as projects and contracts change;

- the accounting for, and the reporting of, monies owed by Defence to DMO, which involves a range of stakeholders across both Defence and DMO and comprises manual calculations and compilations; and
- the aggregation of financial information from different operational areas, systems and processes. This includes financial statement disclosures that involve aggregation of data and information from several sources.

Audit results

Summary of audit findings

6.235 At the conclusion of the 2013–14 audit, one moderate audit issue previously reported was resolved. The issue was raised in 2010–11 and related to the need to improve bureau service arrangements between Defence and DMO as outlined at paragraphs 6.238 to 6.241 below.

6.236 The ANAO's audit coverage of the key areas of audit focus identified a new moderate audit issue in relation to the receipting and recording of monies, referred to in paragraphs 6.242 to 6.244 below.

6.237 The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Category	Closing position (at the end of the 2012–13 final audit phase)	Issues resolved (during the 2013–14 interim audit phase)	New issues identified (during the 2013–14 interim audit phase)	Issues resolved (during the 2013–14 final audit phase)	New issues identified (during the 2013–14 final audit phase)	Closing position (at the end of the 2013–14 final audit phase)
A	0	0	0	0	0	0
B	1	0	0	(1)	1	1
L1	0	0	0	0	0	0
Total	1	0	0	(1)	1	1

Resolved audit issue

Bureau service arrangements between Defence and DMO

6.238 Defence manages a number of financial IT systems and business processes on behalf of DMO. These systems and processes form an integral part of DMO's internal control framework and support the preparation of its financial statements.

6.239 DMO obtains high level 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 included in the balances reported in DMO's financial statements. Prior arrangements between Defence and DMO did not provide DMO with visibility over the issues that may impact on the assurance from Defence over the effectiveness of key IT application and general controls over financial reporting systems.

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

6.241 During the 2013–14 final audit phase, the ANAO confirmed that the controls framework implemented by DMO in 2013–14 effectively addressed the potential gaps in control and assurance activities between Defence and DMO's control environments. As a result, this issue is resolved. The ANAO will continue to monitor DMO's controls framework, in light of the potential impact of the new shared services arrangements.

New audit issue

Receipting and recording of monies

6.242 DMO maintains a Special Account to facilitate the sustainment and acquisition activities on behalf of Defence. Within the special account transactions are classified as: departmental, for the daily operational requirements of DMO; administered for specific purposes; or in trust on behalf of third parties such as Foreign Governments.

6.243 The ANAO identified a number of cases where DMO incorrectly classified trust funds as departmental monies within the DMO Special Account and did not have established procedures to ensure that these funds were not used for departmental purposes.

6.244 DMO advised that it has implemented measures to segregate trust and departmental monies, conduct training for relevant staff, and introduce quality assurance processes over the balances in the special account. The ANAO will review the action taken to address this issue as part of the 2014–15 audit.

Department of Veterans' Affairs

Summary of financial results

6.245 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(317.2)	(304.4)
Revenue from government	288.6	285.3
Deficit attributable to the Australian Government*	(28.6)	(19.1)
Income tax expense	0.2	0.1
Total other comprehensive income	4.4	–
Total comprehensive loss attributable to the Australian Government	(24.4)	(19.2)
Total assets	230.1	219.6
Total liabilities	138.0	129.7
Total equity	92.1	89.9

* The department is not funded for depreciation expense which affects the reported deficit.

6.246 All fluctuations in balances reflect the normal business activities of the department.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	12 896.0	11 703.0
Total income	7.0	9.0
Deficit	(12 889.0)	(11 694.0)
Total other comprehensive income	–	–
Total comprehensive loss	(12 889.0)	(11 964.0)
Total assets administered on behalf of Government	1 368.0	1 396.0
Total liabilities administered on behalf of Government	6 307.0	5 351.0
Net liabilities	(4 939.0)	(3 955.0)

6.247 Expenses comprise personal benefit and health care payments together with increases in the military compensation provision. In 2013–14 this provision increased by approximately \$1 billion as a result of an opening

balance adjustment that largely reflects a backlog of claims and interest rate movements, and an increase in health care payments, resulting from increasing medical costs for veterans.

6.248 Administered liabilities increased primarily due to the increase in the military compensation provision.

6.249 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.250 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on DVA's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the significant amount of personal benefit and health care transactions being processed by complex and ageing information systems;
- the contractual arrangements relating to the reimbursement of payments to State and Territory Hospitals;
- the quality and management assurance strategy relating to payments for income support and rehabilitation and compensation for veterans and their dependants;
- the complexity of assumptions and calculations underpinning the actuarial assessment of the military compensation provision;
- IT general and application controls as they relate to the financial statements; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, initially reported in the 2011–12 financial statements.

Audit results

Summary of audit findings

6.251 The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Category	Closing position (at the end of the 2012–13 final audit phase)	Issues resolved (during the 2013–14 interim audit phase)	New issues identified (during the 2013–14 interim audit phase)	Issues resolved (during the 2013–14 final audit phase)	New issues identified (during the 2013–14 final audit phase)	Closing position (at the end of the 2013–14 final audit phase)
A	0	0	0	0	0	0
B	2	0	4*	(5)	1**	2
L1	2	0	0	(1)	0	1
Total	4	0	4	(6)	1	3

* These issues are reported in this report in view of the timing of the finalisation of the 2013–14 interim audit phase.

** The issue relates to the financial statements preparation process discussed at paragraph 6.274 below. This issue was reclassified from a category C finding to a moderate audit issue.

Resolved audit issues

Management of user access

6.252 In 2011–12 and 2012–13 the ANAO has reported issues in relation to the number of users that had access to key administered payment systems that resulted in inadequate segregation of duties.

6.253 At the time of the 2013–14 interim audit phase, the ANAO identified that the number of users had been substantially reduced, and activity performed on the systems was being logged. However, no monitoring of this log was undertaken to confirm that user access to relevant systems was being used appropriately. As a result, there was an increased risk of unauthorised actions by users not being identified.

6.254 During the 2013–14 final audit phase, DVA implemented a formal management reporting process to monitor user access. From July 2014, the department also updated its procedures to include follow up reviews. As a result, this issue has been reclassified as a category C finding and the ANAO will review the application of the revised procedures as part of the 2014–15 audit.

Quality assurance framework

6.255 DVA has a quality assurance (QA) framework that is designed to provide assurance over the correctness of administrative decisions, the achievement of program and policy outcomes, and the completeness and accuracy of financial statement reporting.

6.256 During the 2011–12 and 2012–13 financial statements audits, a number of weaknesses were identified in the QA framework relating to the income support and rehabilitation and compensation QA programs. These included

incomplete quantification of identified errors, inadequate segregation of duties within the IT application used for quality assurance, a lack of an audit trail for actions completed within this application, inadequate documentation of completed procedures, and the existence of errors not previously identified by the department.

6.257 The action taken by the department to address these issues was followed up during the 2013–14 final audit phase and the ANAO confirmed that the department had satisfactorily addressed the issues previously identified. As a result, this issue is resolved but should be subject to ongoing monitoring by DVA.

Management of waivers

6.258 The 2011–12 and 2012–13 audits identified instances where debts had been waived under provisions of the *Veterans' Entitlements Act 1986* (VE Act) without a determination by the Repatriation Commission. The VE Act requires all waivers to have such a determination, which serves as a control for the waiving of debts.

6.259 In 2011–12 and 2012–13, DVA implemented a range of remedial measures, including issuing further advice to relevant staff, and subsequent reviews to ascertain the level of compliance with the VE Act.

6.260 During the final audit phase of 2013–14, the ANAO confirmed that the department had implemented appropriate measures to gain assurance that all debt waivers are authorised by appropriate determinations. As a result, this issue is resolved but should be subject to ongoing monitoring by DVA.

Management assurance strategy

6.261 During the 2013–14 financial statements audit, DVA undertook to develop a management assurance strategy to provide assurance over the accuracy and completeness of administered expenses. The strategy is designed to cover both income support and rehabilitation and compensation payments.

6.262 A critical success factor in the implementation of the strategy was the adoption of a statistical sampling approach to quantify the extent of error in the department's financial statements. To identify the appropriate sample sizes, confidence levels and precision factors, the department had initially used an approach that would not provide the necessary level of assurance for timely financial reporting purposes. As a result, a modified approach was adopted to validate the accuracy of administered payments.

6.263 The ANAO reviewed the revised approach and concluded that it was reasonable for financial reporting purposes. As a result, this issue is resolved but should be subject to ongoing monitoring by DVA.

Health card payments

6.264 There are in excess of 200 000 veterans entitled to health care and related services provided under the DVA health card system. Of these, approximately 53 000 veterans receive their benefits through the use of a health card, known as a white card. The payments underpinning these cards have previously been processed by both DVA and the Department of Human Services. In December 2013, the responsibility for payments transferred to the Department of Human Services.

6.265 In undertaking this transfer, a number of key controls were overlooked. These included, amongst other things, the authority for the Department of Human Services to draw funds and make payments.

6.266 This issue was raised during the 2013–14 interim audit phase and the department took remedial action to address the matter.

6.267 During the 2013–14 final audit phase, the ANAO reviewed the new arrangements and was satisfied that the authority to draw funds and make payments was in place. As a result, this issue is resolved but should be subject to ongoing monitoring by DVA.

Privileged user access

6.268 During the 2013–14 interim audit phase, the ANAO identified that a number of users of the department's FMIS and HRMIS, which are used to process DVA's departmental payments and payroll transactions had privileged user profiles that allowed users to amend or delete the management reports of their activities when accessing these systems.

6.269 During the final audit phase, the ANAO confirmed that the ability of privileged users to access the FMIS management reports of privileged user activities had been removed and the management of access to the HRMIS had been strengthened by the implementation of additional controls. As a result, the issue has been reclassified as a category C finding and the ANAO will review the application of the revised controls as part of the 2014–15 audit.

Outstanding audit issues

Oversight of risk monitoring processes of financial information

6.270 In February 2013, DVA completed a review of its risk management practices. The review found there was minimal evidence that risk assessments were analysed, and there was also no formal reporting and monitoring of risks at the business level⁶³.

6.271 During the interim phase of the 2013–14 audit, the ANAO reviewed the implementation of DVA’s risk management in the context of the department’s business risks and financial reporting responsibilities. The ANAO identified that the department had not assessed the business risks associated with payments in relation to rehabilitation and compensation and income support programs totalling approximately \$7.3 billion. As such, the ANAO considered that the department’s risk management processes were deficient as there were no mechanisms in place designed to identify and monitor the risk of errors occurring with these payments. This situation increases the risk of a material misstatement in the financial statements.

6.272 The department acknowledged the ANAO finding and agreed to implement a strategy that would address, among other things, the monitoring and reporting of core business and financial risks covering income support and rehabilitation and compensation payment streams. DVA has indicated that it will develop a risk profile that would identify the risk of incorrect payments. The department has also advised that it proposed to implement a range of review and monitoring processes to provide assurance over the revised risk management framework.

6.273 The ANAO will review the implementation of the revised risk management strategy during the 2014–15 interim audit phase.

New audit issue

Financial statement preparation

6.274 During the final phase of the 2013–14 audit, the ANAO identified that DVA did not have adequate processes in place designed to ensure the timely and accurate preparation of their 2013–14 financial statements. The ANAO identified weaknesses in DVA’s quality assurance review processes, a lack of adherence to financial statement preparation timetables, and deficiencies in the preparation of work papers to support the financial statements and associated

63 This issue was reported in ANAO Audit Report No.46 2013–14 *Administration of Residential Care Payments*, paragraph 4.5.

notes. As a result of weaknesses in project management and process shortcomings, there were a significant number of amendments, including a material adjustment, to the draft financial statements submitted for audit. In addition, there were significant delays in the completion of the financial statements, resulting in the Department of Finance's material clearance timetable not being met.

6.275 DVA has advised that it will be implementing procedures to address this issue in 2014–15. The ANAO will review the progress made by DVA to improve its financial statements preparation process as part of the 2014–15 financial statements audit.

Legislative breaches

Potential breaches of section 83 of the Constitution

6.276 The notes to DVA's 2010–11 to 2012–13 financial statements referred to potential breaches of section 83 of the Constitution for payments made from special appropriations and special accounts, particularly in circumstances where the payments do not accord with conditions included in the relevant legislation

6.277 During 2013–14, DVA continued to monitor its level of compliance with section 83 of the Constitution across all legislation for which it is administratively responsible. A financial quantification of potential breaches of section 83 in 2013–14 identified that the potential breaches in respect to the *Veterans' Entitlements Act 1986*, *Safety Rehabilitation and Compensation Act 1988* and the *Military Rehabilitation and Compensation Act 2004* was \$50.2 million for the 2013–14 financial year. The potential breaches relate to the assessment of eligibility and subsequent payments made. DVA reported within its 2013–14 financial statements that \$2.2 million of overpayments had been recovered.

6.278 The 2013–14 auditor's report included a report on other legal and regulatory requirements referring to these potential breaches. This is not a qualification or modification of the audit opinion on DVA's financial statements as the financial statements fairly presented the financial operations and position of DVA at year end.

6.279 DVA has undertaken to continue to monitor its section 83 compliance across all legislation for which it is administratively responsible. Future changes to procedures and amendments to legislation will continue to be progressed, where appropriate.

6.280 This matter will also be reviewed as part of the interim phase of the 2014–15 audit. A general discussion of this matter is at paragraphs 5.26 to 5.38 in chapter 5 of this report.

Comments on non-material entities

Audit results

Summary of audit findings

6.281 There were no significant or moderate audit issues or significant legislative matters noted in non-material entities within the portfolio except in relation to AAF Company.

AAF Company

6.282 During the 2013–14 audit the ANAO identified one moderate audit issue relating to the operations of AAF Company’s (AAF) audit committee. The audit committee had not met with sufficient regularity to provide appropriate oversight of AAF’s controls and compliance framework, including a review of the accounts and records of AAF. The ANAO will review AAF’s progress in resolving this issue as part of the 2014–15 audit.

Education Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Education	Yes	√L	10 Oct 14	10 Oct 14	◆□
Australian Curriculum Assessment and Reporting Authority	No	√	14 Aug 14	14 Aug 14	
Australian Institute for Teaching and School Leadership Limited	No	√E	29 Aug 14	29 Aug 14	
Australian National University	No	√ E	28 Mar 14	28 Mar 14	
- ANU Enterprise Pty Ltd	No	√ E	26 Mar 14	26 Mar 14	
- ANU Section 68 Pty Ltd	No	√E E	27 Mar 14	27 Mar 14	
- BRU Holdings Pty Ltd	No	√ E	27 Mar 14	27 Mar 14	
- SA2 Holdings Pty Ltd	No	√ E	27 Mar 14	27 Mar 14	
- Australian Scientific Instruments Pty Ltd	No	√ E	26 Mar 14	26 Mar 14	
Australian Research Council	Yes	√	4 Sept 14	4 Sept 14	
Department of Education, Employment and Workplace Relations ¹	No	√L E	7 Oct 14	9 Oct 14	
Tertiary Education Quality and Standards Agency	No	√	22 Aug 14	22 Aug 14	

√: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements

E: auditor's report contains an emphasis of matter

◆: new significant or moderate issues and/or legislative matters noted

□: significant or moderate issues and/or legislative matters identified in previous periods, or the 2013–14 interim audit phase, now downgraded or resolved

~~E~~: financial year end date other than 30 June 2014.

¹ The closedown audit of the Department of Education, Employment and Workplace Relations covered the period 1 July 2013 to 18 September 2013.

Portfolio overview

6.283 The Education portfolio assists the Australian Government to take a national leadership role in education at all stages: early childhood, school, tertiary and international; and the research that supports this role. The Department of Education and its portfolio agencies work with State and Territory Governments, other government agencies and a range of service providers to provide high quality policy, advice and services for the benefit of Australians.

Department of Education

Summary of financial results

6.284 The Department of Education (Education) was created as a result of the 2013 MoG changes. The department is the lead entity responsible for national policies and programs that help Australians access affordable, flexible, quality child care and early childhood learning, school education, higher education, international education and academic research.

6.285 As a result of the MoG changes, responsibility for early childhood learning and education functions managed by the former Department of Education, Employment and Workplace Relations (DEEWR), with the exception of those relating to Indigenous programs, was transferred to the department. Responsibility for Indigenous programs transferred from the former DEEWR to the Department of the Prime Minister and Cabinet.

6.286 Responsibility for higher education, international education and academic research functions transferred from the Department of Industry to Education.

6.287 The following tables provide key financial statement balances. Departmental transactions represent activity from 19 September 2013 to 30 June 2014. As Education is a new entity, there are no comparative financial balances for 2012–13.

Departmental items

Key financial balances for year*	2013–14 (\$m)
Net cost of services	(218.6)
Revenue from government	196.1
Deficit attributable to the Australian Government**	(22.5)
Total other comprehensive income	0.4
Total comprehensive loss attributable to the Australian Government	(22.1)
Total assets	187.7
Total liabilities	114.7
Total equity	73.0

* The ANAO's analysis of entities' financial positions at paragraphs 4.12 to 4.20 of chapter 4 of this report refers to the entity.

** The department is not funded for depreciation expense which affects the reported deficit.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)
Total expenses	22 719.1
Total income	902.0
Deficit	(21 817.1)
Total other comprehensive loss	(142.9)
Total comprehensive loss	(21 674.2)
Total assets administered on behalf of Government	28 200.9
Total liabilities administered on behalf of Government	7 859.7
Net assets	20 341.2

6.288 As mentioned above, the 2013–14 balances reflect the activities administered by the department from 19 September 2013, following the transfer of functions from the former DEEWR and the Department of Industry. Administered expenses primarily reflect child care benefits and grants paid to government and non-government schools and higher education providers. Administered assets primarily reflect the balance of amounts owing to the Commonwealth at year end under the Higher Education Loan Program (HELP) and administered liabilities primarily reflect the provision for unfunded university superannuation.

Areas of audit focus

6.289 The ANAO's audit approach identified particular areas of audit focus that had the potential to impact on the department's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- compliance activities and assurance processes underpinning child care related personal benefit payments that rely on correct disclosure of personal circumstances by a diverse number of recipients;
- the actuarial valuation of the HELP balance of amounts owing to the Commonwealth at year end due to the complexity involved in projecting future payments and/or non-repayment of loans;
- the actuarial valuation of the provision for grants relating to unfunded superannuation commitments for Australian universities. These estimates are complex due to different actuarial assumptions and reporting dates used for each university;

- the financial management of grants, as the management of grants is dispersed across a wide variety of programs and different business systems;
- legislative compliance, particularly the ongoing implementation of measures designed to address the risk of breaches of section 83 of the Constitution, referred to in the former Department of Education, Employment and Workplace Relations' 2012–13 financial statements; and
- the transitional arrangements in place relating to the establishment of the department, the transfer and integration of functions from the former DEEWR and the Department of Industry, and the formation of a shared services centre with the Department of Employment (Employment). The establishment of shared service arrangements has resulted in a shared control environment between Education and Employment. A coordinated audit approach was therefore adopted for the financial statement audits of both departments.

Audit results

Summary of audit findings

6.290 The following table summarises the status of audit issues reported by the ANAO.

Category	Closing position (at the end of the 2012–13 final audit phase) ⁶⁴	Issues resolved (during the 2013–14 interim audit phase)	New issues identified (during the 2013–14 interim audit phase)	Issues resolved (during the 2013–14 final audit phase)	New issues identified (during the 2013–14 final audit phase)	Closing position (at the end of the 2013–14 final audit phase)
A	0	0	0	0	1	1
B	1	0	0	(1)	1	1
L1	1	0	0	0	0	1
Total	2	0	0	(1)	2	3

64 The closing position represents audit issues raised that relate to functions transferred to the Department of Education from the former Department of Education, Employment and Workplace Relations.

Resolved audit issues

Child care compliance framework

6.291 The moderate audit issue relating to the child compliance framework has been resolved. In 2012–13, the ANAO identified that the former DEEWR had changed its approach to undertaking compliance activities with the aim of more effectively utilising resources. The change in approach involved a reduction in the number of child care provider inspections, compensated by an increase in the level of other monitoring activities, including data analysis of child care service provider claims.

6.292 The ANAO's review of the compliance and other monitoring activities undertaken by the former DEEWR identified that while the number of child care service provider inspections had reduced, the former DEEWR had not fully implemented the other monitoring activities to compensate for this reduction. In addition, not all child care service provider inspections had been undertaken in a consistent manner, as required by the compliance framework.

6.293 In 2013–14, Education assumed responsibility for the compliance framework and implemented a change in approach for monitoring the compliance of child care service providers, moving from child care service provider inspections to parent confirmation of their child's attendance and the fees charged by the service provider. These confirmations are conducted throughout the year and involve seeking confirmation from the parent that the child care services received for their child matches that reported by the child care service provider. Supplementing this approach, the department also undertakes other monitoring activities, referred to above in paragraph 6.291.

6.294 The ANAO assessed the implementation of the change in the department's compliance approach as part of the 2013–14 final audit phase and identified that Education has implemented appropriate processes. As a result, this issue is resolved but should be subject to ongoing monitoring by Education.

*New audit issues**Significant audit issue*

Child care compliance framework – estimated incorrect payments

6.295 Education has responsibility for the provision of financial assistance to families for the cost of child care services, with over \$4 billion in personal benefit payments made annually.

6.296 The child care compliance framework encompasses three strategies:

- prevention, including educational campaigns for families and child care service providers on their obligations and responsibilities;
- detection, including the monitoring and inspection of child care service providers to improve the detection of non-compliance; and
- deterrence, including the imposition of consequences when service providers are not meeting their obligations.

6.297 As mentioned above, in 2013–14 Education implemented a change in approach for monitoring the compliance of child care service providers, moving from child care service provider inspections to parent confirmation of their child’s attendance.

6.298 The confirmation process compares the hours of child care received by the parent and the fees charged to that claimed by the child care service provider. This approach was designed so that the results of the confirmation process can be extrapolated to provide a statistically reliable national estimate of the information provided by child care service providers, and any level of estimated incorrect payments.

6.299 In August 2014, based on the results of the confirmations by parents, Education identified that estimated incorrect payments were being made to child care service providers and that the statistical estimate of these at the national level was approximately \$300 million. This estimate represents 7.9 per cent of total payments made, with the largest proportion concentrated amongst family day care and home care providers.

6.300 Education has commenced a dedicated program of recovery action as well as increasing the imposition of penalties and sanctions, where considered justified.

6.301 In addition, Education has indicated that it has strengthened its compliance activities through a significant reallocation of resources to these activities, including establishing a taskforce focused on serious non-compliance matters, and increased the level of other monitoring activities, including risk based data interrogation and analysis.

6.302 The ANAO will assess the implementation of Education’s increased compliance activities as part of the 2014–15 interim audit phase.

Moderate audit issue

Financial statement preparation process

6.303 The 2013–14 final audit phase identified the need for Education to improve its financial statement preparation process. Weaknesses in the process for the preparation of the 2013–14 financial statements resulted in significant delays in the completion of the department’s financial statements and the department not meeting the Department of Finance’s material clearance timetable. The department experienced a number of challenges to implement the MoG changes referred also to above that involved a restructure of functions transferred from the former DEEWR, which contributed to the delay in the preparation of the statements. Nevertheless, the ANAO considered the department did not have adequate processes in place to enable the timely and accurate preparation of its 2013–14 financial statements.

6.304 In view of the weaknesses identified, improvements were required to: better project manage timeframes and deliverables; to facilitate the performance of quality assurance review processes; to minimise reliance on key individuals; and improve communication with key stakeholders particularly in view of the establishment of shared service arrangements referred to above.

6.305 Education advised that it would undertake a review of the preparation process in 2014–15 with a view of having improved arrangements in place by early 2015. The ANAO will review the progress made by the department to improve its financial statement preparation process as part of the 2014–15 audit.

Legislative breaches

Actual and potential breaches of section 83 of the Constitution

6.306 In 2010–11, agencies became aware of the possibility of potential breaches of section 83 of the Constitution for payments made from special appropriations and special accounts, particularly in circumstances where payments do not accord with conditions included in the relevant legislation.

6.307 In 2013–14, the department reported one payment of \$125 200 made under the *Schools Assistance Act 2008* that was considered a potential breach of section 83 of the Constitution. This amount included an overpayment of \$3 407 that was subject to legal advice about recovery options.

6.308 The department has advised it intends to continue to monitor its level of compliance with section 83 of the Constitution across all legislation for

which it is administratively responsible and to continue to progress legislative amendments and system changes to reduce the risk of future section 83 breaches, where appropriate. The ANAO will continue to review progress in addressing this issue as part of the 2014–15 audit.

6.309 Full details of the potential breach identified during 2013–14 is outlined in Note 35 of the department's 2013–14 financial statements, and a general discussion of this matter is at paragraphs 5.26 to 5.38 in chapter 5 of this report.

Constitutional validity of certain payments

6.310 In its judgement in the *Williams v Commonwealth [2014] HCA 23* case, the High Court held that payments made under the National Schools Chaplaincy and Student Welfare program for the funding of chaplaincy services in schools, were constitutionally invalid on the grounds that they were not supported by a Commonwealth constitutional head of power. The debts arising as a consequence of that decision were waived under section 34(1)(a) of the FMA Act. The total amount waived by the Minister for Finance was \$156.121 million, and included \$87.945 million paid by the former DEEWR.

6.311 The auditor's report on the financial statements was unmodified as the financial statements fairly presented the financial operations and position of Education at period end. However, the report referred to the payments made under the National Schools Chaplaincy and Student Welfare program that were constitutionally invalid. A general discussion of this matter is at paragraphs 5.39 to 5.41 in chapter 5 of this report.

Australian Research Council

Summary of financial results

6.312 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(21.5)	(20.0)
Revenue from government	19.8	19.1
Deficit attributable to the Australian Government**	(1.7)	(0.9)
Total other comprehensive income	–	–
Total comprehensive loss attributable to the Australian Government	(1.7)	(0.9)
Total assets	27.7	31.7
Total liabilities	6.9	6.5
Total equity	20.8	25.1

* The ANAO's analysis of entities' operating results at paragraphs 4.2 to 4.11 of chapter 4 of this report refers to the entity.

** The entity is not funded for depreciation expense which affects the reported deficit.

6.313 Assets decreased primarily due to a reduction in appropriations unspent at year end, following the enactment of the *Statute Stocktake (Appropriations) Act 2013*. This Act removed the Australian Research Council's (ARC) access to unspent appropriations for the period 1 July 1999 to 30 June 2010.

6.314 Fluctuations in other balances reflect normal business activities.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	917.3	877.6
Total income	6.8	11.9
Deficit	(910.5)	(865.7)
Total other comprehensive income	–	–
Total comprehensive loss	(910.5)	(865.7)
Total assets administered on behalf of Government	1.6	1.0
Total liabilities administered on behalf of Government	362.5	339.8
Net liabilities	(360.9)	(338.8)

6.315 Administered expenses increased mainly due to additional funding for grants under the National Competitive Grants Program.

6.316 The decrease in administered income is predominantly due to a lower level of recovery during 2013–14 of grant payments made in prior years. Under

the *Australian Research Council Act 2001*, grant recipients are required to return unspent grant money to the ARC unless otherwise approved.

6.317 The administered liabilities increase relates to 2013–14 grant funding not paid to recipients as at 30 June 2014 and is in line with the funding increases during 2013–14.

6.318 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.319 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Australian Research Council's financial statements. The areas highlighted for specific audit coverage in 2013–14 were the accounting and internal controls over administered grant expenditure.

Audit results

Summary of audit findings

6.320 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Comments on non-material entities

Audit results

Summary of audit findings

6.321 There were no significant or moderate audit issues or significant legislative matters noted in non-material entities within the portfolio. The auditor's report on the financial statements of the Australian Institute for Teaching and School Leadership Limited and ANU Section 68 Pty Ltd contained an emphasis of matter that is discussed below.

Australian Institute for Teaching and School Leadership Limited

Emphasis of matter

6.322 The auditor's report on the 2013–14 financial statements of the Australian Institute for Teaching and School Leadership Limited (AITSL) contained an emphasis of matter that draws attention to AITSL's funding agreement with the Department of Education and that the financial statements have been prepared on a going concern basis. The expiry of the current funding agreement on 30 June 2015 indicates the existence of a material

uncertainty that may cast significant doubt on AITSL's ability to continue as a going concern. AITSL may therefore be unable to realise its assets and discharge its liabilities in the normal course of business.

6.323 The ANAO did not modify its audit opinion in respect of this matter.

ANU Section 68 Pty Ltd

Emphasis of matter

6.324 The auditor's report for the ANU Section 68 Pty Ltd contained an emphasis of matter that draws attention to the fact that the financial report has been prepared on a liquidation basis as it was the expectation of the company that it would be wound up within a 12 month period. The ANAO did not modify its audit opinion in respect of this matter.

Employment Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Employment	Yes	✓	8 Oct 14	8 Oct 14	◆
Asbestos Safety and Eradication Agency	No	✓	14 Oct 14	14 Oct 14	
Coal Mining Industry (Long Service Leave Funding) Corporation	Yes	✓	16 Oct 14	16 Oct 14	
Comcare	Yes	✓	21 Aug 14	21 Aug 14	
Fair Work Commission	No	✓	9 Sept 14	9 Sept 14	
Office of the Fair Work Building Industry Inspectorate	No	✓	8 Sept 14	9 Sept 14	
Office of the Fair Work Ombudsman	No	✓	10 Sept 14	11 Sept 14	
Safe Work Australia	No	✓	30 Sept 14	1 Oct 14	
Seacare Authority (Seafarers Safety, Rehabilitation and Compensation Authority)	No	✓	15 Sept 14	15 Sept 14	
Workplace Gender Equality Agency	No	✓	28 Aug 14	28 Aug 14	

✓: auditor's report not modified

◆: new significant or moderate issues and/or legislative matters noted

Portfolio overview

6.325 The Employment portfolio assists the Australian Government to achieve its objectives for employment by providing a variety of advice, support, programs and services to the Australian Government and wider community. The portfolio works with other Australian Government agencies, state and territory governments and a range of service providers to deliver a broad range of services to the community to connect people with jobs, workplaces with safety and business with productivity.

Department of Employment

6.326 The Department of Employment (Employment) was established as a result of the 2013 MoG changes. The department has primary responsibility for the delivery of the Government's agenda on employment and workplace relations. As a result of the MoG changes, responsibility for employment and workplace functions managed by the former Department of Education, Employment and Workplace Relations (DEEWR), with the exception of those relating to disability and indigenous programs, were transferred to the

department. Responsibility for disability and indigenous programs transferred from DEEWR to the Department of Social Services and the Department of the Prime Minister and Cabinet, respectively.

Summary of financial results

6.327 The following tables provide key financial statement balances. Departmental transactions represent activity from 19 September 2013 to 30 June 2014. As Employment is a new entity, there are no comparative financial balances for 2012–13.

Departmental items

Key financial balances for year	2013–14 (\$m)
Net cost of services	(313.6)
Revenue from government	288.2
Deficit attributable to the Australian Government*	(25.4)
Total other comprehensive income	3.4
Total comprehensive loss attributable to the Australian Government	(22.0)
Total assets	171.9
Total liabilities	97.5
Total equity	74.4

* The department is not funded for depreciation expense which affects the reported deficit.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)
Total expenses	1 747.1
Total income	154.5
Deficit	(1 592.6)
Total other comprehensive income	28.8
Total comprehensive loss	(1 563.8)
Total assets administered on behalf of Government	173.8
Total liabilities administered on behalf of Government	2 830.4
Net liabilities	(2 656.6)

6.328 As mentioned above, the 2013–14 balances reflect the activities administered by the department from 19 September 2013 following the transfer of functions from the former DEEWR. Administered expenses primarily reflect the provision of employment services programs. Administered liabilities

primarily reflect the amount payable to Comcare, representing the Commonwealth's liability for workers compensation claims resulting from injuries.

6.329 Responsibility for the indigenous programs previously administered by Employment from 19 September 2013 was transferred to the Department of the Prime Minister and Cabinet in December 2013 and disability programs were transferred to the Department of Social Services in April 2014.

Areas of audit focus

6.330 The ANAO's audit approach identified particular areas of audit focus that had the potential to impact on the department's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the transitional arrangements in place relating to the establishment of the department, the transfer and integration of functions from the former DEEWR, and the formation of a shared services centre with Education. The establishment of shared service arrangements has resulted in a shared control environment between Education and Employment, and therefore a coordinated audit approach has been adopted for the financial statement audits of Employment and Education; and
- the employment services programs that involve complex contract management arrangements and payments that rely primarily on a self-assessment regime.

Audit results

Summary of audit findings

6.331 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. One moderate audit issue arose from the 2013–14 final audit phase.

New audit finding

Financial statement preparation process

6.332 The 2013–14 final audit phase identified the need for Employment to improve its financial statement preparation process. Weaknesses in the process for the preparation of the 2013–14 financial statements, predominately the challenges to implement the MoG changes, resulted in material adjustments to the draft financial statements submitted for audit, significant delays in the

completion of the department's financial statements and the department not meeting the Department of Finance's material clearance timetable. The challenges to implement the MoG changes, referred to above, involved a restructure of functions transferred from the former DEEWR that contributed to the delay in the preparation of the 2013–14 financial statements, the ANAO considered the department did not have adequate processes in place to enable the timely and accurate preparation of its 2013–14 financial statements.

6.333 In view of the weaknesses identified, improvements were required to: better project manage timeframes and deliverables, including in situations where unforeseen circumstances arise; improve resourcing arrangements to address deficiencies in the preparation of working papers to support the financial statements, to facilitate the performance of quality assurance review processes and to minimise reliance on key individuals; and improve communication with key stakeholders particularly in view of the establishment of shared service arrangements referred to above.

6.334 Employment advised that it would undertake a review of the preparation process in 2014–15 with a view of having improved arrangements in place by early 2015. The ANAO will review the progress made by the department to improve its financial statement preparation process as part of the 2014–15 audit.

Coal Mining Industry (Long Service Leave Funding) Corporation

Summary of financial results

6.335 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(104.9)	(123.9)
Revenue from government	169.8	170.4
Surplus attributable to the Australian Government	64.9	46.5
Total other comprehensive income	-	-
Total comprehensive income attributable to the Australian Government	64.9	46.5
Total assets	1 356.7	1 161.7
Total liabilities	1 211.3	1 081.2
Total equity	145.4	80.5

* The ANAO's analysis of entities' operating results at paragraphs 4.2 to 4.11 of chapter 4 of this report refers to the entity.

6.336 Net cost of services decreased mainly due a decrease in the provision for reimbursements that resulted in a corresponding decrease in expenses. This provision relates to the expected reimbursements that will be made to employers for long service leave payments in the Australian black coal industry. This decrease was partially offset by an increase in investment revenue as a result of higher investment returns.

6.337 Assets increased as a result of the revaluation of investments in 2013–14.

6.338 Liabilities increased mainly due to an increase in the provision for reimbursements as a result of revising assumptions used in the calculation of the provision and the first time recognition of a liability associated with changes to the *Coal Mining Industry (Long Service Leave) Legislation Amendment Act 2011*. These changes provide that eligible employees and former employees can make an application to the Corporation to recognise prior periods of employment that may not have previously been recognised.

6.339 Movements in other balances reflect normal business activities.

Areas of audit focus

6.340 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the entity's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the valuation of unlisted unit trust assets given there is no readily available market information to determine their value;
- the reliance on outsourced administration and custodian functions; and
- the calculation of the long service leave provision, as the provision is calculated based on multiple assumptions.

Audit results

Summary of audit findings

6.341 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Comcare

Summary of financial results

6.342 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(15.1)	(155.2)
Revenue from government	69.7	56.9
Surplus/(deficit) attributable to the Australian Government**	54.6	(98.3)
Total other comprehensive loss	(0.2)	(0.2)
Total comprehensive income/(loss) attributable to the Australian Government	54.4	(98.5)
Total assets	3 312.5	3 180.5
Total liabilities	4 186.7	4 109.1
Total equity	(874.2)	(928.6)

* The ANAO's analysis of entities' operating results at paragraphs 4.2 to 4.11 of chapter 4 of this report refers to the entity.

** The entity is not funded for depreciation expense which affects the reported surplus or deficit.

6.343 The substantial decrease in the net cost of services and the associated movement from deficit to surplus was mainly due to a slowdown in growth in the workers compensation and common law asbestos claims provisions during 2013–14 in comparison to the 2012–13 financial year. The movement in the net cost of services and the movement from deficit to surplus was also a result of an increase in workers compensation premium income following an increase in premiums in 2013–14.

6.344 The movement in revenue from government was primarily due to an increase in relation to common law asbestos claims in comparison to 2012–13.

6.345 Assets increased mainly due to an increase in cash holdings as at 30 June 2014 as a result of higher workers compensation premiums collected, and reduced cash outflows in 2013–14.

6.346 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.347 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on Comcare's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the estimation and assumptions involved in the calculation of workers compensation and asbestos related disease claim provisions and related expense accounts;
- the application of revenue recognition in relation to legislative requirements under which Comcare operate, particularly in relation to workers compensation and common law asbestos claims; and
- Comcare's liability management, particularly in relation to progress made against the long-term premium strategy.

Audit results

Summary of audit findings

6.348 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Comments on non-material entities

Audit results

Summary of audit findings

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

Environment Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of the Environment	Yes	✓	28 Aug 14	28 Aug 14	
Bureau of Meteorology	Yes	✓	1 Sept 14	2 Sept 14	
Clean Energy Regulator	Yes	✓	2 Oct 14	2 Oct 14	
Climate Change Authority	No	✓	22 Aug 14	22 Aug 14	
Director of National Parks	No	✓	7 Oct 14	7 Oct 14	
Great Barrier Reef Marine Park Authority	No	✓	4 Sept 14	4 Sept 14	
Low Carbon Australia Limited	No	✓E	28 Aug 14	28 Aug 14	
Murray–Darling Basin Authority	No	✓	15 Oct 14	16 Oct 14	
National Water Commission	No	✓	18 Aug 14	19 Aug 14	
Natural Heritage Trust of Australia	No	✓	28 Aug 14	28 Aug 14	
Sydney Harbour Conservancy Limited	No	✓	16 Sept 14	19 Sept 14	
Sydney Harbour Federation Trust	No	✓	16 Sept 14	19 Sept 14	

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

Portfolio overview

6.350 The Environment portfolio consists of the Department of the Environment (the department) and a range of statutory and non-statutory bodies. During 2013–14, the department implemented programs and initiatives to protect and improve the environment through the four pillars of Clean Air, Clean Land, Clean Water and Heritage Protection. The portfolio is also responsible for advancing Australia's interests in the Antarctic, the provision of meteorological services to the Australian community and supporting the Australian Government's sustainable population strategy.

Department of the Environment

Summary of financial results

6.351 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(616.8)	(478.9)
Revenue from government	462.0	434.9
Deficit attributable to the Australian Government*	(154.8)	(44.0)
Total other comprehensive income	58.2	29.4
Total comprehensive loss attributable to the Australian Government	(96.6)	(14.6)
Total assets	534.6	498.4
Total liabilities	579.7	529.9
Total equity	(45.1)	(31.5)

* The department is not funded for depreciation expense which affects the reported deficit.

6.352 The increase in the net cost of services is primarily due to an increase in the restoration expenses that also resulted in an increase in the provisions associated with the Australian bases in Antarctica. This increase resulted from a detailed review of shipping costs included in the calculation of the restoration provision. These increases also resulted in the increase in the comprehensive loss.

6.353 Fluctuations in other balances reflect normal business activities.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	795.2	975.0
Total income	440.9	168.6
Deficit	(354.3)	(806.4)
Total other comprehensive loss	(7.5)	(6.0)
Total comprehensive loss	(361.8)	(812.4)
Total assets administered on behalf of Government	3 221.7	2 993.1
Total liabilities administered on behalf of Government	24.3	30.2
Net assets	3 197.3	2 962.9

6.354 The increase in administered income is due to the receipt of a goods and services tax credit entitlement from the ATO in relation to payments made in prior years under the Energy Efficient Homes Package. In addition, there was an increase in water entitlements received free of charge under the Water for the Future grant program. The decrease in expenses in 2013–14 compared

to 2012–13 results from a write down of water entitlements that occurred in the prior year.

6.355 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.356 The ANAO's audit approach identified particular areas of audit focus that had the potential to impact on the department's 2013–14 financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the methodology used by the department to value the water assets it holds on behalf of the Commonwealth;
- the model adopted by the department to estimate its obligation to restore the Antarctic bases, particularly the appropriateness of assumptions used; and
- the completeness and accuracy of significant revenue collections associated with the carbon price equivalent on the importation and manufacturing of synthetic greenhouse gases.

6.357 The ANAO continued to provide audit coverage of the financial management and reporting of grants. This area had previously been identified as being significant in terms of the department's financial statements due to the large amount of grant expenditure incurred by the department.

Audit Results

Summary of audit findings

6.358 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Bureau of Meteorology

Summary of financial results

6.359 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(286.7)	(279.3)
Revenue from government	212.9	209.9
Deficit attributable to the Australian Government*	(73.8)	(69.4)
Total other comprehensive income	149.6	–
Total comprehensive income/(loss) attributable to the Australian Government	75.8	(69.4)
Total assets	637.7	497.7
Total liabilities	150.8	143.0
Total equity	486.9	354.7

* The entity is not funded for depreciation expense which affects the reported deficit

6.360 Other comprehensive income and assets increased as a result of a revaluation of property plant and equipment and land and buildings undertaken during 2013–14⁶⁵.

6.361 Fluctuations in other balances reflect normal business activities.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	0.1	–
Total income	1.2	0.7
Surplus	1.2	0.7
Total other comprehensive income	–	–
Total comprehensive income	1.2	0.7
Total assets administered on behalf of Government	0.7	0.5
Total liabilities administered on behalf of Government	–	–
Net assets	0.7	0.5

6.362 Fluctuations in all balances reflect normal business activities.

Areas of audit focus

6.363 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Bureau of Meteorology's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

65 Op cit (refer footnote 51 on p. 75).

- own source revenue due to assumptions and judgements in the estimation of revenue recognition;
- fair value assessments for physical assets due to a change in accounting standard requirements and associated disclosures; and
- accounting for intangibles, in view of the complexity surrounding the capitalisation of internally generated software and the associated impairment of software to be replaced.

Audit results

Summary of audit findings

6.364 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Clean Energy Regulator

Summary of financial results

6.365 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(93.1)	(93.5)
Revenue from government	81.3	78.8
Deficit attributable to the Australian Government*	(11.8)	(14.7)
Total other comprehensive income	0.3	3.6
Total comprehensive loss attributable to the Australian Government	(11.5)	(11.1)
Total assets	69.8	76.9
Total liabilities	16.8	23.3
Total equity	53.0	53.6

*The entity is not funded for depreciation expense which affects the reported deficit.

6.366 Assets decreased mainly as a result of the amortisation of internally developed computer software, partially offset by the cost of a new Renewable Energy Certificates system during 2013–14.

6.367 Liabilities decreased mainly due to lower amounts payable to suppliers, and a reduction in trade creditors and accruals at year-end, compared to 2012–13 when the Regulator was incurring significant start-up costs.

6.368 Fluctuations in other balances reflect normal business activities.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	1 343.8	942.2
Total income	4 410.8	5 067.6
Surplus	3 067.0	4 125.4
Total other comprehensive income	–	–
Total comprehensive income	3 067.0	4 125.4
Total assets administered on behalf of Government	1 404.6	1 419.1
Total liabilities administered on behalf of Government	292.8	235.1
Net assets	1 111.8	1 184.0

6.369 Administered expenses increased mainly due to a higher buy-back of free carbon units, particularly units associated with the coal-fired generation assistance scheme which were offered for the first time in 2013–14. These units were issued in addition to the units under the Jobs and Competitiveness Program.

6.370 Administered income decreased significantly due to a combination of less carbon emissions and the additional free carbon units surrendered in 2013–14, mainly from coal-fired electricity generators.

6.371 Administered assets decreased due to a lower taxation income receivable in respect of the carbon pricing mechanism at year-end. The Regulator expects this revenue to be received by the time of the final surrender of carbon permits by relevant emitters on 2 February 2015.

6.372 Administered liabilities increased to reflect additional provisions for the re-purchase or buy-back of carbon units in 2014–15.

Areas of audit focus

6.373 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Regulator's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- reliance on significant judgements and accounting estimates in relation to carbon revenue, buy-back provisions and commitments;
- controls supporting administered financial transactions, in view of the significance of carbon pricing income and associated expenditure;
- accounting for the fair value of non-financial assets which are significant to the financial statements; and
- the administration of the carbon pricing legislative requirements.

Audit Results

Summary of audit findings

6.374 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Comments on non-material entities

Audit results

Summary of audit findings

6.375 There were no significant or moderate audit issues or significant legislative matters noted in non-material entities within the portfolio. The auditor's reports on the financial statements of Low Carbon Australia Ltd contained an emphasis of matter, as discussed below.

Low Carbon Australia Ltd

Emphasis of matter

6.376 The auditor's report on the 2013–14 financial statements of Low Carbon Australia Ltd contained an emphasis of matter that draws attention to the fact that the financial report has not been prepared on a going concern basis due to Low Carbon Australia Ltd ceasing trading in 2014–15 with the operations being integrated into the Clean Energy Finance Corporation.

6.377 The ANAO did not modify its audit opinion in respect of this matter.

Finance Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Finance	Yes	√L	26 Aug 14	26 Aug 14	▲□
Albury–Wodonga Development Corporation	Yes	✓	10 Sept 14	10 Sept 14	
ASC Pty Ltd	Yes	✓	5 Sept 14	5 Sept 14	
- ASC AWD Shipbuilder Pty Ltd	No	✓	5 Sept 14	5 Sept 14	
- ASC Engineering Pty Ltd	No	✓	5 Sept 14	5 Sept 14	
- ASC Ship Building Pty Ltd	No	✓	5 Sept 14	5 Sept 14	
- Deep Blue Tech Pty Ltd	No	✓	5 Sept 14	5 Sept 14	
Australian Electoral Commission	Yes	✓	11 Sept 14	12 Sept 14	
Australian River Co Limited	Yes*	✓ [Ⓞ]	24 Feb 14	24 Feb 14	
Commonwealth Superannuation Corporation	No	✓	11 Sept 14	11 Sept 14	
Commonwealth Superannuation Scheme	No	✓	11 Sept 14	11 Sept 14	
ComSuper	No	✓	25 Aug 14	25 Aug 14	□
Future Fund Management Agency and the Board of Guardians	Yes	✓	30 Sept 14	30 Sept 14	
Medibank Private Limited	Yes	✓	8 Aug 14	8 Aug 14	
- Australian Health Management Group Pty Ltd	No	✓	1 Sept 14	1 Sept 14	
- Medibank Health Solutions Group Pty Ltd	No	✓	1 Sept 14	1 Sept 14	
Public Sector Superannuation Accumulation Plan	No	✓	11 Sept 14	11 Sept 14	
Public Sector Superannuation Scheme	No	✓	11 Sept 14	11 Sept 14	

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements

▲: significant or moderate issues and/or legislative matters reported previously not yet resolved

□: significant or moderate issues and/or legislative matters identified in previous periods, or the 2013–14 interim audit phase, now downgraded or resolved

Ⓞ: financial year end date other than 30 June 2014

* The Australian River Co Ltd (ArCo) is a public non-financial corporation and is classified as a material entity for the purposes of the Consolidated Financial Statements. ArCo does not produce an annual report and has not been included in the detailed analysis within this report.

Portfolio overview

6.378 The Finance portfolio provides a broad range of support and services to government. These included 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.

Department of Finance

Summary of financial results

6.379 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(352.9)	(206.3)
Revenue from government	261.7	274.4
Income tax expense	5.9	5.5
Surplus/(deficit) attributable to the Australian Government*	(97.1)	62.6
Total other comprehensive income	11.3	4.6
Total comprehensive income/(loss) attributable to the Australian Government	(85.8)	67.2
Total assets	2 646.1	2 434.7
Total liabilities	560.3	446.5
Total equity	2 085.8	1 988.2

* The department is not funded for depreciation expense which affects the reported surplus or deficit.

6.380 The net cost of services increased due to a number of factors including: a \$58 million write down of a reinsurance debtor following an agreed settlement with the Commonwealth's underwriter; a write down of \$42 million in the value of land and buildings following a revaluation⁶⁶, compared to a gain of \$36 million in the prior year; and an increase in insurance expenses of \$16 million, primarily due to the claims experience in 2013–14.

6.381 Assets increased mainly due to the construction of the Moorebank Relocation project, which is being managed by the department, partially offset by valuation decrements on land and buildings and investment properties.

66 Op cit (refer footnote 51 on p. 75).

6.382 The increase in liabilities related mainly to an increase in revenue received in advance for Microsoft license fees for 2014–15, which were invoiced by the department to Australian Government entities prior to 30 June 2014. This did not occur in 2012–13. In addition, the outstanding insurance claims liability increased as a result of the claims experience in 2013–14.

6.383 Fluctuations in other balances reflect normal business activities.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	11 013.2	11 059.2
Total income	2 460.2	3 123.7
Deficit	(8 553.1)	(7 935.6)
Total other comprehensive income/(loss)	(9 142.5)	29 005.7
Total comprehensive income/(loss)	(17 695.6)	21 070.2
Total assets administered on behalf of Government	16 309.1	17 018.1
Total liabilities administered on behalf of Government	140 509.6	127 002.2
Net liabilities	(124 200.5)	(109 984.0)

6.384 The significant reduction in administered other comprehensive income is primarily due to movements in the superannuation liability, with a loss of \$9 476 million in the current year compared to a gain of \$28 686 million in the prior year. The movements are a result of changes in discount rates and other assumptions such as whether members take their superannuation as a pension or a lump sum payment. Administered liabilities increased due to the same factors.

6.385 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.386 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the department's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- assumptions and calculations underpinning the actuarial assessment of the public sector unfunded superannuation liability as it involves estimates and judgements;

- accounting for the major claims and complex assumptions underpinning the valuation of outstanding claims under the Australian Government’s self-managed general insurance fund (Comcover);
- the assumptions underpinning the valuation of the Nation Building Fund investments, which involve significant judgement;
- the complexity of the valuation methodology and calculations underpinning administered investments held by the Australian Government;
- the consistency of the valuation methods and assumptions applied to the numerous properties in Finance’s property portfolio, including the disclosures and effects of the first time application of the accounting standard, AASB 13 *Fair Value Measurement*;
- the control regime in relation to entitlements paid to Parliamentarians and their staff due to the nature of these entitlements; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, reported in the 2012–13 financial statements.

Audit results

Summary of audit findings

6.387 The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Category	Closing position (at the end of the 2012–13 final audit phase)	Issues resolved (during the 2013–14 interim audit phase)	New issues identified (during the 2013–14 interim audit phase)	Issues resolved (during the 2013–14 final audit phase)	New issues identified (during the 2013–14 final audit phase)	Closing position (at the end of the 2013–14 final audit phase)
A	0	0	0	0	0	0
B	1	0	0	(1)	0	0
L1	1	0	0	0	0	1
Total	2	0	0	(1)	0	1

Resolved audit issues

Quality review of the valuation of the intra-government communications network

6.388 The ANAO’s examination of the valuation of the Intergovernmental Communications Network (ICON) in 2012–13 identified that a number of

assumptions and information used in the calculation of the value reported in the first draft of the financial statements were either not correct or had no supporting information. Finance subsequently revised the valuation and approximately \$52 million was reported in the 2012–13 financial statements.

6.389 During 2013–14 the department implemented robust quality assurance processes over the valuation of ICON, resulting in the value of \$59 million included in the financial statements being appropriately supported.

Legislative breaches

Actual and potential breaches of section 83 of the Constitution

6.390 A risk assessment and subsequent analysis undertaken by Finance in 2012–13 identified breaches of section 83 in relation to payments made under the *Judges Pensions Act 1968*, *Parliamentary Entitlements Act 1990* and the *Long Service Leave (Commonwealth Employee) Act 1976*. In 2012–13 amendments were made to the *Judges Pension Act 1968* as part of the *Financial Framework Legislative Amendment Act No. 2 2013* that are designed to reduce the risk of future judges' pension payments being made in breach of section 83 to low.

6.391 During 2013–14, Finance advised that it undertook a risk assessment of payments for long service leave and goods and services tax and payments made under determinations of the Remuneration Tribunal, to determine the risk of payments being made in breach of section 83 of the Constitution.

6.392 The risk assessment and subsequent analysis for 2013–14 identified 33 breaches of section 83 totalling approximately \$69 000 in relation to payments made under the *Parliamentary Entitlements Act 1990*. All of these payments were recovered.

6.393 The auditor's report on Finance's 2013–14 financial statements included a report on other legal and regulatory requirements referring to the breaches identified. This matter is not a qualification or modification to the audit opinion on Finance's financial statements, as the financial statements fairly presented the financial operations and position of Finance at year end.

6.394 Finance has undertaken to continue to monitor its level of compliance with section 83 of the Constitution across all legislation for which it is administratively responsible. Amendments to legislation will be progressed with the aim of reducing the risk of future section 83 breaches, where appropriate.

6.395 Full details of the breaches identified during 2013–14 are outlined in Note 36 of Finance's 2013–14 financial statements and a general discussion of this matter is at paragraphs 5.26 to 5.38 in chapter 5 of this report.

Albury–Wodonga Development Corporation

Summary of financial results

6.396 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(0.6)	(0.9)
Revenue from government	-	-
Deficit attributable to the Australian Government**	(0.5)	(0.9)
Total other comprehensive income/(loss)	0.2	(3.2)
Total comprehensive loss attributable to the Australian Government	(0.3)	(4.1)
Total assets	72.3	78.6
Total liabilities	0.8	0.8
Total equity	71.5	77.8

* The ANAO's analysis of entities' operating results at paragraphs 4.2 to 4.11 of chapter 4 of this report refers to the entity.

** The deficit also includes the Corporation's shares or surpluses in associates and joint ventures of \$174 000 (2012–13 \$46 000).

6.397 The decrease in net cost of services is due mainly to an increase in the number of residential land sales.

6.398 Assets decreased overall, due to an ongoing program of land sales and a reduction in the value of joint ventures, partially offset by a small increase in the value of land.

6.399 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.400 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Corporation's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the effect of the anticipated wind-up of the Corporation, particularly the assessment of the Corporation as a going concern for reporting purposes;
- revenue recognition relating to land sales due to complexities in the calculation of the gain or loss on sale and identifying the appropriate time to recognise land sales;
- valuations of land and buildings and assets held for sale due to the judgement involved, particularly in relation to the consideration of any indicators of impairment; and
- accounting for joint ventures due to the reliance on third parties for information on investments.

Audit results

Summary of audit findings

6.401 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

ASC Pty Ltd

6.402 ASC Consolidated Group (ASC) built Australia's fleet of Collins Class submarines for the Royal Australian Navy (RAN) and is now responsible for the ongoing design enhancements, maintenance and support of the Collins Class submarines (CCSM) through the In-Service Support Contract (ISSC).

6.403 ASC is part of the alliance based contract arrangement to deliver three Air Warfare Destroyers (AWD) for the RAN. The AWD alliance is made up of the Defence Materiel Organisation, representing the Australian Government, ASC as the lead shipbuilder, and Raytheon Australia as the mission systems integrator.

6.404 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*. The Minister for Finance owns all ASC shares on behalf of the Commonwealth of Australia.

Summary of financial results

6.405 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	922.0	911.0
Total income	918.3	920.7
Profit/(loss) after income tax	(3.7)	9.7
Total other comprehensive income/(loss) after income tax	(0.9)	3.6
Total comprehensive income/(loss) after income tax	(4.6)	13.3
Total assets	646.4	619.7
Total liabilities	425.4	385.1
Net assets	221.0	234.6

6.406 Expenses increased primarily as a result of the recognition of the AWD project loss of \$34.1 million, partially offset by reduced expenditure associated with the construction of the AWDs and maintenance of the CCSM.

6.407 Income decreased as a result of a \$62.8 million decrease in revenue in the AWD shipbuilding operations, mainly offset by a \$60.4 million increase in revenue from CCSM maintenance activities.

6.408 The decrease in other comprehensive income after income tax is a result of a decrease in value of land and buildings⁶⁷ and a smaller amount recognised as income in relation to the actuarial reassessment of the defined benefit plans, compared to 2012–13.

6.409 The increase in assets is mainly due to the increase in cash held at year end due to positive operating cash flows from the submarine business.

6.410 The increase in liabilities is mainly due to the loss recognised on the AWD project in 2013–14.

Areas of audit focus

6.411 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the ASC's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

67 Op cit (refer footnote 51 on p. 75).

- revenue and profit recognition under the AWD and ISSC projects due to the material nature of these projects. The accounting for revenue, and profit recognition, in relation to these contracts is complex and subject to significant estimation and judgement;
- the accounting for AWD income, expense, liability and asset balances, as significant judgements are involved in the accounting for these balances in the financial statements;
- warranty obligations relating to the ISSC project which involve estimation and judgement;
- valuation of the fair value of land and buildings which involve judgements; and
- employee provisions, particularly the valuation and accuracy of the defined benefits plan and self-insured workers compensation balances that are based on estimates.

Audit results

Summary of audit findings

6.412 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Australian Electoral Commission

Summary of financial results

6.413 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(265.0)	(116.4)
Revenue from government	276.1	114.3
Surplus/(deficit) attributable to the Australian Government*	11.1	(2.1)
Total other comprehensive income	5.3	2.0
Total comprehensive income/(loss) attributable to the Australian Government	16.4	(0.1)
Total assets	87.0	62.0
Total liabilities	39.2	38.3
Total equity	47.8	23.7

* The entity is not funded for depreciation expense which affects the reported surplus or deficit.

6.414 The significant increase in the net cost of services and revenue from government is largely due to expenditure on the 2013 federal election and the additional Western Australian Senate election and the Griffith by-election.

6.415 The increase in other comprehensive income is primarily due to the impact of the revaluations of property, plant and equipment and leasehold improvements that were undertaken during 2013–14⁶⁸.

6.416 Budgeted activities not undertaken in 2013–14, including the planned referendum, resulted in an increase in the amount of unspent appropriations at year-end. This increase, combined with the revaluation of property, plant and equipment and leasehold improvements, has significantly increased the value of assets as at 30 June 2014.

68 Op cit (refer footnote 51 on p. 75).

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	61.0	–
Total income	2.2	–
Deficit	(58.8)	–
Total comprehensive loss	(58.8)	–
Total assets administered on behalf of Government	–	–
Total liabilities administered on behalf of Government	–	–
Net assets	–	–

6.417 In non-election years, such as 2012–13, there is minimal activity in administered balances. In 2013–14, administered expenses relate to funding payments to political parties and administered income arises from fines for not voting.

Areas of audit focus

6.418 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the department's financial statements. The key areas highlighted for specific audit coverage in 2013–14 were:

- election year expenditure as there is a significant increase in supplier transactions requiring additional audit testing;
- the valuations and disclosures of land and buildings and property, plant and equipment, which in 2013–14 were subject to new disclosure requirements in accordance AASB 13 *Fair Value Measurement*;
- capitalisation of intangible assets, which is subjective in nature and includes estimating useful lives and judgement of potential impairments; and
- the identification, accounting and reporting of commitments as audit adjustments have been identified in this area in previous periods.

Audit results*Summary of audit findings*

6.419 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Future Fund Management Agency and the Board of Guardians

Summary of financial results

6.420 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Total expenses	665.7	666.8
Total income	13 513.0	12 564.4
Operating result	12 847.3	11 897.6
Total other comprehensive loss after income tax	(111.4)	(39.7)
Total comprehensive income	12 735.9	11 857.9
Total assets	103 086.9	94 893.7
Total liabilities	1 546.7	6 089.4
Net assets	101 540.2	88 804.3

* The ANAO's analysis of entities' operating results at paragraphs 4.2 to 4.11 of chapter 4 of this report refers to the entity.

6.421 Income increased as a result of improved investment performance, largely due to foreign currency gains in 2013–14.

6.422 Total other comprehensive income loss increased due to greater foreign currency losses on translation of foreign subsidiaries.

6.423 The value of assets and net assets increased in line with investment performance.

6.424 Liabilities decreased significantly due mainly to a decrease in derivative liabilities (currency contracts and swaps) at 30 June 2014, compared to 30 June 2013.

6.425 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.426 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Future Fund Management Agency and the Board of Guardians' (FFMA) financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the valuation of investments from the perspectives of governance, financial accuracy and regulatory oversight;
- a compliance function that reinforces internal assurance procedures;
- the processes for monitoring external service providers, including the custodian;
- group consolidation and tax implications relating to wholly owned subsidiaries; and
- the management of new investments and liquidity requirements given that FFMA funds have been fully invested.

Audit results

Summary of audit findings

6.427 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Medibank Private Limited

6.428 In March 2014, the Australian Government announced that it planned to privatise Medibank Private Limited (Medibank Private) through an initial public offering of shares. Medibank Private was listed on the Australian Stock Exchange on 25 November 2014 and on this date the Auditor-General resigned as auditor of Medibank Private.

Summary of financial results

6.429 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	6 365.2	5 774.6
Total income	6 496.0	6 007.3
Surplus after income tax	130.8	232.7
Total other comprehensive income after income tax	1.7	1.1
Total comprehensive income	132.5	233.8
Total assets	2 974.3	3 114.9
Total liabilities	1 580.3	1 712.2
Net assets	1 394.0	1 402.7

6.430 Income increased due to the annual rate increase in private health insurance premiums and increased revenue from a contract with the Australian Defence Force.

6.431 Expenses increased due mainly to: an increase in private health insurance benefits drawn by members and the total number of members; an increase in medical service costs associated with the Australian Defence Force contract; and the impairment of goodwill.

6.432 Assets decreased due to the payment to the Australian Government of a special dividend declared in 2012–13 and the impairment of goodwill.

6.433 Liabilities decreased due to the payment of the prior year special dividend payable to the Government.

6.434 Fluctuations in other balances reflect normal business activities.

Area of audit focus

6.435 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on Medibank's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- complex actuarial assessments of the outstanding claims provision, package bonus provision and associated disclosures;
- recognition of contribution revenue and the unearned premium liability;
- the valuation of identifiable intangibles and goodwill relating to Medibank;
- key assumptions relating to the valuation of software; and

- the cut-off and recognition of revenue and expenses regarding new customer contracts.

Audit results

Summary of audit findings

6.436 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Comments on non-material entities

Audit results

Summary of audit findings

6.437 There were no significant or moderate audit issues or significant legislative matters noted in non-material entities within the portfolio, except in relation to ComSuper.

ComSuper

6.438 ComSuper is the Australian Government entity responsible for the day-to-day management of a number of the superannuation schemes for members of the Australian Public Service, participating employees, and members of the Australian Defence Force.

Legislative breaches

Actual and potential breaches of section 83 of the Constitution

6.439 During 2012–13, ComSuper undertook a further review to determine the risk of payments being made in breach of section 83 of the Constitution from the special appropriations and special accounts for which it is administratively responsible. The risk assessment and subsequent analysis for 2012–13 identified six breaches of section 83 in relation to payments under the *Papua New Guinea (Staffing Assistance) Act 1973*.

6.440 The *Financial Framework Legislative Amendment Act No. 1 2013*, enacted on 14 March 2013, includes provisions designed to address the risk of any subsequent overpayments being in breach of section 83 and, as such, the matter has been resolved. A general discussion of this matter is at paragraphs 5.26 to 5.38 in chapter 5 of this report.

Foreign Affairs and Trade Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Foreign Affairs and Trade	Yes	✓	19 Sept 14	22 Sept 14	◆▲□
Australian Centre for International Agriculture Research	No	✓	11 Sept 14	11 Sept 14	
Australian Secret Intelligence Service	No	✓	11 Nov 14	11 Nov 14	
Australian Trade Commission (Austrade)	Yes	✓	18 Aug 14	18 Aug 14	
Export Finance and Insurance Corporation	Yes	✓	28 Aug 14	28 Aug 14	
Tourism Australia	No	✓	26 Aug 14	26 Aug 14	

✓: auditor's report not modified

▲: significant or moderate issues and/or legislative matters reported previously not yet resolved

◆: new significant or moderate issues and/or legislative matters noted

□: significant or moderate issues and/or legislative matters identified in previous periods, or the 2013–14 interim audit phase, now downgraded or resolved

Portfolio Overview

6.441 The Foreign Affairs and Trade portfolio comprises the Department of Foreign Affairs and Trade (DFAT), the Australian Centre for International Agricultural Research (ACIAR), the Australian Secret Intelligence Service (ASIS), the Australian Trade Commission (Austrade), the Export Finance and Insurance Corporation (EFIC) and Tourism Australia⁶⁹. As a result of the Administrative Arrangements Order on 18 September 2013, the Australian Agency for International Development (AusAID) was integrated into DFAT from 1 November 2013.

6.442 The portfolio supports Ministers in the conduct of Australia's foreign, trade and investment, development and international security policies to advance Australia's national interest - the security and prosperity of Australians - by promoting prosperity, reducing poverty and enhancing stability with a particular focus on the Indian Ocean and Asia Pacific regions.

6.443 The Foreign Affairs and Trade portfolio contributes to:

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

69 Tourism Australia was transferred to the Foreign Affairs and Trade portfolio as a result of the MoG changes on 18 September 2013.

- 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;
- providing assistance to developing countries to improve economic performance and governance; and
- promoting Australia as an international destination for tourists and business travellers.

Department of Foreign Affairs and Trade

Summary of financial results

6.444 The following tables provide key financial statement balances. In view of the integration of the former AusAID into DFAT, as a result of the MoG changes referred to above, the 2012–13 balances are presented separately for the former AusAID and the department. The accompanying commentary explains any significant movements between the 2013–14 balances and the combined 2012–13 balances, taking into account appropriate eliminations and adjustments.

Departmental items

Key financial balances for year	2013–14	2012–13	2012–13
	(\$m)	(\$m)	AusAID (\$m)
Net cost of services	(1 420.1)	(934.1)	(325.4)
Revenue from government	1 327.7	885.7	316.8
Deficit attributable to the Australian Government*	(92.4)	(48.4)	(8.6)
Total other comprehensive income	111.5	264.2	1.1
Total comprehensive income/(loss) attributable to the Australian Government	19.1	215.8	(7.5)
Total assets	3 699.9	3 442.0	168.4
Total liabilities	406.2	286.3	91.1
Total equity	3 293.7	3 155.7	77.3

* The department is not funded for depreciation expense which affects the reported deficit.

6.445 The net cost of services increased mainly due to higher employee expenses associated with a significant redundancy program announced in 2014. This also resulted in an increase in liabilities, as a provision was created for redundancy expenditure committed at 30 June 2014 to be paid in 2014–15.

6.446 Revenue from government increased mainly as a result of additional funding to support Australia’s chairmanship of the United Nations Security Council, the civilian engagement in Afghanistan, and for the delivery of the Official Development Assistance aid program.

6.447 An increase in the value of DFAT’s overseas property portfolio is reflected in the balance of other comprehensive income⁷⁰. The balance is lower in 2013–14 as the increase in the fair value of the property portfolio was less than the increase in 2012–13.

6.448 Assets increased mainly due to the increase in the fair value of overseas property mentioned above. The increase was partially offset by an increase in depreciation expenses on property, plant and equipment.

6.449 Fluctuations in other balances reflect normal business activities.

⁷⁰ Op cit (refer footnote 51 on p. 75).

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14	2012–13	2012–13
	(\$m)	(\$m)	AusAID (\$m)
Total expenses	4 720.5	278.3	4 259.1
Total income	573.6	631.7	267.5
Net (cost of)/contribution by services	(4 146.9)	353.4	(3 991.6)
Total other comprehensive income/(loss)	16.5	(207.0)	0.1
Total comprehensive income/(loss)	(4 130.4)	146.4	(3 991.5)
Total assets administered on behalf of Government	1 946.9	219.5	1 647.7
Total liabilities administered on behalf of Government	1 880.7	60.3	1 647.2
Net assets	66.2	159.2	0.5

6.450 The significant increase in administered expenses is mainly due to \$84.8 million in funding paid by the department to Tourism Australia for operational purposes. This funding was provided by the Department of Industry in 2012–13.

6.451 Administered income decreased primarily due to a significant reduction in the dividend received from EFIC. In 2013–14, EFIC paid a dividend of \$11.3 million (2012–13 \$226.8 million).

6.452 Total other comprehensive income relates to the first time recognition in the department's accounts of the investment in Tourism Australia. The 2012–13 balance relates only to the Australian Government's investment in EFIC. There was a significant reduction in the value of the investment in EFIC in the prior year due to the payment of the dividend mentioned above.

6.453 Administered assets increased mainly due to an increase in contributions to the Asian Development Fund, which resulted in an increase in the value of the Australian Government's investment in the Fund. The increase in liabilities reflects an increase in international development assistance owed but not yet paid as at 30 June 2014.

Areas of audit focus

6.454 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on DFAT's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the integration of AusAID into DFAT, due to the complexities relating to the integration of IT systems and accounting processes and the associated year-end financial statement consolidation;
- revenue generated from passport operations. A significant proportion of the passport revenue collection function is outsourced to the Australian Postal Corporation;
- the completeness of departmental revenue for rental accommodation and services provided to other government agencies at overseas posts, as this item is material to DFAT's financial statements and is collected under a number of service level agreements;
- the valuation of the Australian Government's overseas property due to the significance of the balance to the financial statements (\$1.2 billion in 2013–14) and the judgements and estimates used to derive the balance;
- the valuation, accounting and reporting disclosures associated with loans and subscriptions and multilateral liabilities due to the complexities associated with estimating the likely recoverability of the loans, and the estimation process to value the fair value of liabilities at year end;
- grant accounting and contract management as these items are material to the administered financial statements and there are a diverse range of administered grant payments to international bodies, the United Nations and Commonwealth organisations; and
- overseas post operations, as a material component of DFAT's departmental financial statements relate to financial operations performed at overseas locations which operate under a decentralised control framework.

6.455 The ANAO continued to provide audit coverage of the following areas which have previously been identified as being significant to the financial statements:

- the accounting treatment and disclosure of the transactions in the National Interest Account (NIA) that are reported by the Commonwealth where the recovery of loans made by the Australian Government to overseas governments is considered less than probable. The NIA reports transactions undertaken by EFIC, once the Minister determines they are in the national interest;

- executive remuneration due to the geographical spread and diversity of allowances paid to executives posted overseas;
- appropriations, particularly adjustments required under the passport funding model; and
- legislative compliance, particularly the implementation of measures designed to address the risk of breaches of section 83 of the Constitution, referred to in the 2012–13 financial statements.

Audit results

Summary of audit findings

6.456 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Category	Closing position (at the end of the 2012–13 final audit phase)	Issues resolved (during the 2013–14 interim audit phase)	New issues identified (during the 2013–14 interim audit phase)	Issues resolved (during the 2013–14 final audit phase)	New issues identified (during the 2013–14 final audit phase)	Closing position (at the end of the 2013–14 final audit phase)
A	0	0	0	0	0	0
B	0	0	1	0	1	2
L1	0	0	1	(2)*	1	0
Total	0	0	2	(2)*	2	2

* One L1 issue, *Banking requirements*, was identified and resolved during the final audit phase.

Outstanding audit issue

Monitoring of user access controls

6.457 In the interim audit phase of the 2013–14 audit, the ANAO identified that for the period July 2013 to March 2014, a number of users had been granted database administrator access and privileged access to the FMIS and HRMIS that was inconsistent with their responsibilities. In addition, the activities associated with their access were not logged. As a result, no monitoring of access activity by these users was able to be undertaken. In the absence of these controls, there was an increased risk of inappropriate system access and unauthorised changes being made to systems data during the abovementioned period. The ANAO confirmed that the department had reviewed and aligned access arrangements with responsibilities and removed inappropriate access from March 2014.

6.458 The ANAO reviewed DFAT's actions to address the monitoring of user access as part of the 2013–14 final audit phase and identified that a detailed review of the activities of those users during 2013–14 had not been undertaken by the department. The ANAO also identified that monitoring controls had not been implemented for those users who continued to have database administrator access. The ANAO undertook additional audit procedures during the final audit phase to compensate for the risks associated with this issue.

6.459 DFAT advised that it was implementing processes to address this issue in 2014–15. The ANAO will continue to monitor the action taken by DFAT during the 2014–15 audit.

New audit issue

Financial statements preparation process

6.460 During the final phase of the 2013–14 audit, the ANAO identified that DFAT did not have adequate processes in place to ensure the timely and accurate preparation of their 2013–14 financial statements. The ANAO identified weaknesses in DFAT's quality assurance review processes, a lack of adherence to financial statement preparation timetables, and deficiencies in the preparation of work papers to support the financial statements and associated notes. While acknowledging the challenges caused by the integration with AusAID, rushed preparations, particularly as a result of weaknesses in project management and process shortcomings, resulted in a significant number of adjustments, including material adjustments, to the draft financial statements submitted for audit. In addition, there were significant delays in the completion of the financial statements, resulting in the Department of Finance's material clearance timetable not being met.

6.461 DFAT has advised that it was implementing procedures to address this issue in 2014–15. The ANAO will review the progress made by DFAT to improve its financial statements preparation process as part of the 2014–15 audit.

Resolved legislative breaches

Public money held by a third party

6.462 The department has a Memorandum of Understanding with the Australian Postal Corporation (the Corporation) to receive and process passport applications on DFAT's behalf. As part of the 2013–14 interim audit phase, the ANAO identified that DFAT did not have a current signed

authorisation allowing the Corporation to collect fees, as then required by section 12 of the FMA Act. This provision provided that agencies cannot enter into an arrangement for the receipt, custody or payment of public money by a third party, unless written authorisation has been given.

6.463 In May 2014, DFAT signed an authorisation under section 12 of the FMA Act formally authorising the Corporation to collect fees on behalf of DFAT. As a result, this matter is resolved.

Banking requirements

6.464 Prior to 30 June 2014, section 11 of the FMA Act required that all public money was banked into an official bank account. The FMA Act defined an official bank account as an account which included the word 'official' in its title. The ANAO identified instances where public money held by a salary sacrifice provider had not been banked into an official bank account, in accordance with section 11 of the FMA Act.

6.465 The department has advised it has changed the name of the account to include the word 'official' in its title. As a result, this matter is resolved.

Australian Trade Commission

Summary of financial results

6.466 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(190.5)	(174.6)
Revenue from government	176.8	160.0
Deficit attributable to the Australian Government*	(13.7)	(14.6)
Total other comprehensive income	3.7	4.5
Total comprehensive loss attributable to the Australian Government	(10.0)	(10.1)
Total assets	110.6	117.6
Total liabilities	53.1	54.1
Total equity	57.5	63.5

* The entity is not funded for depreciation expense which affects the reported deficit.

6.467 Following the 2013 Administrative Arrangements Order, responsibility for tourism policy, programs and research was transferred to Austrade from the Department of Industry. The increase in the net cost of services was mainly a result of increased expenses associated with these functions. This increase was partially offset by an increase in revenues from government associated with the transfer of the tourism functions. Fluctuations in other balances reflect normal business activities.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	124.6	125.9
Total income	0.4	–
Deficit	(124.2)	(125.9)
Total other comprehensive income	–	–
Total comprehensive loss	(124.2)	(125.9)
Total assets administered on behalf of Government	–	0.1
Total liabilities administered on behalf of Government	11.4	9.0
Net liabilities	(11.4)	(8.9)

6.468 Fluctuations in all balances reflect normal business activities.

Areas of audit focus

6.469 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on Austrade's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the administration costs for the export market development grants scheme as a result of its significance to the financial statements and the requirements of the *Export Market Development Grants Act 1997*; and
- land and buildings, property, plant and equipment, and intangibles due to the judgements involved in assessing and calculating their fair value.

Audit results

Summary of audit findings

6.470 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Export Finance and Insurance Corporation

Summary of financial results

6.471 The financial statements of the Export Finance and Insurance Corporation (EFIC) report the results of two accounts - the Commercial Account and the National Interest Account. The Commercial Account is used to account for the transactions for which EFIC is directly accountable. EFIC retains the profits and accounts for the losses arising from these transactions. The National Interest Account is used for transactions that are entered into in the national interest. The Australian Government receives the net income from this account and EFIC is reimbursed for any losses incurred.

6.472 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Commercial Account

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Total expenses	147.4	158.8
Total income	171.6	181.4
Net profit	24.2	22.6
Total other comprehensive income/(loss)	(3.3)	2.4
Total comprehensive income	20.9	25.0
Total assets	2 630.7	2 706.7
Total liabilities	2 404.8	2 490.4
Net assets	225.9	216.3

* The ANAO's analysis of entities' operating results at paragraphs 4.2 to 4.11 of chapter 4 of this report refers to the entity.

6.473 Fluctuations in all balances reflect normal business activities.

National Interest Account

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	34.7	37.0
Total income	50.7	51.0
National Interest Account attributable to the Australian Government	(16.0)	(14.0)
Total assets	648.0	707.9
Total liabilities	648.0	707.9
Net assets	–	–

6.474 Loans from the Commercial Account represent \$643.4 million of the National Interest Account liabilities at 30 June 2014. Assets decreased primarily due to loan repayments to the Commercial Account exceeding amounts withdrawn from this loan facility. This resulted in lower borrowings from the Commercial Account, compared with borrowings in 2012–13.

6.475 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.476 The ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on the EFIC's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- funding and liquidity management that relates to the ongoing management of EFIC's complex cash requirements;
- complex treasury activities involving highly structured bonds, interest rate swaps and financial guarantees, that are significant in value;
- the valuation of loans, guarantees, and available-for-sale investments; and
- compliance with applicable accounting standards, including the valuation of derivatives, and hedge accounting.

Audit results

Summary of audit findings

6.477 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Comments on non-material entities

Summary of audit findings

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

Health Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Health	Yes	√L	12 Sept 14	12 Sept 14	▲
- Therapeutic Goods Administration	No	✓	12 Sept 14	12 Sept 14	□
Australian Commission on Safety and Quality in Health Care	No	✓	18 Sept 14	18 Sept 14	
Australian Institute of Health and Welfare	No	✓	25 Sept 14	26 Sept 14	
Australian National Preventive Health Agency	No	✓	2 Sept 14	2 Sept 14	
Australian Organ and Tissue Donation and Transplantation Authority	No	✓	23 Sept 14	23 Sept 14	
Australian Radiation Protection and Nuclear Safety Agency	No	✓	16 Sept 14	16 Sept 14	◆
Australian Sports Anti-Doping Authority	No	✓	5 Sept 14	5 Sept 14	□
Australian Sports Commission	Yes	✓	14 Aug 14	14 Aug 14	
Australian Sports Foundation Limited	No	✓	13 Aug 14	13 Aug 14	
Cancer Australia	No	✓	22 Sept 14	22 Sept 14	
Food Standards Australia New Zealand	No	✓	23 Sept 14	23 Sept 14	
General Practice Education and Training Limited	No	√E	3 Oct 14	3 Oct 14	
Health Workforce Australia	No	≡			
Independent Hospital Pricing Authority	No	✓	15 Sept 14	15 Sept 14	
National Blood Authority	Yes	✓	18 Aug 14	18 Aug 14	
National Health and Medical Research Council	Yes	✓	23 Sept 14	23 Sept 14	
National Health Funding Body	No	✓	9 Oct 14	9 Oct 14	
National Health Performance Authority	No	✓	22 Sept 14	22 Sept 14	
National Mental Health Commission	No	✓	15 Oct 14	15 Oct 14	
Private Health Insurance Administration Council	No	✓	1 Aug 14	1 Aug 14	
Private Health Insurance Ombudsman	No	✓	3 Sept 14	3 Sept 14	
Professional Services Review	No	✓	9 Oct 14	9 Oct 14	

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements

E: auditor's report contains an emphasis of matter

▲: significant or moderate issues and/or legislative matters reported previously not yet resolved

◆: new significant or moderate issues and/or legislative matters noted

□: significant or moderate issues and/or legislative matters identified in previous periods, or the 2013–14 interim audit phase, now downgraded or resolved

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

Portfolio overview

6.479 The Health portfolio consists of the Department of Health (Health) 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 needs of all Australians. Each portfolio entity has developed performance information to assist in assessing its effectiveness in achieving entity-specific outcomes.

6.480 Portfolio entities work towards the whole-of-portfolio targets over time in relation to the health status of Australians.

6.481 During 2013–14, there were significant changes in the department resulting from the Administrative Arrangements Order of 18 September 2013. The department became the Department of Health with the transfer of Outcome 4: *Aged Care and Population Ageing* to the Department of Social Services (DSS). In addition, a number of indigenous specific programs and functions were transferred to the Department of the Prime Minister and Cabinet (PM&C) and responsibility for sport and recreation policy was transferred to the department from the former Department of Regional Australia, Local Government, Arts and Sport (DRALGAS).

Department of Health

Summary of financial results

6.482 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(615.9)	(676.9)
Revenue from government	575.5	624.8
Deficit attributable to the Australian Government*	(40.4)	(52.1)
Total other comprehensive income	–	–
Total comprehensive loss attributable to the Australian Government	(40.4)	(52.1)
Total assets	396.9	499.9
Total liabilities	296.8	325.0
Total equity	100.1	174.9

* The department is not funded for depreciation expense which affects the reported deficit.

6.483 The decrease in the deficit and the associated total comprehensive loss was mainly due to decreases in employee expenses and depreciation expenses and a reduction in appropriation funding resulting from the transfer of the aged care function to DSS, as mentioned above.

6.484 The reduction in asset, liability and equity balances were also as a result of the transfer of the aged care function to DSS.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13* (\$m)
Total expense	44 938.9	51 206.9
Total income	1 716.5	2 014.0
Deficit	(43 222.4)	(49 192.9)
Total other comprehensive loss	(4.5)	(24.0)
Total comprehensive loss	(43 226.9)	(49 216.9)
Total assets administered on behalf of Government	1 181.2	1 107.8
Total liabilities administered on behalf of Government	2 562.8	2 894.0
Net liabilities	(1 381.6)	(1 786.2)

* The expenses (\$3.1 million), income (\$70 million), and assets (\$77 million) figures reported in the 2012–13 financial statements were adjusted to reflect changes to the accounting for payments to special accounts, special accounts balance and compensation recovery revenue.

6.485 Administered expenses decreased mainly due to the reduction of aged care subsidies following the transfer of the aged care function to DSS during 2013–14.

6.486 Administered income decreased primarily due to a reduction in revenue in the Health and Hospital Fund (HHF) special account. The purpose of the special account is to make payments in relation to the health related infrastructure that will make progress towards achieving the Commonwealth’s health reform targets. Less funding was received into the HHF special account in 2013–14 in line with the reduction in grant payments as a result of a budget measure. In addition, there was no revenue relating to residential and packaged care services in 2013–14, compared to 2012–13, as these activities are linked to the aged care function which was transferred to DSS. This decrease was partially offset by an increase in recoveries from pharmaceutical companies under the high cost drugs recoveries program.

6.487 Administered assets increased primarily due to an increase in the value of investments in portfolio entities. The Australian Sports Commission and the Australian Sports Foundation Ltd were both transferred to the portfolio from

the former Regional Australia, Local Government, Arts and Sport portfolio and the Australian Aged Care Standards and Accreditation Agency Ltd was transferred to the Social Services portfolio. The increase in administered investments was partially offset by a decrease in receivables at year end. This decrease was due to responsibility for the concessional loans to aged care facilities was being transferred to DSS.

6.488 Administered liabilities decreased primarily due to the department not having a bank overdraft at 30 June 2014, compared to the prior year bank overdraft of \$105 million. Administered liabilities were also affected by decreases in grants, suppliers and subsidies payables mainly due to the impact of the MoG changes.

Areas of audit focus

6.489 The ANAO's audit approach identified particular areas of audit focus that had the potential to impact on Health's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the MoG changes of 18 September 2013 that had a significant impact on the department due to the accounting for the transfer of major personal benefit activity and indigenous programs, including those related to resources and infrastructure, to other portfolios;
- the high volume and complex administered health related benefits processed by the Department of Human Services on behalf of Health;
- a complex valuation methodology used to estimate the Government's liability under the medical indemnity program;
- the presentation and disclosure of the appropriations and special accounts managed by Health that cover 15 outcomes;
- the diverse range of administered grant payments to the States and Territories, other service providers and program recipients;
- the management, accounting and disclosure of the National Medical Stockpile for slow moving and expired inventory; and
- legislative compliance, particularly the implementation of measures designed to address the risk of breaches of section 83 of the Constitution, referred to in the 2013–14 financial statements.

6.490 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. The transfer of assets and liabilities to and from

other agencies as part of the MoG changes of 18 September 2013 was supported by agreements between relevant agencies. The ANAO reviewed the agreements and the underlying data supporting the calculation to gain assurance over the balances included in Health's 2013–14 financial statements.

6.491 Health related benefit payments are administered by the Department of Human Services on behalf of the department. The ANAO assessed the effectiveness of the underlying information technology system controls at the Department of Human Services over the benefit payments, and confirmed the balances agreed by both agencies for reporting in Health's financial statements.

6.492 The estimation of the liability relating to the medical indemnity program was another area of audit interest in view of the complexity of the assumptions used and the underlying calculation of this liability. The calculation was supported by an actuarial assessment and the ANAO reviewed the assessment, including the underlying data used in the calculation to gain assurance over the balance included in the 2013–14 financial statements.

Audit results

Summary of audit findings

6.493 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from 2012–13 or 2013–14 audits.

6.494 The matters that gave rise to a legislative breach in prior years relating to section 83 of the Constitution, which is discussed below, remain unresolved in 2013–14.

Legislative breaches

Actual and potential breaches of section 83 of the Constitution

6.495 In 2013–14, the department continued to monitor the risk of payments being made in breach of section 83 of the Constitution from the special appropriations and special accounts for which it is administratively responsible, as well as in relation to payments made under the *Long Service Leave (Commonwealth Employees) Act 1976* and *A New Tax System (Goods and Services) Act 1999*.

6.496 The risk assessment undertaken identified the following actual and potential breaches:

- The department identified payments totalling \$0.316 million under the *Health Insurance Act 1973* which were actual breaches of section 83 of the Constitution. These breaches related to payments under the Chronic Disease Dental Scheme. Recoveries relating to these breaches have been waived by the relevant delegate. The department also reported overpayments, totalling \$16.976 million, that related to payments made pursuant to the *Health Insurance Act 1973*, as potential section 83 breaches. The department expected these overpayments would be recovered.
- Payments were identified which were potentially in breach of section 83 of the Constitution, totalling \$1.001 million under the *National Health Act 1953*, \$27 000 under the *Medical Indemnity Act 2002* and \$407 000 under the *Aged Care Act 1997* in relation to overpayments identified through compliance processes undertaken by the Department of Human Services .
- Payments were identified which were potentially in breach of section 83 of the Constitution, totalling \$51 000 under the *Long Service Leave (Commonwealth Employees) Act 1976* in relation to overpayments made by the department that were identified through the reconciliation of final payments of terminated employees.

6.497 As at 30 June 2014, \$9.670 million of the overpayments referred to above had been recovered.

6.498 The auditor's report included a report on other legal and regulatory requirements referring to the actual and potential breaches identified. This is not a qualification or modification to the audit opinion on the Health's financial statements, as the financial statements fairly presented the financial operations and position of the department at year end.

6.499 Full details of actual and potential breaches identified in 2013–14 are outlined in Note 28B of the 2013–14 financial statements, and a general discussion of this matter is at paragraphs 5.26 to 5.38 in chapter 5 of this report.

Australian Sports Commission

Summary of financial results

6.500 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(275.2)	(272.9)
Revenue from government	265.9	267.7
Deficit attributable to the Australian Government	(9.3)	(5.2)
Total other comprehensive income	5.5	15.8
Total comprehensive income/(loss) attributable to the Australian Government	(3.8)	10.7
Total assets	331.4	343.8
Total liabilities	21.1	29.7
Total equity	310.3	314.1

6.501 Assets, including land and buildings, increased in value, partially offset by increased depreciation, write downs and impairment of assets.

6.502 Fluctuations in all other balances reflect normal business activities.

Areas of audit focus

6.503 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact the Australian Sports Commission's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the assessment of the value of land and buildings, and property, plant and equipment to reflect additional disclosure requirements of AASB 13 *Fair Value Measurement*; and
- a review of grant management processes and controls as grants are significant in view of the amounts involved.

Audit results

Summary of audit findings

6.504 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

National Blood Authority

Summary of financial results

6.505 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(6.3)	(6.8)
Revenue from government	6.1	6.2
Deficit attributable to the Australian Government*	(0.2)	(0.6)
Total other comprehensive income	0.2	–
Total comprehensive loss attributable to the Australian Government	–	(0.6)
Total assets	10.8	10.3
Total liabilities	3.0	2.5
Total equity	7.8	7.8

* The entity is not funded for depreciation expense which affects the reported surplus or deficit.

6.506 Fluctuations in the above balances reflect normal business activities.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	1 044.9	1 012.4
Total income	1 101.4	1 058.3
Surplus	56.5	45.9
Total other comprehensive income	–	–
Total comprehensive income	56.5	45.9
Total assets administered on behalf of Government	574.6	499.7
Total liabilities administered on behalf of Government	78.0	67.2
Net assets	496.6	432.5

6.507 The Australian Government and all states and territories provide funding for the supply of blood and blood products based on an estimate of demand. In 2013–14, the demand for blood and blood products was less than forecast, resulting in a decrease in associated expenditure and an increase in the administered surplus. The lower demand for blood products also

contributed to an increase in administered assets and an increase in the value of blood product inventories at year end.

6.508 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.509 The recognition and measurement of the NBA’s blood product inventories was identified as an area of audit focus in the ANAO’s audit approach, and highlighted for specific audit coverage in 2013–14.

Audit results

Summary of audit findings

6.510 Audit coverage of the key area of audit focus was finalised during the 2013–14 final audit phase. The ANAO confirmed the completeness and accuracy of inventory balances reported in the NBA’s financial statements as at 30 June 2014. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

National Health and Medical Research Council

Summary of financial results

6.511 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(43.3)	(42.9)
Revenue from government	40.2	39.9
Deficit attributable to the Australian Government*	(3.1)	(3.0)
Total other comprehensive income	–	–
Total comprehensive loss attributable to the Australian Government	(3.1)	(3.0)
Total assets	20.9	26.3
Total liabilities	10.7	13.2
Total equity	10.2	13.1

* The entity is not funded for depreciation expense which affects the reported deficit.

6.512 The asset balance in 2012–13 included outstanding appropriation funding from prior periods. This funding was used by the National Health and Medical Research Council (NHMRC) to fund activity in 2013–14. This contributed to the reduction in this balance.

6.513 Fluctuations in other balances reflect normal business activities.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	862.6	841.2
Total income	9.6	19.8
Deficit	(853.0)	(821.4)
Total other comprehensive income	–	–
Total comprehensive loss	(853.0)	(821.4)
Total assets administered on behalf of Government	2.6	4.0
Total liabilities administered on behalf of Government	91.5	103.1
Net liabilities	(88.9)	(99.1)

6.514 The decrease in administered income was primarily due to a reduction in grant monies returned to NHMRC for redistribution in comparison to the previous financial year and the conclusion of funding agreements in 2012–13 of which were not renewed in 2013–14.

6.515 The reduction in liabilities in comparison to the prior year was due to the timing of payments for grant programs with fewer grant payments outstanding at year-end in comparison to 2012–13.

6.516 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.517 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on NHMRC's financial statements. An area highlighted for specific audit coverage in 2013–14 was the management of the administered grants program given the significance of these payments to the NHMRC's financial statements.

Audit results

Summary of audit findings

6.518 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Comments on non-material entities

Audit results

Summary of audit findings

6.519 There were no significant or moderate audit issues or significant legislative matters noted in non-material entities within the portfolio except in relation to the Australian Radiation Protection and Nuclear Safety Agency (ARPANSA). In addition, the moderate issues relating to the Therapeutic Goods Administration (TGA) and the Australian Sports Anti-Doping Authority (ASADA) reported in 2012–13 have been downgraded or resolved. The auditor's report for General Practice Education and Training Limited contained an emphasis of matter which is discussed below.

Australian Radiation Protection and Nuclear Safety Agency

Management of FMIS user access

6.520 Two moderate audit issues were reported during the 2013–14 audit in relation to the management of user access over the FMIS.

6.521 The ANAO identified that there was insufficient segregation of duties as certain staff had access to both the accounts payable function and the ability to make changes to vendor records within the FMIS. There were also insufficient controls over the review of user access. These weaknesses increase the risk of unauthorised system changes that could compromise the confidentiality, integrity and completeness of financial information. ARPANSA has advised that action had been undertaken to resolve these issues. The remedial action taken will be reviewed by the ANAO during the 2014–15 audit.

Australian Sports Anti-Doping Authority

Legislative breaches

6.522 The 2012–13 financial statements referred to a breach of section 83 of the Constitution in relation to payments made pursuant to the *Remuneration Tribunal Act 1973*. ASADA provides secretarial services to the Australian Sports Drug Medical Advisory Committee (ASDMAC) including making payments to committee members and in 2012–13, ASADA processed overpayments of \$6 934 resulting from a delay in being advised about the resignation of a committee member. The overpayments were recovered in full.

6.523 ASADA has amended its practices and has made no overpayments in 2013–14 with the matter now resolved. A general discussion of this matter is at paragraphs 5.26 to 5.38 in chapter 5 of this report.

General Practice Education and Training Limited

Emphasis of matter

6.524 The auditor's report on the financial report of General Practice Education and Training Limited (GPET) contained an emphasis of matter that drew attention to the basis of accounting as disclosed in the notes to the 2013–14 financial report which stated that GPET is no longer a going concern. A direction was given by the Minister for Health for the company's closure, including the wind-up and transfer of its functions, assets and liabilities to the Commonwealth by 1 January 2015.

6.525 The ANAO did not modify its audit opinion in respect of this matter.

Therapeutic Goods Administration

User access

6.526 A moderate audit issue identified in 2012–13 in relation to the management of user access to the IT network, the HRMIS, and the FMIS was partially resolved through the introduction of monitoring arrangements in 2013–14. As a result, the finding was downgraded to category C issue. TGA has advised that further action has commenced to resolve the issue. The remedial action taken will be reviewed by the ANAO during the 2014–15 audit.

Immigration and Border Protection Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Immigration and Border Protection	Yes	✓	1 Sept 14	1 Sept 14	◆□
Australian Customs and Border Protection Service	Yes	✓L	1 Sept 14	1 Sept 14	▲□
Migration Review Tribunal and Refugee Review Tribunal	No	✓	19 Sept 14	22 Sept 14	

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements

▲: significant or moderate issues and/or legislative matters reported previously not yet resolved

◆: new significant or moderate issues and/or legislative matters noted

□: significant or moderate issues and/or legislative matters identified in previous periods, or the 2013–14 interim audit phase, now downgraded or resolved

Portfolio overview

6.527 The Immigration and Border Protection Portfolio consists of three entities: the Department of Immigration and Border Protection, the Australian Customs and Border Protection Service, and the Migration Review Tribunal and Refugee Review Tribunal.

6.528 The Department of Immigration and Border Protection (Immigration) is responsible for the delivery of a range of programs and services for the purpose of building Australia's future through the well-managed entry and settlement of people into Australia.

6.529 Immigration's business is to:

- contribute to Australia's future through managed migration;
- protect refugees and contribute to humanitarian policy internationally;
- contribute to Australia's security through border management and traveller facilitation;
- make fair and reasonable decisions for people entering or leaving Australia, ensuring compliance with Australia's immigration laws and integrity in decision making; and
- promote Australian citizenship and a multicultural Australia.

6.530 The role of the Australian Customs and Border Protection Service (ACBPS) is to protect the safety, security and commercial interests of Australians through border protection designed to support legitimate trade and travel, and to ensure collection of border revenue and trade statistics. The ACBPS is also the lead entity for civil maritime security in detecting, reporting and responding to unlawful activity in Australia's offshore maritime zone.

6.531 The Migration Review Tribunal and Refugee Review Tribunal provides an independent and final review of decisions made in relation to visas to travel to, enter, or stay in Australia.

Department of Immigration and Border Protection

Summary of financial results

6.532 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(1 588.0)	(1 520.9)
Revenue from government	1 482.4	1 429.6
Deficit attributable to the Australian Government*	(105.6)	(91.3)
Total other comprehensive income	6.9	3.6
Total comprehensive loss attributable to the Australian Government	(98.7)	(87.7)
Total assets	868.0	826.4
Total liabilities	476.5	430.8
Total equity	391.5	395.6

* The entity is not funded for depreciation expense which affects the reported deficit.

6.533 The net cost of services increased mainly as a result of increases in employee benefits and software amortisation expenses. This also resulted in an increase in the deficit attributable to the Australian Government.

6.534 Fluctuations in other balances reflect normal business activities.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	3 047.3	2 379.6
Total income	1 663.6	1 212.7
Net cost of services	(1 383.7)	(1 166.9)
Total assets administered on behalf of government	1 551.2	1 173.9
Total liabilities administered on behalf of government	428.0	432.8
Net assets	1 123.2	741.1

6.535 Administered expenses increased significantly due to several factors, including higher supplier costs associated with the establishment of the Nauru and Manus Island regional processing centres; increased payments of asylum seeker allowances as a result of a significant increase in the number of asylum seekers in Australia obtaining financial assistance; and increased expenses associated with damage to facilities at the Nauru regional processing centre following a riot in 2013–14. These increases were partially offset by a decrease in costs associated with the Adult Migrant English Program, which was transferred to the Department of Industry under the 2013 Administrative Arrangements Order.

6.536 The significant increase in administered income is due to the combined impact of increases in visa application fees and an increase in the number of visa applications.

6.537 The increase in the deficit is a result of the net impact of the above movements.

6.538 Assets increased mainly due to the construction of the Nauru and Manus Island regional processing centres, and the transfer of project costs of the Villawood Immigration Detention Centre Facility Redevelopment to Immigration from the Department of Finance.

6.539 The movement in liabilities reflects normal business activities.

Areas of audit focus

6.540 The ANAO's audit approach identified particular areas of audit focus that had the potential to impact on the department's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- visa revenue, which is a significant component of administered revenue. Visa revenue is collected at a number of locations including both domestic and international offices, and by third parties under service agreement arrangements, and is supported by a number of IT systems;
- contract expenditure, as it is a significant item in the financial statements and the department has a number of service provider contracts associated with the delivery of services in detention centre and regional processing centre facilities;
- appropriation revenue, which is adjusted based on a number of variables assessed under a funding model arrangement. A new funding model agreement with the Department of Finance was implemented in 2013–14;
- accounting for employee entitlements as the department has staff located both in Australia and in various international posts;
- reporting of overseas posts transactions which are material to the financial statements and managed under third party arrangements through a service level agreement with the Department of Foreign Affairs and Trade; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2012–13 financial statements.

Audit results

Summary of audit findings

6.541 The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Category	Closing position (at the end of the 2012–13 final audit phase)	Issues resolved (during the 2013–14 interim audit phase)	New issues identified (during the 2013–14 interim audit phase)	Issues resolved (during the 2013–14 final audit phase)	New issues identified (during the 2013–14 final audit phase)	Closing position (at the end of the 2013–14 final audit phase)
A	0	0	0	0	0	0
B	0	0	1	(1)*	1*	1
L1	2	0	0	(2)	0	0
Total	2	0	1	(3)	1	1

* This issue related to management of IT user access. This issue was partially resolved during the 2013–14 final audit phase and the unresolved component was merged into a new issue, human resource management, referred to paragraph 6.546 below.

Resolved legislative breaches

Breaches of section 83 of the Constitution

6.542 The notes to Immigration's 2012–13 financial statements referred to actual breaches of section 83 of the Constitution relating to overpayments made under the *Migration Act 1958* and the *Long Service Leave (Commonwealth Employees) Act 1976*. The 2012–13 auditor's report included a report on other legal and regulatory requirements referring to these breaches.

6.543 The department undertook to complete a risk assessment and perform testing in 2013–14 to identify potential or actual breaches of section 83 of the Constitution and, if required, implement controls to reduce the risk of breaches in future years. This process was completed during the 2013–14 final audit phase and no potential or actual breaches were identified. As a result, this issue is now considered resolved. A general discussion of this matter is at paragraphs 5.26 to 5.38 in chapter 5 of this report.

Non-compliance with banking requirements

6.544 In 2012–13, the ANAO identified non-compliance with section 11 of the FMA Act. This section provides that public money must not be deposited in an account other than an official account, unless otherwise authorised. The 2012–13 audit identified that an overseas post had arrangements with post offices for the purchase of money orders for the purposes of paying for visa applications. These monies were held in a foreign bank account, in contravention of section 11 of the FMA Act. The monies were subsequently matched with visa applications and banked into the department's official bank account.

6.545 During the 2013–14 final audit phase, the department advised that its review into the arrangements for the receipt and custody of public money at the overseas post was finalised, and the department had implemented processes to meet the new requirements of the *Public Governance, Performance and Accountability Act 2013*, which came into effect on 1 July 2014. As a result, this issue is now considered resolved.

New audit issue

Human resource management

6.546 During the 2013–14 final audit phase, the ANAO identified weaknesses in the employee cessation process including:

- inadequate controls relating to the confirmation that all procedures associated with ceasing an employee had been undertaken; and

- a number of instances where ceased employees had retained active system access, an active credit card, and/or documentation on the employee file had not been completed.

6.547 The ANAO also identified during the 2013–14 final audit phase that a number of overpayments had been made to staff, with some overpayments outstanding for a number of years.

6.548 The department has advised that it is implementing processes to address these weaknesses. The ANAO will review the progress against this issue during the 2014–15 audit.

Australian Customs and Border Protection Service

Summary of financial results

6.549 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(1 105.8)	(1 065.0)
Revenue from government	998.5	951.3
Deficit attributable to the Australian Government*	(107.3)	(113.7)
Total other comprehensive income/(loss)	5.8	(2.0)
Total comprehensive loss attributable to the Australian Government	(101.5)	(115.7)
Total assets	810.9	800.5
Total liabilities	286.8	307.3
Total equity	524.1	493.2

* The entity is not funded for depreciation expense which affects the reported deficit.

6.550 The increase in revenue from government largely relates to funding for the on-going Cape Class vessel project, an extension of the Australian Customs Vessel leases associated with the Triton and Ocean Protector, the ACBPS's role in the joint entity border security operation (Operation Sovereign Borders) and funding for a voluntary redundancy program. The reduction in the total comprehensive loss is primarily attributable to the increase in revenue from government.

6.551 Assets increased mainly as a result of a revaluation of non-financial assets during 2013–14. The revaluation also resulted in an increase in other comprehensive income.⁷¹

6.552 Liabilities decreased mainly as a result of a reduction in the provision for employee benefits. This is mainly due to the ACBPS using a lower salary growth rate in the calculation of the provision.

6.553 Fluctuations in other balances reflect normal business activities.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	13.2	6.7
Total income	10 381.1	9 103.2
Surplus	10 367.9	9 096.5
Total assets administered on behalf of Government	269.1	235.8
Total liabilities administered on behalf of Government	10.6	13.8
Net assets	258.5	222.1

6.554 Administered income increased mainly due to increases in customs duty collections, the Passenger Movement Charge (PMC) and the Import Processing Charge (IPC), resulting in an increase in the operating surplus. The increase in customs duty collections related to a 12.5 per cent increase in the rate applied to tobacco imports from 1 September 2013 and an increase in the number of petroleum and tobacco manufacturers moving offshore. The increase in the PMC reflects the full year impact of the increase in the PMC from \$47 to \$55 and an increase in the number of people travelling overseas during 2013–14.

6.555 From 1 January 2014, changes were made to the IPC rate structure to introduce a two tiered approach. Under the new rate structure, consignments valued at \$10 000 or more attracted a higher rate of charge. In addition, there was a three percent growth in the volume of import declarations attracting the IPC.

6.556 Fluctuations in other balances reflect normal business activities.

71 Op cit (refer footnote 51 on p. 75).

Areas of audit focus

6.557 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on ACBPS's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the accuracy and completeness of customs duty collections and refunds in light of the self-assessment regime in relation to customs duty, and the complexity of the related IT infrastructure;
- the accuracy of employee benefits due to the complexity of the enterprise agreement and the progress in addressing the moderate audit finding relating to the management of defects in the HRMIS;
- the accuracy of ACBPS's assets register, in particular assets under construction, due to the moderately complex nature of assets to be capitalised in 2013–14, such as the Cape Class vessels and the Long Term Ashmore Capability; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2012–13 financial statements.

Audit results

Summary of audit findings

6.558 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase.

6.559 The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Category	Closing position (at the end of the 2012–13 final audit phase)	Issues resolved (during the 2013–14 interim audit phase)	New issues identified (during the 2013–14 interim audit phase)	Issues resolved (during the 2013–14 final audit phase)	New issues identified (during the 2013–14 final audit phase)	Closing position (at the end of the 2013–14 final audit phase)
A	0	0	0	0	0	0
B	1	(1)*	0	0	0	0
L1	1	0	0	0	0	1
Total	2	(1)	0	0	0	1

* The issue relating to the management of defects on the HRMIS was reclassified to a category C finding during the interim audit phase and was resolved during the final audit phase. Details of this issue have been reported in Audit Report No. 44 2013–14.

Legislative breaches

Actual breaches of section 83 of the Constitution

6.560 ACBPS's 2012–13 financial statements reported 28 breaches of section 83 of the Constitution in relation to payments totalling \$844 270 made under section 28 of the FMA Act, \$20 130 under section 20 of the FMA Act and \$360 under the *Long Service Leave (Commonwealth Employees) Act 1976*. Payments made in breach of section 28 of the FMA Act related to refunds and drawbacks of customs duty collections. Payments made in breach of section 20 of the FMA Act related to refunds of security deposits lodged for temporary imports and for the general protection of revenue.

6.561 All payments made under section 28 of the FMA Act and the *Long Service Leave (Commonwealth Employees) Act 1976* were subsequently recovered.

6.562 In 2013–14, ACBPS reported 355 breaches of section 83 of the Constitution in its 2013–14 financial statements. The breaches total \$1 819 000 in relation to payments made under section 28 of the FMA Act. At the time of the 2013–14 final audit phase, ACBPS had recovered \$714 162 of this amount. ACBPS decided not to pursue the recovery of 132 breaches totalling \$1 087 759, as the breaches resulted from a delay by ACBPS in incorporating a regulatory requirement in an electronic form used by importers. One minor breach was also not pursued as ACBPS decided it would be uneconomical to do so. ACBPS has advised that recovery action would be taken for the remaining amounts.

6.563 ACBPS has undertaken to continue to monitor its level of compliance with section 83 of the Constitution across all legislation for which it is administratively responsible. ACBPS will also continue to progress legislative amendments and system changes where appropriate.

6.564 The auditor's report included a report on other legal and regulatory requirements referring to the breaches identified. This is not a qualification or modification to the audit opinion on ACBPS's financial statements, as the financial statements fairly presented the financial operations and position of the entity at year end.

6.565 Full details of actual breaches identified in 2013–14 are outlined in Note 29 of ACBPS's 2013–14 financial statements, and a general discussion of this matter is at paragraphs 5.26 to 5.38 in chapter 5 of this report.

Comments on non-material entities

Audit results

Summary of audit findings

6.566 There were no significant or moderate audit issues or significant legislative matters noted in the non-material entity within the portfolio.

Industry Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Industry	Yes	√L	10 Sept 14	10 Sept 14	▲
Australian Institute of Marine Science	No	✓	22 Aug 14	22 Aug 14	
Australian Nuclear Science and Technology Organisation	Yes	✓	15 Aug 14	15 Aug 14	
- ANSTO Nuclear Medicine Pty Ltd	No	✓	15 Aug 14	15 Aug 14	
- PETNET Australia Pty Ltd	No	✓	15 Aug 14	15 Aug 14	
- Synchrotron Light Source Australia Pty Ltd	No	✓	15 Aug 14	15 Aug 14	
Australian Renewable Energy Agency	Yes	✓	23 Sept 14	23 Sept 14	
Australian Skills Quality Authority	No	✓	11 Sept 14	11 Sept 14	
Commonwealth Scientific and Industrial Research Organisation	Yes	✓	26 Aug 14	26 Aug 14	
- Science and Industry Endowment Fund	No	✓	21 Aug 14	21 Aug 14	
- WLAN Services Pty Ltd	No	✓	21 Aug 14	21 Aug 14	
Geoscience Australia	No	✓	2 Sept 14	2 Sept 14	
IIF Investments Pty Ltd	No	√E	29 Oct 14	29 Oct 14	
IP Australia	No	✓	7 Oct 14	7 Oct 14	
National Offshore Petroleum Safety and Environmental Management Authority	No	✓	12 Sept 14	15 Sept 14	□

✓: auditor's report not modified
 L: auditor's report contains a reference to other legal and regulatory requirements

E: auditor's report contains an emphasis of matter
 ▲: significant or moderate issues and/or legislative matters reported previously not yet resolved
 □: significant or moderate issues and/or legislative matters identified in previous periods, or the 2013–14 interim audit phase, now downgraded or resolved

Portfolio overview

6.567 The key role of the portfolio is to: contribute to an environment which improves the competitiveness and productivity of Australia's manufacturing sector; deliver science, research, and innovation incentives and programs; support the upskilling of Australians, through an industry and consumer-focused vocational education and training system; and provide support for efficient and competitive resources and energy sectors.

6.568 As a result of the MoG changes of 18 September 2013, a number of responsibilities of the former Resources, Energy and Tourism portfolio and the

former Industry, Innovation, Climate Change, Science, Research and Tertiary Education portfolio were incorporated into the Industry portfolio. Entities transferred into the portfolio as a result of the MoG changes were the Australian Renewable Energy Agency, Geoscience Australia, and the National Offshore Petroleum Safety and Environmental Management Authority.

6.569 The MoG changes also resulted in a number of functions being transferred to other portfolios, including tertiary education, student support, climate change and indigenous education. The Australian National University; the Tertiary Education Quality and Standards Agency; the Clean Energy Regulator; the Climate Change Authority; and the Australian Institute of Aboriginal and Torres Strait Islander Studies transferred with those functions to other portfolios.

Department of Industry

Summary of financial results

6.570 The following tables provide key financial statement balances. In view of the MoG changes that took effect during 2013–14, for comparative purposes the tables provide details of 2012–13 balances for both the former departments of Industry, Innovation, Climate Change, Science, Research and Tertiary Education, and Resources, Energy and Tourism. The accompanying commentary explains any significant movements between the 2013–14 balances and the combined 2012–13 balances, taking into account appropriate eliminations and adjustments.

Departmental items

Key financial balances for year	2013–14	2012–13	2012–13
	Industry (\$m)	DIICSRTE (\$m)	DRET (\$m)
Net cost of services	(633.9)	(539.5)	(117.2)
Revenue from government	592.5	503.3	116.7
Deficit attributable to the Australian Government*	(41.4)	(36.2)	(0.5)
Total other comprehensive income/(loss)	-	(3.9)	4.9
Total comprehensive income/(loss) attributable to the Australian Government	(41.4)	(40.1)	4.4
Total assets	543.7	531.3	82.8
Total liabilities	212.6	226.5	57.9
Total equity	331.1	304.8	24.9

* The department is not funded for depreciation expense which affects the reported surplus or deficit.

6.571 The decreases to the net cost of services, revenue from government, assets, and liabilities are mainly due to the MoG changes referred to above, with the Department of Industry absorbing the energy and resource functions of the former Department of Resources, Energy and Tourism from 1 July 2013 and the transfer of responsibilities for a number functions to other portfolios.

6.572 Fluctuations in other balances reflect normal business activities.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 Industry (\$m)	2012–13 DIICSRTE (\$m)	2012–13 DRET (\$m)
Total expenses	7 453.2	17 169.0	472.1
Total income	1 902.7	1 604.4	2 007.4
Surplus/(deficit)	(5 550.5)	(15 564.6)	1 535.2
Total other comprehensive loss	(33.6)	(34.9)	(118.4)
Total comprehensive income/(loss)	(5 584.1)	(15 599.6)	1 416.9
Total assets administered on behalf of Government	4 489.8	28 514.2	876.4
Total liabilities administered on behalf of Government	225.2	7 035.3	53.6
Net assets	4 264.4	21 478.9	822.8

6.573 The significant decreases in administered expenses, assets, and liabilities are mainly due to the MoG changes referred to above, with the 2013–14 balances reflecting the impact of the transfer of tertiary education and social services functions to the Department of Education and the Department of Social Services, respectively, on 18 September 2013.

Areas of audit focus

6.574 The ANAO's audit approach identified particular areas of audit focus that had the potential to impact on the department's 2013–14 financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the transitional arrangements in place relating to the transfer of functions to and from Industry following the MoG changes referred to above;
- the valuation of the Australian Government's investment in the Snowy Hydro Limited, recognised as an administered investment in Industry's financial statements, in view of the complexity and the significance of the investment in the financial statements; and

- legislative compliance, particularly the implementation of measures designed to address the risk of non-compliance with section 83 of the Constitution, referred to in the former Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education's 2012–13 financial statements.

Audit results

Summary of audit findings

6.575 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Legislative breaches

Actual and potential breaches of section 83 of the Constitution

6.576 The department undertook a review of section 83 to determine the risks of potential breaches of the Constitution for payments made from special appropriations, special accounts and annual appropriations which fund statutory payments, particularly in circumstances where the payments do not accord with conditions included in the relevant legislation. Consistent with previous years, a review of payments under the *Social Security Act 1991* and the *Social Security (Administration) Act 1999* (Social Security Acts) was not completed due to the scale and complexity of the pre-conditions embedded in the legislation. Although responsibility for administering the Social Security Acts was transferred to the Department of Social Services as part of the 18 September 2013 MoG changes, Industry was required to report any potential or actual breaches which may have occurred between 1 July 2013 and 18 September 2013.

6.577 The department reported 25 776 potential breaches totalling \$30 409 752 in the 2013–14 financial statements in relation to overpayments under the Social Security Acts during the period 1 July 2013 to 18 September 2013. The department identified all overpayments during the period made under these Acts as potential breaches due to the difficulties associated with investigating whether individual payments complied with legislative requirements. Nevertheless, the department expected that a portion of these overpayments would have been correctly paid and the department considered that there were comprehensive administrative processes and controls in place to identify and recover overpayments.

6.578 The department also identified one actual breach during 2013–14 relating to the *Automotive Transformation Scheme Act 2009*. A payment of \$161 686 was made to an incorrect recipient. The incorrect payment was subsequently recovered, and the amount was then paid to the correct recipient.

6.579 The auditor’s report included a report on other legal and regulatory requirements referring to the actual and potential breaches identified. This is not a qualification or modification to the audit opinion on the department’s financial statements, as the financial statements fairly presented the financial operations and position of the department at year end.

6.580 Full details of potential and actual breaches identified during 2013–14 are outlined in Note 31 of the department’s 2013–14 financial statements, and a general discussion of this matter is at paragraphs 5.26 to 5.38 in chapter 5 of this report.

Australian Nuclear Science and Technology Organisation

Summary of financial results

6.581 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(196.4)	(189.5)
Revenue from government	163.0	157.6
Deficit attributable to the Australian Government	(33.4)	(32.1)
Total other comprehensive income	23.7	0.1
Total comprehensive loss attributable to the Australian Government	(9.7)	(32.0)
Total assets	1 320.6	1 284.5
Total liabilities	403.8	406.3
Total equity	916.8	878.2

* The ANAO’s analysis of entities’ operating results at paragraphs 4.2 to 4.11 of chapter 4 of this report refers to the entity.

6.582 Other comprehensive income increased due to an increase in sales as a result of an increase in demand for Moly-99, an isotope used in nuclear medicine.

6.583 Assets increased primarily due to financial investments and appropriations received in relation to the incorporation of a new subsidiary, ANSTO Nuclear Medicine Pty Ltd in 2013–14.

6.584 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.585 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Australian Nuclear Science and Technology Organisation's (ANSTO) financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the carrying value of investments in related entities, and the recoverability of intercompany loans;
- the accounting treatment of arrangements between ANSTO, and ANSTO's subsidiary, ANSTO Nuclear Medicine Pty Ltd, during the subsidiary's first year of operations;
- the estimation of the decommissioning provision, including waste;
- the classification and depreciation of assets due to their significance to ANSTO's financial statements;
- the accounting treatment of new and continued business development opportunities, including joint ventures;
- the recognition and recording of numerous streams of commercial revenue; and
- compliance with a complex regulatory environment.

Audit results

Summary of audit findings

6.586 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Australian Renewable Energy Agency

Summary of financial results

6.587 The Australian Renewable Energy Agency (ARENA) was established on 1 July 2012 under the *Australian Renewable Energy Agency Act 2011*.

ARENA's key objectives are to improve the competitiveness of renewable energy technologies and increase the supply of renewable energy in Australia.

6.588 ARENA's responsibilities include providing financial assistance for:

- the research, development, demonstration, deployment and commercialisation of renewable energy and related technologies; and
- the storage and sharing of knowledge and information about renewable energy technologies.

6.589 On 19 June 2014, the Government introduced legislation to repeal the *Australian Renewable Energy Agency Act 2011*. At the date of the signing of the 2013–14 financial statements, this legislation had not been passed by the Parliament.

6.590 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(252.2)	(57.3)
Revenue from government	261.9	59.6
Surplus attributable to the Australian Government	9.7	2.3
Total other comprehensive income	–	–
Total comprehensive income attributable to the Australian Government	9.7	2.3
Total assets	18.4	8.3
Total liabilities	6.4	6.0
Total equity	12.0	2.3

6.591 The 2013–14 balances mainly reflect the increase in ARENA's grant activities following its establishment. The increase also reflects the full year impact of grant functions, including functions previously administered by the Australian Solar Institute that were transferred to ARENA on 1 January 2013.

Areas of audit focus

6.592 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on ARENA's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the entity's financial statement preparation process, given issues identified in the previous year; and
- the administration of grant functions, due to their significance to ARENA's financial statements.

Audit results

Summary of audit findings

6.593 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Commonwealth Scientific and Industrial Research Organisation

Summary of financial results

6.594 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(821.9)	(774.9)
Revenue from government	778.1	733.8
Deficit attributable to the Australian Government	(43.8)	(41.1)
Total other comprehensive income/(loss)	27.7	(2.1)
Total loss attributable to the Australian Government	(16.1)	(43.2)
Total assets	2 783.7	2 811.4
Total liabilities	553.3	574.5
Total equity	2 230.4	2 236.9

6.595 The increase in net cost of services was mainly as a result of a reduction in own source revenue, primarily due to a decline in private sector science research activities.

6.596 Revenue from government increased by \$32.2 million as a result of additional funding for voluntary redundancies.

6.597 Assets reduced mainly as a result of a \$100 million decrease in debtors, as payments for licence agreements for wireless networking technology settlements was received during the year. The decrease was partially offset by

a \$70 million increase in non-financial assets, with the most significant being a large pre-payment relating to the construction of a new building in the ACT.

6.598 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.599 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on CSIRO's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the accounting treatment applied to research project income, work-in-progress and deferred revenue;
- the valuation of listed and unlisted equity investments and compliance with disclosure requirements for financial instruments;
- the valuation of significant ongoing capital projects; and
- the valuation of CSIRO's non-financial assets which include: land and buildings; property, plant and equipment; investment properties; and held-for-sale properties.

Audit results

Summary of audit findings

6.600 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Comments on non-material entities

Audit results

Summary of audit findings

6.601 There were no significant or moderate audit issues or significant legislative matters noted in non-material entities within the portfolio, except in relation to the National Offshore Petroleum Safety and Environmental Management Authority. The auditor's report on the financial statements of IIF Investments Pty Ltd contained an emphasis of matter. These matters are discussed below.

National Offshore Petroleum Safety and Environmental Management Authority

Deficiencies in fraud control plan and legislative breach

6.602 The 2012–13 audit identified one moderate audit issue relating to deficiencies in the National Offshore Petroleum Safety and Environmental Management Authority's (the Authority's) Fraud Control Plan, and one instance of non-compliance with the FMA Act as the Authority did not have an audit committee in 2012–13. The 2013–14 audit identified that the Authority had undertaken a fraud risk assessment, developed a fraud control plan and had re-established an independent audit committee. As a result, these findings have been resolved. The issue relating to the Authority's fraud control plan should be subject to ongoing monitoring by the Authority.

IIF Investments Pty Ltd

Emphasis of matter

6.603 The auditor's report on the 2013–14 financial report of IIF Investments Pty Ltd (IIF) contained an emphasis of matter that draws attention to the fact that the financial report has not been prepared on a going concern basis as it was the expectation that the company would be wound up during the 2015 financial year.

6.604 The ANAO did not modify its opinion in respect of this matter.

Infrastructure and Regional Development Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Infrastructure and Regional Development	Yes	✓	29 Aug 14	29 Aug 14	
Airservices Australia	Yes	✓	28 Aug 14	28 Aug 14	
Australian Maritime Safety Authority	No	✓	18 Sept 14	18 Sept 14	
Australian Rail Track Corporation	Yes	✓	28 Aug 14	28 Aug 14	
Australian Transport Safety Bureau	No	✓	26 Sept 14	26 Sept 14	
Civil Aviation Safety Authority	No	✓	29 Aug 14	29 Aug 14	
Department of Regional Australia, Local Government, Arts and Sports	No	✓ [Ⓞ]	1 Apr 14	1 Apr 14	
Moorebank Intermodal Company Limited	No	✓	19 Sept 14	19 Sept 14	
National Capital Authority	Yes	✓	2 Sept 14	2 Sept 14	
National Transport Commission	No	✓	22 Aug 14	22 Aug 14	

✓: auditor's report not modified

Ⓞ: financial year end date other than 30 June 2014

Portfolio overview

6.605 The Infrastructure and Regional Development portfolio comprised the Department of Infrastructure and Regional Development (Infrastructure) and a number of corporate and non-corporate entities. The portfolio is 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;
- strengthening the sustainability, capacity and diversity of regional economies, including through facilitating local partnerships between all levels of government and local communities; and providing grants and financial assistance; and

- managing the Government’s interests in the Australian Capital Territory, the Northern Territory and Norfolk Island⁷².

Department of Infrastructure and Regional Development

Summary of financial results

6.606 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(229.0)	(186.8)
Revenue from government	231.1	180.7
Surplus/(deficit) attributable to the Australian Government*	2.1	(6.1)
Total other comprehensive income/(loss)	3.4	(2.5)
Total comprehensive income/(loss) attributable to the Australian Government	5.5	(8.6)
Total assets	186.4	128.0
Total liabilities	106.8	68.9
Total equity	79.6	59.1

* The department is not funded for depreciation expense which affects the reported surplus or deficit.

6.607 The net cost of services increased mainly as a result of the MoG changes of 18 September 2013. The department gained responsibility for 255 employees transferred from the former Department of Regional Australia, Local Government, Arts and Sport (DRALGAS). The department’s expenses also increased due to additional lease liabilities transferred from the former DRALGAS for office space which the department identified as surplus to requirements.

6.608 Increases in other items were mainly the result of revenue, assets, and liabilities being transferred from the former DRALGAS as a result of the MoG changes.

72 The results of the audit of the Administration of Norfolk Island are outlined at paragraphs 6.853 to 6.866 of this report.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	3 726.9	1 997.8
Total income	1 554.5	1 266.2
Deficit	(2 172.4)	(731.6)
Total other comprehensive income/(loss)	149.5	(63.9)
Total comprehensive loss	(2 022.9)	(795.5)
Total assets administered on behalf of Government	5 428.2	4 561.9
Total liabilities administered on behalf of Government	66.6	25.3
Net assets	5 361.6	4 536.6

6.609 Administered expenses increased substantially as a result of functions transferred from the former DRALGAS which included payments to a number of entities that were in the DRALGAS portfolio, payments for Financial Assistance Grants to local government bodies, and payments under the Building Australia Fund (BAF) and the Nation Building Program.

6.610 Administered income increased mainly due to increased BAF revenue drawn from the BAF Infrastructure Portfolio special account for the ACT Majura Parkway, NSW Hunter Expressway and Victoria Regional Rail Link projects.

6.611 Administered assets increased mainly due to property, plant and equipment, and heritage and cultural assets, being transferred from the former DRALGAS. The value of administered investments in the Australian Rail Track Corporation and Airservices Australia also increased in 2013–14.

Areas of audit focus

6.612 The ANAO's audit approach identified particular areas of audit focus that had the potential to impact on the department's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the accounting, and appropriate disclosure, of assets and liabilities transferred from the former DRALGAS, as a result of the MoG changes referred to above;
- accounting for potential surplus leased space following the MoG changes;

- financial management and reporting of grant and subsidy programs which represent a significant portion of the department’s administered expenses;
- the valuation of administered investments, given they represent some 98 per cent of Infrastructure’s total administered assets;
- the department’s application of new accounting standard AASB 13 *Fair Value Measurement*, which involves changes to the definition of fair value and significant additional disclosure requirements; and
- Infrastructure’s quality assurance review process relating to the preparation of the financial statements.

Audit results

Summary of audit findings

6.613 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Airservices Australia

Summary of financial results

6.614 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	999.5	909.6
Total income	1 020.8	955.1
Surplus	21.3	45.5
Total other comprehensive income	61.9	130.2
Total comprehensive income	83.2	175.7
Total assets	1 481.9	1 346.8
Total liabilities	895.1	827.6
Net assets	586.8	519.2

6.615 Income increased mainly due to an increase in international airline activity during 2013–14.

6.616 Expenses increased mainly as a result of: the engagement of additional staff for the provision of new services; changes in actuarial assumptions used to estimate employee accrued employee benefits; an increase in depreciation for newly commissioned assets; and increases in travel costs.

6.617 The movement in other comprehensive income was mainly due to actuarial adjustments related to defined benefit superannuation obligations.

6.618 Assets increased mainly due to increased expenditure in relation to a capital works program that included the commissioning of buildings for new air traffic control tower projects, and the development of internally developed software.

6.619 Liabilities increased mainly due to higher employee entitlement liabilities as a result of an increase in staffing numbers and an increase in borrowings associated with funding capital works.

Areas of audit focus

6.620 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on Airservices Australia's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- completeness and accuracy of airways revenue due to the complexity of data which relies on a number of IT information systems;
- valuation of defined benefit superannuation liabilities which involves significant accounting estimates, and the classification and disclosure impacts of changes in AASB 119 *Employee Benefits*;
- the requirements of new accounting standard AASB 13 *Fair Value Measurement* which introduced significant new disclosures relating to non-financial assets;
- recognition and valuation of assets under construction due to the significant accounting estimates required, and impairment of infrastructure assets as the technological environment continues to change; and
- provisions for legal obligations and associated contingencies that involved significant judgement and estimation.

Audit results

6.621 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Australian Rail Track Corporation

Summary of financial results

6.622 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Total expenses	615.7	930.8
Total income	779.3	728.8
Profit/(loss) after income tax	163.6	(202.0)
Total other comprehensive income/(loss) after income tax	(18.5)	113.5
Total comprehensive income/(loss)	145.1	(88.5)
Total assets	5 089.8	5 151.8
Total liabilities	1 521.4	1 692.5
Net assets	3 568.4	3 459.3

* The entity's operating results are referred to in the ANAO's analysis of entities' operating results at paragraphs 4.2 to 4.11 chapter 4 of this report.

6.623 The decrease in expenses is mainly due to a significant reduction in the write-down of assets associated with the Australian Rail Track Corporation's (ARTC's) infrastructure assets, and a decrease in infrastructure maintenance expenses as a result of a change in service delivery arrangements.

6.624 Income increased mainly due to increased average prices for the use of ARTC's rail network, in addition to increase traffic volumes.

6.625 The movements in expenses and income resulted in a significant improvement in ARTC's operating result in 2013–14 compared with 2012–13.

6.626 The decrease in other comprehensive income was mainly the result of the revaluation of components of ARTC's rail network⁷³.

73 Op cit (refer footnote 51 on p. 75).

6.627 Assets decreased mainly due to reduced cash held at year-end as a result of the repayment of a debt facility, and a dividend payment to shareholders. This decrease was partially offset by an increase in the value of infrastructure assets.

6.628 Liabilities reduced mainly due to the repayment in 2013–14 of a \$165 million against the ARTC's debt facility.

Areas of audit focus

6.629 The ANAO's audit approach identified particular areas of audit focus that had the potential to impact on ARTC's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- estimation of the impairment of infrastructure assets, in view of the judgemental nature of the accounting assumptions;
- taxation related balances, in that judgement is required related to the recognition of deferred tax assets;
- revenue recognition for a number of income streams;
- estimates of provisions which involve significant judgements; and
- ARTC's debt management, particularly the ability to fund the repayment of significant current liabilities in future periods.

Audit results

Summary of audit findings

6.630 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

National Capital Authority

Summary of financial results

6.631 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(16.6)	(16.1)
Revenue from government	16.1	15.5
Deficit attributable to the Australian Government*	(0.5)	(0.6)
Total other comprehensive income	0.4	0.2
Total comprehensive loss attributable to the Australian Government	(0.1)	(0.4)
Total assets	19.6	19.2
Total liabilities	4.3	4.5
Total equity	15.3	14.7

* The entity is not funded for depreciation expense which affects the reported deficit.

6.632 Fluctuations in other balances reflect normal business activities.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	23.3	21.0
Total income	2.3	5.9
Deficit	(21.0)	(15.1)
Total other comprehensive income	6.8	4.2
Total comprehensive loss	(14.2)	(10.9)
Total assets administered on behalf of Government	790.8	798.9
Total liabilities administered on behalf of Government	22.1	17.8
Net assets	768.7	781.1

6.633 Administered income decreased mainly due to a reduction in revenue received from third parties to fund works, such as construction of the National Workers Memorial that was completed in 2012–13.

6.634 Other comprehensive income increased due to revaluation increments in respect of non-financial assets.

6.635 The movements in other balances were not material and reflect normal business activities.

Areas of audit focus

6.636 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Authority's financial statements. Areas

highlighted for specific audit coverage in 2013–14 were the revaluation and accounting for non-financial assets, the calculation of employee benefits and the controls over supplier expenses as all of these were material to the financial statements.

Audit results

Summary of audit findings

6.637 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Comments on non-material entities

Audit results

Summary of audit findings

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

Parliamentary Departments

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Parliamentary Services	Yes	✓	9 Sept 14	9 Sept 14	
Department of the House of Representatives	No	✓	26 Sept 14	26 Sept 14	
Department of the Senate	No	✓	26 Sept 14	26 Sept 14	
Parliamentary Budget Office	No	✓	26 Sept 14	26 Sept 14	

✓: auditor's report not modified

Portfolio overview

6.639 The role of the three parliamentary departments and the Parliamentary Budget Office is to support the Australian Parliament.

6.640 The Department of Parliamentary Services supports the occupants of Parliament House through: the provision of integrated services and facilities; the effective functioning of the Parliament; and ensuring Parliament House is publicly accessible.

6.641 The Department of the House of Representatives (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.

6.642 The Department of the Senate (DoS) provides advisory and administrative support services to 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.

6.643 The main function of the Parliamentary Budget Office is to provide independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of budget proposals, including preparing policy costings.

Department of Parliamentary Services

Summary of financial results

6.644 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(136.3)	(130.5)
Revenue from government	107.0	101.2
Deficit attributable to the Australian Government*	(29.3)	(29.3)
Total other comprehensive income/(loss)	(0.5)	3.3
Total comprehensive loss attributable to the Australian Government	(29.8)	(26.1)
Total assets	110.2	130.6
Total liabilities	27.5	29.0
Total equity	82.7	101.6

* The department is not funded for depreciation expense which affects the reported deficit.

6.645 The reduction in assets was largely due to an increase in depreciation expense, which reduced the carrying value of non-financial assets that became operative during 2013–14. The more timely recovery of costs from two Commonwealth entities also resulted in a reduction of the outstanding debtor balances at year end compared to 2012–13.

6.646 Fluctuations in other balances reflect normal business activities.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	28.6	27.1
Total income	–	0.1
Deficit	(28.5)	(27.0)
Total other comprehensive income	18.8	86.4
Total comprehensive income/(loss)	(9.7)	59.4
Total assets administered on behalf of Government	2 226.3	2 226.1
Total liabilities administered on behalf of Government	1.2	0.7
Net assets	2 225.1	2 225.4

6.647 An upwards valuation of buildings is reflected in the balance of other comprehensive income. This balance reduced in 2013–14 as the increase in the fair value of buildings, plant and equipment was less than the increase in the fair value of buildings and heritage and cultural assets in 2012–13. This also explains the movement in the total comprehensive income/(loss).⁷⁴

6.648 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.649 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the department's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the valuation of administered land, buildings and plant and equipment;
- transfer of information communication and technology assets from the chamber departments and the Parliamentary Budget Office to the department; and
- employee expenses and related provisions, which are material balances in the department's financial statements.

74 Op cit (refer footnote 51 on p. 75).

Audit results

Summary of audit findings

6.650 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Comments on non-material entities

Audit results

Summary of audit findings

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

Prime Minister and Cabinet Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of the Prime Minister and Cabinet	Yes	√L	23 Sept 14	23 Sept 14	▲◆□
- Aboriginals Benefit Account	No	√L	23 Sept 14	23 Sept 14	▲
Aboriginal Hostels Limited	No	✓	26 Sept 14	26 Sept 14	
Anindilyakwa Land Council	No	✓	16 Sept 14	16 Sept 14	□
Australian Institute of Aboriginal and Torres Strait Islander Studies	No	✓	25 Sept 14	25 Sept 14	
Australian Public Service Commission	No	✓	16 Sept 14	16 Sept 14	□
Central Land Council	No	✓	17 Sept 14	17 Sept 14	
Indigenous Business Australia	Yes	✓	18 Sept 14	18 Sept 14	
- Asset Leasing Trust	No	⇒			
- Consolidated Manufacturing Enterprise Pty Ltd	No	⇒			
- Darwin Hotel Holdings Trust	No	✓	26 Nov 14	26 Nov 14	
- Gagudju Crocodile Hotel Trust	No	✓	18 Nov 14	18 Nov 14	
- Gagudju Lodge Cooinda Trust	No	✓	18 Nov 14	18 Nov 14	
- Hotel Enterprises Pty Ltd	No	✓	17 Nov 14	17 Nov 14	
- Hotel Holdings Trust	No	✓	18 Nov 14	18 Nov 14	
- Ikara Wilpena Enterprises Pty Ltd	No	✓	18 Nov 14	18 Nov 14	
- Ikara Wilpena Holdings Trust	No	✓	18 Nov 14	18 Nov 14	
- Indigenous Economic Development Trust	No	⇒			
- Indigenous Real Estate Investment Trust	No	✓	30 Sept 14	30 Sept 14	
- Kakadu Tourism (GCH) Pty Ltd	No	✓	11 Nov 14	13 Nov 14	
- Kakadu Tourism (GLC) Pty Ltd	No	✓	12 Nov 14	14 Nov 14	
- Larrakia Darwin Hotel Partnership	No	✓	26 Nov 14	26 Nov 14	
- Leonora Investment Trust	No	⇒			
- Li Ar Yalug Land Holding Trust	No	✓	17 Nov 14	17 Nov 14	
- Minjerribah Camping Partnership	No	✓	28 Nov 14	28 Nov 14	
- North Stradbroke Enterprises Trust	No	✓	17 Nov 14	17 Nov 14	
- Port Botany Transfer Station Trust	No	✓	18 Nov 14	18 Nov 14	
- South Hedland Indigenous Property Trust	No	✓	18 Nov 14	18 Nov 14	
- Swanbrook Road Holding Trust	No	✓	17 Nov 14	17 Nov 14	

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
- Tennant Creek Foodbarn Partnership	No	✓	12 Nov 14	12 Nov 14	
- Tennant Creek Land Holding Trust	No	✓	18 Nov 14	18 Nov 14	
- Tjapukai Aboriginal Cultural Park Partnership	No	✓	13 Nov 14	13 Nov 14	
- Wildman River Lodge Trust	No	✓	18 Nov 14	18 Nov 14	
- Wildman Wilderness Lodge Pty Ltd	No	✓	18 Nov 14	18 Nov 14	
- Wilpena Pound Aerodrome Services Pty Ltd	No	✓	18 Nov 14	18 Nov 14	
Indigenous Land Corporation	No*	✓	15 Sept 14	15 Sept 14	
- National Centre of Indigenous Excellence Limited	No	✓	27 Aug 14	27 Aug 14	
- National Indigenous Pastoral Enterprises Pty Ltd	No	✓	15 Oct 14	15 Oct 14	
- The Owners – Strata Plan No. 86156	No	✓	20 Oct 14	20 Oct 14	
- Voyages Indigenous Tourism Australia Pty Ltd	Yes*	✓	27 Aug 14	27 Aug 14	
National Australia Day Council Limited	No	✓	18 Sept 14	18 Sept 14	
Northern Land Council	No	⇒			▲
Office of National Assessments	No	✓	21 Oct 14	21 Oct 14	
Office of the Commonwealth Ombudsman	No	✓	16 Sept 14	17 Sept 14	
Office of the Inspector-General of Intelligence and Security	No	✓	24 Sept 14	24 Sept 14	
Office of the Official Secretary to the Governor-General	No	✓	19 Sept 14	19 Sept 14	
Outback Stores Pty Ltd	No	⇒			
Tiwi Land Council	No	⇒			
Torres Strait Regional Authority	No	✓	10 Sept 14	11 Sept 14	
Wreck Bay Aboriginal Community Council	No	✓	13 Oct 14	13 Oct 14	□

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements

▲: significant or moderate issues and/or legislative matters reported previously not yet resolved

◆: new significant or moderate issues and/or legislative matters noted

□: significant or moderate issues and/or legislative matters identified in previous periods, or the 2013–14 interim audit phase, now downgraded or resolved

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

* Voyages Indigenous Tourism Australia Pty Ltd (Voyages) is a subsidiary of Indigenous Land Corporation (ILC) and is consolidated into ILC's financial statements. For the purposes of the Commonwealth's Consolidated Financial Statements, Voyages is classified as a material entity. Voyages does not produce an annual report and is not included in the detailed analysis within this report.

Portfolio overview

6.652 The role of the Prime Minister and Cabinet (PM&C) portfolio is to provide policy advice and support to the Prime Minister, the Cabinet, Portfolio Ministers and Parliamentary Secretaries, on matters that are in the forefront of public and government administration.

6.653 Following the Administrative Arrangements Orders (AAOs) of 18 September 2013, 3 October 2013 and 12 December 2013, the principal responsibilities of PM&C include:

- the provision of advice to the Prime Minister on Government policy and implementation, including the co-ordination of government administration;
- the provision of assistance to the Prime Minister in managing the Cabinet program;
- national security, counter terrorism and cyber policy coordination;
- intergovernmental relations and communications with State and Territory Governments;
- administering the Australian Government employment workplace relations policy, the Australian honours and symbols policy, and government ceremonial and hospitality requirements;
- Aboriginal and Torres Strait Islander policy, programs and service delivery, and Indigenous advancement;
- reducing the burden of government regulation; and
- women's policies and programs.

Department of the Prime Minister and Cabinet

Summary of financial results

6.654 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(357.8)	(128.6)
Revenue from government	351.2	121.0
Deficit attributable to the Australian Government*	(6.6)	(7.6)
Total other comprehensive income	–	0.1
Total comprehensive loss attributable to the Australian Government	(6.6)	(7.5)
Total assets	280.5	59.8
Total liabilities	152.3	39.7
Total equity	128.2	20.1

* The department is not funded for depreciation expense which affects the reported deficit.

6.655 The increase in the net cost of services is mainly attributed to an increase in expenditure associated with PM&C's new program responsibilities, in particular, Indigenous programs. The increase in expenditure in relation to the organisation of the G20 Summit⁷⁵ of \$78.7 million also contributes to the increase. Revenue from Government has also increased, in line with the increases in expenditure.

6.656 The significant increase in assets is due to a \$106.5 million increase in non-financial assets relating to land, buildings and other property, the majority of which transferred to PM&C with the Indigenous programs, and a \$106.9 million increase in receivables, the majority relating to the transfer of appropriation funding associated with PM&C's new program responsibilities.

6.657 The increase in liabilities reflects increases in employee and supplier liabilities, also associated with PM&C's new program responsibilities.

6.658 Fluctuations in other balances reflect normal business activities.

75 The G20 Summit is a forum of 20 of the world's most significant developed and emerging economies for international economic cooperation. Australia hosted the G20 forum in November 2014.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	993.8	15.9
Total income	102.9	0.1
Deficit	(890.9)	(15.8)
Total other comprehensive income/(loss)	(41.5)	0.2
Total comprehensive loss	(932.5)	(15.6)
Total assets administered on behalf of Government	4 207.5	3.0
Total liabilities administered on behalf of Government	47.9	13.9
Net assets/(liabilities)	4 159.6	(10.9)

6.659 The increase in administered expenses reflects the administrative costs of Indigenous programs, the majority of which consists of grant (\$591 million), supplier (\$194.5 million), and other administrative expenditure (\$208.3 million).

6.660 Administered income increased primarily due to an increase in interest revenue of \$73.8 million from the Aboriginals Benefit Account (ABA) and the Aboriginal and Torres Strait Islander Land Account (ATSILA). Both the ABA and ATSILA transferred to PM&C as part of the MoG changes of 18 September 2013 and are now consolidated into PM&C's administered financial statements.

6.661 Administered assets increased by \$2 420 million due to the consolidation of both ABA and ATSILA, and by \$1 678 million as a result of the recognition of Indigenous portfolio entities as administered investments.

6.662 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.663 The ANAO's audit approach identified particular areas of audit focus that had the potential to impact on PM&C's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the transfer of appropriations and the accounting for the transactions and balances transferred to PM&C as a result of the MoG changes, referred to above;

- legislative compliance with statutory and other legal requirements, including constitutional requirements, relevant to special appropriations and special accounts;
- the effectiveness of internal controls designed to ensure the operation and management of bureau service arrangements with the Departments of Human Services, Social Services, Education and Employment are in accordance with arrangements with those agencies;
- control activities and financial reporting arrangements in respect of large grant programs administered by PM&C;
- human resources management, including the valuation of employee liabilities; and
- the valuation of administered investments.

Audit results

Summary of audit findings

6.664 Audit coverage of the areas of audit focus was finalised during the 2013–14 final audit phase.

6.665 The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Category	Closing position (at the end of the 2012–13 final audit phase)	Issues resolved (during the 2013–14 interim audit phase)	New issues identified (during the 2013–14 interim audit phase)	Issues resolved (during the 2013–14 final audit phase)	New issues identified (during the 2013–14 final audit phase)	Closing position (at the end of the 2013–14 final audit phase)
A	0	0	0	0	0	0
B	0	0	2	(2)**	1	1
L1	1*	0	0	0	0	1
Total	1	0	2	(2)	1	2

* Transferred from the former FaHCSIA (and relating to the ABA), as a result of the MoG changes of 18 September 2013.

** Two issues were downgraded to category C audit issues.

Resolved audit issues

Management of IT user accounts

6.666 During the 2013–14 interim audit phase the ANAO identified weaknesses in PM&C's management of user access to their IT network, including that:

- access rights for a number of privileged and other users had not been deactivated following their cessation of employment; and
- duplicate user accounts had been created, increasing the risk that controls designed to ensure segregation of duties could be bypassed.

6.667 Subsequent to the reporting of this issue, PM&C commenced the introduction of appropriate administrative and management controls relating to employee's cessation of employment and user access management. As a result, this matter has been downgraded to a Category C audit issue. The ANAO will review the effectiveness of the new controls as part of the 2014–15 audit.

Web-based email access

6.668 During the 2013–14 interim audit phase the ANAO also raised with PM&C the ability of users to access personal web-based emails via the PM&C network, contrary to the requirements of the *Australian Government Information Security Manual*.

6.669 Subsequent to the reporting of this issue, PM&C disabled web-based email for the majority of PM&C users, and commenced the preparation of business cases for the remaining users. As a result, this matter has been downgraded to a Category C audit issue. The ANAO will review progress in fully addressing this issue as part of the 2014–15 audit.

New audit issues

Internal control over transferred employee balances and transactions

6.670 As a result of the 2013 MoG changes, 1 803 staff transferred to PM&C, as part of the transfer to the department of various program responsibilities. Approximately half of the transferred staff were from the Department of Social Services and the remainder from seven other entities.

6.671 During 2013–14, the ANAO identified that there were inadequate internal controls and quality assurance processes over the transfer of employee leave balances into the HRMIS. As a result, incorrect individual leave balances were uploaded into HRMIS, and PM&C will be required to undertake extensive remediation work to correct leave balances in 2014–15.

6.672 PM&C has acknowledged this issue and advised that it was undertaking a review of all leave balances to ensure they are accurately recorded within the HRMIS.

Legislative breaches

Actual and potential breaches of section 83 of the Constitution

6.673 During 2011–12 and 2012–13, the former department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) undertook a review to determine the risk of payments being made in breach of section 83 of the Constitution. The risk assessment and subsequent analysis identified actual breaches in relation to payments made from the Aboriginals Benefit Account (ABA) under section 64(3) of the *Aboriginal Land Rights (Northern Territory) Act 1976* (ALR Act)⁷⁶.

6.674 Following the 2013 MoG changes, administrative responsibility for the ABA transferred to PM&C. In 2013–14 PM&C reviewed the risk of any section 83 non-compliance across all legislation for which it was administratively responsible, including the ABA. The risk assessment and subsequent analysis identified that two payments totalling \$116 702 made from the ABA under section 64(3) of the ALR Act, were breaches of section 83 of the Constitution.

6.675 The breaches are of a technical nature and were not a result of a system or control break-down. PM&C advised it was pursuing a legislative amendment to the ALR Act to address the issue. A general discussion of this matter is at paragraphs 5.26 to 5.38 in chapter 5 of this report.

Indigenous Business Australia

Summary of financial results

6.676 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

76 Payments are required to be made out of the ABA to Aboriginal land councils based on royalties received by the Northern Territory Government from mining companies. Where, subsequent to the payment of royalties to the Northern Territory Government, mining companies determine that they overestimated the royalties due, payments already made from the ABA that are higher than the revised royalty amount are in breach of section 83 of the Constitution.

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(43.5)	(26.6)
Revenue from government	34.0	34.2
Surplus/(deficit) attributable to the Australian Government**	(10.9)	5.4
Total other comprehensive loss	(7.2)	(4.7)
Total comprehensive income/(loss) attributable to the Australian Government***	(16.2)	0.6
Total assets	1 155.5	1 129.4
Total liabilities	39.3	36.9
Total equity	116.2	1 092.5

* The ANAO's analysis of entities' operating results at paragraphs 4.2 to 4.11 of chapter 4 of this report refers to the entity.

** The surplus/(deficit) also reflects income tax expenses of \$0.13 million (2012–13 \$1.1 million), the share of the operating surplus of associates of \$1.08 million (2012–12 \$1.51 million) and excludes the share of the surplus attributable to non-controlling interests of \$1.21 million (2012–13 \$2.55 million).

*** The figures exclude the share of total comprehensive income attributable to non-controlling interests.

6.677 The increase in the net cost of service was largely attributable to the recognition of expenses as a result of a decrease in the value of loans to Aboriginal and Torres Strait Islander people, and a decrease in the value of investment assets.

6.678 These factors also explain the movement in the operating result and the corresponding decrease in total comprehensive income.

6.679 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.680 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on Indigenous Business Australia's (IBA) financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the value of the loan portfolio and the investments, given these are material balances and are subject to judgement and estimation;
- the valuation of the loan portfolio including the accounting for changes in the fair value of loans; and
- own source revenue as there are a number of streams of commercial income.

Audit results

Summary of audit findings

6.681 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Comments on non-material entities

Audit results

Summary of audit findings

6.682 There were no significant or moderate audit issues or significant legislative matters noted in 2012–13 or 2013–14 in non-material entities within the portfolio, except in relation to the Anindilyakwa Land Council, the Australian Public Service Commission, the Northern Land Council and Wreck Bay Aboriginal Community Council.

Aboriginals Benefit Account

Legislative breaches

6.683 The actual breaches of section 83 of the Constitution relating to payments made from the Aboriginals Benefit Account are discussed at paragraphs 6.673 to 6.675 above.

Anindilyakwa Land Council

Legislative breaches

6.684 In 2012–13 the ANAO reported one instance of non-compliance with the *Aboriginal Land Rights (Northern Territory) Act 1976*. This Act establishes the Council's responsibilities for payments in respect of Aboriginal land, requiring payment of an amount equal to amounts received to, or for the benefit of, the traditional Aboriginal owners of the land within six months after that amount is received. In 2012–13 receipts totalling \$144 271 were not distributed for the benefit of the traditional Aboriginal owners of the land within six months as required by the Act. The 2013–14 audit identified that the Anindilyakwa Land Council (the Council) had made all distributions to, or for the benefit of, the traditional Aboriginal owners within six months and had established monitoring controls to reduce the likelihood that distributions would not be paid within the legislative timeframe. As a result of the actions undertaken by the Council, this finding has been resolved but should be subject to ongoing monitoring by the Council.

Australian Public Service Commission

Resolved legislative breaches

Actual breaches of section 83 of the Constitution

6.685 The auditor's report on the Commission's 2012–13 financial statements included a report on other legal and regulatory requirements referring to one breach of section 83 totalling \$3 278 in relation to payments made under the *Remuneration Tribunal Act 1973*. This amount was recovered. This did not represent a qualification or modification to the audit opinion on the APSC's financial statements, as the financial statements fairly presented the financial operations and position of the APSC at year end.

6.686 In 2012–13 amendments were made to the *Remuneration Tribunal Act 1973* as part of the *Financial Framework Legislative Amendment Act No. 2 2013* that were designed to reduce the risk of future payments being made in breach of section 83 to low.

6.687 In 2013–14 the APSC undertook a detailed risk assessment and analysis process and did not identify any breaches of section 83. A general discussion of this matter is at paragraphs 5.26 to 5.38 in chapter 5 of this report.

Northern Land Council

Financial management

6.688 The 2012–13 financial statements of the Northern Land Council were signed on 31 January 2014 and an unmodified audit report was issued on the same date. In 2011–12 the ANAO reported one moderate issue relating to weaknesses in financial management, including a lack of reconciliation and acquittal processes and the need to improve the management of monies due to the Council. In 2012–13 the ANAO identified that weaknesses in financial management reported in 2011–12 remained unresolved and there were also weaknesses in the Council's financial statement preparation processes. In particular, a number of significant adjustments were required to the draft financial statements presented for audit and finalisation of the audit was delayed due to difficulties in obtaining information, the poor quality of reports and reconciliations, and delays in the responses to queries. As a result, this issue was reported as a significant audit finding in 2013–14.

Wreck Bay Aboriginal Community Council

Resolved audit issue

Corporate governance framework

6.689 During the 2013–14 audit, the ANAO identified that deficiencies in the Council's corporate governance framework reported in 2011–12 and 2012–13 had been addressed. Action taken by the Council included implementing internal controls over key business processes and providing regular reports on the activities of the Council to the Board. As a result, this issue is resolved but should be subject to ongoing monitoring by the Council.

Social Services Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Social Services	Yes	√L	29 Aug 14	29 Aug 14	▲□
Australian Aged Care Quality Agency	No	✓	26 Sept 14	26 Sept 14	
Australian Hearing	Yes	✓	29 Aug 14	29 Aug 14	
Australian Institute of Family Studies	No	✓	12 Sept 14	12 Sept 14	
Department of Human Services	Yes	√L	8 Sept 14	8 Sept 14	▲□
National Disability Insurance Scheme Launch Transition Agency	Yes	✓	24 Sept 14	24 Sept 14	◆

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements

▲: significant or moderate issues and/or legislative matters reported previously not yet resolved

◆: new significant or moderate issues and/or legislative matters noted

□: significant or moderate issues and/or legislative matters identified in previous periods, or the 2013–14 interim audit phase, now downgraded or resolved

Portfolio overview

6.690 The role of the Social Services portfolio is to provide social policy advice to the Australian Government and deliver the Australian Government's social policy agenda. The portfolio aims to improve the lifetime wellbeing of people and families in Australia by responding to need across people's lives, encouraging independence and participation, and supporting a cohesive society. The portfolio has policy responsibility for: social security; families and communities; ageing and aged care; housing; and disability and carers.

Department of Social Services

Summary of financial results

6.691 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(687.7)	(599.8)
Revenue from government	630.9	549.1
Deficit attributable to the Australian Government*	(56.8)	(50.6)
Total other comprehensive income	0.4	7.7
Total comprehensive loss attributable to the Australian Government	(56.4)	(42.9)
Total assets	408.5	392.9
Total liabilities	223.4	174.2
Total equity	185.1	218.7

* The department is not funded for depreciation expense which affects the reported deficit.

6.692 The net cost of services increased primarily due to an increase in employee expenses as a result of an increase in number of employees following the 2013 MoG changes and the payment of funding to the National Disability Insurance Scheme Launch Transition Agency (NDIA) partially offset by additional revenue from the provision of IT services to other agencies.

6.693 Revenue from government increased due to the transfer of appropriations to the Department of Social Services (DSS) as a result of MoG changes.

6.694 The increase in assets was due to an increase in unspent appropriations at year end including those transferred to DSS from other agencies and the transfer of assets from the Department of Health as part of the MoG changes. The increase was partially offset by the depreciation charge for these assets for the year and the transfer of assets to the Department of the Prime Minister and Cabinet as part of the MoG changes.

6.695 As a result of the 2013 MoG changes, liabilities mainly increased due to an increase in employee provisions, due to a net increase in the number of employees during 2013–14.

6.696 Equity decreased due to the transfer of the Indigenous Affairs function to PM&C as a result of MoG changes. This decrease was partially offset by an equity injection and funding for capital expenditure received by DSS.

6.697 Fluctuations in other balances reflect normal business activities.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	111 863.0	82 657.6
Total income	137.0	187.9
Deficit	(111 726.0)	(82 469.6)
Total other comprehensive income	25.3	3.8
Total comprehensive loss	(111 700.7)	(82 465.8)
Total assets administered on behalf of Government	3 806.9	5 543.9
Total liabilities administered on behalf of Government	9 195.1	9 097.7
Net liabilities	(5 388.1)	(3 553.8)

6.698 Administered expenses increased substantially mainly due to: an increase in social welfare payments, primarily as a result of an increase in customer numbers and an increase in the average rates due to the indexation of payments; the transfer of personal benefit programs and aged care related grant programs to DSS as a result of MoG changes; and payments made to the NDIA.

6.699 Administered income decreased primarily as a result of a reduction in interest revenue received from investments as a result of investments related to the Aboriginals Benefit Account and Aboriginal and the Torres Strait Islander Land Account being transferred to PM&C.

6.700 Administered assets decreased mainly due to the transfer of administered investments to PM&C, partially offset by an increase in personal benefits and aged care related receivables transferred to DSS as a result of the MoG changes.

6.701 Administered liabilities increased due to an increase in payables related to personal benefits and aged care subsidies transferred to DSS as a result of the MoG changes. This increase was partially offset by a decrease in the provision related to the Family Tax Benefit and the pension bonus scheme, as a result of an updated actuarial estimate.

Areas of audit focus

6.702 The ANAO's audit approach identified particular areas of audit focus that had the potential to impact on the DSS' financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- DSS' controls over personal benefit payments, as DSS has ultimate responsibility for the administration, funding and reporting of personal benefit payments and related debts that are processed by the Department of Human Services under a bilateral management arrangement. In relation to the assessment and payment of many personal benefits, DSS and the Department of Human Services primarily rely on voluntary disclosure of information by customers;
- the valuation of personal benefit related asset and liability balances due to the significance of actuarial estimates and judgements involved in a complex valuation process;
- aged care subsidy payments that are based on the information provided by a large number of aged care providers and the use of multiple IT systems managed by the Department of Human Services;
- the financial management of grants, including the adequacy of documentation to support grant acquittals. DSS administers a large number of grant payments to State and Territory Governments, other service providers and program recipients using different business systems; and
- legislative compliance, particularly the implementation of measures designed to address the risk of non-compliance with section 83 of the Constitution, referred to in the former Department of Families, Housing, Community Services and Indigenous Affairs' 2012–13 financial statements.

Audit Results

Summary of audit findings

6.703 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase.

6.704 Moderate audit issues identified during the interim phase of the 2013–14 audit have been either resolved or partly resolved and consequently downgraded to a category C issue.

6.705 The matters giving rise to the legislative breach raised in 2012–13 relating to section 83 of the Constitution remain unresolved.

6.706 The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Category	Closing position (at the end of the 2012–13 final audit phase)	Issues resolved (during the 2013–14 interim audit phase)	New issues identified (during the 2013–14 interim audit phase)	Issues resolved (during the 2013–14 final audit phase)	New issues identified (during the 2013–14 final audit phase)	Closing position (at the end of the 2013–14 final audit phase)
A	0	0	0	0	0	0
B	0	0	2	(2)*	0	0
L1	1	0	0	0	0	1
Total	1	0	2	(2)	0	1

* One issue relating to user access controls was partially resolved and downgraded to a category C issue.

Resolved audit issues

IT security management and access controls

6.707 During the interim phase of the 2013–14 audit, the ANAO reviewed user access management and network security controls that are the primary mechanisms designed to protect financial information and information systems from unauthorised access, use and modification. The ANAO's review of user access identified duplicate user accounts and users no longer employed by DSS who still had access to the DSS IT network. During the final phase of the 2013–14 audit, the ANAO identified that DSS had strengthened controls to: identify and remove duplicate accounts; disable inactive user accounts in a timely manner; and require appropriate approvals for the creation of privileged accounts. As a result, this issue is resolved but should be subject to ongoing monitoring by DSS.

User access controls

6.708 During the 2013–14 interim audit phase, the ANAO reviewed access controls for the FMIS and the HRMIS, and identified there was a risk that unauthorised changes could be made without being detected. The ANAO identified users whose database administration access and privileged access to the FMIS and HRMIS was not being logged and/or monitored. Users with that high level of access to IT systems were able to edit and change data within systems and by-pass the controls designed to ensure appropriate segregation of duties.

6.709 Since this issue was reported to DSS during the 2013–14 interim audit phase, DSS has implemented a software solution that logs the activities of database administrators. The ANAO understands that work is in progress to address the need for access by database administrators to be monitored. As a result of action taken by DSS, the finding has been downgraded to a category

C issue. The ANAO will review progress in fully addressing this issue as part of the 2014–15 audit.

Actual and potential breaches of section 83 of the Constitution

6.710 During 2013–14, DSS undertook a further review to determine the risk of payments being made in breach of section 83 of the Constitution from the special appropriations and special accounts for which it is administratively responsible and ordinary appropriations particularly payments for long service leave and goods and services tax. The risk assessment and subsequent analysis identified the following actual or potential breaches:

- a payment of \$784 271 under section 64(3) of the *Aboriginal Land Rights (Northern Territory) Act 1976* was in breach of section 83 of the Constitution. This overpayment had been partially recovered at 30 June 2014. Responsibility for this issue was transferred to the Department of the Prime Minister and Cabinet as part of the 2013 MoG changes (as referred to at paragraphs 6.673 to 6.675 above); and
- DSS identified all overpayments of personal benefits as potential breaches of section 83 of the Constitution due to the difficulties associated with investigating whether individual payments complied with legislative requirements, even though DSS considered that a portion of the overpayments would have been correctly paid. In 2013–14, 1 316 037 overpayments of personal benefits totalling approximately \$895.8 million were identified as potential breaches. Breaches of section 83 can occur in circumstances where benefits are paid based on information provided by customers that is subsequently updated or found to be incorrect. The personal benefit payments in question were made pursuant to the following legislation:
 - *A New Tax System (Family Assistance) Act 1999* and *A New Tax System (Family Assistance) (Administration) Act 1999*;
 - *Paid Parental Leave Act 2010*;
 - *Social Security Act 1991* and *Social Security (Administration) Act 1999*;
 - *Students Assistance Act 1973*;
 - *Aged Care Act 1997*; and
 - *National Health Act 1953*.

As at 30 June 2014, overpayments of personal benefit payments recovered totalled approximately \$369 million and approximately \$90 million was subject to waiver or write-off action.

6.711 The auditor's report on the 2013–14 financial statements included a report on other legal and regulatory requirements referring to the actual and potential breaches identified. This is not a qualification or modification to the audit opinion on DSS' financial statements, as the financial statements fairly presented the financial operations and position of DSS at year end.

6.712 DSS has undertaken to continue to monitor its level of compliance with section 83 of the Constitution across all legislation for which it is administratively responsible and, where possible, amendments to legislation would be progressed with the aim of reducing the risk of future section 83 breaches.

6.713 Full details of actual and potential breaches identified during 2013–14 are outlined in Note 31 of DSS' 2013–14 financial statements, and a general discussion of this matter is at paragraphs 5.26 to 5.38 in chapter 5 of this report.

Australian Hearing

Summary of financial results

6.714 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Contribution by services	8.8	2.9
Revenue from government	–	–
Surplus attributable to the Australian Government	8.8	2.9
Total other comprehensive income	–	–
Total comprehensive income attributable to the Australian Government	8.8	2.9
Total assets	115.3	103.5
Total liabilities	72.9	64.9
Total equity	42.3	38.5

6.715 The increase in the contribution by services and the corresponding increase in the surplus were primarily due to Australian Hearing's focus on

customer engagement, resulting in new clients and existing clients buying more services. This resulted in an increase in the surplus for the year, and an increase in cash and investments held at year end.

6.716 The increase in sales also resulted in an increase in liabilities related to taxation obligations and dividends payable to government.

6.717 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.718 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Australian Hearing's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- revenue recognition, as revenue is a significant balance in the financial statements;
- property, plant and equipment and intangibles given the valuation of these items is subject to judgement; and
- the use of management estimates relating to various liability balances.

Audit results

Summary of audit findings

6.719 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Department of Human Services

Summary of financial results

6.720 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(4 068.1)	(4 172.4)
Revenue from government	3 958.2	3 908.4
Deficit attributable to the Australian Government*	(109.9)	(264.0)
Total other comprehensive income	27.5	22.8
Total comprehensive loss attributable to the Australian Government	(82.4)	(241.2)
Total assets	1 909.6	1 854.5
Total liabilities	1 279.1	1 292.5
Total equity	630.5	562.0

* The department is not funded for depreciation expense which affects the reported deficit.

6.721 The decrease in the net cost of services and the corresponding deficit attributable to the Australian Government is mainly due to the decrease in employee expenses as a result of reduced staff levels. In addition, travel expenses decreased as a result of the department using a central travel provider, and communication and IT expenses decreased as a result of the introduction of various savings measures.

6.722 Assets increased primarily due to an increase in unspent appropriations at year end as a result of reduced recruitment activity.

6.723 Liabilities decreased as a result of a decrease in employee entitlement provisions as a result of in the reduction in staff levels.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	1 507.4	1 440.6*
Total income	1 520.0	1 446.8*
Surplus	12.6	6.2
Total other comprehensive income	3.8	1.2
Total comprehensive income	16.4	7.4
Total assets administered on behalf of Government	781.5	796.6*
Total liabilities administered on behalf of Government	773.8	799.8
Net assets/(liabilities)	7.7	(3.2)

* The income, expenses, assets figures reported in the 2012–13 financial statements have been adjusted to reflect a change in the accounting treatment for the child support penalties, revenue and receivables in compliance with the requirements of the framework for the preparation and presentation of financial statements.

6.724 The movements in income, expenses, assets and liabilities are primarily due to the movements in child support contributions from non-custodial parents for payment to custodial parents.

Areas of audit focus

6.725 The ANAO's audit approach identified particular areas of audit focus that had the potential to impact on the department's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the overall internal control environment, including the IT infrastructure supporting the programs and related payments delivered by the department that are complex in nature, are of substantial value and are delivered on behalf of a number of other entities;
- intangible assets, particularly software, due to the complexities associated with the valuation and measurement of these assets and the significance of the carrying value of the assets in the financial statements;
- child support transactions, specifically focusing on complexities associated with the related IT system controls, as well as the valuation methodology used to determine child support debts that the department may not be able to collect from non-custodial parents;
- progress in addressing the audit finding in 2012–13 relating to the accuracy of information provided to other entities on amounts

withheld from social welfare payments, as a result of previous overpayments; and

- legislative compliance, particularly the implementation of measures designed to address the risk of breaches of section 83 of the Constitution, referred to in the 2012–13 financial statements.

Audit results

Summary of audit findings

6.726 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. In addition to the department’s financial statements, the ANAO assessed the effectiveness of the underlying IT system controls relating to social welfare and health care benefit payments reported in other agencies’ financial statements. The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Category	Closing position (at the end of the 2012–13 final audit phase)	Issues resolved (during the 2013–14 interim audit phase)	New issues identified (during the 2013–14 interim audit phase)	Issues resolved (during the 2013–14 final audit phase)	New issues identified (during the 2013–14 final audit phase)	Closing position (at the end of the 2013–14 final audit phase)
A	0	0	0	0	0	0
B	1	0	2	(2)	0	1
L1	1	0	0	0	0	1
Total	2	0	2	(2)	0	2

Resolved audit issues

Withholding of overpayments from social welfare payments made to customers

6.727 The department makes social welfare payments to customers in excess of \$140 billion a year on behalf of a number of other Australian Government entities. In some instances, overpayments may be made to customers due to changes in the customer’s circumstances not being reported to the department in a timely manner or the payments are based on estimation of the customer’s income that can only be confirmed after submission of a tax return. One method of collection of the overpayments is to withhold an agreed amount from future social welfare payments. The department provides details of social welfare payments, overpayments, cash recoveries and amounts withheld to relevant agencies for reporting in their respective financial statements.

6.728 During the 2012–13 final audit phase, the ANAO reported one moderate audit issue in relation to incomplete information on amounts withheld being provided to relevant entities.

6.729 During the 2013–14 final audit phase, the ANAO confirmed that the reconciliation controls designed to ensure completeness of the data provided to relevant entities was effective. In addition, the ANAO confirmed that the department has cleared prior year unreconciled balances. As a result, this issue is resolved but should be subject to ongoing monitoring by the department.

Management of privileged access of database administrators

6.730 During the 2013–14 interim audit phase, the ANAO identified that the department was not meeting the mandatory requirements of the Australian Government Information Security Manual with regard to the logging and monitoring of system access by database administrators. The ANAO identified that the activities of several database administrators with privileged user access to the department’s production data were not logged and monitored. In addition, some users were provided with privileged access when this level of access was not required. During the 2013–14 final audit phase, the ANAO identified that the department had implemented formal procedures for monitoring and reviewing privileged activities of database administrators. As a result, this issue is resolved but should be subject to ongoing monitoring by the department.

Outstanding audit issues

Development and implementation of an Aged Care Management and Payment System

6.731 The department commenced replacing its legacy systems for the social welfare and health care payments during 2013–14. In October 2013, the department introduced a new Aged Care Management and Payment System to process subsidy payments to aged care service providers on behalf of the Department of Social Services.

6.732 During the 2013–14 interim audit phase, the ANAO became aware that the department had detected defects during the development, testing and implementation phases of this system, which were being progressively addressed. These defects related to controls over user acceptance testing, change management approval processes and incident management, and resulted in a number of incorrect payments being made to aged care service providers. The ANAO also identified an unreconciled balance of \$6.3 million between the amount of aged care payments recorded in the new system and

the amount recorded in the general ledger. These issues had compromised the integrity of aged care subsidy payments recorded in the department's general ledger and the amounts reported to the Department of Social Services for inclusion in their 2013–14 financial statements.

6.733 At the time of the 2013–14 interim audit, the department had commenced remedial action, including informing relevant stakeholders of the progress being made to resolve the issues.

6.734 During the 2013–14 final audit phase, the ANAO noted that the department was in the process of identifying incorrect payments and manually assessing and adjusting payments to the affected aged care service providers. In addressing these matters, the department identified further problems relating to system changes, duplicate claims and cumulative errors and was in the process of also addressing these issues. The ANAO will review the action taken by the department during the 2014–15 audit.

Legislative breaches

Breaches of section 83 of the Constitution

6.735 During 2011–12 and 2012–13, the department undertook reviews to determine the risk of payments being made in breach of section 83 of the Constitution from the special appropriations and special accounts for which it is responsible. The risk assessment and subsequent analysis identified a number of actual breaches of section 83.

6.736 A similar approach undertaken by the department in 2013–14 identified actual breaches in relation to payments totalling \$6 712 from the Superannuation Clearing House special account and \$21 174 from the Recovery of Compensation for Health Care and Other Services special account.

6.737 At 30 June 2014, the payments made from the Superannuation Clearing House special account had been recovered or offset against later payments.

6.738 The auditor's report on the department's 2013–14 financial statements included a Report on Other Legal and Regulatory Requirements referring to the actual breaches identified. This is not a qualification or modification to the audit opinion on the department's financial statements, as the financial statements fairly presented the financial operations and position of the department at year end.

6.739 Full details of actual breaches identified during 2013–14 are outlined in Note 35 of the department’s 2013–14 financial statements, and a general discussion of this matter is at paragraphs 5.26 to 5.38 in chapter 5 of this report.

National Disability Insurance Scheme Launch Transition Agency

6.740 The National Disability Insurance Scheme (NDIS) was established under the *National Disability Insurance Scheme Act 2013* (the NDIS Act) and commenced on 1 July 2013.

6.741 The NDIS Act established the National Disability Insurance Scheme Launch Transition Agency (NDIA) as the entity which has statutory responsibility for delivering the NDIS. The functions and powers of the NDIA are prescribed by the NDIS Act.

Summary of financial results

6.742 The following table provides key financial statement balances. As the Agency commenced operations on 1 July 2013, there are no comparative balances.

Key financial balances for year	2013–14 (\$m)
Contribution by services	9.7
Revenue from government	8.3
Surplus attributable to the Australian Government	18.0
Total other comprehensive income	-
Total comprehensive income attributable to the Australian Government	18.0
Total assets	148.3
Total liabilities	91.6
Total equity	56.7

6.743 The 2013–14 balances for expenses, assets and liabilities reflect financial transactions for the first full financial year in which the NDIA started implementing the NDIS at trial sites.

6.744 NDIA’s contribution by services reflects the net effect of the Agency’s expenditure and own-source income in 2013–14. Expenditure is mainly comprised of participant plan expenses (\$130.9 million), supplier expenses (\$70.0 million) and employee related expenses (\$48.7 million). Own-source income is mainly comprised of revenue from the Commonwealth

(\$198.3 million), State and Territory governments (\$48.7 million) and in-kind contributions from Commonwealth, State and Territory governments (\$23.3 million).

6.745 At 30 June 2014, assets primarily comprised cash and cash equivalents (\$122.3 million) and leasehold improvements (\$20.5 million). Liabilities mainly comprised participant plan provisions (\$66.4 million), supplier payables (\$12.3 million) and employee provisions (\$6.9 million).

Areas of audit focus

6.746 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on NDIA's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- provider and participant expenses and related provisions. Payments to participants and providers depend on the requirements specified in the individual support agreements with participants. The process of establishing the basis of funding arrangements with participants is complex and an actuarial estimate is required of outstanding claims at year-end; and
- revenue and receivables particularly related to in-kind services. NDIA has a range of sources of income including in-kind contributions from the State and Territory Governments. The time lag between the provision of services to participants and claims made for these in-kind services required an actuarial estimate to be made of the balance of in-kind services provided to participants as at 30 June 2014 but not claimed at that date.

Audit results

Summary of audit findings

6.747 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. The following table summarises the status of audit issues reported by the ANAO in 2013–14.

Category	New issues identified (during the 2013–14 interim audit phase)	Issues resolved (during the 2013–14 final audit phase)	New issues identified (during the 2013–14 final audit phase)	Closing position (at the end of the 2013–14 final audit phase)
A	0	0	0	0
B	0	0	1	1
L1	0	0	0	0
Total	0	0	1	1

New moderate audit issue

Financial statements preparation process

6.748 During the final phase of 2013–14 audit, the ANAO noted that the NDIA did not have adequate processes in place to ensure the timely and accurate preparation of their financial statements. The ANAO identified weaknesses in NDIA’s quality assurance review process, a lack of adherence to financial statement preparation timetables, and deficiencies in the preparation of work papers to support the financial statements and associated notes. While acknowledging the challenges caused by significant staff turnover and the first year of operations, rushed preparations, particularly if caused by weaknesses in project management or process shortcomings, heighten the risk of error in the financial statements. The NDIA has undertaken to improve its financial statements preparation process in 2014–15.

Comments on non-material entities

Audit results

Summary of audit findings

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

Treasury Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of the Treasury	Yes	√L	2 Oct 14	2 Oct 14	▲
Australian Bureau of Statistics	Yes	✓	15 Aug 14	15 Aug 14	◆□
Australian Competition and Consumer Commission	No	✓	26 Aug 14	26 Aug 14	
Australian Office of Financial Management	Yes	✓	22 Aug 14	22 Aug 14	
Australian Prudential Regulation Authority	No	✓	16 Sept 14	16 Sept 14	◆
Australian Reinsurance Pool Corporation	Yes	✓	24 Sept 14	24 Sept 14	
Australian Securities and Investments Commission	Yes	✓	15 Aug 14	15 Aug 14	◆
Australian Taxation Office	Yes	✓	24 Sept 14	24 Sept 14	◆
Clean Energy Finance Corporation	Yes	✓	29 Aug 14	29 Aug 14	
Commonwealth Grants Commission	No	✓	25 Sept 14	25 Sept 14	
Corporations and Markets Advisory Committee	No	✓	15 Sept 14	15 Sept 14	
Inspector-General of Taxation	No	✓	28 Aug 14	28 Aug 14	
National Competition Council	No	✓	26 Aug 14	26 Aug 14	
Office of the Auditing and Assurance Standards Board	No	✓	12 Sept 14	12 Sept 14	
Office of the Australian Accounting Standards Board	No	✓	12 Sept 14	12 Sept 14	
Productivity Commission	No	✓	20 Aug 14	21 Aug 14	
Reserve Bank of Australia (RBA)	Yes	✓	21 Aug 14	21 Aug 14	
- Note Printing Australia Ltd (subsidiary of RBA)	No	✓	23 July 14	23 July 14	
Royal Australian Mint	No	✓	3 Oct 14	7 Oct 14	▲□

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements

▲: significant or moderate issues and/or legislative matters reported previously not yet resolved

◆: new significant or moderate issues and/or legislative matters noted

□: significant or moderate issues and/or legislative matters identified in previous periods, or the 2013–14 interim audit phase, now downgraded or resolved

Portfolio Overview

6.750 The Treasury portfolio consists of the Department of 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 the Treasury

Summary of financial results

6.751 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(177.5)	(185.3)
Revenue from government	168.5	174.6
Deficit attributable to the Australian Government*	(9.0)	(10.7)
Total other comprehensive income	–	–
Total comprehensive loss attributable to the Australian Government	(9.0)	(10.7)
Total assets	92.0	90.9
Total liabilities	58.6	53.8
Total equity	33.4	37.1

* The department is not funded for depreciation expense which affects the reported deficit.

6.752 All fluctuations in balances reflect normal business activities.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	93 776.2	81 436.6
Total income	4 185.1	3 089.2
Deficit	(89 591.1)	(78 347.3)
Total other comprehensive income	9 663.9	3 732.8
Total comprehensive loss	(79 927.2)	(74 6414.5)
Total assets administered on behalf of Government	28 703.8	18 339.8
Total liabilities administered on behalf of Government	13 314.7	15 224.5
Net assets	15 389.1	3 115.3

6.753 The significant increase in expenses relates to: a one-off \$8.8 billion grant payment to the Reserve Bank of Australia (RBA) as outlined in the *Mid-Year Economic and Fiscal Outlook 2013–14*; an increase in monies paid to the states and territories under the *Federal Financial Relations Act 2009* in accordance with National Partnership agreements; and increases in general revenue assistance provided to the states and territories.

6.754 Income increased significantly due to dividends received from the RBA of \$1.2 billion and the Australian Reinsurance Pool Corporation of \$75 million in 2013–14.

6.755 Other comprehensive income and assets increased significantly due to increases in the values of the Australian Government's investments in the RBA, the Australian Reinsurance Pool Corporation and the Clean Energy Finance Corporation.

6.756 Liabilities decreased due to a reduction in the national disaster relief and recovery arrangements provision for monies expected to be paid to the states and territories affected by natural disasters.

6.757 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.758 The ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on the Treasury's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the recognition and measurement of grant payments under the federal financial relations framework, as reflected in the *Federal Financial*

Relations Act 2009, due to the Treasury's reliance on information provided by third parties, particularly other agencies;

- the methodology used to estimate the provision for natural disaster relief and recovery arrangements due to the complex estimation process; and
- compliance with relevant aspects of the Commonwealth's financial framework and the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2012–13 financial statements.

6.759 The ANAO continued to provide audit coverage of the following areas which have previously been identified as significant to the financial statements:

- the Treasury's administration of the guarantees of deposits and wholesale funding and the temporary and voluntary guarantees over State and Territory Government borrowings; and
- the valuation of the Treasury's financial investment in international financial institutions, due to the continuing volatility experienced in overseas markets.

Audit Results

Summary of audit findings

6.760 Audit coverage of key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Legislative breaches

Actual breaches of section 83 of the Constitution

6.761 In 2012–13, advice was received from the Department of Finance that indicated, under certain circumstances, payments for long service leave and goods and services tax (GST) could result in breaches of section 83 of the Constitution.

6.762 During 2013–14, the Treasury reviewed its exposure to the risks of not complying with statutory conditions for payments made from annual appropriations. The risk assessment and subsequent review identified that nine payments totalling \$5 473 for long service leave were made in contravention of section 83 of the Constitution during 2013–14. Of these

amounts \$5 308 had been recovered at 30 June 2014. The Treasury has implemented an automated process to reduce the risk of any further long service leave payments being made in error.

6.763 The auditor's report on the department's 2013–14 financial statements included a Report on Other Legal and Regulatory Requirements referring to the actual breaches identified. This was not a modification to the audit opinion on the department's financial statements, as the financial statements fairly presented the financial operations and position of the department at year end. A general discussion of this matter is at paragraphs 5.26 to 5.38 in chapter 5 of this report.

Potential breaches of section 83 of the Constitution

6.764 The Treasury obtained legal advice that confirmed monies paid from the COAG Reform Fund Special Account that were not in accordance with the terms and conditions contained in National Partnership agreements could result in a breach of section 83 of the Constitution.

6.765 During 2013–14, the Treasury reviewed its processes, in consultation with responsible portfolio departments, in respect of payments made to the states and territories under National Partnership agreements. Treasury has developed a risk assessment framework to determine the risk profile of each agreement. As at 30 June 2014, the Treasury was in the process of determining the additional controls required to provide further assurance regarding payments to the states and territories.

6.766 The Treasury disclosed the risk of potential breaches of section 83 of the Constitution in relation to terms and conditions not being met under National Partnership agreements in Note 31 of the 2013–14 financial statements. A general discussion of this matter is at paragraphs 5.26 to 5.38 in chapter 5 of this report.

Australian Bureau of Statistics

Summary of financial results

6.767 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(343.5)	(355.1)
Revenue from government	310.0	312.5
Deficit attributable to the Australian Government**	(33.5)	(42.6)
Total other comprehensive income	0.5	–
Total comprehensive loss attributable to the Australian Government	(33.0)	(42.6)
Total assets	184.4	166.1
Total liabilities	162.5	139.5
Total equity	21.9	26.6

* The ANAO's analysis of entities' financial positions at paragraphs 4.12 to 4.20 of chapter 4 of this report refers to the entity.

** The entity is not funded for depreciation expense which affects the reported deficit.

6.768 The reduction in the deficit was mainly a result of a decrease in employee expenses due to staff reductions and reduced supplier expenses in relation to travel, staff training and IT supplier costs, as the Bureau is working towards improved financial sustainability in the longer term.

6.769 Assets increased mainly due to monies for the provision of statistical consultancy and survey services received in advance at year end from other government entities and external parties. As these services will not be provided until 2014–15, the monies represent a liability at 30 June 2014.

6.770 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.771 The ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on the Bureau's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the application of new accounting standard AASB 13 *Fair Value Measurement*, which involved changes to the definition of fair value and significant additional disclosure requirements;
- controls over the payroll processes, in view of a HRMIS implemented in November 2012, an outstanding audit finding in relation to the lack of monitoring of user access to the HRMIS, and a significant number of manual corrections required to ensure payroll data was complete and correctly recorded; and

- impairment and capitalisation of internally generated software in view of technological changes and the introduction of a large threshold before items are capitalised.

Audit results

Summary of audit findings

6.772 Audit coverage of the key area of focus was finalised during the 2013–14 final audit phase. The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Category	Closing position (at the end of the 2012–13 final audit phase)	Issues resolved (during the 2013–14 interim audit phase)	New issues identified (during the 2013–14 interim audit phase)	Issues resolved (during the 2013–14 final audit phase)	New issues identified (during the 2013–14 final audit phase)	Closing position (at the end of the 2013–14 final audit phase)
A	0	0	0	0	0	0
B	1	0	3	(3)*	0	1
L1	0	0	0	0	0	0
Total	1	0	3	(3)*	0	1

* The 2012–13 category B audit issue, and two category B audit issues identified during the 2013–14 interim audit phase, have been downgraded to category C audit issues during the 2013–14 final audit phase.

Resolved audit issues

Monitoring user access

6.773 In 2012–13, an audit issue was raised relating to the lack of monitoring of user access to the HRMIS. In addition, a significant number of manual corrections required to ensure payroll data was complete and correctly recorded.

6.774 During 2013–14, the Bureau implemented a process to monitor the activity log of users of the HRMIS. In addition, the number of adjustments required to ensure payroll data was correct substantially decreased in 2013–14. This aspect of the HRMIS issue has been reclassified as a category C finding to be followed up as part of the 2014–15 audit.

Monitoring privileged user access of administrators

6.775 During the 2013–14 interim audit phase, the ANAO identified that a number of authorised users had privileged user access to the FMIS and HRMIS production environments. This access allowed the users to perform any function within these environments. The ANAO also identified that although

instances of access by privileged users were logged, these activity logs were not being monitored on a regular basis. During the 2013–14 final audit phase, the Bureau implemented mitigating procedures including the review and sign-off of the activity logs by an independent officer. This issue has been reclassified to a category C finding. The ANAO will assess the effectiveness of the new review and sign-off procedures as part of the 2014–15 audit.

Migration of system changes to production environments

6.776 During the 2013–14 interim audit phase, the ANAO identified that the ABS did not have controls in place designed to ensure that all changes to its IT operating environments were the same as those approved through the Bureau’s formal change management processes. During the 2013–14 final audit phase the Bureau implemented controls designed to ensure that only approved changes are migrated to production. This issue has been reclassified as a category C finding. The ANAO will assess the effectiveness of the revised control as part of the 2014–15 audit.

New audit issue

Monitoring of database administrator activities

6.777 The 2013–14 interim audit identified that the Bureau did not log or monitor the activities of its IT database administrators.

6.778 The Bureau advised that a review of the number and type of personnel who have administrator privileges would be undertaken on a monthly basis during 2014–15. The Bureau also advised that monthly reviews of the activity of the IT database administrators, along with evidence of review by an independent officer, may also be implemented during 2014–15. The ANAO will assess these controls during the 2014–15 audit.

Australian Office of Financial Management

Summary of financial results

6.779 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(9.9)	(8.9)
Revenue from government	11.5	11.4
Surplus attributable to the Australian Government**	1.6	2.5
Total other comprehensive income	–	–
Total comprehensive income attributable to the Australian Government	1.6	2.5
Total assets	28.1	29.6
Total liabilities	2.4	2.4
Total equity	25.7	27.2

* The ANAO's analysis of entities' operating results at paragraphs 4.2 to 4.11 of chapter 4 of this report refers to the entity.

** The entity is not funded for depreciation expense which affects the reported surplus.

6.780 Fluctuations in all balances reflect normal business activities.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	13 413.8	12 237.3
Total income	1 044.6	1 121.5
Deficit	(12 550.9)	(11 394.9)
Total other comprehensive income/(loss)	(3 670.8)	11 668.0
Total comprehensive income/(loss)	(16 221.7)	273.1
Total assets administered on behalf of Government	35 283.0	31 450.3
Total liabilities administered on behalf of Government	351 288.6	285 755.0
Net liabilities	(316 005.6)	(254 304.7)

6.781 Expenses increased due to the financing costs associated with the increased number of treasury bonds that were on issue during the year.

6.782 Income decreased mainly due to a decrease in interest revenue as a result of lower levels of residential mortgage backed securities held.

6.783 Other comprehensive losses are a result of an increase in the value of treasury bonds and treasury indexed bonds as a result of lower interest rates during 2013–14.

6.784 Assets increased due to an increase in short term cash holdings.

6.785 Liabilities increased due to the issuance of new treasury bonds and Treasury indexed bonds.

Areas of audit focus

6.786 The ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on the Australian Office of Financial Management's (AOFM) financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the fair value measurement of financial assets and liability securities in view of the judgements involved;
- financial instrument presentation and disclosures, including the impact of AASB 7 *Financial Instruments: Disclosures* and changes to AASB 139 *Financial Instruments: Recognition and Measurement*; and
- legislative compliance, particularly the implementation of measures designed to address the risk of breaches of section 83 of the Constitution.

6.787 The ANAO continued to provide audit coverage of the following areas which have previously been identified as having a significant impact on the financial statements:

- the control environment and the establishment of adequate controls to enable compliance with aspects of relevant financial management legislation;
- AOFM's management and control framework around the issuance of debt instruments including treasury bonds, treasury indexed bonds and treasury notes; and
- internal assurance activities, including the Certificate of Compliance process, and fraud prevention activities

Audit results

Summary of audit findings

6.788 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Australian Reinsurance Pool Corporation

Summary of financial results

6.789 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(90.8)	(94.0)
Own-source income	162.2	166.5
Surplus attributable to the Australian Government	71.4	72.5
Total assets	681.4	762.3
Total liabilities	108.4	329.7
Total equity	573.0	432.6

* The ANAO's analysis of entities' operating results at paragraphs 4.2 to 4.11 of chapter 4 of this report refers to the entity.

6.790 In 2011–12 the Australian Reinsurance Pool Corporation (the Corporation) recognised a liability of \$400 million for dividend obligations to the Australian Government, payable over four years with the payments due in 2014, 2015 and 2016. In 2014, the Corporation made the scheduled dividend payment by liquidating cash assets.

6.791 In June 2014 the Treasurer amended the determination which waived the requirement to pay dividends in 2015 and 2016 and the associated liability of \$150 million. This resulted in a significant reduction in liabilities.

6.792 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.793 The ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on the Corporation's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- exposure to the underwriting and claims handling risk associated with the occurrence of a declared terrorism incident;
- the recognition of accurate premium revenue and unearned premium revenues;
- investment activities being undertaken in accordance with legislative requirements; and

- reinsurance arrangements with third parties.

Audit results

Summary of audit findings

6.794 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Australian Securities and Investments Commission

Summary of financial results

6.795 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Net cost of services	(400.4)	(394.2)
Revenue from government	346.8	350.0
Deficit attributable to the Australian Government*	(53.6)	(44.2)
Total other comprehensive loss	(2.8)	–
Total comprehensive loss attributable to the Australian Government	(56.4)	(44.2)
Total assets	298.0	305.0
Total liabilities	183.6	164.7
Total equity	114.4	140.3

* The Commission is not funded for depreciation expense which affects the reported deficit.

6.796 Net cost of services increased as a result of an increase in employee expenses following a number of staff redundancies during 2013–14 and reduced funding from the Companies Unclaimed Monies Special Account, which was abolished in December 2012. The Australian Securities and Investments Commission (ASIC) previously received funding from this special account for use on projects to improve regulation and reduce business costs.

6.797 Liabilities increased predominantly as a result of increased trade creditors and accruals at year end, and new property lease incentives. These lease incentives were a consequence of ASIC entering into a new lease for a Melbourne property in June 2014 which contained lease incentives. These

increases were partially offset by a decrease in employee provisions as a result of a number of staff redundancies during 2013–14.

6.798 Fluctuations in other balances reflect normal business activities.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	291.6	547.5
Total income	994.0	1 600.2
Surplus	702.6	1 052.8
Total other comprehensive income	–	–
Total comprehensive income	702.5	1 052.8
Total assets administered on behalf of Government	116.7	111.4
Total liabilities administered on behalf of Government	456.7	521.3
Net liabilities	(340.0)	(409.9)

6.799 The significant reduction in administered income reflects normal business activity during 2013–14 and an abnormally high level of income in 2012–13. In 2012–13 changes to the *Banking Act 1959* and *Life Insurance Act 1995* reduced the time period before monies are considered unclaimed and returned to the Consolidated Revenue Fund (CRF) from seven to five years. This resulted in a large one-off increase in revenue in 2012–13. In addition, monies previously held in the Companies and Unclaimed Monies Special Account, which was abolished in December 2012, were recognised as income in 2012–13, accounting for approximately \$290 million in unclaimed monies receipts.

6.800 Administered expenses and liabilities decreased as a result of movements in the provision for unclaimed monies and are consistent with the decrease in income. The provision for unclaimed monies represents likely future claims against those amounts collected and returned to the CRF.

6.801 Fluctuations in other balances reflect normal business activities.

Areas of audit focus

6.802 The ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on ASIC's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- administered revenues and receivables, to take into consideration the legislative changes mentioned above, and the estimation of the provision for likely claims; and
- the capitalisation and valuation of intangible assets, as ASIC had a number of internally developed IT systems under development or being enhanced.

Audit results

Summary of audit findings

6.803 The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Category	Closing position (at the end of the 2012–13 final audit phase)	Issues resolved (during the 2013–14 interim audit phase)	New issues identified (during the 2013–14 interim audit phase)	Issues resolved (during the 2013–14 final audit phase)	New issues identified (during the 2013–14 final audit phase)	Closing position (at the end of the 2013–14 final audit phase)
A	0	0	0	0	0	0
B	0	0	2	0	0	2
L1	0	0	0	0	0	0
Total	0	0	2	0	0	2

New audit issues

Management of privileged user access and shared accounts

6.804 ASIC manage a number of IT systems across its business that require privileged user access. Privileged user access to IT systems and supporting databases can be used to bypass security controls and make changes either to system settings or directly to the data in the system.

6.805 During the 2013–14 interim audit phase, the ANAO identified that ASIC maintained a number of privileged accounts across a number of system applications, with some of these accounts shared between application developers and database administrators. Shared accounts are accounts that are used by multiple users and are not assigned to an individual. In addition, there were a number of active privileged and other user accounts identified as no longer being required.

6.806 The use of shared accounts increases the risk that if inappropriate or unauthorised changes are made to the system, ASIC will not be able to identify the specific users who made these changes. Privileged access that is maintained

for users who no longer require such access increases the risk that unauthorised access to ASIC's IT systems may occur and potentially compromise the integrity of the data maintained within them.

6.807 ASIC has advised it has implemented controls to address privileged access and shared accounts. The ANAO will review the action taken by ASIC during the 2014–15 audit.

Monitoring of privileged user activity logs

6.808 User activity logs record user and system activities within IT systems, with the review of these logs allowing timely detection of, and response to, unauthorised access and changes to the systems and the data held within these systems.

6.809 During the 2013–14 interim audit phase, the ANAO identified that ASIC did not have arrangements in place to monitor privileged user activity logs, including for those privileged accounts shared between application developers and database administrators.

6.810 Inadequate monitoring of system access, particularly for privileged users, increases the risk that inappropriate activity will not be detected.

6.811 ASIC has advised it has implemented controls to address the above issues. The ANAO will review the action taken by ASIC during the 2014–15 audit.

Australian Taxation Office

Summary of financial results

6.812 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Departmental items

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Net cost of services**	(3 441.2)	(3 352.0)
Revenue from government	3 364.0	3 248.1
Deficit attributable to the Australian Government***	(77.3)	(103.9)
Total other comprehensive income	–	3.6
Total comprehensive loss attributable to the Australian Government	(77.3)	(100.3)
Total assets	1 416.5	1 349.7
Total liabilities	1 221.0	1 228.1
Total equity	195.5	121.6

* The ANAO's analysis of entities' financial positions at paragraphs 4.12 to 4.20 of chapter 4 of this report refers to the entity.

** The net cost of services includes \$2.87 million (2012–13: \$0.34 million) for an income tax equivalent expense for certain competitive neutrality functions of the Australian Valuation Office.

*** The entity is not funded for depreciation expenses which affects the reported deficit.

6.813 The increase in the net cost of services is primarily due to the Australian Taxation Office (ATO) undertaking a significant redundancy program to reduce its staffing profile during 2013–14. Revenue from government increased mainly due to increased funding for a number of ongoing budget measures. These measures included: compliance activities that target offshore marketing hubs and business restructures; enhancing the administration of the Standard Business Reporting, Australian Business Register and Australian Business Numbers programs; and the establishment of a Trusts Taskforce.

6.814 Assets increased due to the capitalisation of internally developed software relating to major projects, partially offset by an increase in depreciation and amortisation expenses.

6.815 Fluctuations in other balances reflect normal business activities.

Items administered on behalf of the Australian Government

Key financial balances for year	2013–14 (\$m)	2012–13 (\$m)
Total expenses	18 833.0	16 196.0
Total income	332 678.0	319 623.0
Surplus	313 845.0	303 427.0
Total other comprehensive income	–	–
Total comprehensive income	313 845.0	303 501.0
Total assets administered on behalf of Government	31 062.0	29 271.0
Total liabilities administered on behalf of Government	8 728.0	9 136.0
Net assets	22 344.0	20 135.0

6.816 Administered expenses increased primarily due to the write-down and impairment of assets, and increases in subsidies and fuel tax credits. The increase in the write-down and impairment of assets was due to an increase in penalty and interest charge remissions reflecting ATO's greater focus on the timely resolution of disputes. Subsidy expenses increased following the increased demand for the research and development tax incentive in its second year, while the increase to fuel tax credits scheme expenses primarily relates to the uptake of the 'opt-in' carbon pricing scheme introduced on 1 July 2013, and stronger demand for diesel in 2013–14.

6.817 Income increased mainly due to an increase in collections relating to income tax withheld, due to increased employment and assessable income, as well as an increase in goods and services tax (GST) and company tax collections.

6.818 Administered assets increased primarily due to an increase in accrued GST revenue, which is consistent with the increase in GST revenue.

6.819 Administered liabilities decreased due to a reduction in the provisions for taxation refunds and interest on overpayments that was partially offset by increases in accrued subsidy expenses.

Areas of audit focus

6.820 The ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on the ATO's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the compliance program in relation to the collection of taxation revenues, especially the ATO's risk management approach to

compliance activities in a self-assessment and voluntary compliance regime;

- complex estimation and allocation processes associated with the reporting of taxation revenue, that involve the application of significant judgement and specialist knowledge;
- processes for estimating the impact of tax debt collectability on the amount included as the taxation receivable balance at year end;
- processes for recording Higher Education Loan Program debts and collections on behalf of the Department of Education; and
- the ATO's reliance on IT business systems and associated processes, particularly in relation to system interfaces.

6.821 In addition, the ANAO continued to focus on areas that support the ATO's operations and are significant to the financial statements, including accounting processes related to employees, suppliers, asset management, and executive remuneration.

Audit results

Summary of audit findings

6.822 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. This included performing tests of control and substantive audit procedures for the processes identified above.

6.823 The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2013–14.

Category	Closing position (at the end of the 2012–13 final audit phase)	Issues resolved (during the 2013–14 interim audit phase)	New issues identified (during the 2013–14 interim audit phase)	Issues resolved (during the 2013–14 final audit phase)	New issues identified (during the 2013–14 final audit phase)	Closing position (at the end of the 2013–14 final audit phase)
A	0	0	0	0	0	0
B	0	0	0	0	1	1
L1	0	0	0	0	1	1
Total	0	0	0	0	2	2

New audit issue

Drawing reports from the data warehouse

6.824 The ATO maintains a data warehouse that periodically copies data from source systems for a variety of purposes, including financial reporting. Reports from the data warehouse are manually extracted by running queries written in structured query language (SQL). The development, maintenance and execution of the SQLs are reliant on the expertise of a small group of data analysts.

6.825 The ANAO's review of the preparation and testing of SQLs identified that a large proportion of these are not subject to the formal controls usually expected for the generation of financial reporting data, and this required additional audit procedures to be performed to provide sufficient assurance over the completeness and accuracy of the information used in preparing the ATO's financial statements.

6.826 The ATO has acknowledged this issue and had already commenced the migration of SQLs to an appropriate control framework towards the end of 2013–14. The ATO has advised that it is committed to migrating the remaining high risk SQLs during 2014–15.

Legislative breaches

Actual and potential breaches of section 83 of the Constitution

6.827 In 2013–14, the notes to the ATO's financial statements disclosed two breaches of section 83 of the Constitution totalling \$479 associated with the Superannuation Clearing House Special Account. This account is administered under the FMA Act and has been managed by the Department of Human Services on behalf of the ATO since 1 April 2014. The payments have subsequently been recovered.

6.828 The Department of Human Services has undertaken, in consultation with the ATO, to improve procedures and provide further training to operational staff regarding the application of the procedures

6.829 The ATO continues to perform an annual review of the risk of breaches of section 83 in relation to appropriations with statutory conditions, as well as annual appropriations. A general discussion of this matter is at paragraphs 5.26 to 5.38 in chapter 5 of this report.

Clean Energy Finance Corporation

Summary of financial results

6.830 The following tables provide key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Net (cost of)/contribution by services	17.3	(12.2)
Revenue from government	8.0	18.4
Surplus attributable to the Australian Government	25.3	6.2
Total other comprehensive income	–	–
Total comprehensive income attributable to the Australian Government	25.3	6.2
Total assets	1 252.6	65.0
Total liabilities	20.6	58.5
Total equity	1 232.0	6.5

* The ANAO's analysis of entities' operating results at paragraphs 4.2 to 4.11 of chapter 4 of this report refers to the entity.

6.831 The CEFC has reported a net contribution by services in 2013–14 following a \$41 million increase in interest and fee income that related to significant increases in loans and investments. This increase was partially offset by increases in employee and supplier expenses, with 2013–14 being the first full year of operations.

6.832 Revenue from government decreased in 2013–14 as the CEFC became more self-sufficient through the generation of revenue from their loan and investment activities.

6.833 On 1 July 2013, and to coincide with loan and investment activities, the CEFC's special account was credited with the first of five planned annual \$2 billion instalments. The funds being progressively credited to the special

account are for the purpose of approved loans and investments under CEFC's mandate.

6.834 The increase in the assets primarily reflects the withdrawal of \$1.132 billion from the CEFC special account and the application of these funds to approved loans and investments.

6.835 The reduction in liabilities mainly relates to the settlement of a deferred payment arrangement that was entered into in 2012–13 in respect of one of the Corporation's investments.

Areas of audit focus

6.836 The ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on the CEFC's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- the recognition, valuation and classification of the CEFC's loans and investments including the concessional components of any non-market rate loans entered into;
- the financial reporting of revenue from Government and interest income from the CEFC's loans and deposits; and
- the uncertainty regarding the continued operation of the CEFC.

Audit results

Summary of audit findings

6.837 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Reserve Bank of Australia

Summary of financial results

6.838 The following table provides key financial statement balances. The accompanying commentary explains any significant movements between years.

Key financial balances for year*	2013–14 (\$m)	2012–13 (\$m)
Total expenses	1 599.0	1 180.0
Total income	10 991.0	5 513.0
Surplus	9 392.0	4 333.0
Total other comprehensive income/(loss)	431.0	(325.0)
Total comprehensive income	9 823.0	4 008.0
Total assets	141 485.0	98 527.0
Total liabilities	123 175.0	88 805.0
Net assets	18 310.0	9 722.0

* The ANAO's analysis of entities' operating results at paragraphs 4.2 to 4.11 of chapter 4 of this report refers to the entity.

6.839 Expenses increased mainly due to an increase in interest paid, resulting from an increase in term deposits.

6.840 Income increased significantly due to the receipt of a grant from the Government, partially offset by a decrease in gains on securities and foreign exchange. This resulted in the significant increase in the surplus for 2013–14.

6.841 Other comprehensive income increased largely as a result of an increase in the price of gold compared to a decline in 2012–13.

6.842 Assets increased mainly due to an increase in the number of domestic and foreign securities.

6.843 Liabilities increased due to an increase in Australian notes on issue and deposits of banks and the Australian Government held by the Reserve Bank of Australia (RBA).

Areas of audit focus

6.844 The ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on the RBA's financial statements. Areas highlighted for specific audit coverage in 2013–14 were:

- domestic market operations, including overnight settlement accounts and holdings of securities, mainly under repurchase agreements, issued by the Australian Government, state central borrowing authorities, and banks;
- international foreign exchange operations including holdings of securities issued by governments including the USA, Germany, France,

the Netherlands, Canada, China and Japan, and deposits with the Bank for International Settlements and other central banks;

- accounting for holdings of gold and gold lending operations to financial institutions participating in the gold market;
- accounting for the issuing and redeeming of currency 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.

6.845 Given the substantial fluctuations in the value of the Australian dollar, the valuation of foreign investments and currency holdings has had a significant impact on the RBA's financial statements in recent years.

Audit results

Summary of audit findings

6.846 Audit coverage of the key areas of audit focus was finalised during the 2013–14 final audit phase. There were no significant or moderate audit issues arising from the 2012–13 or 2013–14 audits.

Comments on non-material entities

Audit results

Summary of audit findings

6.847 There were no significant or moderate audit issues or significant legislative matters noted in non-material entities within the portfolio except in relation to the Australian Prudential Regulation Authority (APRA) and the Royal Australian Mint.

Australian Prudential Regulation Authority

Management of privileged user access

6.848 The ANAO identified a moderate audit finding during the 2013–14 interim audit phase regarding the management of privileged user access for APRA's operating system which supports its financial systems. In particular, it was identified that:

- system access rights for a number of privileged users, who no longer required this access, had not been deactivated. These users were subsequently removed from the system;
- there were an unnecessarily high number of privileged users for this type and size of IT system; and
- there was no logging mechanism to enable monitoring of user activity, including privileged users, or to allow IT incidents to be analysed.

6.849 The above weaknesses increase the risk that inappropriate activity will not be detected, or unauthorised access may occur.

6.850 APRA has taken action to implement controls to address the above weaknesses. The ANAO will review action taken by APRA during the 2014–15 audit.

Royal Australian Mint

Outstanding audit issue – Inventory costing model

6.851 During the 2011–12 audit, the ANAO identified one moderate audit issue in relation to the allocation of overhead costs in determining the value of the Royal Australian Mint’s (the Mint) inventory. The ANAO reviewed the costing model underpinning the Mint’s inventory balances as part of the 2013–14 audit. The ANAO considered that while some action had been taken to address the issue, further improvements in the supporting documentation relating to key assumptions used in the model, and in the policies and procedures supporting the costing model, were required. The Mint advised it was implementing a new costing model from 1 July 2014 to address this issue. The ANAO will review the new costing model during the 2014–15 audit.

Resolved legislative matter

6.852 The ANAO also identified during the 2013–14 final audit phase a breach of section 11 of the FMA Act, which states that public money is not to be paid into a non-official account. The ANAO noted that the bank account has since been closed and the public funds were transferred into the Mint’s official public bank account. As a result, this issue is resolved.

Government of Norfolk Island

Background

6.853 Norfolk Island is a self-governing external territory with most of the powers of a national government, granted under the *Norfolk Island Act 1979 (Cth)* (NI Act). In accordance with the NI Act, the Auditor-General is the auditor of the Administration of Norfolk Island and the Consolidated Group's financial statements. These auditing arrangements took effect from 1 July 2011.

6.854 The financial statements of the Consolidated Group comprise the Administration of Norfolk Island (the Administration), the Norfolk Island Hospital Enterprise (the Hospital) and the Norfolk Island Government Tourist Bureau and are prepared in accordance with section 48C of the NI Act and the *Commonwealth Finance Minister's Orders (Norfolk Island) 2011*. The Auditor-General is required by the NI Act to examine the annual financial statements of the Consolidated Group and the financial statements of the Hospital and the Norfolk Island Government Tourist Bureau, and to report in accordance with section 48C of the NI Act.⁷⁷

Audit results

Disclaimer of Opinion

6.855 The auditor's report on the 2011–12, 2012–13 and 2013–14 consolidated financial statements of the Administration and the financial statements of the Hospital and the Norfolk Island Government Tourist Bureau contained a disclaimer of opinion.

6.856 The financial statements of the Administration and the Consolidated Group have been prepared on a going concern basis which contemplates the realisation of assets and settlement of liabilities in the ordinary course of business. The Administration has been experiencing financial difficulty associated with a continuing economic downturn and a decline in tourism, and continues to incur losses. There are a number of economic factors that indicate the Administration is not able to meet the cost of providing ongoing essential

77 The auditor's report on the financial statements is provided to:

- The Minister for Finance of the Government of Norfolk Island;
- The Commonwealth Assistant Minister for Infrastructure and Regional Development; and
- The Administrator of the Territory of Norfolk Island.

services on Norfolk Island without continuing financial assistance from the Commonwealth of Australia.

6.857 Since 2010–11, the Commonwealth has provided financial assistance to ensure the Administration has sufficient funds to meet expenditure commitments that have fallen due. Financial assistance has been determined on an annual basis and based on the Administration meeting agreed milestones.

6.858 The Administration has forecast negative net cash flows from operations, before Commonwealth funding, from 2014–15 through to 2017–18. The Commonwealth's current funding commitment ends at 30 June 2015 and at the date of signing the 2013–14 financial statements, no further financial assistance had been negotiated. There is no ongoing commitment from the Commonwealth to underwrite the Administration's future predicted losses nor is there any intention at this time to enter into a multiyear funding agreement with the Administration.

6.859 These conditions gave rise to material uncertainties as to whether the going concern assumption, on which the financial statements were prepared, was appropriate. In the event that the Administration does not obtain additional funding from the Commonwealth and/or reduce expenditure in line with available revenue, the Administration may not be able to continue its operations as a going concern and therefore may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations.

6.860 Notwithstanding that the Commonwealth funding has been provided annually in past years, given that future funding has been agreed only for one year and the uncertainties beyond that date, the ANAO issued a disclaimer of opinion on the financial statements of the Administration and the Consolidated Group.

6.861 The ANAO also issued a disclaimer of opinion on the financial statements of the Hospital and the Norfolk Island Government Tourist Bureau as both these entities are economically dependent on the funding received from the Administration.

Summary of audit findings

Significant audit finding – Goods and Services Tax Compliance Framework

6.862 Goods and Services Tax (GST) was introduced by the Norfolk Island Government in 2007 in accordance with the *Goods and Services Tax Act 2007* (the Act), which imposes a 12 per cent tax on all taxable supplies within the Island.

GST revenue represents 20 per cent of total revenue collected by the Norfolk Island Government each year. In 2011–12 the ANAO identified significant weaknesses in relation to the assessment and collection of GST revenue. At the conclusion of the 2013–14 audit this matter remained unresolved.

6.863 The Administration has commenced actions to address this matter, including enhancing the GST compliance framework and improving the documentation of existing GST processes.

Moderate audit findings

6.864 The ANAO also identified the following issues in relation to the Administration’s corporate governance framework, the maintenance of accounts and records, and the preparation of the financial statements that remain outstanding from previous years:

- the Administration did not have a number of key elements of an effective corporate governance framework including: a fully functioning audit committee; a risk management and fraud control plan; risk registers; and an internal audit plan;
- there were deficiencies in the timeliness and preparation of the financial statements. In particular, the draft financial statements submitted for audit were not subject to quality assurance processes which resulted in a higher than expected level of adjustments;
- monthly management reports were not prepared to enable the regular monitoring of financial performance; and
- there were no controls in place designed to ensure the contract register was complete and accurate.

6.865 The ANAO identified the following issues in relation to the Hospital:

- the Hospital had not fully established key elements of its corporate governance framework including a strategic and operational plan, and a risk management framework; and
- the Hospital had not undertaken an assessment of impairment and useful lives of the hospital building and specialised equipment since 2011–12, increasing the risk of incorrect reporting of asset balances in the financial statements.

6.866 The Administration and the Hospital have advised that the resolution of these matters will be a focus for management and the audit committee in 2014–15.



Ian McPhee
Auditor-General

Canberra ACT
18 December 2014

Appendices

Appendix 1 Portfolio and entity arrangements as at 30 June 2013 and 30 June 2014

Portfolio and entity arrangements as at 30 June 2013	Portfolio and entity arrangements as at 30 June 2014
<p><u>Agriculture, Fisheries and Forestry Portfolio</u></p> <ul style="list-style-type: none"> • Department of Agriculture, Fisheries and Forestry • Australian Fisheries Management Authority • Australian Pesticides and Veterinary Medicines Authority • Cotton Research and Development Corporation • Fisheries Research and Development Corporation • Grains Research and Development Corporation • Grape and Wine Research and Development Corporation • Rural Industries Research and Development Corporation • Sugar Research and Development Corporation • Wine Australia Corporation • Wheat Exports Australia 	<p><u>Agriculture Portfolio</u></p> <ul style="list-style-type: none"> • Department of Agriculture • Australian Fisheries Management Authority • Australian Pesticides and Veterinary Medicines Authority • Cotton Research and Development Corporation • Fisheries Research and Development Corporation • Grains Research and Development Corporation • Grape and Wine Research and Development Corporation • Rural Industries Research and Development Corporation • Sugar Research and Development Corporation • Wine Australia Corporation
<p><u>Attorney-General's Portfolio</u></p> <ul style="list-style-type: none"> • Attorney-General's Department • Administrative Appeals Tribunal • Australian Commission for Law Enforcement Integrity • Australian Crime Commission • Australian Customs and Border Protection Service • Australian Federal Police • Australian Government Solicitor • Australian Human Rights Commission • Australian Institute of Criminology • Australian Law Reform Commission • Australian Security Intelligence Organisation • Australian Transaction Reports and Analysis Centre • CrimTrac Agency • Family Court of Australia • Federal Court of Australia • Federal Circuit Court of Australia • High Court of Australia • Insolvency and Trustee Service Australia¹ • Office of Parliamentary Counsel • Office of the Australian Information Commissioner 	<p><u>Attorney-General's Portfolio</u></p> <ul style="list-style-type: none"> • Attorney-General's Department • Administrative Appeals Tribunal • Australian Business Arts Foundation Limited² • Australia Council² • Australian Commission for Law Enforcement Integrity • Australian Crime Commission • Australian Federal Police • Australian Film, Television and Radio School² • Australian Financial Security Authority • Australian Government Solicitor • Australian Human Rights Commission • Australian Institute of Criminology • Australian Law Reform Commission • Australian National Maritime Museum² <ul style="list-style-type: none"> - Australian National Maritime Foundation² • Australian Security Intelligence Organisation • Australian Transaction Reports and Analysis Centre • Bundanon Trust² • CrimTrac Agency • Family Court and Federal Circuit Court of Australia

Portfolio and entity arrangements as at 30 June 2013	Portfolio and entity arrangements as at 30 June 2014
<ul style="list-style-type: none"> • Office of the Commonwealth Director of Public Prosecutions 	<ul style="list-style-type: none"> • Federal Court of Australia • High Court of Australia • National Archives of Australia² • National Film and Sound Archives of Australia² • National Gallery of Australia² <ul style="list-style-type: none"> - National Gallery of Australia Foundation² • National Library of Australia² • National Museum of Australia² • National Portrait Gallery of Australia • Office of Parliamentary Counsel • Office of the Australian Information Commissioner • Office of the Commonwealth Director of Public Prosecutions • Old Parliament House² • Screen Australia²
<p><u>Broadband, Communications and the Digital Economy Portfolio</u></p> <ul style="list-style-type: none"> • Department of Broadband, Communications and the Digital Economy • Australian Broadcasting Corporation • Australian Communications and Media Authority • Australian Postal Corporation <ul style="list-style-type: none"> - Australia Post Licensee Advisory Council Limited - Australia Post Transaction Services Pty Ltd • NBN Co Limited • Special Broadcasting Service Corporation • Telecommunications Universal Service Management Agency 	<p><u>Communications Portfolio</u></p> <ul style="list-style-type: none"> • Department of Communications • Australian Broadcasting Corporation • Australian Communications and Media Authority • Australian Postal Corporation <ul style="list-style-type: none"> - Australia Post Licensee Advisory Council Limited - Australia Post Transaction Services Pty Ltd • NBN Co Limited • Special Broadcasting Service Corporation • Telecommunications Universal Service Management Agency
<p><u>Defence Portfolio</u></p> <ul style="list-style-type: none"> • Department of Defence • AAF Company • Army and Air Force Canteen Service • Australian Military Forces Relief Trust Fund • Australian Strategic Policy Institute Ltd • Australian War Memorial • Defence Housing Australia <ul style="list-style-type: none"> - DHA Investment Management Limited • Defence Materiel Organisation • Defence Services Homes Insurance Scheme • Department of Veterans' Affairs • Military Superannuation and Benefits Scheme 	<p><u>Defence Portfolio</u></p> <ul style="list-style-type: none"> • Department of Defence • AAF Company • Army and Air Force Canteen Service • Australian Military Forces Relief Trust Fund • Australian Strategic Policy Institute Ltd • Australian War Memorial • Defence Housing Australia <ul style="list-style-type: none"> - DHA Investment Management Limited • Defence Materiel Organisation • Defence Services Homes Insurance Scheme • Department of Veterans' Affairs • Military Superannuation and Benefits Scheme

Portfolio and entity arrangements as at 30 June 2013	Portfolio and entity arrangements as at 30 June 2014
<ul style="list-style-type: none"> • Royal Australian Air Force Veterans' Residences Trust Fund • Royal Australian Air Force Welfare Recreational Company • Royal Australian Air Force Welfare Trust Fund • Royal Australian Navy Central Canteens Board • Royal Australian Navy Relief Trust Fund 	<ul style="list-style-type: none"> • Royal Australian Air Force Veterans' Residences Trust Fund • Royal Australian Air Force Welfare Recreational Company • Royal Australian Air Force Welfare Trust Fund • Royal Australian Navy Central Canteens Board • Royal Australian Navy Relief Trust Fund
<p data-bbox="158 477 662 525"><u>Education, Employment and Workplace Relations Portfolio</u></p> <ul style="list-style-type: none"> • Department of Education, Employment and Workplace Relations • Australian Curriculum Assessment and Reporting Authority • Australian Institute for Teaching and School Leadership Limited • Coal Mining Industry (Long Service Leave Funding) Corporation • Comcare • Fair Work Commission • Office of the Fair Work Building Industry Inspectorate • Office of the Fair Work Ombudsman • Safe Work Australia • Seafarers, Safety, Rehabilitation and Compensation Authority (Seacare Authority) 	<p data-bbox="681 477 1176 525">Portfolio and department abolished and replaced by: <u>Education Portfolio</u></p> <ul style="list-style-type: none"> • Department of Education • Australian Curriculum Assessment and Reporting Authority³ • Australian Institute for Teaching and School Leadership Limited³ • Australian National University⁴ <ul style="list-style-type: none"> - ANU Enterprise Pty Ltd⁴ - ANU Section 68 Pty Ltd⁴ - BRU Holdings Pty Ltd⁴ - SA2 Holdings Pty Ltd⁴ - Australian Scientific Instruments Pty Ltd⁴ • Australian Research Council⁴ • Tertiary Education Quality and Standards Agency⁴ <p data-bbox="681 982 892 1011"><u>Employment Portfolio</u></p> <ul style="list-style-type: none"> • Department of Employment • Asbestos Safety and Eradication Agency • Coal Mining Industry (Long Service Leave Funding) Corporation³ • Comcare³ • Fair Work Commission³ • Office of the Fair Work Building Industry Inspectorate³ • Office of the Fair Work Ombudsman³ • Safe Work Australia³ • Seafarers, Safety, Rehabilitation and Compensation Authority (Seacare Authority)³ • Workplace Gender Equality Agency⁵
<p data-bbox="158 1445 662 1492"><u>Families, Housing, Communities Services and Indigenous Affairs Portfolio</u></p> <ul style="list-style-type: none"> • Department of Families, Housing, Communities Services and Indigenous Affairs <ul style="list-style-type: none"> - Aboriginals Benefit Account • Aboriginal Hostels Limited • Anindilyakwa Land Council • Australian Institute of Aboriginal and Torres Strait Islander Studies 	<p data-bbox="681 1445 919 1473"><u>Social Services Portfolio</u></p> <ul style="list-style-type: none"> • Department of Social Services • Australian Aged Care Quality Agency • Australian Hearing⁶ • Australian Institute of Family Studies • Department of Human Services⁶ • National Disability Insurance Agency

Portfolio and entity arrangements as at 30 June 2013	Portfolio and entity arrangements as at 30 June 2014
<ul style="list-style-type: none"> • Central Land Council • Workplace Gender Equality Agency • Indigenous Business Australia <ul style="list-style-type: none"> - Asset Leasing Trust - Consolidated Manufacturing Enterprise Pty Ltd - Darwin Hotel Holdings Trust - Gagudju Crocodile Hotel Trust - Gagudju Lodge Cooinda Trust - Hotel Enterprises Pty Ltd - Hotel Holdings Trust - Ikara Wilpena Enterprises Pty Ltd - Ikara Wilpena Holdings Trust - Indigenous Economic Development Trust - Indigenous Fishing Trust - Indigenous Investment Trust - Kakadu Tourism (GCH) Pty Ltd - Kakadu Tourism (GLC) Pty Ltd - Larrakia Darwin Hotel Partnership - Leonora Investment Trust - Li Ar Yalug Land Holding Trust - Minjerribah Camping Partnership - National Indigenous Property Trust - North Stradbroke Enterprises Trust - Port Botany Transfer Station Trust - Scarborough House Investment Trust - Scarborough House Office Trust - South Hedland Indigenous Property Trust - Swanbrook Road Holding Trust - Tennant Creek Foodbarn Partnership - Tennant Creek Land Holding Trust - Tjapukai Aboriginal Cultural Park Partnership - Wildman River Lodge Trust - Wildman Wilderness Lodge Pty Ltd - Wilpena Pound Aerodrome Services Pty Ltd • Indigenous Land Corporation <ul style="list-style-type: none"> - National Centre of Indigenous Excellence Ltd - National Indigenous Pastoral Enterprises Pty Ltd - The Owners - Strata Plan No 86156 - Voyages Indigenous Tourism Australia Pty Ltd • Northern Land Council 	

Portfolio and entity arrangements as at 30 June 2013	Portfolio and entity arrangements as at 30 June 2014
<ul style="list-style-type: none"> • Outback Stores Pty Ltd • Tiwi Land Council • Torres Strait Regional Authority • Wreck Bay Aboriginal Community Council • Wreck Bay Enterprises Ltd 	
<p><u>Finance and Deregulation Portfolio</u></p> <ul style="list-style-type: none"> • Department of Finance and Deregulation • Albury-Wodonga Development Corporation • ASC Pty Ltd <ul style="list-style-type: none"> - ASC AWD Shipbuilder Pty Ltd - ASC Engineering Pty Ltd - ASC Ship Building Pty Ltd - Deep Blue Tech Pty Ltd • Australian Electoral Commission • Australian River Co Limited • Commonwealth Superannuation Corporation • Commonwealth Superannuation Scheme • ComSuper • Future Fund Management Agency and the Board of Guardians • Medibank Private Limited <ul style="list-style-type: none"> - Australian Health Management Group Pty Ltd - Medibank Health Solutions Group Pty Ltd • Public Sector Superannuation Accumulation Plan (PSSap) • Public Sector Superannuation Scheme (PSS) 	<p><u>Finance Portfolio</u></p> <ul style="list-style-type: none"> • Department of Finance • Albury-Wodonga Development Corporation • ASC Pty Ltd <ul style="list-style-type: none"> - ASC AWD Shipbuilder Pty Ltd - ASC Engineering Pty Ltd - ASC Ship Building Pty Ltd - Deep Blue Tech Pty Ltd • Australian Electoral Commission • Australian River Co Limited • Commonwealth Superannuation Corporation • Commonwealth Superannuation Scheme • ComSuper • Future Fund Management Agency and the Board of Guardians • Medibank Private Limited <ul style="list-style-type: none"> - Australian Health Management Group Pty Ltd - Medibank Health Solutions Group Pty Ltd • Public Sector Superannuation Accumulation Plan (PSSap) • Public Sector Superannuation Scheme (PSS)
<p><u>Foreign Affairs and Trade Portfolio</u></p> <ul style="list-style-type: none"> • Department of Foreign Affairs and Trade • Australian Agency for International Development (AusAID) • Australian Centre for International Agriculture Research • Australian Secret Intelligence Service • Australian Trade Commission (Austrade) • Export Finance and Insurance Corporation 	<p><u>Foreign Affairs and Trade Portfolio</u></p> <ul style="list-style-type: none"> • Department of Foreign Affairs and Trade • Australian Centre for International Agriculture Research • Australian Secret Intelligence Service • Australian Trade Commission (Austrade) • Export Finance and Insurance Corporation • Tourism Australia⁹
<p><u>Health and Ageing Portfolio</u></p> <ul style="list-style-type: none"> • Department of Health and Ageing <ul style="list-style-type: none"> - Therapeutic Goods Administration • Aged Care Standards and Accreditation Agency Ltd • Australian Commission on Safety and Quality in Health Care • Australian Institute of Health and Welfare 	<p><u>Health Portfolio</u></p> <ul style="list-style-type: none"> • Department of Health <ul style="list-style-type: none"> - Therapeutic Goods Administration • Australian Commission on Safety and Quality in Health Care • Australian Institute of Health and Welfare • Australian National Preventative Health Agency • Australian Organ and Tissue Donation and

Portfolio and entity arrangements as at 30 June 2013	Portfolio and entity arrangements as at 30 June 2014
<ul style="list-style-type: none"> • Australian National Preventative Health Agency • Australian Organ and Tissue Donation and Transplantation Authority • Australian Radiation Protection and Nuclear Safety Agency • Cancer Australia • Food Standards Australia New Zealand • General Practice Education and Training Limited • Health Workforce Australia • Independent Hospital Pricing Authority • National Blood Authority • National Health Funding Body • National Health and Medical Research Council • National Health Performance Authority • Private Health Insurance Administration Council • Private Health Insurance Ombudsman • Professional Services Review 	<ul style="list-style-type: none"> • Transplantation Authority • Australian Radiation Protection and Nuclear Safety Agency • Australian Sports Anti-Doping Authority² • Australian Sports Commission² • Australian Sports Foundation Limited² • Cancer Australia • Food Standards Australia New Zealand • General Practice Education and Training Limited • Health Workforce Australia • Independent Hospital Pricing Authority • National Blood Authority • National Health Funding Body • National Health and Medical Research Council • National Health Performance Authority • National Mental Health Commission⁷ • Private Health Insurance Administration Council • Private Health Insurance Ombudsman • Professional Services Review
<p><u>Human Services Portfolio</u></p> <ul style="list-style-type: none"> • Department of Human Services • Australian Hearing 	<p>Portfolio abolished.</p>
<p><u>Immigration Portfolio</u></p> <ul style="list-style-type: none"> • Department of Immigration and Citizenship • Migration Review Tribunal and Refugee Review Tribunal 	<p><u>Immigration and Border Protection Portfolio</u></p> <ul style="list-style-type: none"> • Department of Immigration and Border Protection • Australian Customs and Border Protection Service³ • Migration Review Tribunal and Refugee Review Tribunal
<p><u>Industry, Innovation, Climate Change, Science, Research and Tertiary Education Portfolio</u></p> <ul style="list-style-type: none"> • Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education • Australian Institute of Aboriginal and Torres Strait Islander Studies • Australian Institute of Marine Science • Australian National University <ul style="list-style-type: none"> - ANU Enterprise Pty Ltd - ANU Section 68 Pty Ltd - BRU Holdings Pty Ltd - SA2 Holdings Pty Ltd - Australian Scientific Instruments Pty Ltd 	<p><u>Industry Portfolio</u></p> <ul style="list-style-type: none"> • Department of Industry • Australian Institute of Marine Science • Australian Nuclear Science and Technology Organisation <ul style="list-style-type: none"> - ANSTO Nuclear Medicine Pty Ltd - PETNET Australia Pty Ltd - Synchrotron Light Source Australia Pty Ltd • Australian Renewable Energy Agency⁹ • Australian Skills Quality Authority • Commonwealth Scientific and Industrial Research Organisation <ul style="list-style-type: none"> - Science and Industry Endowment Fund - WLAN Services Pty Ltd

Portfolio and entity arrangements as at 30 June 2013	Portfolio and entity arrangements as at 30 June 2014
<ul style="list-style-type: none"> • Australian Nuclear Science and Technology Organisation <ul style="list-style-type: none"> - PETNET Australia Pty Ltd - Synchrotron Light Source Australia Pty Ltd • Australian Research Council • Australian Skills Quality Authority • Clean Energy Regulator • Climate Change Authority • Commonwealth Scientific and Industrial Research Organisation <ul style="list-style-type: none"> - Science and Industry Endowment Fund - WLAN Services Pty Ltd • IIF Investments Pty Ltd • IP Australia • Low Carbon Australia Ltd • Tertiary Education Quality and Standards Agency 	<ul style="list-style-type: none"> • Geoscience Australia⁹ • IIF Investments Pty Ltd • IP Australia • National Offshore Petroleum Safety and Environmental Management Authority⁹
<p><u>Infrastructure and Transport Portfolio</u></p> <ul style="list-style-type: none"> • Department of Infrastructure and Transport • Airservices Australia • Australian Maritime Safety Authority • Australian Rail Track Corporation • Australian Transport Safety Bureau • Civil Aviation Safety Authority • Moorebank Intermodal Company Limited • National Transport Commission 	<p><u>Infrastructure and Regional Development Portfolio</u></p> <ul style="list-style-type: none"> • Department of Infrastructure and Regional Development • Airservices Australia • Australian Maritime Safety Authority • Australian Rail Track Corporation • Australian Transport Safety Bureau • Civil Aviation Safety Authority • Moorebank Intermodal Company Limited • National Capital Authority² • National Transport Commission
<p><u>Parliamentary Departments</u></p> <ul style="list-style-type: none"> • Department of Parliamentary Services • Department of the House of Representatives • Department of the Senate • Parliamentary Budget Office 	<p><u>Parliamentary Departments</u></p> <ul style="list-style-type: none"> • Department of Parliamentary Services • Department of the House of Representatives • Department of the Senate • Parliamentary Budget Office
<p><u>Prime Minister and Cabinet Portfolio</u></p> <ul style="list-style-type: none"> • Department of the Prime Minister and Cabinet • Australian National Audit Office • Australian Public Service Commission • National Australia Day Council Limited • National Mental Health Commission • Office of National Assessments • Office of the Commonwealth Ombudsman • Office of the Inspector-General of Intelligence and Security 	<p><u>Prime Minister and Cabinet Portfolio</u></p> <ul style="list-style-type: none"> • Department of the Prime Minister and Cabinet <ul style="list-style-type: none"> - Aboriginals Benefit Account⁵ • Aboriginal Hostels Limited⁵ • Australian Institute of Aboriginal and Torres Strait Islander Studies⁵ • Anindilyakwa Land Council⁵ • Australian National Audit Office • Australian Public Service Commission • Central Land Council⁵

Portfolio and entity arrangements as at 30 June 2013	Portfolio and entity arrangements as at 30 June 2014
<ul style="list-style-type: none"> • Office of the Official Secretary to the Governor-General 	<ul style="list-style-type: none"> • Indigenous Business Australia⁵ <ul style="list-style-type: none"> - Asset Leasing Trust⁵ - Consolidated Manufacturing Enterprise Pty Ltd⁵ - Darwin Hotel Holdings Trust⁵ - Gagudju Crocodile Hotel Trust⁵ - Gagudju Lodge Cooinda Trust⁵ - Hotel Enterprises Pty Ltd⁵ - Hotel Holdings Trust⁵ - Ikara Wilpena Enterprises Pty Ltd⁵ - Ikara Wilpena Holdings Trust⁵ - Indigenous Economic Development Trust⁵ - Indigenous Real Estate Investment Trust - Kakadu Tourism (GCH) Pty Ltd⁵ - Kakadu Tourism (GLC) Pty Ltd⁵ - Larrakia Darwin Hotel Partnership⁵ - Leonora Investment Trust⁵ - Li Ar Yalug Land Holding Trust⁵ - Minjerribah Camping Partnership⁵ - North Stradbroke Enterprises Trust⁵ - Port Botany Transfer Station Trust⁵ - South Hedland Indigenous Property Trust⁵ - Swanbrook Road Holding Trust⁵ - Tennant Creek Foodbarn Partnership⁵ - Tennant Creek Land Holding Trust⁵ - Tjapukai Aboriginal Cultural Park Partnership⁵ - Wildman River Lodge Trust⁵ - Wildman Wilderness Lodge Pty Ltd⁵ - Wilpena Pound Aerodrome Services Pty Ltd⁵ • Indigenous Land Corporation⁵ <ul style="list-style-type: none"> - National Centre of Indigenous Excellence Ltd⁵ - National Indigenous Pastoral Enterprises Pty Ltd⁵ - The Owners - Strata Plan No 86156⁵ - Voyages Indigenous Tourism Australia Pty Ltd⁵ • National Australia Day Council Limited • Northern Land Council⁵ • Office of National Assessments • Office of the Commonwealth Ombudsman • Office of the Inspector-General of Intelligence and Security • Office of the Official Secretary to the Governor-General

Portfolio and entity arrangements as at 30 June 2013	Portfolio and entity arrangements as at 30 June 2014
	<ul style="list-style-type: none"> • Outback Stores Pty Ltd⁵ • Tiwi Land Council⁵ • Torres Strait Regional Authority⁵ • Wreck Bay Aboriginal Community Council⁵
<p><u>Regional Australia, Local Government, Arts and Sport Portfolio</u></p> <ul style="list-style-type: none"> • Department of Regional Australia, Local Government, Arts and Sport • Australian Business Arts Foundation • Australia Council • Australian Film, Television and Radio School • Australian National Maritime Museum <ul style="list-style-type: none"> - Australian National Maritime Foundation • Australian Sports Anti-Doping Authority • Australian Sports Commission • Australian Sports Foundation Limited • Bundanon Trust • National Archives of Australia • National Capital Authority • National Film and Sound Archive of Australia • National Gallery of Australia <ul style="list-style-type: none"> - National Gallery of Australia Foundation • National Library of Australia • National Museum of Australia • Old Parliament House • Screen Australia 	Portfolio and department abolished.
<p><u>Resources, Energy and Tourism Portfolio</u></p> <ul style="list-style-type: none"> • Department of Resources, Energy and Tourism • Australian Renewable Energy Agency • Australia Solar Institute Limited • Geoscience Australia • National Offshore Petroleum Safety and Environmental Management Authority • Tourism Australia 	Portfolio and department abolished.
<p><u>Sustainability, Environment, Water, Population and Communities Portfolio</u></p> <ul style="list-style-type: none"> • Department of Sustainability, Environment, Water, Population and Communities • Bureau of Meteorology • Director of National Parks • Great Barrier Reef Marine Park Authority • Murray-Darling Basin Authority • National Environment Protection Council Service Corporation • National Water Commission • National Heritage Trust of Australia Account 	<p><u>Environment Portfolio</u></p> <ul style="list-style-type: none"> • Department of the Environment • Bureau of Meteorology • Clean Energy Regulator⁴ • Climate Change Authority⁴ • Director of National Parks • Great Barrier Reef Marine Park Authority • Low Carbon Australia⁴ • Murray-Darling Basin Authority • National Water Commission • National Heritage Trust of Australia Account

Portfolio and entity arrangements as at 30 June 2013	Portfolio and entity arrangements as at 30 June 2014
<ul style="list-style-type: none"> • Sydney Harbour Conservancy Limited • Sydney Harbour Federation Trust 	<ul style="list-style-type: none"> • Sydney Harbour Conservancy Limited • Sydney Harbour Federation Trust
<p><u>Treasury Portfolio</u></p> <ul style="list-style-type: none"> • Department of the Treasury • Australian Bureau of Statistics • Australian Competition and Consumer Commission • Australian Office of Financial Management • Australian Prudential Regulation Authority • Australian Reinsurance Pool Corporation • Australian Securities and Investments Commission • Australian Taxation Office • Clean Energy Finance Corporation • Commonwealth Grants Commission • Corporations and Markets Advisory Committee • Inspector-General of Taxation • National Competition Council • Office of the Auditing and Assurance Standards Board • Office of the Australian Accounting Standards Board • Productivity Commission • Reserve Bank of Australia <ul style="list-style-type: none"> - Note Printing Australia Ltd • Royal Australian Mint 	<p><u>Treasury Portfolio</u></p> <ul style="list-style-type: none"> • Department of the Treasury • Australian Bureau of Statistics • Australian Competition and Consumer Commission • Australian Office of Financial Management • Australian Prudential Regulation Authority • Australian Reinsurance Pool Corporation • Australian Securities and Investments Commission • Australian Taxation Office • Clean Energy Finance Corporation • Commonwealth Grants Commission • Corporations and Markets Advisory Committee • Inspector-General of Taxation • National Competition Council • Office of the Auditing and Assurance Standards Board • Office of the Australian Accounting Standards Board • Productivity Commission • Reserve Bank of Australia <ul style="list-style-type: none"> - Note Printing Australia Ltd • Royal Australian Mint

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- 1 The entity was renamed the Australian Financial Security Authority.
 - 2 The entity transferred from the former Regional Australia, Local Government, Arts and Sport Portfolio.
 - 3 The entity transferred from the former Education, Employment and Workplace Relations Portfolio.
 - 4 The entity transferred from the former Industry, Innovation, Climate Change, Science, Research and Tertiary Education Portfolio.
 - 5 The entity transferred from the former Families, Housing, Community Services and Indigenous Affairs Portfolio.
 - 6 The entity transferred from the former Human Services Portfolio.
 - 7 The entity transferred from the Prime Minister and Cabinet Portfolio.
 - 8 The entity transferred from the Attorney-General's Portfolio.
 - 9 The entity transferred from the former Resources, Energy and Tourism Portfolio.

Appendix 2 Changes in audit responsibilities in 2013–14

The following is a listing of new entities in 2013–14 and entities that ceased to be audited by the Auditor-General.

New entities audited in 2013–14

Asbestos Safety and Eradication Agency
Australian Aged Care Quality Agency
ANSTO Nuclear Medicine Pty Ltd
Department of Education
Department of Employment
Family Court and Federal Circuit Court of Australia
Indigenous Real Estate Investment Trust
National Portrait Gallery of Australia
National Disability Insurance Agency

Entities that ceased to be audited by the Auditor-General

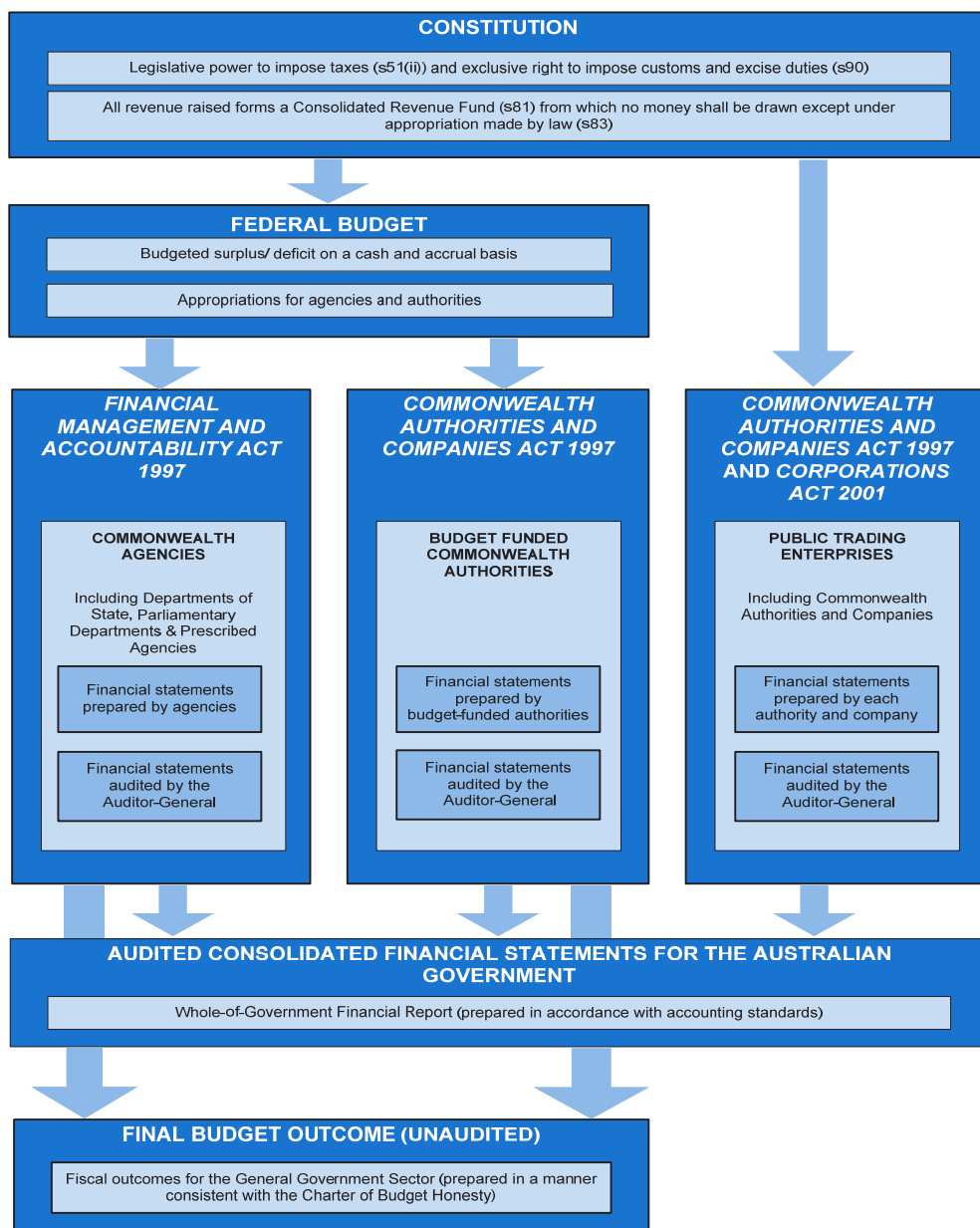
Aged Care Standards and Accreditation Agency Ltd
Australian Agency for International Development (AusAID)
Australia Solar Institute Limited
Department of Resources, Energy and Tourism
Family Court of Australia
Federal Circuit Court of Australia
Indigenous Fishing Trust
Indigenous Investment Trust
National Indigenous Property Trust
Scarborough House Investment Trust
Scarborough House Office Trust
Wheat Exports Australia
Wreck Bay Enterprises Ltd

Appendix 3 **The financial reporting framework for the 2013–14 financial statements**

The 2013–14 financial statements of Australian Government entities are the last to be prepared under the financial reporting framework of the *Financial Management and Accountability Act 1997* (FMA Act) and the *Commonwealth Authorities and Companies Act 1997* (CAC Act). On 1 July 2014, the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) came into effect, and from 2014–15 the financial statements of Australian Government entities will be based on the requirements of this Act. These requirements remain substantially the same as the previous legislative framework.

Key elements of the Australian Government’s financial reporting framework applicable for 2013–14 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.

Key elements of the financial reporting framework for 2013–14



Source: ANAO.

Commonwealth Government of Australia

Section 55 of the FMA Act required the Finance Minister to prepare annual financial statements for the Commonwealth Government of Australia. These financial statements constituted 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, were subject to the provisions of the FMA Act.

The FMA Act prescribed the Finance Minister's Orders (FMOs) as the applicable financial reporting framework for agencies. The FMOs included a requirement that the financial statements comply with the Australian Accounting Standards (AASs) issued by the Australian Accounting Standards Board.

Commonwealth authorities and subsidiaries

Commonwealth authorities were bodies corporate that hold money on their own account and were created by the Parliament to perform specific functions. Commonwealth authorities operated under their own enabling legislation and were required to comply with relevant provisions of the CAC Act.

The CAC Act prescribed the FMOs as the applicable financial reporting framework for Commonwealth authorities. The financial reporting framework applicable to subsidiaries of Commonwealth authorities depended on the nature of the subsidiary.

Commonwealth companies and subsidiaries

Commonwealth companies are companies that are controlled by the Australian Government through majority share holdings or voting rights, or via control over the composition of the company's board. Commonwealth companies operate and prepare financial statements under the *Corporations Act 2001*.

The applicable financial reporting framework for Commonwealth companies remains the *Corporations Act 2001*, including the AASs and the Corporations Regulations.

The financial reporting framework applicable to subsidiaries of Commonwealth companies depends on the nature of the subsidiary.

Other bodies

The ANAO also audits the financial statements of other bodies under the 'by arrangement' of provisions in section 20 of the *Auditor-General Act 1997*. These bodies consist primarily of trusts or joint ventures entered into by Commonwealth bodies.

Audits of the 2013–14 financial statements of Australian Government entities

Audit scope

The 2013–14 legislative framework required the Chief Executives of agencies, and the directors of authorities and companies, to prepare the financial statements and maintain 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 statements, 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 to fraud. However, the auditor is not responsible for the prevention of fraud and error.

The auditor's report on 2013–14 financial statements

The ANAO auditor's report on the 2013–14 financial statements includes a statement of the auditor's opinion as to whether the financial 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 applicable financial reporting framework.

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 report on the financial statements will include the auditor's opinion and may include an 'emphasis of matter' or 'other matters' paragraphs. A report on other legal and regulatory requirements may accompany the auditor's report on the financial statements.

Form of auditor's opinion

An auditor's opinion is described as 'unmodified' when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

An auditor's opinion may be 'modified' in one of three ways.

- A 'modified opinion' is expressed when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in aggregate, are material but not pervasive to the financial statements. A 'modified opinion' is also expressed when the auditor, having been unable to obtain sufficient appropriate audit evidence, concludes that the possible effects on the financial statements of undetected misstatements could be material but not pervasive.
- A 'disclaimer of opinion' is expressed when the auditor, having been unable to obtain sufficient appropriate audit evidence on which to base the opinion, concludes that the possible effects on the financial statements of undetected misstatements could be both material and pervasive.
- An 'adverse opinion' is expressed when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements individually or in aggregate, are both material and pervasive to the financial statements.

Emphasis of matter

An 'emphasis of matter' paragraph is included in the auditor's report when the auditor considers it necessary to draw to users' attention a matter presented in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to the users' understanding of the financial statements. The auditor's opinion is not modified in respect of the matter emphasised. The circumstances in which an emphasis of matter is used include:

- when material uncertainty exists relating to an event or condition that may cast significant doubt on an entity's ability to continue as a going concern;
- when financial statements and the auditor's report have been issued and a fact is discovered that leads to revised financial statements and a new auditor's report being prepared; and
- when financial statements have been prepared in accordance with a special purpose framework, and as a result the financial statements may not be suitable for another purpose.

Other matters

The auditor's report on the financial statements may also include a reference to 'other matters'. This allows the auditor to communicate a matter other than a matter that is presented or disclosed in the financial statements that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

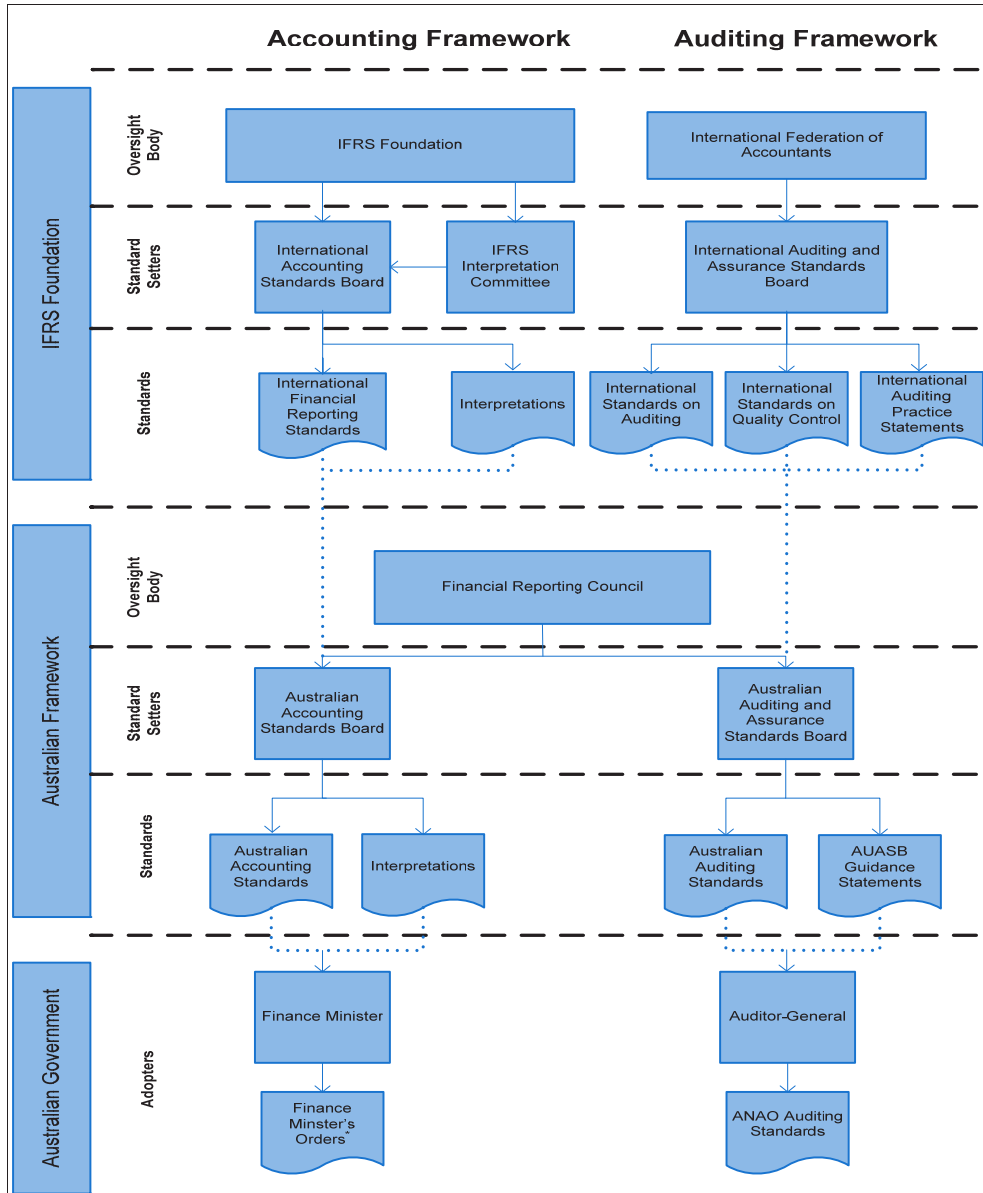
Report on other legal and regulatory requirements

The auditor's report on the financial statements may also include a report on other legal and regulatory requirements. This report covers matters that the Auditor-General is required by law to report on in conjunction with the financial statements audit that do not affect the truth and fairness of the financial statements.

A report on other legal and regulatory requirements may also be used to draw attention to other legislative issues such as issues relating to agencies' compliance with section 83 of the Constitution.

Appendix 4 The financial reporting and auditing standards frameworks for 2013–14

The figure below depicts the standard setting framework, for financial reporting and auditing, in the Australian Government context.



Source: ANAO.

* Finance Minister's Orders applied to financial reporting by most Australian Government entities for 2013–14. In future years, financial reporting by these entities will be governed by rules made under the *Public Governance, Performance and Accountability Act 2013*.

Appendix 5 Number of audit findings

Table A.1: Results reporting in ANAO Audit Report No.44 2013–14

Significant, moderate and L1 findings, at the conclusion of the 2013–14 interim phase, for entities included in the interim audit report, ANAO Audit Report No. 44 2013–14. This report covers the following 23 entities that represent some 95 per cent of total GGS revenues and expenses.

Entity	2013–14 Rating			2012–13* Rating		
	A	B	L1	A	B	L1
Department of Agriculture	–	1	–	–	–	–
Attorney–General's Department	–	1	–	–	1	1
Department of Communications	–	–	–	–	–	–
Department of Defence	–	10	1	–	9	1
Defence Materiel Organisation	–	1	–	–	2	–
Department of Veterans' Affairs	–	2	2	–	4	2
Department of Education	–	1**	1**	–	1**	1**
Department of Employment	–	–	–	–	–	–
Department of the Environment	–	–	–	–	–	–
Department of Finance	–	1	1	–	–	1
Future Fund Management Agency and the Board of Guardians	–	–	–	–	–	–
Department of Foreign Affairs and Trade	–	1	1	–	–	–
Department of Health	–	–	1	–	–	1
Department of Immigration and Border Protection	–	1	2	–	–	–
Australian Customs and Border Protection Service	–	–	1	–	3	–
Department of Industry	–	–	1	–	1	1
Department of Infrastructure and Regional Development	–	–	–	–	–	–
Department of the Prime Minister and Cabinet	–	2	1***	–	–	–
Department of Social Services	–	2	1	–	–	1
Department of Human Services	–	3	1	–	2	1
Department of the Treasury	–	–	1	–	–	1
Australian Office of Financial Management	–	–	–	–	–	–
Australian Taxation Office	–	–	–	–	–	–
Total	0	26	15	0	23	11

* See table 5.1 on p.78 of ANAO Audit Report No.44 2013–14.

** Responsibility for the unresolved findings relating to the former Department of Education, Employment and Workplace Relations was transferred to the Department of Education.

*** A category L1 finding was raised for the former Department of Families, Housing, Community Services and Indigenous Affairs which remained unresolved at the end of the 2012–13 final audit phase. Indigenous functions were transferred to the Department of the Prime Minister and the Cabinet as part of the MoG changes on 18 September 2013. Responsibility for the resolution of this component of the unresolved finding also transferred.

Source: ANAO.

Table A.2: Results reported for all material entities in 2013–14

Significant, moderate and L1 findings of material entities grouped by portfolio at the conclusion of the final audit phase of the 2013–14 audits.

Entity	2013–14 Rating			2012–13 Rating		
	A	B	L1	A	B	L1
Department of Agriculture	–	–	–	–	–	–
Grains Research and Development Corporation	–	–	–	–	–	–
Attorney-General's Department	–	1	–	–	–	1
Australian Federal Police	–	–	–	–	–	–
Australian Government Solicitor	–	–	–	–	–	–
Australian Security Intelligence Organisation	–	–	–	–	–	–
Family Court and Federal Circuit Court of Australia	–	–	–	–	1*	–
High Court of Australia	–	–	–	–	–	–
National Archives of Australia	–	–	–	–	–	–
National Gallery of Australia	–	–	–	–	–	–
National Library of Australia	–	–	–	–	–	–
National Museum of Australia	–	–	–	–	–	–
Department of Communications	–	–	–	–	–	–
Australian Broadcasting Corporation	–	–	–	–	–	–
Australian Communications and Media Authority	–	–	–	–	–	–
Australian Postal Corporation	–	–	–	–	2	–
NBN Co Limited	–	–	–	–	2	–
Special Broadcasting Service Corporation	–	–	–	–	–	–
Department of Defence	–	8	1	–	8	1
Australian War Memorial	–	–	–	–	–	–
Defence Housing Australia	–	–	–	–	–	–
Defence Materiel Organisation	–	1	–	–	1	–
Department of Veterans' Affairs	–	2	1	–	2	2
Department of Education	1	1	1	–	1	1
Australian Research Council	–	–	–	–	–	–
Department of Employment	–	1	–	–	–	–
Coal Mining Industry (Long Service Leave Funding) Corporation	–	–	–	–	–	–
Comcare	–	–	–	–	–	–

Entity	2013–14 Rating			2012–13 Rating		
	A	B	L1	A	B	L1
Department of the Environment	–	–	–	–	–	–
Bureau of Meteorology	–	–	–	–	–	–
Clean Energy Regulator	–	–	–	–	–	–
Department of Finance	–	–	1	–	1	1
Albury-Wodonga Development Corporation	–	–	–	–	–	–
ASC Pty Ltd	–	–	–	–	–	–
Australian Electoral Commission	–	–	–	–	–	–
Future Fund Management Agency and the Board of Guardians	–	–	–	–	–	–
Medibank Private Limited	–	–	–	–	–	–
Department of Foreign Affairs and Trade	–	2	–	–	–	–
Australian Trade Commission (Austrade)	–	–	–	–	–	–
Export Finance and Insurance Corporation	–	–	–	–	–	–
Department of Health	–	–	1	–	–	1
Australian Sports Commission	–	–	–	–	–	–
National Blood Authority	–	–	–	–	–	–
National Health and Medical Research Council	–	–	–	–	–	–
Department of Immigration and Border Protection	–	1	–	–	–	2
Australian Customs and Border Protection Service	–	–	1	–	1	1
Department of Industry	–	–	1	–	–	1
Australian Nuclear Science and Technology Organisation	–	–	–	–	–	–
Australian Renewable Energy Agency	–	–	–	–	–	–
Commonwealth Scientific and Industrial Research Organisation	–	–	–	–	–	–
Department of Infrastructure and Regional Development	–	–	–	–	–	–
Airservices Australia	–	–	–	–	–	–
Australian Rail Track Corporation	–	–	–	–	–	–
National Capital Authority	–	–	–	–	–	–
Department of Parliamentary Services	–	–	–	–	–	–
Department of the Prime Minister and Cabinet	–	1	1	–	–	1
Indigenous Business Australia	–	–	–	–	–	–
Department of Social Services	–	–	1	–	–	–
Australian Hearing	–	–	–	–	–	–
Department of Human Services	–	1	1	–	1	1
National Disability Insurance Agency	–	1	–	–	–	–

Entity	2013–14 Rating			2012–13 Rating		
	A	B	L1	A	B	L1
Department of the Treasury	–	–	1	–	–	1
Australian Bureau of Statistics	–	1	–	–	1	–
Australian Office of Financial Management	–	–	–	–	–	–
Australian Reinsurance Pool Corporation	–	–	–	–	–	–
Australian Securities and Investments Commission	–	2	–	–	–	1
Australian Taxation Office	–	1	1	–	–	–
Clean Energy Finance Corporation	–	–	–	–	–	–
Reserve Bank of Australia	–	–	–	–	–	–
Total	1	24	12	0	21	15

* This finding relates to the former Family Court of Australia that integrated with the former Federal Circuit Court of Australia and became the Family Court and Federal Circuit Court of Australia.

Table A.3: Findings reported for all non-material entities in 2013–14

Significant, moderate and L1 findings of non-material entities grouped by portfolio at the conclusion of the final audit phase of the 2013–14 audits.

Entity	2013–14 Rating			2012–13 Rating		
	A	B	L1	A	B	L1
Attorney–General's Portfolio						
Australian Financial Security Authority	–	–	1	–	–	–
Australian National Maritime Museum	–	–	–	–	1	–
Family Court of Australia	–	1	–	–	2	–
Federal Circuit Court of Australia	–	–	–	–	1*	–
National Film and Sound Archive of Australia	–	–	–	–	1	–
Defence Portfolio						
AAF Company	–	1	–	–	–	–
Finance Portfolio						
ComSuper	–	–	–	–	–	1
Health Portfolio						
Australian Radiation Protection and Nuclear Safety Agency	–	2	–	–	–	–
Australian Sports Anti-Doping Authority	–	–	–	–	–	1
Industry Portfolio						
National Offshore Petroleum Safety and Environmental Management Authority	–	–	–	–	1	1
Prime Minister and Cabinet Portfolio						
Aboriginals Benefit Account	–	–	1	–	–	1
Anindilyakwa Land Council	–	–	–	–	–	1
Australian Public Service Commission	–	–	–	–	–	1
Northern Land Council**	1	–	–	–	1	–
Wreck Bay Aboriginal Community Council	–	–	–	–	1	–
Treasury Portfolio						
Australian Prudential Regulation Authority	–	1	–	–	–	–
Royal Australian Mint	–	1	–	–	1	–
Total	1	6	2	–	9	6

* This finding relates to the former Federal Circuit Court of Australia that integrated with the former Family Court of Australia and became the Family Court and Federal Circuit Court of Australia.

** These issues are findings reported in the financial years indicated, which relate to the previous financial years' audits.

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