

The Auditor-General
ANAO Report No.15 2015–16
Financial Statement Audit

**Audits of the Financial Statements of
Australian Government Entities for the
Period Ended 30 June 2015**

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Canberra ACT
17 December 2015

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken the audits of the 2014–15 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 2015*.

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, which reads 'Grant Hehir'. The signature is written in a cursive style.

Grant Hehir
Auditor-General

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

AUDITING FOR AUSTRALIA

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

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

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Executive summary

1. The primary purpose of financial statements is to provide relevant, reliable information to users about a reporting entity's financial position. In the public sector, the users of financial statements include Ministers, Parliament and the community. The preparation of timely and accurate audited financial statements is also an important indicator of the effectiveness of an entity's financial management, which fosters confidence in an entity on the part of users.
2. The Australian National Audit Office (ANAO) publishes two reports annually addressing the outcomes of the financial statement audits of Commonwealth entities, Commonwealth companies and the Consolidated Financial Statements of the Australian Government.
3. The first of these, Audit Report No.44 2014–15 *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Entities for the Year Ending 30 June 2015*, outlined the results of the interim audits of the 2014–15 financial statements of major General Government Sector entities.
4. This report provides a summary of the results of the final audits of the financial statements of Australian Government entities and the Consolidated Financial Statements as at 2 December 2015. These audit results have been reported to the responsible Minister(s) and those charged with governance of each entity.

Consolidated Financial Statements

5. The Consolidated Financial Statements present the consolidated whole of government financial results inclusive of all Australian Government controlled entities, as well as the General Government Sector financial report. These statements were signed by the Minister for Finance on 30 November 2015.
6. A qualified auditor's report on the 2014–15 Consolidated Financial Statements was issued on 1 December 2015. The auditor's report expressed the qualified opinion that, except for the possible effects of the non-compliance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting* in relation to the valuation of specialist military equipment, the statements complied with Australian Accounting Standards and presented fairly the financial position of the Australian Government.
7. The Australian Government has advised that it is committed to preparing the CFS in accordance with applicable accounting standards, including recognising specialist military equipment at fair value where this can be done reliably, and intends to finalise the assessment to measure specialist military equipment at fair value in time for inclusion in the 2015–16 CFS.

Financial audit results

8. The Auditor-General and senior staff under delegation also issued auditor's reports on 253 entities' 2014–15 financial statements up until 2 December 2015. All auditor's reports, except the auditor's report on the Consolidated Financial Statements, were unmodified.
9. A total of 271 findings were reported to entities as a result of our 2014–15 financial statement audits. These comprised three significant, 30 moderate and 238 minor findings. Findings in the areas of information technology controls, and quality assurance frameworks for

financial reporting and compliance frameworks, in particular, warrant further attention by entity management and audit committees as these represent over 60 per cent of significant and moderate audit findings, and 54 per cent of total findings.

Improving financial statement disclosure

10. There is a global push to improve the usefulness of financial reporting by making disclosures less generalised and more meaningful. One of the main ways this can be achieved is through an increased focus on applying the concept of materiality to financial statement disclosure. While this concept is long-standing, both standard setters and reporting entities are increasingly recognising the value of streamlining financial statements disclosures to provide more meaningful information.

11. Fifty per cent of material entities improved the presentation of their 2014–15 financial statements. Commonly, this resulted in a reduction of 20 to 30 pages in the length of the statements by removing immaterial disclosures and those that were not directly relevant. The Consolidated Financial Statements and six entities made more substantive improvements, which enhanced the financial statements' overall readability. There is scope for more entities to enhance the readability of future financial statements by building on the approaches adopted by a number of entities in 2014–15.

12. The Department of Finance has advised that it is undertaking work with a view to implementing a Reduced Disclosure Regime under AASB 1053 *Application of Tiers of Accounting Standards* from 2015–16. The ANAO supports initiatives that reduce the compliance workload of Australian Government entities and make financial statements easier to read, while preserving sufficient disclosures to satisfy the needs of the Parliament.

AASB 1055 Budgetary Reporting

13. AASB 1055 *Budgetary Reporting* was introduced in 2014–15 and required relevant entities' financial statements to include details of the original budget presented to the Parliament and an explanation of major variances between actual results and the corresponding budget amounts.¹

14. The quality of note disclosures varied considerably, with over 70 per cent requiring amendment as a result of review by the ANAO and/or the entity's audit committee. It is recognised that the implementation of new reporting requirements can often take some time to bed down, and the ANAO worked closely with entities to ensure note disclosures in the signed financial statements met the requirements of AASB 1055. The ANAO considers an improvement in note disclosures in many entities' 2015–16 financial statements is required.

Financial sustainability

15. An analysis of the factors that influence an entity's financial sustainability can provide an indication of financial management issues or point to an increased risk that entities may require additional government funding. Our analysis concluded that the financial sustainability of the

1 The standard does not apply to entities classified as Public Financial Corporations or Public Non-Financial Corporations, or for-profit public sector entities.

majority of entities was not at risk. Nevertheless, there would be benefit in government developing performance targets or benchmarks. This would enable entities to assess their own financial sustainability against agreed parameters over time, and against like entities.

Developments in financial reporting and auditing frameworks

16. The main change affecting entities' 2014–15 financial statements was the introduction of AASB 1055 *Budgetary Reporting* referred to earlier.

17. A major change to the auditing framework is the proposal to improve auditor reporting through the introduction of ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*. This standard is expected to apply for reporting periods ending on or after 15 December 2016.

18. Although this standard will apply to audits of the financial statements of listed entities, the ANAO will undertake a trial of reporting key audit matters in 2015–16 involving a number of large Commonwealth entities. Auditor's reports that include key audit matters prepared as part of the trial will be in addition to the standard auditor's report on the financial statements. These reports will not be published, however they will be presented to the Accountable Authority for their information.

The year ahead

19. During 2015–16, the ANAO will continue to engage with entities and audit committees on a range of matters including:

- compliance with requirements of the Public Governance, Performance and Accountability framework and AASB 1055 *Budgetary Reporting*;
- risks associated with findings reported in 2014–15;
- the trial, in a number of large Commonwealth entities, of reporting key audit matters to Accountable Authorities; and
- opportunities for further improving the presentation of financial statements.

Cost of this Report

20. The cost to the ANAO of producing this report is approximately \$440 000.

1. The Consolidated Financial Statements

Chapter coverage

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 statements for the year ended 30 June 2015, and the Australian Government's financial outcome for 2014–15.

Audit Results

The Consolidated Financial Statements were signed by the Minister for Finance on 30 November 2015 and a qualified auditor's report was issued on 1 December 2015. The auditor's report expressed the qualified opinion that, except for the possible effects of the non-compliance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting* in relation to the valuation of specialist military equipment, the statements complied with Australian Accounting Standards and presented fairly the financial operations and position of the Australian Government.

The Australian Government has advised that it is committed to preparing the CFS in accordance with applicable accounting standards, including recognising specialist military equipment at fair value where this can be done reliably, and intends to finalise the assessment to measure specialist military equipment at fair value in time for inclusion in the 2015–16 CFS.

In 2014–15, the ANAO reported a moderate audit finding in relation to a number of weaknesses associated with the financial statements preparation process.

Background

1.1 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.

1.2 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 Parliament², the Final Budget Outcome³ and Intergenerational reports⁴. These various sources provide information on a range of policy and financial matters, including the medium-term and intergenerational effect of decisions.

1.3 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 statements⁵. The 2014–15 CFS are prepared in accordance with section 48 of the *Public Governance, Performance and Accountability Act 2013* and the requirements of the Australian

2 Available at <http://www.budget.gov.au/2015-16>.

3 Available at www.budget.gov.au/2014-15/content/fbo/html/.

4 Available at <http://www.treasury.gov.au/PublicationsandMedia/Publications/2015/2015-Intergenerational-Report>.

5 Since 2009–10 the CFS has incorporated both the whole of government and GGS financial reports required by AASB 1049, and the 2014–15 CFS again includes both of these reports.

Accounting Standards, including AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049). The CFS operating statement and balance sheet are prepared on an accrual basis⁶, with the cash flow statement prepared on a cash basis.

1.4 The Australian Government supported the introduction of AASB 1049 to achieve the objective of 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. In preparing the CFS, the principles and rules in the GFS Manual are to be applied where compliance with GFS Manual would not conflict with Australian Accounting Standards. Where the Standards provide a choice, the principles or rules in the GFS Manual are to be applied.

Audit Results

Qualified auditor's report

1.5 The CFS were signed by the Minister for Finance on 30 November 2015 and a qualified auditor's report was issued on 1 December 2015. The auditor's report expressed the qualified opinion that, except for the possible effects of the non-compliance with AASB 1049 in relation to the valuation of specialist military equipment, the statements complied with Australian Accounting Standards and presented fairly the financial operations and position of the Australian Government.

1.6 Specialist military equipment, which includes Defence Weapons Platforms (DWPs⁷), is recorded in the 30 June 2015 Balance Sheets of the Australian Government and of the GGS at cost of \$42 652 million (30 June 2014: \$41 243 million), net of accumulated depreciation and accumulated impairment losses (the carrying amount).

1.7 At the time of the initial application of AASB 1049 in 2008–09, DWPs were measured in the CFS at cost, as the GFS Manual did not require them to be measured at fair value. In April 2011, the Australian Bureau of Statistics amended the GFS Manual to require DWPs, a component of specialist military equipment, to be measured at fair value consistent with other property, plant and equipment. As a result, DWPs were required to be reported in the CFS at fair value from 2012–13.

1.8 In 2012–13, in response to a request from the Australian Government, the Australian Accounting Standards Board provided the Australian Government transitional relief to not measure and report DWPs at fair value until 2014–15.

1.9 In early 2015, the Australian Government sought a review of AASB 1049 in relation to the measurement of DWPs, or an extension of the transitional relief provisions previously

6 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.

7 The GFS Manual defines DWPs as: military vehicles and equipment designed to launch weapons of destruction including warships, submarines, military aircraft, tanks, missile carriers and launchers. The definition excludes missiles, rockets and bombs.

provided by the Australian Accounting Standards Board. The Board decided in April 2015 that, commencing from 2014–15, DWPs were to be reported at fair value, if fair value can be reliably measured, in accordance with the requirements of AASB 1049.

1.10 The Australian Government, through the Departments of Finance and Defence, has not completed its work to establish reliable measurements of the fair value of specialist military equipment, including DWPs, in time for the 2014–15 CFS. Consequently specialist military equipment continues to be reported at the cost basis of measurement.

1.11 As a result, the Auditor-General was unable to obtain sufficient appropriate audit evidence over whether a material difference exists between the carrying amount and the fair value of specialist military equipment at 30 June 2015. This is a limitation on the scope of the audit. The auditor's report noted it is possible that the difference between the carrying amount and the fair value is material at 30 June 2015 to specialist military equipment and the depreciation expense balances, and the associated notes.

1.12 The Australian Government has advised that it is committed to preparing the CFS in accordance with applicable accounting standards, including recognising specialist military equipment at fair value where this can be done reliably. Therefore, the Australian Government intends to finalise the assessment to measure specialist military equipment at fair value in time for inclusion in the 2015–16 CFS.

New audit finding

CFS preparation process

1.13 An important aspect of the financial statements preparation process is the implementation of a quality control and assurance regime that is designed to provide assurance about the accuracy and completeness of the statements, and that they comply with all relevant legislative and policy requirements.

1.14 Consistent with previous years, the preparation of the annual CFS is a significant project. This is due to several factors including:

- the manual nature of the consolidation process;
- the high level of dependency on entities to identify and advise material accounting and auditing issues;
- different accounting policies being applied between entities that need to be adjusted for in the CFS; and
- a large volume of complex and material inter-entity elimination journals.

1.15 In 2014–15, the ANAO reported a moderate audit finding in relation to a number of weaknesses associated with the process to prepare the CFS.⁸ These weaknesses resulted in the identification of a large number and dollar value of adjustments through the 2014–15 audit process.

⁸ The ANAO rates findings according to the potential business risk or financial risk. The rating scale is presented in Table 2.1.

1.16 Issues identified included:

- assets (including specialist military equipment) that are required to be measured at fair value being measured at cost in the CFS;
- adjustments not identified by the Department of Finance's quality assurance processes;
- timely consideration of accounting treatments for new or changed circumstances; and
- inconsistent accounting and disclosure treatments by individual entities not being addressed at the CFS level.

1.17 The Department of Finance response is that 'the CFS consolidation process and quality assurance processes are largely unchanged from those applied and audited in previous years. Finance notes that the ANAO's expectations around the consolidation process and the nature of Whole of Government consolidation are emerging. Finance will work with the ANAO on planning for next year's CFS to identify these expectations'.

Australian Government's financial outcome for 2014–15

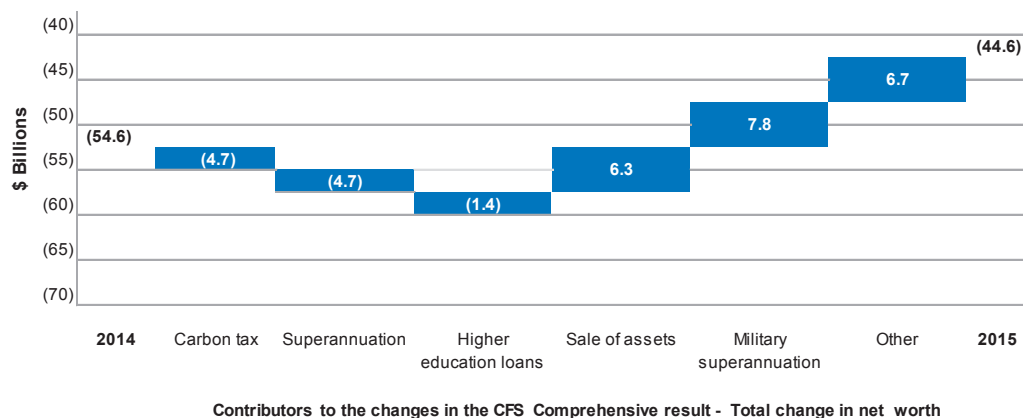
1.18 The reported 2014–15 operating result⁹ attributable to the Australian Government was a deficit of \$29.0 billion (2013–14: deficit of \$43.1 billion) and a comprehensive result - total change in net worth of negative \$44.6 billion (2013–14: negative \$54.6 billion). The fiscal balance¹⁰ was a deficit of \$46.5 billion (2013–14: deficit of \$42.3 billion) and the reported negative net worth¹¹ position was \$309.0 billion (2013–14: negative \$264.7 billion). These outcomes reflect the financial effect of government policies and the economic environment for the year ended 30 June 2015 and the associated movement in assets and liabilities as at the financial year end. These outcomes do not reflect the possible material difference between the reported balances and the fair value of specialist military equipment and the associated depreciation expense balance at 30 June 2015 that resulted in a qualified auditor's report as discussed at paragraphs 1.5 to 1.12.

1.19 The analysis of movements from 2013–14 to 2014–15 of particular items presented in Figure 1 largely reflects one-off or unusual events that have impacted the 30 June 2015 Australian Government's comprehensive result – total changes in net worth.

9 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'.

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

11 Net worth equals assets less liabilities.

Figure 1: CFS comprehensive result – total changes in net worth

1.20 The following commentary explains the main contributors to the change in the CFS Comprehensive result – total change in net worth.

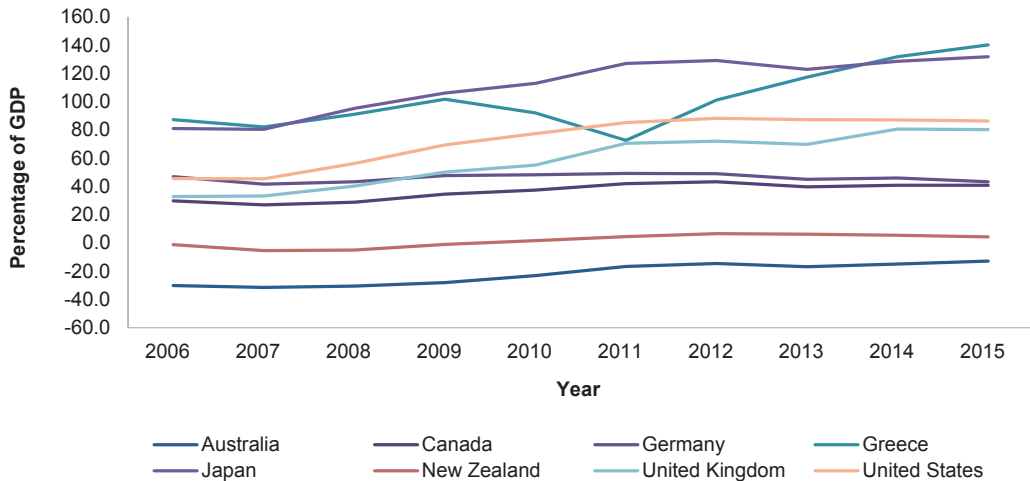
- **Carbon tax:** In 2014–15, the carbon tax was repealed resulting in a decrease in carbon tax revenue.
- **Superannuation:** The movement in the superannuation liability between years is reflected as a gain or a loss in the Australian Government’s operating statement. In 2014–15, the following factors had the main impact:
 - the triennial review in 2014–15 of the underlying assumptions used to calculate the schemes liabilities. This resulted in changes to the salary growth rate offset by changes in other assumptions, including an increase in the take up of superannuation pensions and the estimated life expectancy of scheme participants; and
 - a decrease in the government bond rate from 30 June 2014 to 30 June 2015.
- **Higher education loans:** This movement is mainly attributable to an increase in the amounts written-off due to the assessment of the recoverability of the loans relating to the Higher Education Loans Programme.
- **Sale of assets:** The sale of Medibank Private Limited and the recognition of revenue relating to the auction of digital spectrum licences by the Australian Communications and Media Authority in 2014–15.
- **Military superannuation:** A one-off adjustment to the indexation arrangements for military superannuation resulted in a loss being recognised in 2013–14. This did not occur in 2014–15.
- **Other:** A range of other factors contributed to the overall increase of \$10.0 billion in the Australian Government’s comprehensive result. These included an increase in:
 - taxation revenue year-on-year of \$11.4 billion (excluding the impact of the decrease in carbon tax revenue referred to above). This was partially offset by an

increase in grants to State and Territory governments and non-profit institutions of \$9.2 billion; and

- net foreign exchange gains of \$4.1 billion largely relating to an increase in the value of foreign currency held by the Reserve Bank of Australia of \$6.0 billion. This was partially offset by \$2.1 billion foreign exchange losses relating to the Future Fund investment portfolio.

1.21 The following figures show the net financial liabilities of the Australian Government’s General Government Sector as a percentage of gross domestic product relative to some other OECD¹² countries, and the Australian Government’s negative net worth and total assets and liabilities.¹³

Figure 1.2: General Government net financial liabilities¹⁴ as a percentage of gross domestic product¹⁵



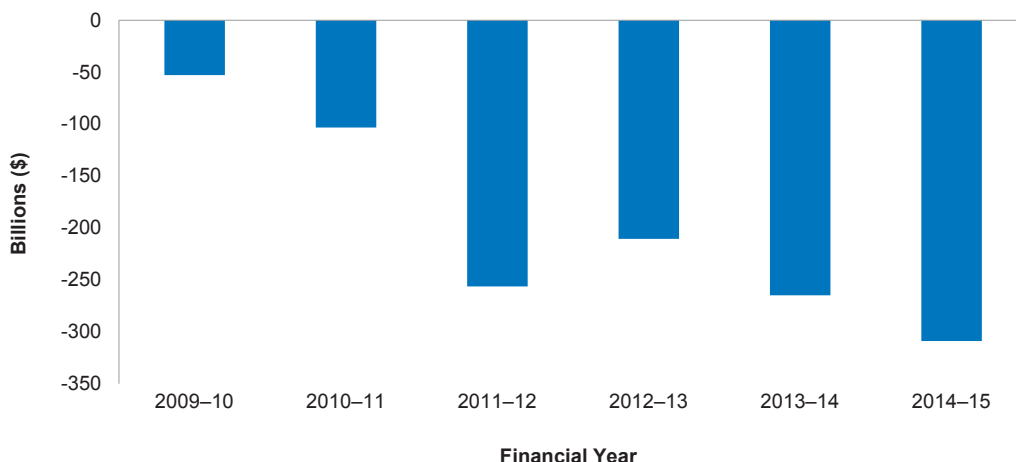
Source: OECD Economic Outlook 95 database at <http://www.oecd.org/statistics/>. General government accounts are consolidated central, state and local government accounts, social security funds and non-market non-profit institutions controlled and mainly financed by government units.

12 The Organisation for Economic Co-operation and Development.

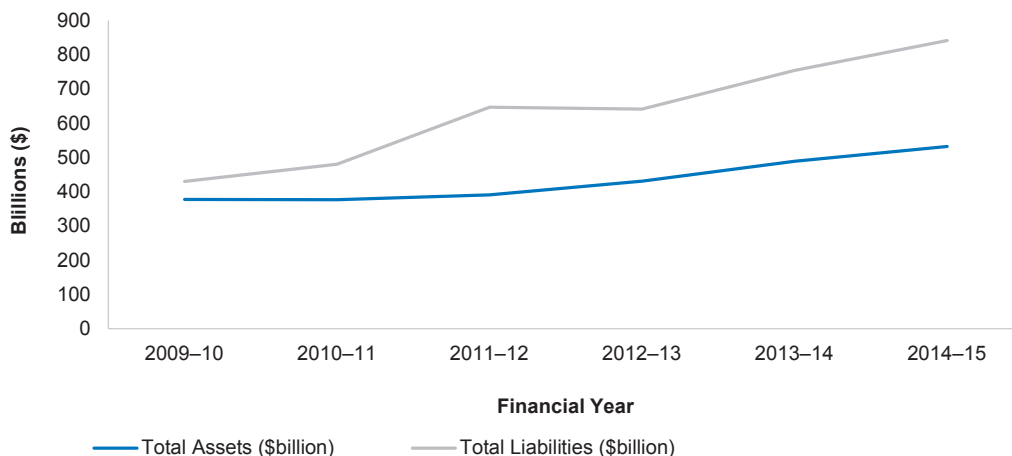
13 These figures do not reflect the possible material difference between the carrying amount and the fair value of specialist military equipment and the associated depreciation expense balance at 30 June 2015 as discussed at paragraphs 1.5 to 1.12.

14 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.

15 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 1.3: Australian Government's net worth

Source: Consolidated Financial Statements from 2009-10 to 2014-15. Figure 1.3 does not reflect the possible material difference between the reported balances and the fair value of specialist military equipment and the associated depreciation expense balance at 30 June 2015 that resulted in a qualified auditor's report as discussed at paragraphs 1.5 to 1.12.

Figure 1.4: Australian Government's total assets and total liabilities

Source: Consolidated Financial Statements from 2009-10 to 2014-15. Figure 1.4 does not reflect the possible material difference between the reported balances and the fair value of specialist military equipment and the associated depreciation expense balance at 30 June 2015 that resulted in a qualified auditor's report as discussed at paragraph 1.5 to 1.12.

Improving the presentation of the CFS

1.22 The primary purpose of financial statements is to provide relevant and reliable information to users about a reporting entity's financial position. In line with the global push to improve the usefulness of financial reporting by making the disclosures less generalised and more meaningful, the Department of Finance reviewed the structure and presentation of the

CFS. A general discussion on improving the presentation of financial statements is at paragraphs 2.35 to 2.44 of this report.

Actual and potential breaches of the Constitution

1.23 Section 83 of the Constitution 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.

1.24 Note 1.12 to the CFS provides information on the Australian Government entities continuing to review their level of compliance with section 83 of the Constitution across all legislation for which they have legislative responsibility.

1.25 In 2014–15, the ANAO changed its reporting policy in regard to actual and potential breaches of section 83. As a result, the auditor's report on the CFS did not include a report on other legal and regulatory requirements in respect of these matters. This matter is further discussed at paragraphs 2.57 to 2.63 in chapter 2 of this report.

2. Financial audit results

Chapter coverage

This Chapter provides:

- a summary of audit findings;
- an analysis of the timeliness of financial reporting; and
- an assessment of entities implementation of AASB 1055 *Budgetary Reporting*, a discussion on improving the presentation of financial statements; and commentary on legislative compliance matters.

Audit results

The ANAO issued one modified and 253 unmodified auditor's reports as at 2 December 2015 and reported three significant, 30 moderate and 238 minor audit findings.

The main weaknesses identified were in the Information Technology control environment (86 findings), and in compliance and quality assurance frameworks (60 findings).

Weaknesses were also identified in: revenue, receivables and cash management (33 findings); accounting and control of non-financial assets (36 findings); and human resource financial processes (31 findings).

There was a general improvement in financial statement preparation by entities. This is reflected in a reduction of the number of moderate audit findings relating to this area reported in 2014–15.

Eighty-two per cent of material entities and 85 per cent of non-material entities met the audit clearance timetable set by the Department of Finance, an improvement compared with 2013–14.

Consistent with the last three years, the auditor's reports of 76 per cent of entities' 2014–15 financial statements were signed within three months of the end of the financial year.

More than 50 per cent of entities made good progress in improving the presentation of their 2014–15 financial statements. The proposed introduction of a Reduced Disclosure Regime from 2015–16 will further assist improving the presentation of entities' financial statements.

The quality of AASB 1055 note disclosures presented for audit varied considerably, with 11 per cent requiring substantial amendment and over 60 per cent requiring some amendment following review by the ANAO and/or the entity's audit committee.

Audit approach

2.1 The *Auditor-General Act 1997* establishes the mandate for the Auditor-General to undertake the financial statement audits of all Commonwealth entities, Commonwealth companies and the Consolidated Financial Statements of the Australian Government.¹⁶

16 Commonwealth entities and Commonwealth companies are defined in sections 10 and 89 respectively of the *Public Governance, Performance and Accountability Act 2013*. For ease of presentation, these are referred to as entities.

2.2 Each year the Auditor-General is required to report to the relevant Minister on the financial statements of Australian Government entities.¹⁷ The ANAO conducts its financial statement audits in accordance with ANAO Auditing Standards, which incorporate the Australian Auditing Standards.¹⁸

2.3 The ANAO’s Audit Report No.44 2014–15 reported the interim results of the 2014–15 audits of major General Government Sector entities. The final results of the 2014–15 audits of the Consolidated Financial Statements and 253 Australian Government entities are presented in this report.¹⁹

Audit findings

2.4 The ANAO rates audit findings according to the potential business risk or financial risk posed to the entity. The rating scale is presented in Table 2.1.

Table 2.1: Findings rating scale

Rating	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.
L1 (Significant legislative finding)	Instances of significant potential or actual breaches of the Constitution; and instances of non-compliance with the entity’s enabling legislation, legislation that the entity is responsible for administering, and the PGPA Act.

Source: ANAO reporting policy.

2.5 A summary of significant, moderate and minor audit findings for the period ended 30 June 2015 by findings category is presented in Table 2.2.²⁰

2.6 Although the majority of findings are rated as minor, the findings point to the need for entities to continue to maintain, and in some cases strengthen, their controls environments. This includes being alert to changes in risks and business requirements.

17 The *Auditor-General Act 1997* also provides the authority for audits to be undertaken by arrangement in accordance with section 20 of that Act and the conduct of other non-financial statement mandated audits. In 2014–15 the ANAO carried out 56 of these audits.

18 Details of the ANAO’s audit approach and scope are outlined in appendix 4.

19 Appendix 1 provides a full listing of the entities included in this report and changes to those entities between 2013–14 and 2014–15 as the result of Machinery of Government.

20 Details of significant and moderate audit findings for each entity, together with a summary of the status of previously reported audit findings, as well as new findings identified during the final phase of the 2014–15 audits, are provided in chapter 5 of this report.

Table 2.2: Significant, moderate and minor findings by category

Category	Audit findings			Main areas of weakness
	Significant	Moderate	Minor	
Information Technology control environment	–	5	81	<ul style="list-style-type: none"> • security management, particularly management of user access • compliance with the Protective Security Policy Framework and the Australian Government Information Security Manual • maintaining and updating IT policy documentation and change management processes
Compliance and quality assurance frameworks supporting financial reporting	2	13	45	<ul style="list-style-type: none"> • documentation supporting evidence of executive oversight and risk assessments; evaluation of results and subsequent adjustments to compliance activity; and consistent application of sampling approaches across all offices/locations • large number and dollar value of adjustments arising from the audit process • timeliness of implementing an appropriate compliance framework following a transfer of functions under Machinery of Government changes and risk profiles
Revenue, receivables and cash management	–	3	30	<ul style="list-style-type: none"> • the timeliness and completeness of reconciliations • maintenance of relevant policy documentation and debt management processes
Accounting and control of non-financial assets	1	3	32	<ul style="list-style-type: none"> • timeliness of capitalisation of assets • valuation of assets • maintaining complete and accurate fixed asset registers • appropriateness of impairment assessments
Human resource financial processes	–	1	30	<ul style="list-style-type: none"> • the review processes including over payroll information, leave requests and final entitlement calculations • adequacy of employee documentation retained in files
Purchases and payables management	–	1	15	<ul style="list-style-type: none"> • payment approval processes • contract management • credit card acquittals
Other	–	4	5	<ul style="list-style-type: none"> • strategic and operational policies and procedures • grant acquittals • management review of key accounting processes
TOTAL	3	30	238	271

Source: ANAO analysis of audit findings.

2.7 An analysis of these findings in the categories that had the large majority of findings is presented below:

- Information Technology control environment;
- compliance and quality assurance frameworks;
- revenue, receivables and cash management;
- accounting and control of non-financial assets; and
- human resource financial processes.

Information Technology control environment

2.8 The Australian Government has reported that total government IT expenditure in recent years has been between \$5 billion and \$6 billion per annum.

2.9 The business processes that support financial statement preparation and reporting require the support of IT systems. As a result, an assessment of IT controls is a core component of the assessment of an entity's control environment, and the financial statement audit process. The ANAO assesses both IT general controls and application controls for significant financial systems.

2.10 Table 2.3 outlines the elements of the IT control environment assessed by the ANAO as part of the 2014–15 financial statement audits.²¹

Table 2.3: Main elements of the IT control environment

Control Area	Control Element
General IT controls ^a	IT security management
	IT change management
Application controls ^b	Financial management information systems
	Human resource management information system
	Relevant business information systems

Note a: IT general controls are entity-wide structures, policies, procedures, and standards applied to information systems that support accounting and business processes. Effective operation of these controls helps make sure IT application controls work as intended throughout the financial year.

Note b: IT application controls operate at the accounting and business process level, consisting of access, configuration, and reporting controls. Reliance on the effective operation of these controls provides a means to confirm the accuracy and integrity of entities' financial statements, particularly high transaction volume accounts. Audit coverage of these controls may be undertaken on a rotation basis.

Source: ANAO compilation.

2.11 Findings in relation to entities' IT control environments represent 32 per cent of all findings. Weaknesses related to:

- security management, particularly management of privileged and other user access;

21 A detailed discussion of the IT control environment is included in ANAO Audit Report 2014–15 No.44 *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Entities for the year ending 30 June 2015*.

- maintaining and updating IT policy documentation and change management processes; and
- non-compliance with the requirements of the Protective Security Policy Framework and the Australian Government Information Security Manual.

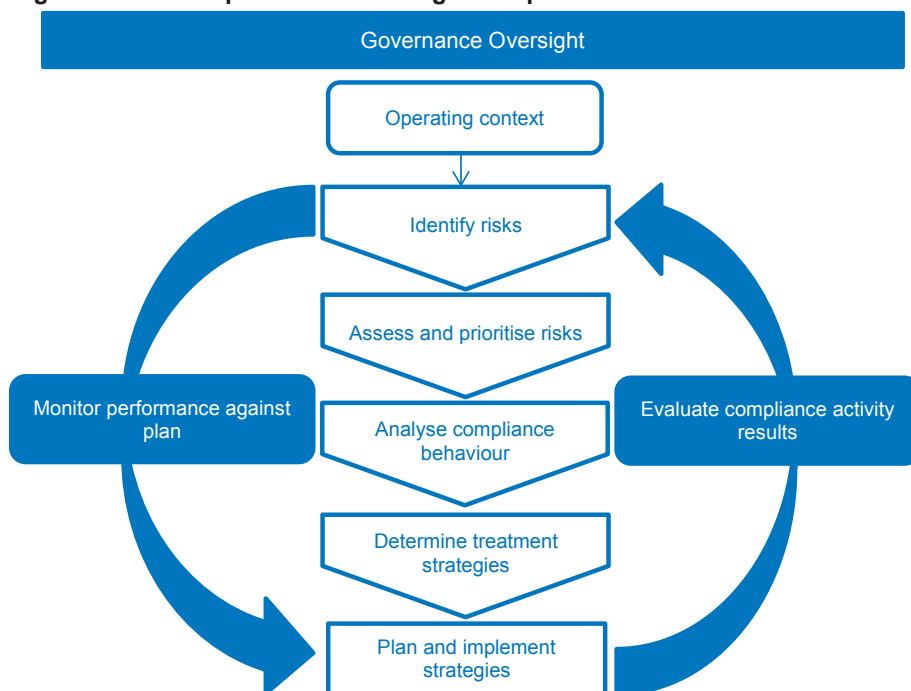
Compliance and quality assurance frameworks

2.12 Findings in relation to compliance and quality assurance frameworks represent 22 per cent of all findings.

Compliance frameworks in revenue and expenditure programs

2.13 Compliance risk management is a planned process for the systematic identification, assessment, ranking and treatment of compliance risks relevant to items of revenue (such as tax and duty revenues) and expenditure (such as personal benefit payments) that rely on the self-assessment of obligations or entitlements. Compliance risk management is an iterative process that consists of clear activities to support decision-making. Figure 2.1 provides an example of a compliance risk management process model.

Figure 2.1: Compliance risk management process model



Source: Adapted from Organisation for Economic Co-Operation and Development Guidance Note *Compliance Risk Management: Managing and Improving Tax Compliance* October 2014.

2.14 The results of the 2014–15 audits identified weaknesses in:

- documentation supporting evidence of governance oversight and risk assessments; evaluation of results and subsequent adjustments to compliance activity; and, where

applicable, consistent application of sampling approaches across all offices/locations; and

- timely implementation of an appropriate compliance framework following a transfer of functions under Machinery of Government changes and/or risk profiles.

Quality control and assurance processes supporting financial reporting

2.15 An important aspect of the financial statements preparation process is the implementation of a quality control and assurance regime that is designed to provide assurance about the accuracy and completeness of the statements, and that they comply with all relevant legislative and policy requirements.

2.16 Improvements were required in the following areas in a number of entities:

- balances subject to estimation and judgement;
- information obtained from external sources and/or business areas;
- the compilation of commitments information; and
- the overall presentation and disclosures in financial statements.

2.17 All entities have an ongoing responsibility to prepare accurate and timely financial statements as a key element of their financial management and accountability obligations.

Revenue, receivables and cash management

2.18 The main components of entities' revenue and receivables consist of Parliamentary appropriations, taxation revenue, customs and excise duties and administered levies. Other revenue is also generated by entities from the sale of goods and services and a range of other sources including interest earned from cash funds on deposit. Cash management involves the collection and receipt of public monies and the management of official bank accounts.

2.19 In 2014–15, the Consolidated Financial Statements reported total taxation revenues of \$354.9 billion, and non-taxation revenues²² of \$33.3 billion and reported cash holdings totalling \$4.8 billion.

2.20 Findings related to entities' revenue, receivables and cash management processes represent 12 per cent of all findings. Weaknesses were identified in the timeliness and completeness of reconciliations, the maintenance of relevant policy documentation, and debt management processes.

Accounting and controls of non-financial assets

2.21 The accounting and control of non-financial assets represents an important aspect of financial management responsibilities and entities control a diverse range of non-financial assets on behalf of the Commonwealth. In 2014–15, the Consolidated Financial Statements reported total non-financial assets of some \$146.0 billion.

2.22 Findings relating to accounting and controls of non-financial assets represent 13 per cent of all findings. Weaknesses were identified in the valuation of assets, timely capitalisation of

22 Non-taxation revenue includes revenue from sales of goods and services, property income (interest, dividends, income tax equivalents, land rents and royalties) and fines.

assets, the maintenance of complete and accurate fixed asset registers, and the appropriateness of impairment assessments.

Human resource financial processes

2.23 The main components of employee expenses consist of salary and wages, leave and other entitlements, employer superannuation contributions, separation and redundancy payments and workers compensation expenses. In 2014–15, the Consolidated Financial Statements reported \$45.4 billion in employee benefits expenses.

2.24 Findings in relation to entities' human resource financial processes represent 12 per cent of all findings. Weaknesses were identified in: the review processes over payroll information, leave requests and final entitlement calculations; and the adequacy of employee documentation retained in files.

Summary of auditor's reports issued

2.25 The Auditor-General and his delegates report on the 2014–15 financial statements of 254 Australian Government reporting entities.

2.26 Table 2.4 is a comparison of the number and type of auditor's reports issued by the ANAO in 2014–15 and 2013–14. Appendix 4 explains in more detail the financial reporting frameworks applicable in the Australian Government and the form and content of auditor's reports.

Table 2.4: Summary of auditors' reports issued and outstanding

Financial Statement Auditor's Reports ^a	2014–15	2013–14
Unmodified auditor's reports	253	252
- Includes emphasis of matter ^b	12	8
- Includes other legal and regulatory requirements	0	15
Modified auditor's reports ^c	1	0
Total issued	254	252
Auditor's reports outstanding	2	7
Total number of audits	256	259

Note a: As at 2 December.

Note b: Details are provided in appendix 3.

Note c: Includes the auditor's report on the Consolidated Financial Statements.

Source: 2013–14 and 2014–15 ANAO auditor's reports.

Quality and timeliness of financial reporting

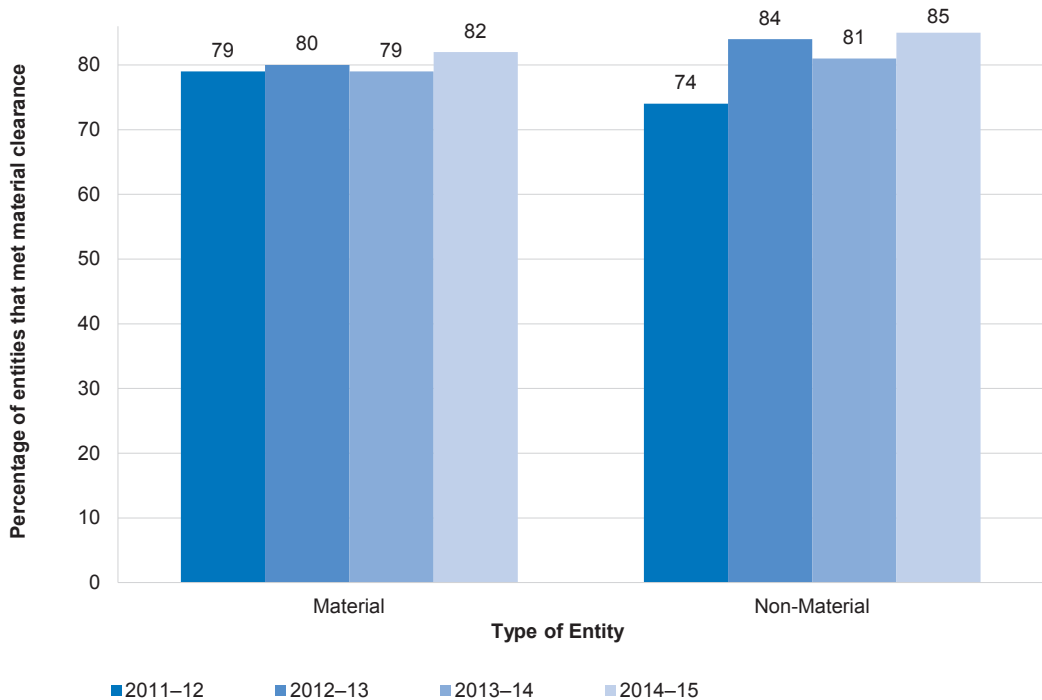
2.27 There was a general improvement in financial statement preparation by entities. In particular, the financial statement preparation processes of entities affected by Machinery of Government changes improved in 2014–15. This is reflected in entities meeting audit clearance deadlines (refer to analysis below) and a reduction of the number of moderate audit findings.

2.28 The timely preparation and publication of annual audited financial statements is a key means by which entities meet their financial accountability and legislative obligations.

2.29 Each year, material entities are required to submit audit cleared financial information to the Department of Finance by 15 August. For non-material entities, the date is 31 August. These deadlines are set to assist the Australian Government to prepare the Final Budget Outcome by 30 September and the Consolidated Financial Statements by 30 November each year.

2.30 Figure 2.2 presents an analysis of the percentage of entities that met the deadlines for submitting audit cleared financial information to the Department of Finance. The percentage of material and non-material entities that met these deadlines has shown a small improvement since 2011–12.

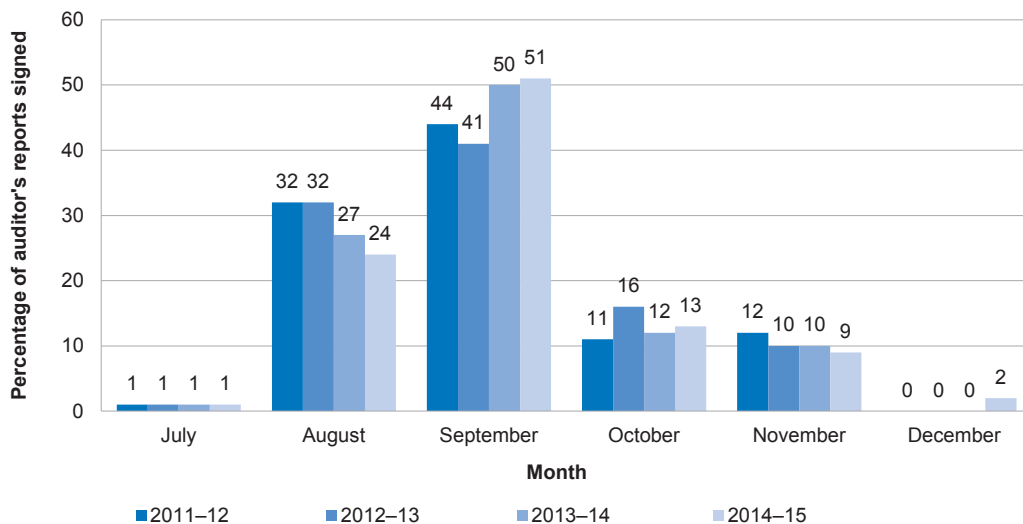
Figure 2.2 Material and non-material entity audit clearance^a



Note a: This analysis excludes subsidiary entities, which are included in the Consolidated Financial Statements through the parent entity. Non-material entities where the ANAO and the Department of Finance agreed a later clearance date have also been excluded.

Source: ANAO analysis of audit clearance dates.

2.31 An analysis of the timeframes in which auditor’s reports on entities’ financial statements were signed is presented in Figure 2.3.

Figure 2.3: Timeframes for signing auditors' reports^a

Note a: Includes all auditors' reports issued by 2 December and excludes auditors' reports on financial statements that do not have a reporting period ending 30 June.

Source: ANAO analysis of the timeframes in which auditors' reports were issued.

2.32 Consistent with previous years, the audits of 76 per cent of entities' financial statements were completed within three months of the end of the financial year. This continues to reflect positively on the priority given by entities in meeting their financial reporting responsibilities, and on the financial stewardship of the public sector generally.

2.33 Commonwealth entities are required to provide their annual reports to the responsible Minister by the 15th day of the fourth month after the end of the reporting period for the entity. For 95 per cent of entities, this is 15 October. Annual reports are required to include a copy of the signed financial statements and the auditor's report. As at 15 October 2015, 94 per cent of those entities had signed financial statements accompanied by an auditor's report.

2.34 The ANAO works closely with entities to enable the timely completion of financial statements audits. Ninety-nine per cent of 2014-15 auditors' reports were issued within two business days of the signed financial statements, which is consistent with the previous four years.

Improving the presentation of financial statements

2.35 The primary purpose of financial statements is to provide relevant and reliable information to users about a reporting entity's financial position. Financial statements preparation is often a complex task, involving compliance with a large number of requirements reflected in Australian Accounting Standards²³ and the Financial Reporting Rules.

23 AASB 101 *Presentation of Financial Statements* sets out the requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

2.36 There is a global push to improve the usefulness of financial reporting by making disclosures less generalised and more meaningful. One of the main ways this can be achieved is through an increased focus on applying the concept of materiality to financial statements disclosure. While this concept is long-standing, both standard setters and reporting entities are increasingly recognising the need to streamline financial statements disclosures wherever possible.²⁴

2.37 In March 2015, the ANAO published the *Public Sector Financial Statements Better Practice Guide*. This guide includes a discussion about the approaches that entities could take in improving the presentation of their financial statements. It also provides a number of examples to illustrate how these approaches can be applied in practice.²⁵

2.38 During 2014–15 the ANAO engaged with entity management and their audit committees to assist in identifying opportunities to improve the presentation of entities' 2014–15 financial statements.

2.39 Thirty four (50 per cent) material entities improved the presentation of their 2014–15 financial statements. Commonly, this resulted in a reduction of 20 to 30 pages in the length of the statements. While the length of the financial statements is not the primary indicator of their readability, the approaches adopted to achieve this outcome improved the general readability of the statements. The approaches adopted included:

- eliminating information from the Accounting Policy note (Note 1);
- removing immaterial amounts and other information not directly relevant to the entity from the notes;
- adopting a 'say it once, say it right' approach by, for example, removing duplication and placing information in the primary statements rather than the notes; and/or
- an assessment of the financial statements against mandatory reporting requirements.

2.40 Feedback from entities suggested that the investment in these approaches was not significant in the context of the total cost of producing the financial statements.

2.41 Six entities and the Consolidated Financial Statements also took the opportunity to make more substantive improvements to their 2014–15 financial statements. The entities were: the Australian Federal Police; the Australian Postal Corporation; and the Departments of Agriculture, Health, Human Services, and the Prime Minister and Cabinet. These entities decided early in the financial statement planning phase that they would make a more substantive investment in reviewing the way their financial statements were presented to significantly enhance their overall readability.

24 For example, Australian Accounting Standards were amended in January 2015 to clarify that even disclosures described by accounting standards as 'minimum requirements' may be omitted if they are not material (see AASB 2015–2 *Amendments to Australian Accounting Standards - Disclosure Initiative: amendments to AASB 101*).

25 The approaches outlined at section 3.4.1 on pages 64 to 66 of the guide are: remove information that is not material; review the accounting policy note; do not list what is not relevant; use the primary statements, rather than the notes; avoid duplicating information; consider the format of note disclosures; and reflect the entity's operations.

2.42 Factors that contributed to these entities improving the presentation of their financial statements included:

- early engagement with senior management, the audit committee, the ANAO and Finance;
- making improved financial statement presentation an explicit objective in preparing the statements, and applying appropriate time and resources to achieving this;
- setting materiality parameters to assist in determining note disclosures and considering materiality in both quantitative and qualitative terms;
- making greater use of graphics and diagrams; and/or
- including clearer explanations in the notes on the judgements and estimates underpinning particular financial statement balances.

2.43 Those entities that decided to present their financial statements largely in the same way as previously mainly did so because:

- investing resources in improving financial disclosure was not a priority of the entity in 2014–15; or
- the entity wanted to learn from the experiences of other entities before investing further resources in the preparation of their financial statements.

2.44 The ANAO will continue to work with entities, their audit committees and the Department of Finance to further improve the presentation of 2015–16 and future financial statements. The Department of Finance has advised that it is undertaking work with a view to implementing a Reduced Disclosure Regime under AASB 1053 *Application of Tiers of Accounting Standards* from 2015–16. The ANAO supports initiatives that reduce the compliance workload of Australian Government entities and make financial statements easier to read, while preserving the sufficient disclosures to satisfy the needs of the Parliament.

AASB 1055 Budgetary Reporting

2.45 An important development affecting the preparation of the 2014–15 financial statements for all not-for-profit entities in the General Government Sector was the requirement to comply with AASB 1055 *Budgetary Reporting*.

2.46 The standard requires relevant entities' financial statements²⁶ to include details of the original budget presented to the Parliament and an explanation of major variances between actual results and the corresponding budget amounts. The inclusion of this information facilitates users of financial statements making and evaluating decisions about the allocation of scarce resources and for assessing the discharge of an entity's accountability.

2.47 Finance's Resource Management Guide 125, *Commonwealth Entities Financial Statements Guide*, included guidance to entities on the application of this standard.

26 The standard does not apply to entities classified as Public Financial Corporations or Public Non-Financial Corporations, or for-profit public sector entities.

2.48 As part of the audit of entities' 2014–15 financial statements, the ANAO assessed the adequacy of explanations of major variances between actual amounts and original budget amounts presented in entity financial statements.

2.49 The categories used to assess the quality of the AASB 1055 disclosures is presented in Table 2.5.

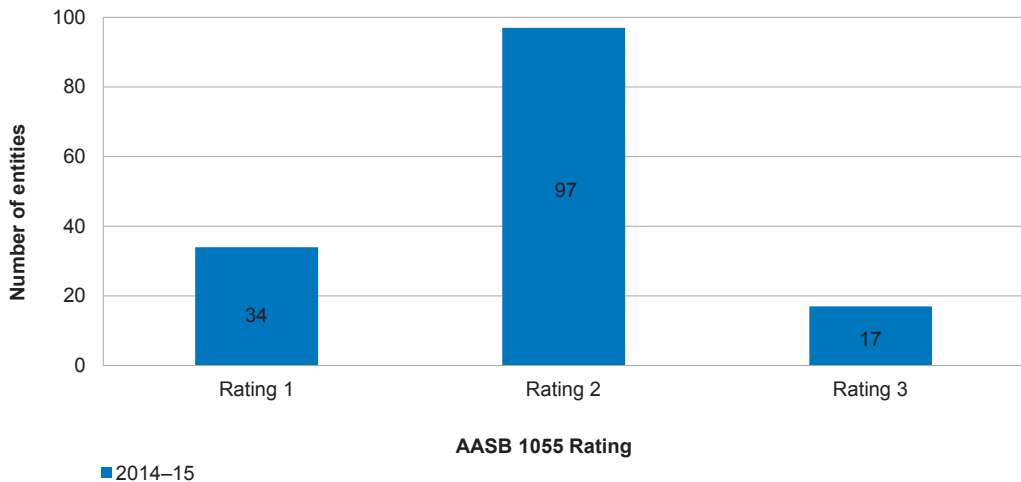
Table 2.5: Quality of AASB 1055 note disclosures

Rating	Explanation
1	Implementation was well planned and note disclosure was informative and well-presented.
2	Implementation could have been better planned, with some amendments required to draft note disclosure presented for audit.
3	Implementation was poorly planned with substantial amendments required to draft note disclosure presented for audit.

Source: ANAO rating scale.

2.50 An assessment of the quality of entities' AASB 1055 note disclosures is presented in Figure 2.4.

Figure 2.4: Assessment of the quality of entities' AASB 1055 note disclosures



Source: ANAO analysis of note disclosures.

2.51 The quality of note disclosures presented for audit varied considerably, with 11 per cent requiring substantial amendment and over 60 per cent requiring some amendment following review by the ANAO and/or the audit committee. The implementation of new reporting requirements can often take some time to bed down, and the ANAO worked closely with entities to ensure note disclosures in the signed financial statements met the requirements of AASB 1055.

2.52 Factors that contributed to the effective implementation of AASB 1055 and which will assist entities to improve note disclosures in the future included:

- early planning by the entity including discussions between the entity's finance team, senior management, the audit committee and the ANAO;
- early consideration, where relevant, of how Machinery of Government changes could affect note disclosures;
- a good understanding by the entity finance team of the entity's budget process, including an understanding of the reasons for budget variances, and regular liaison between entities' finance and budget teams, where relevant;
- the preparation of a draft disclosure note prior to year-end together with supporting documentation, as part of a financial statement hard or soft close process that assisted in identifying matters that required further consideration or explanation;
- the inclusion of an introduction or pre-ambule to the note disclosure that assisted users' understanding of what the entity considered a significant variance;
- the analysis of variances between budget and actuals at both the aggregate and line item levels; and
- the use of non-technical language to explain major variances.

2.53 The ANAO will continue to work with entities, the Department of Finance and audit committees to improve, where required, entity compliance with the requirements of AASB 1055 as part of the audit of 2015–16 and future financial statements.

Legislative compliance

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

2.55 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 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.

2.56 As in previous years, the ANAO identified a high level of legislative compliance. Matters in respect of actual and potential breaches of section 83 of the Constitution, reported in previous years, are discussed at paragraphs 2.57 to 2.63 below.

Section 83 of the Constitution

2.57 Audit Reports No.16 2014–15 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2014* and No.44 2014–15 *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Entities for the Year Ended 30 June 2015*, discussed entities' 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.

2.58 Our 2014–15 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.

2.59 In 10 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 2014–15 financial statements. The CFS also included a reference to the aggregate number of actual and potential section 83 breaches reported by entities.

2.60 In four entities, breaches which had occurred in 2013–14 did not occur in 2014–15, and as a result the associated significant legislative finding was closed.

2.61 In previous years, the ANAO has included details of actual and/or potential breaches of section 83 in the auditors' reports under the heading of other legal and regulatory requirements. The reports were unmodified as the financial statements fairly presented the financial operations and position of the entity at year end.²⁷

2.62 In 2014–15, the ANAO changed its reporting policy and definition in regard to significant legislative findings. The matter was not reported in the auditor's report where:

- the entity disclosed the details of the actual and/or potential breaches in the notes to the financial statements; and
- the breach was not significant, or the result of a significant breakdown in controls.

2.63 In addition, if the matter had been previously reported and met the above conditions, it was no longer considered to be a significant legislative finding. In light of this change, previously reported findings relating to potential or actual breaches of section 83 have been closed.

Constitutional validity of Commonwealth expenditure

2.64 Audit Report No.16 2014–15, at paragraphs 5.39 to 5.41, referred to the High Court's judgement of 19 June 2014 in *Williams v Commonwealth* (2014) HCA 23, 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.

2.65 The 2014–15 Australian Government's Consolidated Financial Statements and the 2014–15 financial statements of relevant entities continue to disclose 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.

27 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.

Compliance reporting

2.66 Commencing from the 2006–07 financial year, Chief Executives of each *Financial Management and Accountability Act 1997* agency were required to provide an annual Certificate of Compliance. Directors of General Government Sector *Commonwealth Authorities and Companies Act 1997* (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.

2.67 Consistent with established practice, the ANAO obtained, as part of the 2014–15 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.

2.68 At the date of preparation of this report, Finance advised that:

- it was in the process of finalising the analysis of the results of the 2014–15 process;
- the preliminary analysis indicated that the total number of instances of non-compliance are comparable to the 2013–14 results (8 712 instances of non-compliance were reported in that year) with most non-compliance relating to grants and procurement. Requirements in relation to these areas have not significantly changed under the new legislative framework; and
- consultations were being held with stakeholders on a compliance framework applicable for 2015–16 and future years that is appropriate to the new legislative framework.

2.69 The ANAO notes that the *Independent Review of Whole-of-Government Internal Regulation* recommended that Finance cease centrally mandated compliance certification, monitoring and reporting. Irrespective of future whole-of-government arrangements, effective entity arrangements include systems and processes that provide the Accountable Authority with assurance about their entity's compliance with the Public Governance, Performance and Accountability legislative framework, including Accountable Authority Instructions.

2.70 In 2015–16, the ANAO will assess the arrangements entities have in place, including how Audit Committees meet their responsibilities in relation to entities' system of internal control.

3. Financial sustainability

Chapter coverage

This chapter provides an analysis of the financial sustainability of entities based on parameters applied to the operating results and balance sheets of material entities.

Results of the analysis

The financial sustainability of the large majority of entities assessed was not at risk. Only six per cent of entities incurred large deficits and only seven per cent of entities' balance sheets were weak.

The analysis was based on parameters developed by the ANAO, which are applied to entities' operating results and balance sheets. Our analysis concluded that the financial sustainability of the majority of entities was not at risk. There would, nevertheless, be benefit in government developing performance targets or benchmarks to enable entities to assess their own financial sustainability against agreed parameters over time, and against like entities.

Entities' financial sustainability

3.1 Integral to our audits is an understanding of an entity and its environment, including an entity's financial sustainability. Financial sustainability measures the ability of an entity to manage its financial resources so it can meet present and future spending commitments.²⁸ This can provide an indication of financial management issues or can point to an increased risk that entities may require additional government funding. The ANAO assessed the financial sustainability based on parameters²⁹ applied to the operating results and balance sheets of 68 material entities³⁰ and are described in Table 3.1 and Table 3.2.

Analysis of operating results

3.2 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.

3.3 A key measure of an entity's financial management is its operating result for the year. Although the operating result is not the sole measure of performance of a public sector entity, a history of significant deficits could suggest the need for additional funding, elimination of non-value adding costs, reductions in service levels and/or improved entity financial management.

3.4 Against this background, the ANAO continued its practice of analysing the operating results of all material entities over a three year period. This year the analysis covered the period

28 This analysis relates to entity operations classified as departmental. It excludes items not under the control of entities that are classified as administered items.

29 These parameters were developed by the ANAO based on generally accepted concepts of financial sustainability.

30 Entities classified as material but consolidated into other material entities have been excluded from this analysis.

2012–13 to 2014–15. This analysis is based on reported surpluses or deficits after adjusting for unfunded expenses³¹, where relevant. This approach highlights the full cost of operations, regardless of the particular funding model in place.

3.5 The ANAO grouped material entities into three categories, which are explained in Table 3.1.

Table 3.1: Operating results categories

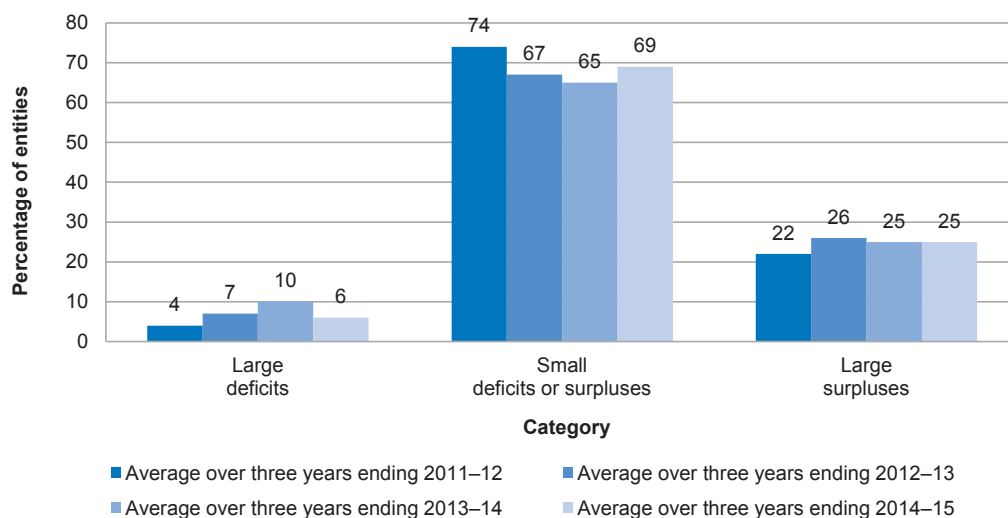
Category	Parameters
Large deficits ^a	Averaged a deficit for the last three years and had two or three deficits greater than five per cent of total expenses.
Small deficits or surpluses ^a	Averaged a deficit for the last three years and had one or no deficits greater than five per cent of total expenses; or Averaged a surplus for the last three years less than five per cent of total expenses.
Large surpluses	Averaged a surplus for the last three years equal to or greater than five per cent of total expenses.

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

Source: ANAO operating results categories.

3.6 Figure 3.1 presents the results of the analysis of entities' average operating results in the periods 2011–12 to 2014–15.

Figure 3.1: Analysis of operating results



Source: ANAO analysis of entities' operating results.

31 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.

3.7 Consistent with past results, 47 material entities (approximately 69 per cent) made small surpluses or deficits over the three year period. While a tightening budget environment is likely to increase budget pressures on individual entities, the high percentage of entities in these categories indicates that most entities have appropriately managed their finances for the period under analysis.

3.8 Four entities (approximately six per cent) averaged a deficit or incurred at least two annual deficits greater than five per cent of expenses over the three years. 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 Department of the Environment's operating result has been affected by a revised estimate of the cost of making good its Antarctic waste disposal sites; this resulted in an increase in the provision for these costs and the associated expense;
- the Albury-Wodonga Development Corporation incurred losses as it progressively wound up its operations and was abolished on 31 December 2014; and
- the Australian Nuclear Science and Technology Organisation has historically not been fully funded for significant costs associated with the decommissioning of nuclear reactors. This has resulted in the Organisation incurring operating losses for a number of years.

3.9 Seventeen entities (approximately 25 per cent) incurred an average annual surplus greater than five per cent of expenses. In seven cases³², these surpluses arose from the commercial operations of for-profit entities or the quasi-commercial operations of not-for-profit entities.

3.10 In respect of the other ten entities³³ that reported large surpluses, the reasons for the operating results were often related to one-off factors such as: unplanned reductions in expenditure resulting from reduced recruitment activity; the accounting effect of recognising revenue in one period and the related expenditure in another period; and the need to account for donations received as revenue. In other cases, the generation of surpluses was the result of a planned business strategy.

Balance sheet analysis

3.11 All entities are expected to actively manage their underlying financial position, maintaining asset levels to support their operations and ensuring that sufficient funds will be available to meet liabilities as they fall due.

32 The seven entities are: 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.

33 The ten entities are: the Department of Infrastructure and Regional Development; 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 Gallery of Australia; Comcare; the Australian Electoral Commission and the Australian Renewable Energy Agency.

3.12 The ANAO analysed the balance sheet positions of material Australian Government entities as at 30 June 2015. While it is necessary to have regard to the public sector context, the following two measures are generally accepted indicators of the soundness of entities' balance sheets:

- *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 that could indicate the need for a future capital injection from government.

3.13 The ANAO grouped material entities into the following categories:

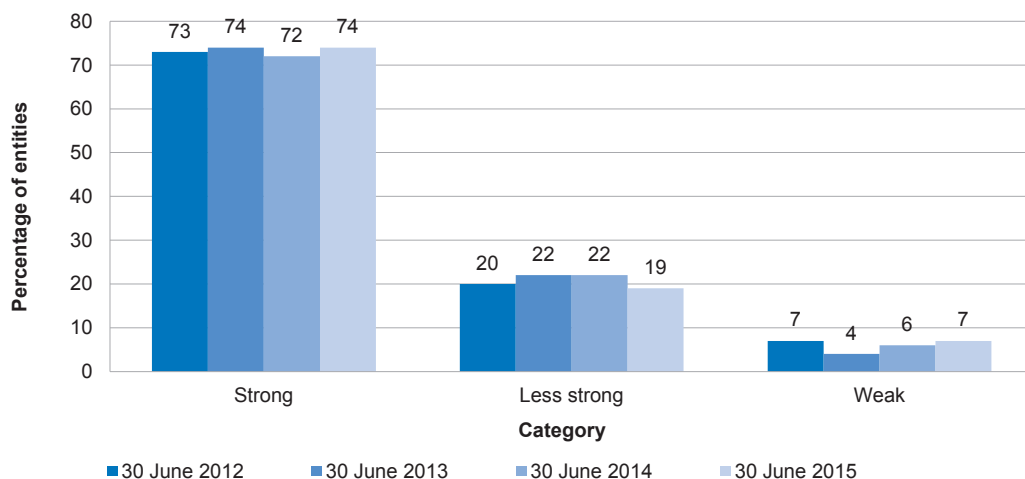
Table 3.2: Balance sheet categories

Category	Parameters
Strong	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.
Less strong	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.
Weak	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 balance sheet categories.

3.14 The results of the ANAO analysis are presented in Figure 3.2.

Figure 3.2: Balance sheet analysis



Source: ANAO analysis of entity balance sheets.

3.15 Fifty (74 per cent) entities had strong balance sheets. This is comparable to the position since 30 June 2012 and indicates that the balance sheet positions of the large majority of material entities remain sound.

3.16 Four of the entities with weak balance sheets (the Australian Taxation Office, the Defence Materiel Organisation³⁴, the Australian Bureau of Statistics, and the Family Court and Federal Circuit Court) are material 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.

3.17 The remaining entity, the Department of the Environment as discussed at paragraph 3.8 had a significant unfunded liability relating to the rehabilitation of its Antarctic sites. The Government's general policy is to provide cash to meet entity 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.

Conclusion

3.18 An analysis of the factors that influence an entity's financial sustainability can provide an indication of financial management issues or can point to an increased risk that entities may require additional government funding. Our analysis, based on parameters developed by the ANAO, concluded that the financial sustainability of the majority of entities was not at risk. There would, nevertheless, be benefit in government developing performance targets or benchmarks to enable entities to assess their own financial sustainability against agreed parameters over time, and against like entities.

34 The former Defence Materiel Organisation was delisted from 1 July 2015, and its functions merged with the Department of Defence.

4. Developments in financial reporting and auditing frameworks

Chapter coverage

This chapter outlines developments in the financial reporting and auditing frameworks relevant to the Australian Government and its reporting entities.

Summary of developments

The main change affecting entities' 2014–15 financial statements was the introduction of AASB 1055 *Budgetary Reporting* referred to earlier. The standard requires relevant entities' financial statements to include details of the original budget presented to the Parliament and an explanation of major variances.

A major change to the auditing framework is the proposal to improve auditor reporting through the introduction of ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*. This standard is expected to apply for reporting periods ending on or after 15 December 2016.

Although this standard will predominantly apply to audits of the financial statements of listed entities, in 2015–16 the ANAO intends to undertake a trial of reporting key audit matters involving a number of large Commonwealth entities. Auditor's reports that include key audit matters prepared as part of the trial will be in addition to the standard auditor's report on the financial statements. These reports will not be published, however they will be presented to the Accountable Authority for their information.

Introduction

4.1 The Australian Government's financial reporting and auditing frameworks are based, in large part, on standards made independently by the Australian Accounting Standards Board (AASB) and the Australian Auditing and Assurance Standards Board (AUASB). These frameworks are designed to support decision-making by, and accountability to, the Parliament. The financial reporting and auditing frameworks that applied in 2014–15 are illustrated in appendices 4 and 5 of this report.

4.2 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 significant transactions and events that are particularly prevalent in 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.

4.3 The Finance Minister prescribes additional financial reporting requirements for Australian Government entities; from 2014–15 these are contained in the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*. This rule is made under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) which came into full effect on 1 July 2014.

4.4 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 AUASB. The AUASB bases its standards on those made by the International Auditing and Assurance Standards Board (IAASB), an independent standard setting board of the International Federation of Accountants.

Recent changes to the Australian public sector reporting framework

Budgetary Reporting

4.5 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 the original budgets presented to the Parliament, and to explain major variances.

4.6 In March 2013, the AASB issued AASB 1055 *Budgetary Reporting*, extending the budget reporting requirements to all not-for-profit entities in the General Government Sector. This standard applies to reporting periods beginning on or after 1 July 2014. A discussion of the implementation of this standard by entities in 2014–15 is at paragraphs 2.45 to 2.53 of chapter 2.

Transactions with related parties

4.7 AASB 124 *Related Party Transactions* requires an entity to disclose transactions with its related parties. AASB has recently extended the application of this standard to all not-for-profit public sector entities for reporting periods beginning on or after 1 July 2016. These entities will be required to identify and disclose related parties transactions, such as those with key management personnel. The definition of key management personnel includes Ministers.

Improving the quality of disclosures

4.8 There are ongoing initiatives by both Australian and international standard setters to reduce the volume and complexity of disclosures in financial statements.

4.9 In 2014, the AASB published a staff paper³⁵ proposing ways in which entities can remove unnecessary clutter from their financial statements. In July 2015, the AASB amended AASB 101 *Presentation of Financial Statements* as a result of the IASB's project to improve disclosures. The amendments clarify that entities are only required to disclose information that is relevant to users of their financial statements. The amendments apply to reporting periods beginning on or after 1 January 2016.

4.10 In July 2015, the AASB relieved not-for-profit public sector entities from the requirement to make certain disclosures about the fair value of property plant and equipment used in meeting service objectives. The AASB noted that these requirements were posing challenges and costs for the public sector that were not borne to the same extent by the private sector.

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

4.11 The *Independent Review of Whole-of-Government Internal Regulation* recommended that the Department of Finance continues to work with the ANAO, the Australian Accounting Standards Board and entities to develop and implement a differential approach to financial reporting to optimise benefits at both the entity and whole-of-government levels. The Department of Finance advised it is undertaking this work with a view to the implementation of a Reduced Disclosure Regime for specified Commonwealth entities under AASB 1053 *Application of Tiers of Australian Accounting Standards* from 2015–16.

4.12 A discussion on entities improving their 2014–15 financial statement presentations is at paragraphs 2.35 to 2.44 of chapter 2. The ANAO supports initiatives that reduce the compliance workload of Australian Government entities and make financial statements easier to read, while preserving sufficient disclosures to satisfy the needs of the Parliament. The ANAO Better Practice Guide *Public Sector Financial Statements*, published in March 2015, includes a discussion and associated examples designed to assist entities to improve the presentation of financial statements.

Future changes to the public sector reporting framework

4.13 Further changes to the financial reporting 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.

4.14 Projects specific to the public sector include reporting of service performance information and new accounting requirements for grants, taxes and appropriations. Projects aimed primarily at the private sector, but with public sector implications, include the continuing initiative to improve the quality of disclosures, and major revisions to lease accounting.

Changes to the Australian auditing framework

4.15 During 2014–15 there were no major changes to existing standards or new standards issued by the AUASB related to the audit of the financial statements of Commonwealth entities and Commonwealth companies.

4.16 A number of proposed changes are discussed below.

Auditor reporting

4.17 In April and June 2015, the AUASB released two exposure drafts for new and revised auditing standards aimed at improving auditor reporting, following the release of new and revised standards by the IAASB. The major change proposed is the introduction of a new standard, ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*. This standard is expected to 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.

4.18 The purpose of communicating key audit matters is to enhance the value of the auditor's report by providing greater transparency about how the audit 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. It may also assist intended users to

understand the entity and the areas of significant management judgment in the financial statements.

4.19 This change is proposed to apply for reporting periods ending on or after 15 December 2016. The ANAO intends to undertake a trial of reporting key audit matters in 2015–16 involving a number of large Commonwealth entities. Auditor’s reports including key audit matters prepared as part of the trial will be in addition to the standard auditor’s report on the financial statements. These reports will not be published, however they will be presented to the Accountable Authority for their information. The ANAO will liaise with audit committees on progress and outcomes of the proposed trial.

Other changes to the auditing standards

4.20 In October 2015, the AUASB released an exposure draft of a new standard that would focus the auditor’s attention more explicitly on financial statement disclosures throughout the audit process. The change is proposed to apply for reporting periods ending on or after 15 December 2016.

4.21 The auditing standard-setting Boards are also working on other new and revised standards, including in relation to the audit of special purpose financial reports. Changes to ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* and ASA 805 *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* are also expected, based on changes already approved to the IAASB Standards. The proposed changes would bring these two standards in line with the auditor reporting standards for general purpose financial reports.

Conclusion

4.22 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.

4.23 The proposed changes to auditor reporting of key audit matters, while not currently directed to the public sector, indicate a clear trend towards enhanced reporting by auditors. The ANAO’s trial will help inform future decisions by the ANAO about enhanced auditor reporting in the Commonwealth.

5. Results of financial statement audits by portfolio

Chapter Coverage

This chapter outlines the results of the audits of the 2014–15 financial statements of individual entities by portfolio based on arrangements existing at 30 June 2015.

The broad areas of audit focus which were significant in terms of their potential impact on the entity's 2014–15 financial statements, are provided for each material entity.

The chapter also details for each entity:

- the status of significant and moderate audit findings, and significant legislative findings identified in the 2014–15 interim audit, or in prior years; and
- a summary of new significant or moderate audit findings and significant legislative findings arising from the final phase of the 2014–15 audits.

Audit results

Thirty-three significant and moderate findings were reported in 2014–15 compared with 32 in 2013–14 and there was an improvement in addressing previously reported findings.

As a result of changes to the ANAO's policy for reporting breaches of section 83 of the Constitution, all previously reported significant legislative findings relating to potential or actual breaches of section 83 have been closed.

Results of financial statement audits

5.01 This chapter reflects portfolio arrangements existing at 30 June 2015.³⁶

5.02 Table 5.1 presents a summary of new and unresolved significant and moderate findings at 30 June 2015 and 30 June 2014.

36 These arrangements were established by the Administrative Arrangements Order dated 23 December 2014. A new Administrative Arrangements Order was made on 9 July 2015, and subsequently amended by the Administrative Arrangements Orders of 21 September 2015 and 30 September 2015. A full listing of entities is presented in appendix 1.

Table 5.1: Significant and moderate findings by entity

Portfolio	Entity	30 June 2015		30 June 2014	
		Findings ^a	Repeat/ unresolved findings ^b	Findings ^a	Repeat/ unresolved findings ^b
Attorney-General's	Attorney-General's Department	2	1	1	–
	Federal Court of Australia	–	–	1	1
Defence	Department of Defence	3	–	8	5
	AAF Company	–	–	1	–
	Defence Materiel Organisation	4	–	1	–
	Department of Veterans' Affairs	–	–	2	1
Education	Department of Education	–	–	2	–
Employment	Department of Employment	–	–	1	–
Finance	Australian Electoral Commission	1	–	–	–
	Comsuper	1	–	–	–
Foreign Affairs and Trade	Department of Foreign Affairs and Trade	–	–	2	–
Health	Australian Radiation Protection and Nuclear Safety Agency	–	–	2	–
Immigration and Border Protection	Department of Immigration and Border Protection	2	–	1	–
	Australian Customs and Border Protection Service	1	–	–	–
Infrastructure and Regional Development	Administration of Norfolk Island	5	N/A	N/A	N/A
	- Norfolk Island Hospital Enterprise	2	N/A	N/A	N/A
Parliamentary Departments	Department of Parliamentary Services	3	–	–	–
Prime Minister and Cabinet	Department of Prime Minister and Cabinet	2	1	1	–
	Northern Land Council	1	1	1	1
Social Services	Department of Social Services	2	1	–	–
	Department of Human Services	1	–	1	–
	National Disability Insurance Scheme Launch Transition Agency	1	–	1	–

Portfolio	Entity	30 June 2015		30 June 2014	
		Findings ^a	Repeat/ unresolved findings ^b	Findings ^a	Repeat/ unresolved findings ^b
Treasury	Australian Bureau of Statistics	–	–	1	–
	Australian Prudential Regulation Authority	–	–	1	–
	Australian Securities and Investments Commission	–	–	2	–
	Australian Taxation Office	–	–	1	–
	Royal Australian Mint	1	1	1	1
Whole of Government	Consolidated Financial Statements ^c	1	-	-	-
TOTAL		33	5	32	9

Note a: Minor findings identified previously but upgraded to a moderate or significant finding are considered new for the purposes of this table.

Note b: Findings transferred to another entity as a result of Machinery of Government changes, which remain unresolved, are treated as repeat findings for the purposes of this table.

Note c: A discussion of the Consolidated Financial Statements finding is in chapter 1 of this report.

Source: 2013–14 and 2014–15 ANAO audit correspondence.

5.03 The remainder of this chapter includes:

- details of material entities and non-material entities that have a resolved, unresolved or new significant or moderate audit finding;
- broad areas of audit focus for each material entity that had the potential to impact on entities' financial statements; and
- details of significant and moderate findings arising from the 2013–14 and 2014–15 audits.

5.04 The tables at the commencement of each portfolio section include the material entities in the portfolio and the non-material entities that have a significant or moderate finding reported in 2013–14 and/or 2014–15, which is discussed in the portfolio section.

5.1 Agriculture Portfolio

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified/resolved
Department of Agriculture	Yes	✓	7 Sept 15	7 Sept 15	☐
Grains Research and Development Corporation	Yes	✓	11 Aug 15	11 Aug 15	

✓: auditor's report not modified

☐: significant or moderate findings and/or legislative matters identified in previous periods, or the 2014–15 interim audit phase, now downgraded or resolved

Portfolio overview

5.1.1 The Agriculture portfolio³⁷ comprises the Department of Agriculture (Agriculture) and a range of corporate and non-corporate entities. The portfolio supports the sustainability, profitability and competitiveness of Australia's agriculture, fisheries and forestry industries.

Department of Agriculture

5.1.2 The department is the primary policy and advisory body to the Australian Government on agriculture, fisheries, forestry and food issues, which supports the department's responsibilities in facilitating the safe movement of people and goods into and out of Australia. Agriculture also plays a role in facilitating the growth of the agriculture, fisheries and forestry sectors.

5.1.3 In 2014–15, Agriculture collected \$510 million in agricultural levies, which was disbursed to relevant industry bodies, in addition to making \$264 million in payments to research and development corporations. Personal benefit payments of \$54 million were made to farmers in addition to providing low interest loans totalling \$390 million.

Areas of audit focus

5.1.4 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- 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;
- biosecurity revenue and receivables which are collected under cost recovery arrangements. A significant portion of this revenue was collected by the then Australian Customs and Border Protection Service (in 2015–16 this revenue will be collected by the Department of Immigration and Border Protection) on behalf of the department;

37 The portfolio and entity arrangements presented in this report are as at 30 June 2015. Since this date, these arrangements have been affected by the consolidated Administrative Arrangements Order made on 30 September 2015. A summary of changes arising from the Administrative Arrangements Order is in the notes to the listing of entities at appendix 1.

- levy disbursement processes, given the value and legislative complexities associated with payments to relevant industry bodies and research and development corporations; and
- 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.

Audit results

5.1.5 The following table summarises the status of audit findings reported by the ANAO in 2013–14 and 2014–15.

Rating	Closing position (at the end of the 2013–14 final audit phase)	Findings resolved (during the 2014–15 interim audit phase)	New findings identified (during the 2014–15 interim audit phase)	Findings resolved (during the 2014–15 final audit phase)	New findings identified (during the 2014–15 final audit phase)*	Closing position (at the end of the 2014–15 final audit phase)
A	0	0	0	0	0	0
B	0	0	1 ^a	(1) ^b	0	0
L1	0	0	0	0	0	0
Total	0	0	1	(1)	0	0

Note a: This finding was identified during the 2014–15 interim audit, however due to the timing of the finalisation of this matter, it was not reported in Audit Report No.44 *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Entities for the year ending 30 June 2015*.

Note b: This finding was downgraded to a minor finding.

Resolved audit finding

Segregation of duties and monitoring of privileged user access

5.1.6 During the 2014–15 interim audit, the ANAO reviewed access controls in the department's HRMIS and identified that there was a risk that unauthorised changes could be made without being detected. There was insufficient segregation of duties for a number of human resources personnel, and access by privileged users was not monitored.

5.1.7 During the 2014–15 final audit, the department advised it had implemented a number of additional controls to address the issues identified and these will be tested as part of the 2015–16 financial statements audit. As a result, this matter was downgraded to a minor finding.

Grains Research and Development Corporation

5.1.8 The Grains Research and Development Corporation's (the Corporation) primary focus is on investing in research and development for the benefit of the grains industry. The Corporation is principally funded through levies from grain growers, which are collected by the Department of Agriculture and transferred to the Corporation, and Australian Government contributions.

5.1.9 The Corporation significantly increased expenditure on research and development during 2014–15 to \$194 million in order to utilise cash surpluses. The surpluses were achieved in previous years due to higher grain production resulting from improved climatic conditions and grain prices. A deficit of \$13 million was reported in 2014–15.

Areas of audit focus

5.1.10 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the valuation of investments in private companies and financial instruments, including managed funds; and
- research and development expenditure, as it is a significant balance and complex in nature.

Audit results

5.1.11 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

5.2 Attorney-General's Portfolio

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified/resolved
Attorney-General's Department	Yes	✓	24 Aug 15	24 Aug 15	▲□
Australian Federal Police	Yes	✓	3 Sept 15	3 Sept 15	
Australian Financial Security Authority	No	✓	23 Sept 15	23 Sept 15	□
Australian Government Solicitor	Yes	✓ E	24 Aug 15	24 Aug 15	
Australian Security Intelligence Organisation	Yes	✓	10 Sept 15	10 Sept 15	
Family Court and Federal Circuit Court	Yes	✓	1 Sept 15	1 Sept 15	
Federal Court of Australia	No	✓	1 Sept 15	1 Sept 15	□
High Court of Australia	Yes	✓	14 Sept 15	14 Sept 15	
National Archives of Australia	Yes	✓	4 Sept 15	4 Sept 15	
National Gallery of Australia	Yes	✓	26 Aug 15	26 Aug 15	
National Library of Australia	Yes	✓	7 Aug 15	7 Aug 15	
National Museum of Australia	Yes	✓	20 Aug 15	20 Aug 15	

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter. Refer to appendix 3 for details.

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

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2014–15 interim audit phase, now downgraded or resolved

Portfolio overview

5.2.1 The Attorney-General's portfolio provides advice and services on a range of law and justice, national security, emergency management, disaster recovery assistance, and arts issues to the Attorney-General and Minister for the Arts, the Minister for Justice and to Government. The portfolio comprises the Attorney-General's Department (the department) and a large number of entities contributing 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 Government on a wide range of areas.

Attorney-General's Department

5.2.2 The department manages a range of programs relating to the advancement of a just and secure society through the maintenance and improvement of Australia's law and justice framework, national security and emergency management systems. It also encourages broad participation in, and access to, Australia's arts and culture.

5.2.3 Programs administered by the department include family relationship grants to community based organisations (\$161 million), community legal services and legal aid (\$126 million), and grants in support of the arts (\$181 million). The department also provides benefit payments to individuals impacted by natural disasters, coordinates criminal and national

security background checks for aviation, maritime and national health organisations, and provides administrative support to the Royal Commissions into Child Sexual Abuse and Trade Union Governance and Corruption.

Areas of audit focus

5.2.4 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- grants financial management, as grant expenditure is a major component of the department's administered financial statements, and grants management is decentralised;
- the valuation of administered investments which are a significant component of the department's administered accounts and involves relying on information from the relevant entities;
- the valuation of non-financial assets given the diversity and geographical spread of assets, including leasehold artwork; and
- reporting of revenue and unearned revenue, as the department generates significant own-source revenue from a number of different sources and performs services on behalf of other entities.

Audit results

5.2.5 The following table summarises the status of audit findings reported by the ANAO in 2013–14 and 2014–15.

Rating	Closing position (at the end of the 2013–14 final audit phase)	Findings resolved (during the 2014–15 interim audit phase)	New findings identified (during the 2014–15 interim audit phase)	Findings resolved (during the 2014–15 final audit phase)	New findings identified (during the 2014–15 final audit phase)	Closing position (at the end of the 2014–15 final audit phase)
A	0	0	1	(1) ^a	0	0
B	1	0	0	0	1 ^a	2
L1	0	0	0	0	0	0
Total	1	0	1	(1)	1	2

Note a: The significant audit finding identified during the 2014–15 interim audit has been downgraded to a moderate audit finding.

Unresolved audit findings

Administration of the National Disaster Relief and Recovery Arrangements

5.2.6 The Natural Disaster Relief and Recovery Arrangements (NDRRA) Ministerial determination governs the Commonwealth's reimbursement to the states and territories for eligible expenses incurred by these governments as a result of natural disasters. The department is responsible for the administration of state and territory claims for payment of expenditure relating to natural disasters and for estimates of future expenditure in accordance

with the determination. The department provides information on claims for payment and estimates of future expenditure to the Department of the Treasury (the Treasury) for inclusion in that department's financial statements. Amounts paid under NDRRA totalled \$1.1 billion in the year and the Treasury reported a provision of \$1.8 billion for future payments as at 30 June 2015.

5.2.7 The 2014–15 interim audit identified significant weaknesses in the department's quality and review processes designed to provide assurance over the validity of claims made by states and territories and the claims made for future payments that are provided to the Treasury. The ANAO considered that the identified weaknesses represented a significant operational and business risk to the department and made several recommendations to improve the processes relating to: determining the Commonwealth's obligations for future reconstruction and relief payments; and in administering the determination and National Partnership Agreements with Queensland and Victoria in respect of future claims from the states and territories for financial assistance.

5.2.8 The 2014–15 audit identified that the department has made significant progress in improving its administration of NDRRA. In particular, processes relating to certifications by the states and territories and validation of state and territory information had been strengthened. Our audit also identified that further work is required in relation to: the review of project level information that supports the claims for payment and estimates data received from the states and territories; and variance analysis of movements in estimates data. As a result of the remedial action taken by the department at the time of the 2014–15 audit, the audit finding has been downgraded to a moderate finding. The ANAO will continue to review progress by the department in addressing the outstanding matters as part of the 2015–16 audit.

IT network user access management

5.2.9 During the 2013–14 audit, the ANAO identified a number of continuing weaknesses in the department's management of user access to the IT network. The system access rights of a number of employees whose employment had ceased had not been deactivated and there was no process for logging and monitoring privileged users' access to the IT network.

5.2.10 At the conclusion of the 2014–15 audit, the department advised that implementation of remedial action was expected to be finalised in 2015–16. As an automated solution was not yet fully operational, the department has implemented an interim process whereby emails are sent to administrators and IT security operational staff notifying them of certain high risk activities performed by privileged users, which are manually cross-checked with approved request forms. The department has also started a project to prevent domain administrators from accessing emails and the internet to conform with Commonwealth security requirements. The ANAO will review the remedial action taken by the department as part of the 2015–16 audit.

Australian Federal Police

5.2.11 The Australian Federal Police is an independent statutory authority whose functions include provision of police services in relation to the laws of the Commonwealth. The Australian Federal Police's functions are to reduce criminal and security threats to Australia's collective economic and societal interests through co-operative policing services, and ensuring a safe and

secure environment through policing activities on behalf of the Australian Capital Territory Government.

5.2.12 In delivering these functions, the Australian Federal Police incurred expenses in relation to federal policing and national security (\$1.0 billion), international police assistance (\$269 million) and ACT Community Policing (\$160 million).

Areas of audit focus

5.2.13 The ANAO's 2014–15 audit approach identified the recognition and measurement of payroll expenses and executive remuneration as an area of audit focus that had the potential to impact the financial statements, due to the size and complex nature of the payroll function.

Audit results

5.2.14 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Australian Government Solicitor

5.2.15 The Australian Government Solicitor assists the Attorney-General in the role of First Law Officer and advises the Executive Government and all Commonwealth entities. It is the leading provider of legal and related services to Australian Government entities. With effect from 1 July 2015, the Australian Government Solicitor ceased to operate as a separate government business enterprise and was consolidated into the Attorney-General's Department.

Areas of audit focus

5.2.16 The ANAO's 2014–15 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 financial statements.

Audit results

5.2.17 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Australian Security Intelligence Organisation

5.2.18 The Australian Security Intelligence Organisation (ASIO) is responsible for protecting Australia, its people and its interests from threats to security through intelligence collection, assessment and advice to Government.

Areas of audit focus

5.2.19 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the valuation of the new Canberra headquarters and the associated assets, as they are a significant balance; and
- the accuracy and completeness of employee benefits, including executive remuneration disclosure, due to the complexity and nature of the entity's operations.

Audit results

5.2.20 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Family Court and Federal Circuit Court

5.2.21 The Family Court through its specialist judges and staff, assists Australians to resolve their most complex legal family disputes. The Federal Circuit Court provides a simple and assessable alternative to litigation in both the Family Court and Federal Court of Australia and assists to relieve the workload of those courts.

5.2.22 The administered activities of the Courts are to provide dispute resolution services such as counselling, mediation and conciliation from community-based organisations and are also related to fees charged for access to the Courts' services. In 2014–15 the Courts collected \$58 million in court fees.

Areas of audit focus

5.2.23 The ANAO's 2014–15 audit approach identified a review of event based court fees, that have become payable due to a change in legislation, as a particular area of audit focus that had the potential to impact the financial statements.

Audit results

5.2.24 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

High Court of Australia

5.2.25 The High Court of Australia (the High Court) was established in 1901 and is the highest court in the Australian judicial system. The High Court interprets and applies the law of Australia, decides on cases of special federal significance, including challenges to the constitutional validity of laws, and hears appeals, by special leave, from federal, state and territory courts.

5.2.26 In 2014–15 the High Court incurred \$16 million in employees and suppliers expenses; managed land, buildings, property, plant, equipment and library holdings valued at \$206 million; and charged filing and hearing fees of \$2 million.

Areas of audit focus

5.2.27 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the revaluation of land, buildings and library holdings assets; and
- the completeness and accuracy of income relating to the High Court's filing and hearing fees.

Audit results

5.2.28 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

National Archives of Australia

5.2.29 The role of the National Archives of Australia (the Archives) is established under the *Archives Act 1983*. The Archives has two main roles:

- to preserve Australia's most valuable government records, and to encourage their use by the public; and
- to promote good records management by Australian Government entities.

5.2.30 The national archival collection includes records in a wide variety of media including files and card records, account books and ledgers, architectural models, photographs, films and video tapes, optical disks and computer tapes. The value of the collection is \$1.5 billion.

Areas of audit focus

5.2.31 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the valuation of heritage and cultural assets, given the significant value of these assets; and
- the valuation of the digitised collection, in view of the accounting judgements and estimation involved.

Audit results

5.2.32 There were no significant or moderate audit findings arising from the 2014–15 or 2013–14 audits.

National Gallery of Australia

5.2.33 The National Gallery of Australia (the Gallery) serves the public by enhancing the understanding and enjoyment of the visual arts. The Gallery holds a collection of sculptures, objects, paintings, drawings, prints, books and photography. The value of the collection is \$5.5 billion.

Areas of audit focus

5.2.34 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the valuation of the Gallery's art collection which involves significant judgement and represents a significant balance in the financial statements;
- revenue from sales of goods and rendering of services, as this represents a significant source of the Gallery's funding; and
- the valuation of land and buildings due to the complexity of the valuation process.

Audit results

5.2.35 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

National Library of Australia

5.2.36 The role of the National Library of Australia (the Library) is to develop and maintain a national collection of library material, including a comprehensive collection relating to Australia and the Australian people, and to make this material available to the public. The collection, of more than 22 million items with a total value of \$1.4 billion, includes all formats of material.

5.2.37 While the Library's operations are predominantly funded through appropriations, the Library also generates revenue from other sources.

Areas of audit focus

5.2.38 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the valuation of the collection, given the significance of the balance in the Library's financial statements and the judgements involved; and
- the accounting for income as the Library has a number of revenue streams that are material to its financial statements.

Audit results

5.2.39 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

National Museum of Australia

5.2.40 The National Museum of Australia (the Museum) has stewardship of the National Historical Collection, the core collection of Australian history, which is held in trust for the nation. The functions of the Museum include the creation of exhibitions and other public programmes on Australia's past, present and future; contributing to research on Australian history; and undertaking commercial activities in support of these functions.

5.2.41 While the Museum's operations are predominantly funded through appropriations, the Museum also generates other sources of revenue, including through donations, sponsorships and grants.

Areas of audit focus

5.2.42 The ANAO's 2014–15 audit approach identified the valuation of the Museum's land and buildings and heritage and cultural assets an area of audit focus that had the potential to impact on the Museum's financial statements, given the significance of the balances, and the judgements involved.

Audit results

5.2.43 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Comments on non-material entities

Audit results

Summary of audit findings

5.2.44 There were no significant or moderate unresolved findings or significant legislative matters noted in non-material entities within the portfolio in 2014–15. Two unresolved findings arising from the 2013–14 audit in relation to the Federal Court of Australia were resolved in 2014–15, and these are discussed below. One legislative matter relating to actual breaches of section 83 of the Constitution, identified by the Australian Financial Security Authority in 2013–14, was closed in 2014–15. A discussion of potential and actual breaches of section 83 is at paragraphs 2.57 to 2.63 of chapter 2 of this report.

Federal Court of Australia

5.2.45 The Federal Court of Australia (the Federal Court) has jurisdiction to hear and determine any civil matter and some summary and indictable criminal matters arising under laws made by the Federal Parliament, as well as any matter arising under the Constitution or involving its interpretation.

Resolved audit findings

Management of bank accounts

5.2.46 During 2013–14 the ANAO reported a moderate audit finding relating to a number of bank accounts held by the Federal Court that were not recorded in the Court's financial management information system (FMIS). These accounts were not subject to periodic reconciliation and management review. This matter was resolved during the 2014–15 audit following implementation of monthly reconciliations and review by management.

Access to the FMIS

5.2.47 In 2014–15 the ANAO also reported a moderate audit finding relating to the Court's management of user access to the FMIS and the integrity of vendor data in the FMIS. The ANAO identified a user with privileged user access whose access was not monitored. In addition, changes to vendor information in the FMIS were not appropriately restricted and independently monitored. The matters have been resolved following the Court's review of access records and the strengthening of controls to improve the monitoring of user access and changes to vendor data.

5.3 Communications Portfolio

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified/resolved
Department of Communications	Yes	✓	18 Sept 15	18 Sept 15	
Australian Broadcasting Corporation	Yes	✓	6 Aug 15	6 Aug 15	
Australian Communications and Media Authority	Yes	✓	3 Sept 15	3 Sept 15	
Australian Postal Corporation	Yes	✓	27 Aug 15	27 Aug 15	
- Australia Post Transaction Services Pty Ltd	No	✓	29 Sept 15	29 Sept 15	☐
NBN Co Limited	Yes	✓	17 Aug 15	17 Aug 15	
Special Broadcasting Service Corporation	Yes	✓	27 Aug 15	27 Aug 15	

✓: auditor's report not modified

☐: significant or moderate findings and/or legislative matters identified in previous periods, or the 2014–15 interim audit phase, now downgraded or resolved

Portfolio overview

5.3.1 The Communications portfolio³⁸ 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

5.3.2 The Department of Communications (the department) provides a number of grants that support community broadcasting and digital productivity and infrastructure enhancement. Total grant expenditure was \$111 million in 2014–15. The department manages the Regional Backbone Blackspots Programme network infrastructure valued at \$172 million and reports the Australian Postal Corporation as an investment valued at \$2.3 billion. In 2014–15 the department provided operational funding to its investment entities, the Australian Broadcasting Corporation (\$1.1 billion) and the Special Broadcasting Corporation (\$286 million) and loans at year end of \$67 million to the Australian Broadcasting Corporation. During the financial year a portion of the department's funding was expended on establishing the Digital Transformation Office which commenced operations on 1 July 2015.

38 The portfolio and entity arrangements presented in this report are as at 30 June 2015. Since this date, these arrangements have been affected by the consolidated Administrative Arrangements Order made on 30 September 2015. A summary of changes arising from the Administrative Arrangements Order is in the notes to the listing of entities at appendix 1.

Area of audit focus

5.3.3 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the valuation of investments, particularly the significant investments in Australian Government portfolio entities;
- the valuation of infrastructure assets related to the Regional Backbone Blackspots programme;
- presentation and disclosure of significant administered contingent liabilities and commitments. This is due to the complex nature of contracts associated with the National Broadband Network; and
- grants expenses which represent a significant portion of total expenses.

Audit results

5.3.4 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Australian Broadcasting Corporation

5.3.5 The Australian Broadcasting Corporation (ABC), established under the *Australian Broadcasting Corporation Act 1983*, is Australia's primary national public broadcaster. The ABC informs and educates, facilitates public debate and fosters the performing arts by providing innovative and comprehensive broadcasting services of a high standard to the nation.

5.3.6 The ABC managed a portfolio of assets with a value as at 30 June 2015 of \$1.4 billion and incurred expenditure of \$1.3 billion. In June 2015, the ABC Board resolved to cease retail operations through ABC shops by the end of February 2016 and commenced a phased exit from its portfolio of ABC shops. The 2014–15 financial statements included provisions for redundancies (\$6.3 million) and onerous leases (\$12 million) and an impairment of retail fit-out, inventory, related equipment and software (\$8 million). The recognition of these balances contributed to a deficit in 2014–15 of \$38 million.

Areas of audit focus

5.3.7 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the valuation of land and buildings, in view of the significant amounts and the judgements involved;
- 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

5.3.8 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Australian Communications and Media Authority

5.3.9 The Australian Communications and Media Authority's (the Authority) mandate is to deliver a communications and media environment that balances the needs of industry and the Australian community through regulation, education and advice. The Authority's purpose is to ensure communications and media work is in Australia's public interest and is achieved with a judicious blend of communication, facilitation and regulation.

5.3.10 The Authority manages the radiofrequency spectrum in Australia. In 2013, the Authority undertook a digital dividend auction, which resulted in license sales of \$2 billion that were recognised in the 2014–15 financial statements. The Authority also collects licence fees from broadcasters, and levies on advertising revenue and the allocation of mobile numbers. This revenue totalled \$437 million in 2014–15.

Areas of audit focus

5.3.11 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- revenue recognition, due to the uncertainty in estimating broadcasting licence fees and levies, and accounting for the revenue from the renewal and auction of spectrum licences given the judgements involved in determining the point of recognition; and
- the valuation of non-financial assets, particularly the significant investment in internally generated software and the capitalisation of intangibles.

Audit results

5.3.12 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Australian Postal Corporation

5.3.13 The Australian Postal Corporation (Australia Post) is a corporate Commonwealth entity classified as a Government Business Enterprise. Australia Post operates post offices and distributes mail and parcels in Australia, and internationally.

5.3.14 In 2014–15, Australia Post reported income of \$6.4 billion and expenses of \$6.7 billion. In addition, the Corporation's assets were valued at \$5.1 billion.

Areas of audit focus

5.3.15 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- 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, including the accounting for the

amendment of the method of indexing future superannuation benefits, make good provisions, postage in the hands of the public, and the valuation of investment properties;

- the impact of the change in the discount rate from the long term government bond rate to a market yield rate used in measuring defined benefit plan obligations and other long-term employee benefits;
- the valuation of goodwill and other intangibles acquired as part of the acquisition of StarTrack, as this is a material balance in the Corporation's financial statements;
- the valuation of assets which are no longer expected to provide future economic benefits or are impaired;
- accounting implications resulting from the integration of StarTrack including rebranding and accounting policy realignment;
- accounting for the gain on disposal of the Corporation's property assets;
- accounting implications resulting from significant new contracts, mainly due to the significant revenue streams relating to the contracts; and
- tax effect accounting due to the complexity of the calculations involved.

Audit results

5.3.16 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

NBN Co Limited

5.3.17 The primary objective of NBN Co Limited (the Company) is to ensure that all Australians have access to very fast broadband, at affordable prices, and at least cost to taxpayers. The Company has been structured as a wholesale-only access network, available on equivalent terms to all access seekers. The Company is a Government Business Enterprise incorporated under the *Corporations Act 2001* and operates under the *Public Governance, Performance and Accountability Act 2013*.

5.3.18 In 2014–15, the Company generated revenue of \$164 million and a net loss of \$2 billion, after taxation. As at 30 June 2015, the Company had total assets of \$13.3 billion, an increase of \$3.8 billion compared with 2013–14, primarily due to \$3.3 billion in capital expenditure on property, plant and equipment and intangibles. During the year, the Company received Commonwealth Government equity injections of \$4.8 billion, which were primarily used in acquiring property, plant and equipment (including network assets), and intangible assets supporting operational requirements. As at 30 June 2015, equity funding of \$13.2 billion had been made available to the Company, and the expected future equity funding available to the Company is \$16.3 billion.

Areas of audit focus

5.3.19 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the valuation of assets, primarily the broadband network and IT systems, including the capitalisation of significant expenditure on network construction and software development;
- the accounting for complex and material agreements with Telstra and Optus which were revised during 2014–15;
- accounting for contracts, claims and finance leases; and
- recognition of revenue, including rebates, as 2014–15 is the first year of the Company's operations where revenue has been significant to the financial statements.

Audit results

5.3.20 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Special Broadcasting Service Corporation

5.3.21 The Special Broadcasting Service Corporation (the Corporation) is established under the *Special Broadcasting Service Act 1991* and is a national broadcasting service that provides multicultural and multilingual services that inform, educate and entertain all Australians. The Corporation's mission is to contribute to a more cohesive, equitable and harmonious Australia through its television, radio and digital media services.

5.3.22 In 2014–15, the Corporation received revenue from government totalling \$286 million and generated revenue of \$98 million. Total expenses in 2014–15 were \$384 million, of which \$57 million related to the amortisation of program inventory.

Areas of audit focus

5.3.23 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the valuation of land and buildings, due to the judgements involved;
- the valuation of program inventories due to the assumptions made; and
- reporting of payroll expenses and employee provisions, given their material impact on the financial statements.

Audit results

5.3.24 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Comments on non-material entities

Audit results

Summary of audit findings

5.3.25 There were no significant or moderate audit findings or significant legislative matters noted in non-material entities within the portfolio except in relation to the Australia Post Transaction Services Pty Ltd.

Australia Post Transaction Services Pty Ltd

5.3.26 Australia Post Transaction Services Pty Ltd (the Company) is an Australia Post controlled holding company with a number of subsidiaries. These subsidiaries provide a range of services including: property management; eFulfillment (digital print, mailing and pick and pack processing); logistics management; and delivery of the MyPost Digital Mailbox (to assist in managing bills online).

5.3.27 Two moderate audit findings were reported during the 2014–15 interim audit in relation to the monitoring of privileged user access and change management controls within the network and financial management information system.

Resolved audit findings

Weaknesses around the monitoring of privileged user access

5.3.28 The ANAO identified a lack of evidence of review of privileged user access and the absence of a documented IT access management policy. The ANAO reviewed the Company's progress in addressing this finding during the 2014–15 final audit and confirmed that a formal user access policy had been developed, and the Company had implemented a quarterly review of privileged user access.

Segregation of duties – change management controls

5.3.29 The ANAO identified a segregation of duties finding resulting from IT system developers having access to the production environment within the FMIS and HRMIS. Segregation between the test and production environments is important to prevent unauthorised or inappropriate changes to key IT systems.

5.3.30 During the 2014–15 final audit, the ANAO confirmed that the Company has reviewed the level of access provided to IT system developers and had removed access which was no longer required.

5.4 Defence Portfolio

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified/resolved
Department of Defence	Yes	✓	16 Sept 15	16 Sept 15	◆□
AAF Company	No	✓	12 Oct 15	13 Oct 15	□
Australian War Memorial	Yes	✓	20 Aug 15	20 Aug 15	
Defence Housing Australia	Yes	✓	13 Aug 15	13 Aug 15	
Defence Materiel Organisation	Yes	✓	16 Sept 15	16 Sept 15	▲◆□
Department of Veterans' Affairs	Yes	✓	30 Sept 15	30 Sept 15	□

✓: auditor's report not modified

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

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

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2014–15 interim audit phase, now downgraded or resolved

Portfolio overview

5.4.1 Up until 30 June 2015 the Defence portfolio consisted of the Department of Defence (Defence), the Defence Materiel Organisation (DMO)³⁹, the Department of Veterans' Affairs, and a number of other statutory and non-statutory bodies. The portfolio is responsible for developing, implementing, and administering policies, programs and services to defend Australia and its national interests.

5.4.2 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.

Department of Defence

5.4.3 The primary role of Defence is to protect and advance Australia's strategic interests through the provision of appropriately prepared and equipped armed forces. To achieve this, Defence conducts military operations and other tasks as directed by Government, including:

- building and maintaining a defence capability;
- undertaking a wide range of military and humanitarian assistance operations; and
- providing assistance to the Government and the Australian community in non-combat related roles.

5.4.4 In 2014–15 Defence managed \$78.4 billion of assets with departmental expenses of \$28.3 billion.

39 The former Defence Materiel Organisation was delisted from 1 July 2015 and its functions merged with the Department of Defence.

Areas of audit focus

5.4.5 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the accounting for, and valuation of, specialist military equipment (SME) which includes Defence Weapons Platforms (DWP)⁴⁰, Military Support Items (MSI) and Assets Under Construction (AUC). Although SME is reported at cost, there are elements such as the annual impairment and revision of useful lives that are subject to a high degree of judgement and subjectivity. The management of the numerous AUC projects is complex and includes multi-year contractual arrangements. During 2014–15, Defence commenced a new statistical sampling program in order to more accurately estimate the impairment of MSI;
- the accounting for the valuation of general assets due to the significance of the balance to the financial statements and the judgements and estimates involved;
- the calculation and reporting of military superannuation balances due to the complexity of the calculation and the nature of the economic and demographic assumptions involved; and
- the management and valuation of inventory due to the materiality of the inventory balance at year end, the decentralised holdings and management by multiple parties, as well as the identification of, and accounting for, obsolete stock.

Audit results

5.4.6 The following table summarises the status of audit findings reported by the ANAO in 2013–14 and 2014–15.

Rating	Closing position (at the end of the 2013–14 final audit phase)	Findings resolved (during the 2014–15 interim audit phase)	New findings identified (during the 2014–15 interim audit phase)	Findings resolved (during the 2014–15 final audit phase)	New findings identified (during the 2014–15 final audit phase)	Closing position (at the end of the 2014–15 final audit phase)
A	0	0	0	0	0	0
B	8	(2)	0	(6)	3	3
L1	1	0	0	(1) ^a	0	0
Total	9	(2)	0	(7)	3	3

Note a: This finding is closed. A discussion of potential and actual breaches of section 83 of the Constitution is at paragraphs 2.57 to 2.63 of chapter 2.

40 A discussion of the valuation of Defence Weapons Platforms in the context of the audit of the Consolidated Financial Statements is included in chapter 1 of this report.

Resolved audit findings

Accuracy of Schedule of Commitments

5.4.7 A number of issues relating to the completeness and accuracy of Defence's Schedule of Commitments were identified by the ANAO during the 2013–14 final audit, resulting in a significant adjustment to the draft 2013–14 financial statements. During 2014–15, Defence improved its existing accounts payable and financial reporting processes and implemented a range of procedural controls and processes for commitments arising from purchase orders over \$15 million. The ANAO confirmed the effectiveness of these controls and that the errors previously noted in the schedule had been corrected.

Security management over IT systems

5.4.8 During the 2013–14 interim audit, the ANAO identified a moderate audit finding relating to the management of privileged security users of the financial management information system and the IT general environment. During 2014–15, the ANAO confirmed that Defence had updated its security procedures and that the issues surrounding IT security management had been remediated.

Assessment of impairment indicators for general assets

5.4.9 In 2012–13 a finding was reported in relation to the requirement to assess annually whether there is any indication that general assets may be impaired, taking into account the condition and use of these assets by Defence. During the 2014–15 audit, the ANAO found that Defence had improved its process for assessing assets for indicators of impairment.

Fixed asset register and reporting processes for Military Support Items (MSI)

5.4.10 The ANAO previously reported a finding relating to errors in the fixed asset register and reporting processes for MSI. During 2014–15, Defence adopted a new approach to assessing the impairment of MSI assets. As a result, the previously raised moderate audit finding has been closed. A finding identified by the ANAO relating to the new process is detailed in paragraphs 5.4.13 to 5.4.15.

Data integrity of general assets in the fixed asset register

5.4.11 The ANAO previously identified a moderate audit finding relating to the integrity of data within the fixed asset register. Defence has improved the process for managing the fixed asset register and only minor issues in relation to the timely review of the accuracy of adjustments to the fixed asset register remained outstanding. This moderate finding has been downgraded to a minor finding.

Privileged user access to supporting systems

5.4.12 During the 2013–14 interim audit, the ANAO identified a moderate finding relating to the management of privileged users in the multiple IT environments operated by Defence. In 2014–15, Defence addressed the issues relating to the management of privileged users in all but one of these environments. This finding has been downgraded to a minor finding.

New audit findings

Estimation of MSI impairment

5.4.13 During 2014–15, Defence estimated the value of MSI assets which were impaired by selecting a statistical sample of these assets.

5.4.14 The ANAO reviewed the evidence supporting the sampled items and found:

- the evidence collected was inadequate; and
- the sampling exercise was conducted very late in the financial statement preparation process, resulting in limited time to rectify issues arising from the analysis of the statistical sample.

5.4.15 Based on the results of the statistical sample an adjustment was made to the MSI impairment balance in Defence's 2014–15 financial statements. However, issues with the adequacy of the evidence could result in an understatement of the MSI impairment balance. Defence has advised that plans are underway to improve this process.

Estimation of impairment of Defence Weapons Platforms (including Assets Under Construction)

5.4.16 Defence is required to assess Defence Weapons Platforms for indicators of impairment on an annual basis. As these assets are dispersed across Defence bases, Defence requests Project Offices to submit responses to an annual impairment questionnaire. The ANAO identified a number of deficiencies in the processes underlying the assessment and the calculation of impairment of these assets including:

- potential impairment indicators identified by the Project Offices were not considered in the impairment calculations;
- inconsistent and/or incomplete responses to the annual impairment questionnaires; and
- insufficient evidence to support management's judgements that some indicators of potential impairment did not lead to actual impairment.

5.4.17 Defence has advised that plans are underway to improve this process.

General Stores Inventory pricing

5.4.18 Defence undertakes an annual assurance process in consultation with an independent statistician, to calculate an adjustment for in-year pricing errors over General Store Inventory. As in prior years, the ANAO sought to place reliance on this adjustment by validating the accuracy of the process undertaken.

5.4.19 The ANAO was unable to place reliance on this work as the ANAO identified a number of pricing errors that had not been detected by Defence. This resulted in the statistician being provided an inaccurate data set for analysis. To obtain sufficient audit evidence over the in-year pricing errors, the ANAO undertook additional testing to confirm that the General Store Inventory pricing error did not result in a material misstatement in Defence's 2014–15 financial statements. The ANAO considered that Defence should review its approach to performing this assurance process. Defence has advised that plans are underway to improve this process.

Australian War Memorial

5.4.20 The Australian War Memorial is responsible for maintaining and developing the national memorial to Australians who have died in wars or warlike operations. It also develops, maintains and exhibits a national collection of historical material, and conducts and fosters research into the Australian military. The value of the collection was \$1 billion at 30 June 2015.

5.4.21 The Australian War Memorial is primarily government funded. In 2014–15, expenditure increased by \$5 million to \$68 million as a result of an increase in activities associated with the First World War Centenary commemorations.

Areas of audit focus

5.4.22 The ANAO's 2014–15 audit approach identified particular areas of audit focus that had the potential to impact the financial statements including the valuation of land and buildings and the asset collection, due to the significance of the balances to the financial statements and the judgements involved.

Audit results

5.4.23 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Defence Housing Australia

5.4.24 Defence Housing Australia provides housing and related services for members of the Australian Defence Force and their families in line with Department of Defence operational requirements.

5.4.25 To meet these requirements, DHA buys land and constructs properties and purchases new and established properties. Each year, DHA sells a portion of its portfolio through a sale and leaseback program. Revenue generated from sale and lease back activity is DHA's primary source of capital funding and funds DHA's capital program to acquire new properties.

5.4.26 At 30 June 2015, DHA had total assets of \$2.3 billion, comprising \$798 million of investment properties, \$1.1 billion of inventories and \$264 million of cash and cash equivalents, and had a loan from the Commonwealth Government of \$510 million.

Areas of audit focus

5.4.27 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the accounting for, and reporting of, the value of DHA's inventory, investment properties and construction in progress asset balances; and
- 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.

Audit results

5.4.28 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Defence Materiel Organisation

5.4.29 Until 30 June 2015, the Defence Materiel Organisation (DMO) was the primary service delivery organisation responsible for the effective support of Australian Defence Force operations through the acquisition of equipment and supplies, sustainment of the Australian Defence Force and deployment of specialist staff. DMO also provided industry and procurement

policy advice to Defence and the Australian Government. From 1 July 2015, DMO was delisted and its functions merged into Defence.

5.4.30 DMO increased its level of activity in 2014–15, resulting in a 12 per cent increase in expenses, to \$11.6 billion.

Areas of audit focus

5.4.31 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the accounting for, and disclosure of, assets and revenues associated with liquidated damages or other compensation payable to or by Defence under contracts managed by the then DMO. These assets and revenues comprised a range of benefits that would be delivered to Defence and DMO over multiple years and included 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 disclosure of, monies owed by Defence to the then DMO, which involved a range of stakeholders across both Defence and DMO and comprised 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

5.4.32 The following table summarises the status of audit findings reported by the ANAO in 2013–14 and 2014–15.

Rating	Closing position (at the end of the 2013–14 final audit phase)	Findings resolved (during the 2014–15 interim audit phase)	New findings identified (during the 2014–15 interim audit phase)	Findings resolved (during the 2014–15 final audit phase)	New findings identified (during the 2014–15 final audit phase)	Closing position (at the end of the 2014–15 final audit phase)
A	0	0	0	0	0	0
B	1	0	1	(1)	3 ^a	4 ^b
L1	0	0	0	0	0	0
Total	1	0	1	(1)	3	4

Note a: One minor finding was upgraded to a moderate finding.

Note b: Following the merger with Defence on 1 July 2015, responsibility for addressing these unresolved findings was transferred to Defence.

Resolved audit finding

Receipting and recording of monies

5.4.33 DMO maintained a special account to facilitate the sustainment and acquisition activities on behalf of Defence. Within the special account transactions were 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.

5.4.34 In 2013–14, 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.

5.4.35 During the 2014–15 final audit, the ANAO confirmed that DMO had implemented measures to segregate trust and departmental monies, conducted training for relevant staff, and introduced quality assurance processes over the balances in the special account. DMO also opened a separate bank account for the receipt and payment of trust monies.

Unresolved audit finding

Accuracy and completeness of month end System Project Office financial information

5.4.36 During the 2014–15 interim audit, the ANAO identified a number of issues affecting the accuracy and completeness of financial information provided by the System Project Offices, including in relation to prepayments, the capitalisation of assets and the capture of accruals at year end. The finding remains unresolved as the ANAO continued to identify similar issues during the 2014–15 final audit. Defence has advised that plans are underway to improve this process.

New audit findings

Accounting for commitments

5.4.37 DMO entered into large, complex contracts to deliver Defence's capability requirements. These contracts made up the majority of DMO's commitments and often included inventory items.

5.4.38 Although inventory is specifically excluded from the definition of commitments in the Financial Reporting Rule, the ANAO identified numerous instances where inventory amounts had been included by DMO in its commitments balance. The ANAO also identified errors in the ageing of the commitments balance as well as instances where contingent liabilities such as performance incentives were included as commitments. Defence has advised that plans are underway to improve this process.

Effectiveness of assurance processes

5.4.39 DMO had previously undertaken a range of internal quality assurance activities to gain assurance over balances reported in its financial statements. These included financial controls framework testing, commitments assurance activities and assurance activities over financial information provided by System Project Offices.

5.4.40 During the 2014–15 final audit, the ANAO identified that DMO's assurance processes were not effective, resulting in a number of errors in financial information. Defence has advised that plans are underway to improve this process.

Valuation and management of overseas project bank accounts

5.4.41 DMO had put in place a number of arrangements for the acquisition or sustainment of military equipment requiring the establishment of overseas bank accounts, to facilitate the payment of DMO's contribution to the arrangement. In prior years, these accounts were reported as cash by DMO. In 2014–15, DMO reassessed the nature of each of these arrangements and determined that they would be better classified as prepayments, due to DMO's inability to access the funds in these bank accounts. The ANAO agreed with DMO regarding this reclassification.

5.4.42 During the 2014–15 final audit, the ANAO reviewed the reclassified balances and identified several anomalies. These included that prepayments should be measured at historical cost and not translated from foreign currency to Australian dollars at a year-end exchange rate. In addition, as part of the reclassification, DMO did not consider the cumulative impact of movements from prior years and the flow on impacts to Defence's financial statements.

5.4.43 A contributing factor to the above issues was that DMO did not have a register in place to track and support the payments from these accounts. Defence has advised that plans are underway to improve this process.

Department of Veterans' Affairs

5.4.44 The Department of Veterans' Affairs (Veterans' Affairs) is the primary service delivery entity responsible for developing and implementing programs that assist the veteran and defence force communities. Veterans' Affairs also provides administrative support to the Repatriation Commission and the Military Rehabilitation and Compensation Commission.

Areas of audit focus

5.4.45 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the complexity of assumptions and calculations underpinning the actuarial assessment of the military compensation provision;
- the validity of personal benefit and healthcare payments processed by complex and ageing information systems;
- recognition of revenue for diverse revenue streams;
- financial statement preparation, and quality assurance and support processes that underpin the integrity of their financial statement balances, in view of prior year issues; and
- the valuation of departmental non-financial assets due to the diverse nature of property, plant and equipment and internally developed software.

Audit results

5.4.46 The following table summarises the status of audit findings reported by the ANAO in 2013–14 and 2014–15.

Rating	Closing position (at the end of the 2013–14 final audit phase)	Findings resolved (during the 2014–15 interim audit phase)	New findings identified (during the 2014–15 interim audit phase)	Findings resolved (during the 2014–15 final audit phase)	New findings identified (during the 2014–15 final audit phase)	Closing position (at the end of the 2014–15 final audit phase)
A	0	0	0	0	0	0
B	2	0	0	(2)	0	0
L1	1	0	0	(1) ^a	0	0
Total	3	0	0	(3)	0	0

Note a: This finding is closed. A discussion of potential and actual breaches of section 83 of the Constitution is at paragraphs 2.57 to 2.63 of chapter 2.

Resolved audit findings

Oversight of risk monitoring processes of financial information

5.4.47 During the 2013–14 audit, the ANAO identified weaknesses in Veterans' Affairs' oversight and risk monitoring processes, particularly in respect of the assessment of business risks associated with payments made by the department under its rehabilitation and compensation, and income support programs.

5.4.48 In view of these weaknesses, Veterans' Affairs developed a revised risk management strategy that includes a stronger focus on review and monitoring processes. The ANAO reviewed the implementation of the revised strategy during the 2014–15 audit and found it to be effective. The ANAO will continue to monitor these arrangements during the 2015–16 audit.

Financial statement preparation

5.4.49 The 2013–14 audit identified Veterans' Affairs 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 DVA's quality assurance review processes, a lack of adherence to financial statement preparation timetables and deficiencies in the preparation of documentation to support the financial statements.

5.4.50 In view of these weaknesses, Veterans' Affairs implemented a number of procedures designed to address this finding, including the development of a detailed financial statements preparation plan, and strengthening of the department's quality assurance review and executive monitoring processes. While acknowledging these improvements, during the 2014–15 final audit the ANAO noted opportunities for Veterans' Affairs to continue to improve the financial statements preparation process. As a result, this finding has been reclassified as a minor finding, which the ANAO will review as part of the 2015–16 audit.

Comments on non-material entities

Audit results

Summary of audit findings

5.4.51 There were no significant or moderate audit findings or significant legislative matters noted in 2013–14 or 2014–15 in non-material entities within the portfolio except in relation to AAF Company.

AAF Company

5.4.52 The AAF Company provides discounted recreational accommodation for Army members, their families and other eligible persons and provides financial support to, and assist in the provision of, recreational facilities and services to Army members.

Resolved audit finding

Audit committee

5.4.53 During the 2013–14 audit the ANAO identified one moderate audit finding in relation to the operations of the AAF Company's audit committee, which had not met with sufficient regularity to provide adequate review of AAF's controls and compliance framework. During 2014–15, the audit committee met with sufficient regularity to meet its responsibilities.

5.5 Education and Training Portfolio

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified/resolved
Department of Education and Training	Yes	✓	17 Sept 15	18 Sept 15	☐
Australian Research Council	Yes	✓	9 Sept 15	9 Sept 15	

✓: auditor's report not modified

☐: significant or moderate findings and/or legislative matters identified in previous periods, or the 2014–15 interim audit phase, now downgraded or resolved

Portfolio overview

5.5.1 The Education and Training portfolio⁴¹ 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 Training and its portfolio entities work with state and territory governments, other government entities and a range of service providers to provide high quality policy, advice and services for the benefit of Australians.

Department of Education and Training

5.5.2 The Department of Education and Training (Education) is the Australian Government's lead entity responsible for national policies and programmes that help Australians access education, regardless of their age or stage of life. These range from quality preschool, school and international education, higher education, academic research and skills and training.

5.5.3 As a result of the Machinery of Government changes that took effect on 23 December 2014, responsibility for child care and early childhood development was transferred to the Department of Social Services. Payments totalling \$3.8 billion were made prior to the change in responsibilities. Responsibility for skills and training functions was also transferred to Education as a result of these changes, with programme payments totalling \$413 million made in the period after the transfer took place.

5.5.4 The department manages a number of programs, including the Higher Education Loan Programme (HELP). The HELP receivable is valued at \$30 billion as at 30 June 2015. Grants totalling \$9 billion were also provided to higher education service providers during 2014–15 in addition to the \$15 billion in funding provided to schools. The department also continues to provide supplementary funding to assist universities to meet superannuation expenses for eligible current and former university employees under the Higher Education Superannuation Programme.

41 The portfolio and entity arrangements presented in this report are as at 30 June 2015. Since this date, these arrangements have been affected by the consolidated Administrative Arrangements Order made on 30 September 2015. A summary of changes arising from the Administrative Arrangements Order is in the notes to the listing of entities at appendix 1.

Areas of audit focus

5.5.5 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the actuarial valuation of the HELP receivable that represents an estimate of the amount owing to the Commonwealth at year end, due to the complexity involved in projecting future payments and/or the non-repayments 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;
- compliance activities and assurance processes underpinning apprenticeship related payments that rely on the accuracy of information provided by a diverse number of recipients;
- the governance and control regime established for the Shared Services Centre. The establishment of shared services arrangements resulted in a shared control environment between Education and the Department of Employment. As a result, a coordinated audit approach has been adopted for the financial statement audits of both departments; and
- the financial statements preparation process, with a focus on quality assurance processes as a result of the moderate audit finding identified in 2013–14.

Audit results

5.5.6 Our 2014–15 audit coverage of the key areas of audit focus did not identify any new significant or moderate audit findings. The following table summarises the status of audit findings reported by the ANAO.

Rating	Closing position (at the end of the 2013–14 final audit phase)	Findings resolved (during the 2014–15 interim audit phase)	New findings identified (during the 2014–15 interim audit phase)	Findings resolved (during the 2014–15 final audit phase)	New findings identified (during the 2014–15 final audit phase)	Closing position (at the end of the 2014–15 final audit phase)
A	1	(1) ^a	0	0	0	0
B	1	0	0	(1)	0	0
L1	1	0	0	(1) ^b	0	0
Total	3	(1)	0	(2)	0	0

Note a: This finding, discussed at paragraphs 5.16.9 to 5.16.12, is associated with the Early Childhood Education and Care programme which was transferred to the Department of Social Services, following the 23 December 2014 Administrative Arrangements Order. Responsibility for this programme, and resolution of the finding, has since been returned to Education, following the Administrative Arrangements Order of 30 September 2015.

Note b: This finding is closed. A discussion of potential and actual breaches of section 83 of the Constitution is at paragraphs 2.57 to 2.63 of chapter 2.

Resolved audit findings

Financial statements preparation process

5.5.7 In 2013–14, the ANAO identified that Education needed to improve its financial statements preparation process to better 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.

5.5.8 During 2014–15, Education reviewed its financial statements preparation process and implemented a number of improvements to address the issues identified, including the establishment of a financial statements steering committee as a sub-committee of the audit committee.

5.5.9 The ANAO assessed the 2014–15 financial statements preparation process as part of the 2014–15 final audit and confirmed the process was satisfactory.

Australian Research Council

5.5.10 The objective of the Australian Research Council (the Council) is to deliver policy and programmes that advance Australian research and innovation globally to benefit the community. The Council advances Australian research and innovation by providing strategic policy advice to Government; manages the National Competitive Grants Programme; and measures research excellence at Australia’s universities by conducting research evaluations.

5.5.11 In 2014–15, the Council reported grant expenses of \$836 million and departmental expenses of \$21 million.

Areas of audit focus

5.5.12 The ANAO’s 2014–15 audit approach identified the accounting and internal controls over administered grant expenditure as a particular area of audit focus that had the potential to impact on the Council’s financial statements.

Audit results

5.5.13 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

5.6 Employment Portfolio

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified/resolved
Department of Employment	Yes	✓	11 Sept 15	12 Sept 15	☐
Coal Mining Industry (Long Service Leave Funding) Corporation	Yes	✓	6 Oct 15	6 Oct 15	
Comcare	Yes	✓	18 Sept 15	18 Sept 15	

✓: auditor's report not modified

☐: significant or moderate findings and/or legislative matters identified in previous periods, or the 2014–15 interim audit phase, now downgraded or resolved

Portfolio overview

5.6.1 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 the wider community. The portfolio works with other Australian Government entities, state and territory governments and a range of service providers to deliver services to the community, safer workplaces and assist businesses with productivity.

Department of Employment

5.6.2 The Department of Employment's (Employment) role is to provide national policies and programmes that help Australians find and keep employment, work in safe, fair and productive work places and improve the employment-related performance of enterprises in Australia. Job Services Australia was the program that delivered these employment services using providers external to the Commonwealth. The program's service delivery cost in 2014–15 was \$1.3 billion. The deed of agreement between Employment and the external service providers for Job Services Australia expired on 30 June 2015. A new five year contractual arrangement was signed to deliver services totalling \$9.2 billion.

Areas of audit focus

5.6.3 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the employment services programs and associated compliance activities and assurance processes. These programs rely on self-assessment by employment service providers and involve complex contract management arrangements;
- the shared services centre control environment. As mentioned at paragraph 5.5.5 above, the establishment of shared services arrangements resulted in a shared control environment between Employment and Education. As a result, a coordinated audit approach has been adopted for the financial statements audits of both departments; and

- the financial statements preparation process, with a focus on quality assurance processes as a result of the moderate audit finding identified in 2013–14.

Audit results

5.6.4 The following table summarises the status of audit findings reported by the ANAO:

Rating	Closing position (at the end of the 2013–14 final audit phase)	Findings resolved (during the 2014–15 interim audit phase)	New findings identified (during the 2014–15 interim audit phase)	Findings resolved (during the 2014–15 final audit phase)	New findings identified (during the 2014–15 final audit phase)	Closing position (at the end of the 2014–15 final audit phase)
A	0	0	0	0	0	0
B	1	0	0	(1)	0	0
L1	0	0	0	0	0	0
Total	1	0	0	(1)	0	0

Resolved audit findings

Financial statements preparation process

5.6.5 In 2013–14, the ANAO identified that Employment needed to improve its financial statements preparation process to better 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.

5.6.6 During 2014–15, Employment undertook a review of the financial statements preparation process and implemented a number of improvements to address the issues identified. One of the key improvements included the recognition of the financial statements steering committee as a sub-committee of the audit committee.

5.6.7 Employment's financial statements preparation process was assessed as part of the 2014–15 final audit and found to be effective.

Coal Mining Industry (Long Service Leave Funding) Corporation

5.6.8 The Coal Mining (Long Service Leave Funding) Corporation (the Corporation) collects levies from employers to fund long service leave payments made to employees in the Australian Black Coal Mining Industry. The levies collected are invested until the employee takes long service leave, at which point the employer makes appropriate payment to the employee and seeks reimbursement from the Corporation in accordance with legislative arrangements. At 30 June 2015 the Corporation held a \$1.4 billion investment portfolio and in 2014–15 earned investment revenue of \$99 million. The estimated long service leave provision is \$1.2 billion.

Areas of audit focus

5.6.9 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- 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, which involves multiple assumptions.

Audit results

5.6.10 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Comcare

5.6.11 Comcare is responsible for the administration of an integrated safety, rehabilitation and compensation scheme for federal employers, employees and their representatives, state and territory bodies and other organisations. Comcare’s aim is to keep workers healthy and safe by minimising harm in the workplaces it covers, and includes the management of a comprehensive workers compensation liability scheme, in addition to Commonwealth common law liabilities for asbestos compensation.

5.6.12 The scheme is supported through a combination of Commonwealth funding and self-funded premium revenue. As at 30 June 2015, the workers compensation and asbestos related liabilities totalled \$3.2 billion and \$1.1 billion, respectively.

Areas of audit focus

5.6.13 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the estimation and assumptions involved in the calculation of workers compensation and asbestos related disease claim provisions and related expense accounts;
- revenue recognition, due to the complexities and requirements of legislation relating to funding of workers compensation and common law asbestos claims; and
- Comcare’s liability management, particularly related to workers compensation and asbestos related disease liabilities.

Audit results

5.6.14 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

5.7 Environment Portfolio

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified/resolved
Department of the Environment	Yes	✓	27 Aug 15	27 Aug 15	
Bureau of Meteorology	Yes	✓	31 Aug 15	1 Sept 15	
Clean Energy Regulator	Yes	✓	6 Oct 15	6 Oct 15	

✓: auditor's report not modified

Portfolio overview

5.7.1 The Environment portfolio consists of the Department of the Environment (Environment) and a range of corporate and non-corporate Commonwealth entities. The portfolio is responsible for advising the Government on environmental policy and manages a range of programs designed to achieve a healthy environment, as well as regulatory and operational functions.

Department of the Environment

5.7.2 Environment is responsible for managing the conservation, protection and sustainability of Australia's natural resources, biodiversity, ecosystems, environment and heritage requirements, and contributes to the national response to climate change. The department also works to enhance the management and use of Australia's water resources, and advancing Australia's interests in the Antarctic.

5.7.3 During 2014–15, 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.

5.7.4 The department delivers a variety of grant programs to the public and private sectors, including state and territory governments, profit and not-for-profit organisations, individuals and universities. In 2014–15, the department provided grants of \$499 million to conserve, protect and sustainably manage Australia's biodiversity, environment and heritage.

5.7.5 The department leads a whole of government approach to Antarctic and sub-Antarctic policy development within the Antarctic Treaty system. In 2014–15 Australia's obligations to restore the Antarctic sites was estimated to be \$483 million.

Areas of audit focus

5.7.6 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the methodology used to value the water assets the department holds on behalf of the Commonwealth;
- the accounting for the diverse range of administered grant payments, due to their significance to Environment's financial statements; and

- the model adopted by the department to estimate its obligation to restore the Antarctic bases, particularly the appropriateness of assumptions used.

Audit Results

5.7.7 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Bureau of Meteorology

5.7.8 The Bureau of Meteorology (the Bureau) is Australia’s national weather, climate and water entity. The Bureau provides regular forecasts, warnings, monitoring and advice across the Australian region and Antarctic territory.

5.7.9 The Bureau’s main areas of expenditure in 2014–15 were in relation to employee and supplier expenses which totalled \$274 million; land and buildings and, property, plant, and equipment valued at \$443 million; and software systems valued at \$66 million. The Bureau received \$1.3 million in advertising income generated through advertising on its website.

Areas of audit focus

5.7.10 The ANAO’s 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- own source revenue due to the assumptions and judgements involved;
- the fair value assessments of land and buildings, and property, plant and equipment assets that involves complex assessments, significant judgement and estimation by experts;
- accounting for intangibles, in view of the complexity surrounding the capitalisation of internally generated software and the associated impairment; and
- the calculation of employee leave provisions, as the provisions are calculated based on multiple assumptions.

Audit results

5.7.11 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Clean Energy Regulator

5.7.12 The Clean Energy Regulator (the Regulator) is responsible for supporting the Government’s plan for a cleaner environment by administering the national greenhouse and energy reporting scheme, carbon pricing mechanism, national registry of emissions units; carbon farming initiative and renewable energy target.

5.7.13 During 2014–15, the Regulator managed the closure of the carbon pricing mechanism following the program’s repeal in late 2014, and the implementation of the government’s \$2.5 billion emissions reduction fund. The fund’s first auction in April 2015 resulted in the Regulator awarding 107 contracts (covering 144 projects ranging between three and 10 years) valued at \$661 million.

Areas of audit focus

5.7.14 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- implementation of the emissions reduction fund scheme, including the establishment of appropriate accounting treatments, implementation of internal controls and compliance with legislative requirements;
- the accounting for the final settlement of the carbon pricing mechanism; and
- the accounting for the fair value of non-financial assets which are significant to the financial statements.

Audit Results

5.7.15 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

5.8 Finance Portfolio

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified/resolved
Department of Finance	Yes	✓	26 Aug 15	26 Aug 15	
Albury–Wodonga Development Corporation	Yes	✓ E ☞	23 Mar 15	23 Mar 15	
ASC Pty Ltd	Yes	✓	2 Sept 15	2 Sept 15	
Australian Electoral Commission	Yes	✓	10 Sept 15	10 Sept 15	◆ □
Australian River Co Limited	Yes	✓ E ☞	31 Mar 15	31 Mar 15	□
ComSuper	No	✓ E	29 Sept 15	29 Sept 15	◆
Future Fund Management Agency and the Board of Guardians	Yes	✓	25 Sept 15	25 Sept 15	

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter. Refer to appendix 3 for details.

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

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

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2014–15 interim audit phase, now downgraded or resolved

☞: financial year end date other than 30 June 2015

Portfolio overview

5.8.1 The Finance portfolio provides a broad range of support and services to government. These include the provision of budget and financial management services and advice; electoral services and support; government on-line delivery and information and communication technology management; non-defence asset management; asset sales; the administration of the government's general insurance fund, investment funds and superannuation schemes; the administration of the Commonwealth land policy; and the administration of Parliamentarians' entitlements.

Department of Finance

5.8.2 The Department of Finance (Finance), as one of the Australian Government's central departments, assists the Australian Government to achieve its objectives in a wide range of policy and program areas. Finance's role is to help the Australian Government shape and deliver its agenda by providing high quality advice and services, particularly in relation to fiscal and economic matters.

5.8.3 Finance's business operations includes the management of:

- the Commonwealth's investment funds valued at \$11.3 billion;
- the superannuation schemes for Australian Government civilian employees, politicians and judges with an unfunded liability of \$153.9 billion;
- the Commonwealth non-Defence domestic property holdings valued at \$1.6 billion; and

- the management of the Commonwealth's self-managed general insurance scheme. Payment of claims in 2014–15 totalled \$94 million and the liability at year-end was \$329 million.

5.8.4 Finance also provides support for Parliamentarians and their staff, through the delivery of entitlements and targeted assistance.

Areas of audit focus

5.8.5 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the complexity of assumptions and calculations underpinning the actuarial assessment of the public sector unfunded superannuation liability;
- recognition and valuation of outstanding insurance claims, in view of the complex assumptions underpinning the valuation;
- the accounting for, and disclosure of, the sale of Medibank Private;
- the complexity of the valuation methodology and calculations underpinning the administered investments reported in Finance's financial statements;
- the valuation methods and assumptions applied to the numerous properties in Finance's property portfolio;
- the judgements used to derive the valuation of intangibles, in particular the Central Budget Management System Redevelopment Project;
- the management and reporting of assets transferred to Finance from the Albury-Wodonga Development Corporation following the abolition of the Corporation; and
- the controls over entitlements paid to Parliamentarians and their staff, due to the complexity and nature of these entitlements.

Audit results

5.8.6 The following table summarises the status of audit findings reported by the ANAO in 2013–14 and 2014–15.

Rating	Closing position (at the end of the 2013–14 final audit phase)	Findings resolved (during the 2014–15 interim audit phase)	New findings identified (during the 2014–15 interim audit phase)	Findings resolved (during the 2014–15 final audit phase)	New findings identified (during the 2014–15 final audit phase)	Closing position (at the end of the 2014–15 final audit phase)
A	0	0	0	0	0	0
B	0	0	0	0	0	0
L1	1	0	0	(1) ^a	0	0
Total	1	0	0	(1)	0	0

Note a: This finding is closed. A discussion of potential and actual breaches of section 83 of the Constitution is at paragraphs 2.57 to 2.63 of chapter 2.

Albury–Wodonga Development Corporation

5.8.7 Up until 31 December 2014, the Albury-Wodonga Development Corporation (the Corporation) was a major property-owner in the Albury-Wodonga region. On 31 December 2014, the Corporation was abolished by the *Albury-Wodonga Development Corporation (Abolition) Act 2014* and the Corporation's property management functions and its assets and liabilities were transferred to the Department of Finance.

Areas of audit focus

5.8.8 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the basis on which the Corporation's financial statements would be prepared, in view of the Corporation's abolition;
- 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 judgements 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

5.8.9 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

ASC Pty Ltd

5.8.10 ASC Pty Ltd Consolidated Group (ASC) exists to serve the frontline of Australia's naval defence capabilities.

5.8.11 ASC built Australia's fleet of Collins Class submarines for the Royal Australian Navy and is now responsible for the ongoing design enhancements, maintenance and support of the Collins Class submarines through the in-service support contract.

5.8.12 ASC is part of the alliance based contract arrangement to deliver three Air Warfare Destroyers for the Royal Australian Navy. This alliance is made up of the Department of Defence, representing the Australian Government, ASC as the lead shipbuilder, and Raytheon Australia as the mission systems integrator.

5.8.13 ASC is a proprietary company limited by shares registered under the *Corporations Act 2001*. The Minister for Finance owns all ASC shares on behalf of the Commonwealth of Australia.

Areas of audit focus

5.8.14 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- revenue and profit recognition in relation to the Air Warfare Destroyer and in-service support contract 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 Air Warfare Destroyer 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 in-service support contract 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

5.8.15 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Australian Electoral Commission

5.8.16 The Australian Electoral Commission (Commission) is responsible for conducting elections and referendums, maintaining the electoral role, providing electoral information, education programs and related services. As such, the operations of the Commission are cyclical, with a significant increase in expenditure and appropriation funding occurring in election years.

5.8.17 In 2014–15, the level of activity was low as no federal election was held. The main areas of expenditure in 2014–15 were employee and supplier expenses of \$124 million.

Areas of audit focus

5.8.18 The ANAO's 2014–15 audit approach identified appropriation disclosure as an area of audit focus that had the potential to impact on the Commission's financial statements due to issues identified in 2013–14.

Audit results

5.8.19 The following table summarises the status of audit findings reported by the ANAO in 2013–14 and 2014–15.

Rating	Closing position (at the end of the 2013–14 final audit phase)	Findings resolved (during the 2014–15 interim audit phase)	New findings identified (during the 2014–15 interim audit phase)	Findings resolved (during the 2014–15 final audit phase)	New findings identified (during the 2014–15 final audit phase)	Closing position (at the end of the 2014–15 final audit phase)
A	0	0	0	0	0	0
B	0	0	2	(1) ^a	0	1
L1	0	0	0	0	0	0
Total	0	0	2	(1)	0	1

Note a: The finding relates to the incompatible system roles in the financial management information system discussed at paragraphs 5.8.20 and 5.8.21 below. This finding was reclassified from a moderate finding to a minor finding during the 2014–15 final audit.

Resolved audit finding

Incompatible system roles in the financial management information system

5.8.20 During the 2014–15 interim audit, the ANAO identified weaknesses in the Commission’s FMIS access controls that enabled a user to both create and change vendor details, and process payments. This weakness increased the risk of unauthorised and/or inappropriate payments.

5.8.21 During the 2014–15 final audit, the ANAO confirmed that access controls had been improved and the inappropriate user access had been removed. The ANAO also reviewed the results of a review undertaken by the Commission to confirm no unauthorised or inappropriate transactions had occurred that could have a material impact on the 2014–15 financial statements. The Commission advised it had also implemented access monitoring controls and these will be tested as part of the 2015–16 financial statement audit. As a result, this finding has been downgraded to a minor finding.

New audit finding

IT change management control

5.8.22 The ANAO identified weaknesses in the operation of the Commission’s IT change management processes during the 2014–15 interim audit. These weaknesses included changes made to the production environment before formal approval was received and changes being made without appropriate supporting testing documentation being submitted to the business owner. These weaknesses increased the risk that changes to the production environment could adversely impact on the availability and integrity of the Commission’s systems and data. The ANAO noted that the identified weaknesses did not impact on the systems used to compile the 2014–15 financial statements.

5.8.23 The Commission has advised that these weaknesses have been addressed by strengthening change management documentation to include consideration of change testing results, improved training, and review and monitoring activities to confirm compliance with the revised requirements. The ANAO will test these processes as part of the 2015–16 audit.

Future Fund Management Agency and the Board of Guardians

5.8.24 The Future Fund Board of Guardians (the Board), supported by the Future Fund Management Agency (the FFMA), has responsibility for investing the assets of the Future Fund.

5.8.25 The Future Fund grew by \$15.6 billion in 2014–15 to \$117.2 billion, representing a return of 15.4 per cent on the total amount invested.

Areas of audit focus

5.8.26 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- 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; and
- the management of new investments and liquidity requirements given that FFMA funds have been fully invested.

Audit results

5.8.27 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Comments on non-material entities

Audit results

Summary of audit findings

5.8.28 There were no significant or moderate audit findings or significant legislative matters noted in non-material entities within the portfolio, except in relation to Australian River Company (ARCo) and Comsuper.

Australian River Company (ARCo)

5.8.29 ARCo was established to manage the residual assets and liabilities of the former Commonwealth shipping business, the Australian National Line, following the sale of that business in 1998. During the financial year, ARCo's primary activity was the management of worker's compensation claims arising from the service of former Australian National Line employees.

5.8.30 On 24 April 2015 ARCo's residual assets and liabilities were transferred to the Department of Finance, with the exception of liabilities arising from asbestos related injury compensation claims, which were transferred to Comcare. ARCo sought voluntary deregistration on 30 April 2015 and was deregistered on 15 July 2015.

5.8.31 In accordance with past practice ARCo prepared financial statements for the twelve-month period ended 30 November 2014. The ANAO issued an auditor's report on the 30 November 2014 financial statements containing an emphasis of matter that drew attention to the fact that ARCo

was not a going concern, due to the intention of the Directors to wind up the company. The ANAO did not modify its audit opinion in respect of this matter.

Resolved audit finding

Controls over banking arrangements

5.8.32 The audit of the 2014 financial statements identified significant gaps in controls over access to cash held in ARCo's bank account. This included unmitigated fraud risks associated with one person having the capacity to make payments without review or approval. Additionally, monthly bank reconciliations that could serve to identify inappropriate payments were not performed. The combination of these matters increased the risk that inappropriate payments could be made.

5.8.33 The Board addressed the audit finding by strengthening controls over payment approval, and obtaining independent assurance that these controls were sufficient to mitigate the risks identified and that that payments made from the bank account during the financial year were appropriate.

ComSuper

5.8.34 Until 30 June 2015, ComSuper provided superannuation administration services to the Commonwealth Superannuation Corporation, including: collection of member contributions and maintenance of member accounts; payment of benefits and pensions; and customer service. The functions of ComSuper were merged into the Commonwealth Superannuation Corporation from 1 July 2015.

5.8.35 In 2014–15, Comsuper reported own source revenue of \$82.2 million, including \$77.6 million from fees paid by employers whose current or former employees are members of the superannuation schemes for which the Commonwealth Superannuation Corporation is trustee. The majority of Comsuper's expenditure in 2014–15 was on employee benefits, accounting for more than half of total expenses.

Unresolved audit finding

Controls over changes to payroll

5.8.36 All payroll staff, and certain staff at ComSuper's payroll service provider, were able to make changes to employee details, including bank accounts, without the need for such changes to be independently reviewed prior to processing. Additionally, there were no mitigating controls in place that would detect such changes.

5.8.37 As a result of the merger with the Commonwealth Superannuation Corporation referred to above, responsibility for addressing this matter will rest with the Corporation. The Corporation has advised that it has implemented a regular process of formally reviewing a system generated report that outlines the variations to payroll files for specified periods. The ANAO will review this process during the 2015–16 audit.

5.9 Foreign Affairs and Trade Portfolio

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified/resolved
Department of Foreign Affairs and Trade	Yes	✓	16 Sept 15	17 Sept 15	☐
Australian Trade Commission	Yes	✓	21 Aug 15	21 Aug 15	
Export Finance and Insurance Corporation	Yes	✓	27 Aug 15	27 Aug 15	

✓: auditor's report not modified

☐: significant or moderate findings and/or legislative matters identified in previous periods, or the 2014–15 interim audit phase, now downgraded or resolved

Portfolio Overview

5.9.1 The Foreign Affairs and Trade portfolio comprises the Department of Foreign Affairs and Trade (the department), the Australian Centre for International Agricultural Research, the Australian Secret Intelligence Service, the Australian Trade Commission (Austrade), the Export Finance and Insurance Corporation (the Corporation) and Tourism Australia.

Department of Foreign Affairs and Trade

5.9.2 The Department of Foreign Affairs and Trade manages a range of programs relating to the advancement of Australia's international interests, the protection and welfare of Australians abroad, and the security of the Australian Government presence overseas.

5.9.3 These programs involve the department: managing the overseas property estate that was valued at \$2.4 billion in 2014–15; maintaining an extensive number of overseas posts; managing a diverse range of property contracts; and contributing to sustainable economic growth and poverty reduction through official development assistance totalling \$3.4 billion in 2014–15. The department also provides consular and passport services to Australians, which generated revenue of \$400 million in 2014–15.

Areas of audit focus

5.9.4 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the integration of AusAID into the department, due to complexities relating to the ongoing integration of IT systems and accounting processes as 2014–15 was the full first year of the integrated department;
- revenue generated from passport operations, as a significant proportion of the passport revenue collection function is outsourced to Australia Post;
- the completeness of departmental revenue for rental accommodation and services provided to other Government entities at overseas posts, due to the significance of this item to the department's financial statements;

- the valuation of the Australian Government’s overseas property due to the significance of the balance to the financial statements, and the judgements and estimates used to derive the balance;
- the valuation, accounting, and disclosures associated with loans and subscriptions and multilateral liabilities due to the complexities associated with estimating likely recoverability of the loans, and the estimation process to determine the fair value of liabilities at year end;
- grant accounting and contract management, due to the significance of the expenditure relating to these items that is reported in the financial statements, and the diverse range of administered grant payments and contributions to international, United Nations and Commonwealth organisations;
- the operations of overseas posts, as a significant component of the department’s departmental financial statements relate to operations performed at overseas locations;
- management of IT systems, as the department has a complex decentralised business operation supported by a number of unique IT systems; and
- quality assurance and preparation processes supporting the timely finalisation of the 2014–15 financial statements as a result of a moderate audit finding identified in 2013–14.

5.9.5 The ANAO’s audit coverage also included the accounting treatment and disclosure of transactions in the National Interest Account. These transactions are reported by the Commonwealth where the recovery of loans made by the Australian Government to overseas governments is considered less than probable. The National Interest Account reports transactions undertaken by the Export Finance and Insurance Corporation, once the Minister for Trade and Investment determines they are in the national interest.

Audit results

5.9.6 The following table summarises the status of audit findings reported by the ANAO in 2013–14 and 2014–15.

Rating	Closing position (at the end of the 2013–14 final audit phase)	Findings resolved (during the 2014–15 interim audit phase)	New findings identified (during the 2014–15 interim audit phase)	Findings resolved (during the 2014–15 final audit phase)	New findings identified (during the 2014–15 final audit phase)	Closing position (at the end of the 2014–15 final audit phase)
A	0	0	0	0	0	0
B	2	(1)	0	(1)	0	0
L1	0	0	0	0	0	0
Total	2	(1)	0	(1)	0	0

Resolved audit finding

Financial statements preparation process

5.9.7 During the 2013–14 final audit, the ANAO identified that the department did not have adequate processes in place to ensure the timely and accurate preparation of their 2013–14 financial statements.

5.9.8 The department addressed these deficiencies in 2014–15, including preparing and implementing a detailed financial statement preparation plan and a financial statements quality assurance plan, which supported the timely and accurate preparation of the 2014–15 financial statements.

Australian Trade Commission

5.9.9 The Australian Trade Commission's (Austrade) primary objectives are to contribute to: Australia's economic prosperity by promoting Australia's export and other international economic interests through the provision of information, advice and services to businesses, associations, institutions and government; and to protect the welfare of Australians abroad through timely and responsive consular and passport services in specific locations overseas.

5.9.10 In 2014–15 Austrade was responsible for the delivery of a number of grant programs, the largest being the Export Market Development Grants scheme involving the payment of \$138 million to eligible recipients. Austrade has operations across 79 overseas offices and also delivers consular and passport services to Australians in 17 locations overseas.

Areas of audit focus

5.9.11 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- 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*;
- Austrade's system of internal controls particularly in overseas locations that are geographically dispersed; and
- land and buildings, property, plant and equipment, and intangibles due to the judgements involved in assessing and calculating their fair value.

Audit results

5.9.12 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Export Finance and Insurance Corporation

5.9.13 The Export Finance Insurance Corporation's (the Corporation) primary objective is to facilitate and encourage Australian export trade on a commercial basis. It provides financial support to Australian based companies which are exporting or seeking to expand internationally.

5.9.14 The financial statements of the Corporation 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 the Corporation is directly accountable. The Corporation 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 as determined by the Australian Government. The Australian Government receives the net income from this account and the Corporation is reimbursed for any losses incurred.

5.9.15 The Corporation received interest revenue from operations through its Commercial Account of \$146 million which involves investments in a range of government, bank and other debt securities and loans provided to Australian exporters. These assets were valued at \$3.1 billion as at 30 June 2015. The Commercial Account had total liabilities of \$2.7 billion at 30 June 2015 which comprise a range of financial instruments such as commercial paper, medium term notes and bonds.

5.9.16 Revenue from operations in the National Interest Account for 2014–15 was \$23 million. As at 30 June 2015, the National Interest Account held \$662 million in loans to other government jurisdictions funded through a \$669 million borrowing from the Commercial Account.

Areas of audit focus

5.9.17 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- funding and liquidity management that relates to the ongoing management of the Corporation'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 due to the judgements and estimates applied to calculate the balances; and
- compliance with applicable accounting standards, including the valuation of derivatives, and hedge accounting.

Audit results

5.9.18 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

5.10 Health Portfolio

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified/resolved
Department of Health	Yes	✓	8 Sept 15	8 Sept 15	<input type="checkbox"/>
Australian Radiation Protection and Nuclear Safety Agency	No	✓	14 Sept 15	14 Sept 15	<input type="checkbox"/>
Australian Sports Commission	Yes	✓	13 Aug 15	13 Aug 15	
National Blood Authority	Yes	✓	4 Sept 15	4 Sept 15	
National Health and Medical Research Council	Yes	✓	21 Sept 15	21 Sept 15	

✓: auditor's report not modified

: significant or moderate findings and/or legislative matters identified in previous periods, or the 2014–15 interim audit phase, now downgraded or resolved

Portfolio overview

5.10.1 The Health portfolio consists of the Department of Health (Health) and statutory and non-statutory bodies that are responsible for contributing to a health care system that meets the health care needs of all Australians. In this context, each portfolio entity produces performance information to enable assessment of its effectiveness in achieving entity-specific outcomes. Portfolio entities work towards the whole-of-portfolio targets over time in relation to the health status of Australians.

Department of Health

5.10.2 The role of the Department of Health is to work towards achieving a health care system that meets the health care and wellbeing needs of all Australians, consistent with government policies and legislative requirements. During 2014–15, the functions of the Australian National Preventive Health Agency, General Practice Education and Training Limited, Health Workforce Australia were transferred to the department. Some of the functions of the Private Health Insurance Administration Council, were also transferred to the department.

Areas of audit focus

5.10.3 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the high volume and complex administered health related benefits processed by Human Services on behalf of Health;
- the presentation and disclosure of the appropriations and special accounts managed by the department that cover 10 outcomes;
- the diverse range of administered grant payments to the states and territories, other service providers and program recipients;

- a complex valuation methodology used to estimate the Government's liability under the medical indemnity program; and
- the management, accounting and disclosure of the National Medical Stockpile for potentially slow moving and expired inventory.

5.10.4 As an integral part of the audit, the ANAO assessed the IT general and application controls for key systems that supported the preparation of Health's financial statements. This included a review of system access and change management controls in both Health and Human Services, as well as specific controls within the financial management and human resource management information systems.

Audit results

5.10.5 The following table summarises the status of audit findings reported by the ANAO in 2013–14 and 2014–15:

Rating	Closing position (at the end of the 2013–14 final audit phase)	Findings resolved (during the 2014–15 interim audit phase)	New findings identified (during the 2014–15 interim audit phase)	Findings resolved (during the 2014–15 final audit phase)	New findings identified (during the 2014–15 final audit phase)	Closing position (at the end of the 2014–15 final audit phase)
A	0	0	0	0	0	0
B	0	0	0	0	0	0
L1	1	0	0	(1) ^a	0	0
Total	1	0	0	(1)	0	0

Note a: This finding is closed. A discussion on potential and actual breaches of section 83 of the Constitution is at paragraphs 2.57 to 2.63 of chapter 2.

Australian Sports Commission

5.10.6 The Australian Sports Commission (the Commission) promotes and supports the development of a cohesive and effective sport sector that creates opportunities for all Australians to participate and excel in sport. The Commission aims to increase participation in sport, improve the sustainability of sporting organisation, and deliver programs which contribute to excellence in sport performance and continued international success. The Commission operates facilities at the Australian Institute of Sport in Canberra and strategic training facilities on the Gold Coast, Penrith and Varese in Italy.

Areas of audit focus

5.10.7 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the measurement and disclosure of the value of land and buildings, and property, plant and equipment, due to the significance of the balances to the financial statements and the judgements involved; and
- the financial management of grants, as grant expenditure is material.

Audit results

5.10.8 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

National Blood Authority

5.10.9 The National Blood Authority is responsible for working with the states and territories to determine and meet the clinical requirements for blood and blood products within Australia, through the negotiation and management of supply. These activities are supported largely through funding from the Commonwealth and state and territory governments, which totalled \$923 million in 2014–15. As at 30 June 2015, the National Blood Authority reported blood and blood products inventories of \$110 million.

Areas of audit focus

5.10.10 The recognition and measurement of the National Blood Authority's blood and blood product inventories was identified as an area of audit focus in the ANAO's 2014–15 audit approach. The value of inventories is significant and large holdings are stored and managed by third parties on behalf of the Authority, increasing the risk of material inventory balances reported at year end being incomplete or inaccurate.

Audit results

5.10.11 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

National Health and Medical Research Council

5.10.12 The objectives of the National Health and Medical Research Council (the Council) were to: raise the standard of individual and public health care throughout Australia; develop consistent health standards between the states and territories; support medical and public health research and training throughout Australia; and foster the consideration of ethical issues relating to health.

5.10.13 During 2014–15, the Council paid \$905 million of health and medical research and other grant funding mainly to state and territory governments and Medical Research Institutes.

Areas of audit focus

5.10.14 The ANAO's 2014–15 audit approach identified the financial management of the administered grants programme as an area of audit focus that had the potential to impact the financial statements, given the significance of these payments.

Audit results

5.10.15 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Comments on non-material entities

Audit results

Summary of audit findings

5.10.16 There were no significant or moderate audit findings or significant legislative matters noted in non-material entities within the portfolio. The moderate audit findings relating to the Australian Radiation Protection and Nuclear Safety Agency reported in 2013–14 have been resolved.

Australian Radiation Protection and Nuclear Safety Agency

5.10.17 The Australian Radiation Protection and Nuclear Safety Agency (the Agency), on behalf of the Australian Government, aims to protect the Australian people and environment from the harmful effects of radiation.

5.10.18 The Agency provides advice and services to the Australian community on radiation protection, nuclear safety, security, and medical exposures to radiation, including related research. It promotes national uniformity of radiation protection and nuclear safety policy and practices across the Australian Government and the states and territories. It also independently regulates the radiation sources, radiation facilities and nuclear installations of Australian Government entities and contractors.

Resolved audit findings

Management of FMIS user access

5.10.19 Two moderate audit findings were reported during the 2013–14 audit in relation to the management of user access over the FMIS.

5.10.20 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 increased the risk of unauthorised system changes that could compromise the confidentiality, integrity and completeness of financial information. The ANAO confirmed the Agency had introduced stronger separation of duties in relation to the accounts payable function and developed a report to enable user access to the FMIS to be monitored.

5.11 Immigration and Border Protection Portfolio

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified/resolved
Department of Immigration and Border Protection	Yes	✓	15 Sept 15	15 Sept 15	◆□
Australian Customs and Border Protection Service	Yes	✓	15 Sept 15	15 Sept 15	◆□

✓: auditor's report not modified

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

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2014–15 interim audit phase, now downgraded or resolved

Portfolio overview

5.11.1 Up until 30 June 2015 the Immigration and Border Protection portfolio consisted of three entities: the Department of Immigration and Border Protection, the Australian Customs and Border Protection Service (ACBPS), and the Migration Review Tribunal and Refugee Review Tribunal.

5.11.2 With the enactment of the *Australian Border Force Act 2015* (ABF Act) and the *Customs and Other Legislation Amendment (Australian Border Force) Act 2015* on 1 July 2015, the functions of Immigration and the ACBPS were integrated into a single department (the Department of Immigration and Border Protection) and the ACBPS ceased to exist. From 1 July 2015, the Australian Border Force, a single frontline operational border control and enforcement arm was established within the Department of Immigration and Border Protection.

5.11.3 The Migration Review Tribunal and Refugee Review Tribunal provide an independent and final review of decisions made in relation to visas to travel to, enter, or stay in Australia. Following the enactment of the *Tribunals Amalgamation Act 2014*, the functions of the Migration Review Tribunal and Refugee Review Tribunal were amalgamated with the Administrative Appeals Tribunal and the Social Security Appeals Tribunal to form the Administrative Appeals Tribunal within the Attorney-General's portfolio. The amalgamation took place on 1 July 2015.

Department of Immigration and Border Protection

5.11.4 Immigration manages a range of policies, programs and services relating to the maintenance of strong borders, well-managed migration, refugee protection, and the promotion of Australian citizenship.

5.11.5 These policies, programs and services involved the collection of \$1.9 billion in visa and citizenship revenue, managed through Immigration's network of domestic and international posts, and third parties under service level arrangements. Immigration is also responsible for the administration of the detention network. This involved the management of the detention network estate valued at \$1.5 billion and the delivery of services in the onshore and offshore detention network, accounting for \$2 billion in administered expenses.

5.11.6 In 2014–15, Immigration reported employee expenses of \$843 million relating to staff located in both Australia and offshore, including locally engaged staff, and supplier expenses of \$622 million.

Areas of audit focus

5.11.7 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the integration with the ACBPS and establishment of the Australian Border Force from 1 July 2015 as discussed at paragraph 5.11.2 above, in view of the potential impact on the 2014–15 financial statements;
- visa revenue, which is a significant component of administered revenue and is supported by a number of IT systems;
- accounting for personal benefit payments made under the Status Resolution Support Services programme. Payments were made on behalf of Immigration by the Department of Human Services and other various service providers totalling \$333 million in 2014–15;
- management of the detention network and estate, both onshore and offshore. Immigration engages third party providers for health services, detention centre management and construction of detention centre assets. Payments to these providers is a significant component of the department's administered expenditure;
- appropriation revenue, which is adjusted based on a number of variables assessed under a funding agreement with the Department of Finance;
- accounting for employee entitlements, as Immigration staff, including locally engaged staff, are geographically dispersed and located overseas; and
- reporting of overseas transactions which are material to the financial statements and managed under third party arrangements through service level agreements with the Department of Foreign Affairs and Trade, and the Australian Trade Commission.

Audit results

5.11.8 The following table summarises the status of audit findings reported by the ANAO in 2013–14 and 2014–15.

Rating	Closing position (at the end of the 2013–14 final audit phase)	Findings resolved (during the 2014–15 interim audit phase)	New findings identified (during the 2014–15 interim audit phase)	Findings resolved (during the 2014–15 final audit phase)	New findings identified (during the 2014–15 final audit phase)	Closing position (at the end of the 2014–15 final audit phase)
A	0	0	0	0	0	0
B	1	0	0	(1) ^a	2 ^b	2
L1	0	0	0	0	0	0
Total	1	0	0	(1)	2	2

Note a: This finding related to human resource management discussed at paragraphs 5.11.9 to 5.11.12. This was reclassified from a moderate finding to a minor finding based on remediation action taken during 2014–15.

Note b: This finding related to appropriation revenue adjustments discussed at paragraphs 5.11.16 to 5.11.18. This was reclassified from a minor finding to a moderate finding as a result of issues identified during the 2014–15 final audit.

Resolved audit finding

Human resource management

5.11.9 During the 2013–14 final audit, the ANAO identified weaknesses in Immigration’s employee cessation processes. These included 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.

5.11.10 The ANAO also identified during the 2013–14 final audit that a number of overpayments had been made to staff, with some overpayments outstanding for a number of years.

5.11.11 At the time of the 2014–15 final audit, Immigration had implemented a revised cessation process that included a formal sign-off from the ceased employee’s business area confirming that all cessation procedures had been completed. Immigration also undertook a review of staff overpayments and identified aspects requiring improvement. Immigration has commenced remedial action to address the results of the review.

5.11.12 As a result of remediation action taken during 2014–15, the ANAO has downgraded this finding to a minor finding and will continue to monitor the progress of remediation action during the 2015–16 audit.

New audit findings

Personal benefit payments

5.11.13 During 2014–15 Immigration engaged the Department of Human Services (Human Services) to make personal benefit payments to eligible recipients under the Status Resolution Support Services programme. The payments totalled \$232 million in 2014–15. The ANAO identified that Immigration had not established a compliance program to confirm that only valid and accurate payments were made.

5.11.14 The ANAO also identified, that for a significant portion of the 2014–15 financial year, Immigration had not obtained detailed performance and financial reporting from Human Services to support the personal benefit payments made.

5.11.15 Immigration advised that it had initiated a review of the systems used to support the personal benefit payments made by Human Services. The results of this review will be used to inform the design of an ongoing, formal compliance program. Immigration also advised that system issues had been resolved and detailed performance and financial reporting would be available for the 2015–16 year. The ANAO will review progress in implementing these matters during the 2015–16 audit.

Appropriation revenue adjustments associated with the funding model agreement

5.11.16 During the 2013–14 final audit, the ANAO identified that Immigration did not adequately document adjustments to appropriation funding revenue reported in the financial statements, which were made under its funding agreement with the Department of Finance. This was reported to Immigration as a minor audit finding. During 2014–15, the ANAO identified a number of issues associated with Immigration’s management of appropriation revenue. As a result, this finding was reclassified to a moderate audit finding.

5.11.17 During the 2014–15 final audit, the ANAO identified weaknesses in Immigration’s management and monitoring of appropriation revenue which resulted in a number of adjustments to the appropriation disclosures in the draft financial statements. The adjustments were correctly reflected in the 2014–15 final financial statements.

5.11.18 Immigration has advised that it is implementing processes to address this weakness. The ANAO will review the progress against this finding during the 2015–16 audit.

Australian Customs and Border Protection Service

5.11.19 During 2014–15, the role of the ACBPS was to protect the safety, security and commercial interests of Australians by delivering effective border protection. In this role, the ACBPS’ core functions were to target and prevent criminality, whilst fostering legitimate travel and trade and collecting border-related revenue and trade statistics.

5.11.20 To facilitate effective border protection, the ACBPS held a number of specialised assets, including vessels such as Cape Class and the Ocean Shield. These assets were valued at \$514 million in 2014–15.

5.11.21 In 2014–15 ACBPS collected \$10.9 billion in customs duty revenue. The ACBPS also assessed and collected \$3.6 billion in revenue for the Goods and Services Tax, the Wine Equalisation Tax and the Luxury Car Tax on imported goods on behalf of the ATO.

Areas of audit focus

5.11.22 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the integration with Immigration and the establishment of the Australian Border Force from 1 July 2015, as discussed at paragraph 5.11.2 above;
- the accuracy and completeness of customs duty collections and refunds in light of the self-assessment regime and the complexity of the related IT infrastructure that supports the collection of revenue; and

- the valuation of the ACBPS' specialised vessels, as the assessment involves significant judgments and assumptions as part of the estimation process.

Audit results

5.11.23 The following table summarises the status of audit findings reported by the ANAO in 2013–14 and 2014–15.

Rating	Closing position (at the end of the 2013–14 final audit phase)	Findings resolved (during the 2014–15 interim audit phase)	New findings identified (during the 2014–15 interim audit phase)	Findings resolved (during the 2014–15 final audit phase)	New findings identified (during the 2014–15 final audit phase)	Closing position (at the end of the 2014–15 final audit phase)
A	0	0	0	0	0	0
B	0	0	0	0	1	1
L1	1	0	0	(1) ^a	0	0
Total	1	0	0	(1)	1	1

Note a: This finding is closed. A discussion of potential and actual breaches of section 83 of the Constitution is at paragraphs 2.57 to 2.63 of chapter 2.

New audit finding

Customs duty compliance program

5.11.24 The ACBPS collected \$10.9 billion in customs duty revenue in 2014–15. Customs duty is calculated and collected under a self-assessment regime, under which industry and the international trading community self-assess their customs duty obligations associated with the importation of goods and services. The ACBPS had a compliance program that included a range of activities designed to support customs duty revenue collection by identifying revenue evasion before, at, and after the border.

5.11.25 During the 2014–15 audit, the ANAO reviewed ACBPS' customs duty compliance program and identified weaknesses in the governance and management oversight arrangements. The ANAO identified a lack of:

- regular oversight and monitoring of the compliance program;
- evidence of how the performance of the compliance program was regularly measured and reported, and how relevant and appropriate opportunities for improvements were identified;
- consistent ACBPS wide policies and procedures related to planning, managing and executing compliance activities;
- an end-to-end risk assessment process, register or plan for compliance activities during 2014–15; and
- a documented rationale for the sample size and selection methodology that is consistent with the level of assurance that the ACBPS aimed to achieve from the compliance program.

5.11.26 As a result of ACBPS's merger with Immigration on 1 July 2015, Immigration has advised that it is taking steps to strengthen the governance arrangements related to the compliance program. The ANAO will review the progress made by Immigration to improve the customs duty compliance program as part of the 2015–16 audit.

5.12 Industry and Science Portfolio

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified/resolved
Department of Industry and Science	Yes	✓	4 Sept 15	4 Sept 15	<input type="checkbox"/>
Australian Nuclear Science and Technology Organisation	Yes	✓	13 Aug 15	13 Aug 15	
Australian Renewable Energy Agency	Yes	✓	25 Aug 15	26 Aug 15	
Commonwealth Scientific and Industrial Research Organisation	Yes	✓	28 Aug 15	28 Aug 15	

✓: auditor's report not modified

: significant or moderate findings and/or legislative matters identified in previous periods, or the 2014–15 interim audit phase, now downgraded or resolved

Portfolio overview

5.12.1 The key role of the Industry and Science portfolio⁴² is to contribute to an environment which improves the competitiveness and productivity of Australia's industries, delivers science, research, and innovation incentives and programmes, and provides support for efficient and competitive resources and energy sectors.

Department of Industry and Science

5.12.2 The objective of the Department of Industry and Science (Industry) is to enable the growth and productivity of globally competitive industries through supporting science and commercialisation, growing business investment and capability, and streamlining of regulation. The department administers programmes covering a broad spectrum of individual and business grants, subsidies, services and education to businesses, individuals and the broader Australian community. In 2014–15 expenditure associated with these activities totalled \$1.9 billion.

5.12.3 Industry is also responsible for the administration and collection of fees and royalties associated with key offshore and onshore resources, such as petroleum and uranium. During 2014–15 Industry collected fees and royalties in excess of \$1.3 billion on behalf of the Australian Government.

Areas of audit focus

5.12.4 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the valuation of the Australian Government's investment in the Snowy Hydro Limited, recognised as an administered investment in Industry's financial statements, in light of

42 The portfolio and entity arrangements presented in this report are as at 30 June 2015. Since this date, these arrangements have been affected by the consolidated Administrative Arrangements Order made on 30 September 2015. A summary of changes arising from the Administrative Arrangements Order is in the notes to the listing of entities at appendix 1.

the complexity of the valuation process and the significance of the investment in the financial statements;

- the financial administration of Industry's grant programmes, given the size of grant expenditure;
- the financial administration for part of the year of the Australian Apprenticeships Incentives Programme in view of the significant expenditure involved, and reliance on external service providers for the delivery of the programme; and
- the completeness and accuracy of Industry's revenue streams derived from sources other than appropriations, including revenue generated by the National Measurement Institute and offshore petroleum and uranium royalties, given the significant amounts involved.

Audit results

5.12.5 The following table summarises the status of audit findings reported by the ANAO in 2013–14 and 2014–15.

Rating	Closing position (at the end of the 2013–14 final audit phase)	Findings resolved (during the 2014–15 interim audit phase)	New findings identified (during the 2014–15 interim audit phase)	Findings resolved (during the 2014–15 final audit phase)	New findings identified (during the 2014–15 final audit phase)	Closing position (at the end of the 2014–15 final audit phase)
A	0	0	0	0	0	0
B	0	0	1 ^a	(1)	0	0
L1	1	0	0	(1) ^b	0	0
Total	1	0	1	(2)	0	0

Note a: This finding was identified during the 2014–15 interim audit, however due to the timing of the finalisation of this matter, it was not reported in Audit Report No.44 *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Entities for the year ending 30 June 2015*.

Note b: This finding is closed. A discussion of potential and actual breaches of section 83 of the Constitution is at paragraphs 2.57 to 2.63 of chapter 2.

Resolved audit finding

IT security and user access management

5.12.6 The effectiveness of key IT controls is critical to the integrity of financial information presented in Industry's financial statements. During the 2014–15 interim audit, the ANAO's assessment of the IT control environment included a review of IT general controls, and controls within the FMIS and HRMIS.

5.12.7 The ANAO identified a number of weaknesses including:

- a number of users with privileged user access whose access was not commensurate to their duties; and
- user access rights to the IT network and FMIS for a number of users had not been deactivated, or deactivated in a timely manner, following their cessation of employment.

5.12.8 These weaknesses increased the risk of unauthorised access to the IT network, the FMIS and HRMIS, with the potential to compromise the integrity of the data maintained in the various IT applications used to process financial information.

5.12.9 The ANAO confirmed during the 2014–15 final audit that Industry had addressed the weaknesses identified above.

Australian Nuclear Science and Technology Organisation

5.12.10 The Australian Nuclear Science and Technology Organisation (the Organisation) is Australia's national nuclear research and development organisation. The Organisation operates Australia's only nuclear research reactor and applies the nuclear expertise and capabilities it maintains to a wide range of applications, including radiopharmaceutical production and supply, and research into health, national security and water resource management. ANSTO also provides advice to government and the scientific community on matters relating to nuclear science, technology and engineering.

Areas of audit focus

5.12.11 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the carrying value of investments in related entities, and the recoverability of intercompany loans;
- the accounting treatment of arrangements between the Organisation and subsidiary, ANSTO Nuclear Medicine Pty Ltd;
- funding arrangements for the subsidiary, Synchrotron Light Source Australia Pty Ltd, given the original funding arrangements are due to expire in June 2016;
- the estimation of the decommissioning provision, including waste;
- the classification and depreciation of assets due to their significance to the 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

5.12.12 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Australian Renewable Energy Agency

5.12.13 The Australian Renewable Energy Agency (the Agency) was established under the *Australian Renewable Energy Agency Act 2011*. The Agency's objectives are to improve the competitiveness of renewable energy technologies and increase the supply of renewable energy in Australia.

5.12.14 The Agency'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.

5.12.15 In June 2014, the Government introduced legislation to repeal the *Australian Renewable Energy Agency Act 2011*. At the date of the signing of the 2014–15 financial statements, this legislation had not been passed by the Parliament.

5.12.16 During 2014–15, the Agency incurred expenses of \$237 million, of which \$216 million were grants supporting the Agency's objectives.

Areas of audit focus

5.12.17 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- grants financial management, as grant expenditure is a major component of the Agency's financial statements;
- the accounting for, and appropriate disclosure of, the Agency's investment in a venture capital fund; and
- the impact on the financial statements of the government's proposal to repeal the *Australian Renewable Energy Agency Act 2011* and abolish the Agency.

Audit results

5.12.18 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Commonwealth Scientific and Industrial Research Organisation

5.12.19 The Commonwealth Scientific and Industrial Research Organisation's (CSIRO) primary functions, as set out in the *Science and Industry Research Act 1949*, are to carry out scientific research and facilitate the application or utilisation of the results of such research. CSIRO is responsible for delivering science and innovative solutions for industry, society and the environment and to see its science used to make a profound and positive impact for the future.

5.12.20 In 2014–15, CSIRO managed a budget of \$1.2 billion to deliver on a wide program of research activities covering areas such as agriculture, biosecurity, manufacturing, energy, land and water, and food and nutrition. CSIRO also has responsibility for managing specialised land and buildings, and other non-financial assets valued at \$2.3 billion.

Areas of audit focus

5.12.21 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the accounting treatment applied to research project income, work-in-progress and deferred revenue balances due to their significance and complexity;

- the valuation of listed and unlisted equity investments given the judgements and complexities involved in applying valuation methods, as well as compliance with complex disclosure requirements;
- the valuation of significant ongoing capital projects as they are subject to potential shifts in valuation and possible impairment; 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. These balances are significant for CSIRO and are subject to shifts in valuation and possible impairment.

Audit results

5.12.22 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

5.13 Infrastructure and Regional Development Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Infrastructure and Regional Development	Yes	✓	31 Aug 15	31 Aug 15	
Administration of Norfolk Island ^a	No	✓ E	11 Nov 15	11 Nov 15	▲ ◆ □
- Norfolk Island Hospital Enterprise	No	✓ E	11 Nov 15	11 Nov 15	▲ ◆
Airservices Australia	Yes	✓	10 Sept 15	10 Sept 15	
Australian Rail Track Corporation	Yes	✓	27 Aug 15	27 Aug 15	
National Capital Authority	Yes	✓	28 Aug 15	1 Sept 15	

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter. Refer to appendix 3 for details.

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

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

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2014–15 interim audit phase, now downgraded or resolved

Note a: As a result of amendments to the *Norfolk Island Act 1979 (Cth)* in June 2015, the administration of Norfolk Island became a Commonwealth controlled entity. As a consequence, it is included as a reporting entity in the Infrastructure and Regional Development portfolio and included in the detailed analysis within this report for the first time.

Portfolio overview

5.13.1 The Infrastructure and Regional Development portfolio is responsible for:

- improving infrastructure across Australia, through investment in, and coordination of transport and other infrastructure;
- providing 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
- supporting governance arrangements in the Australian territories through the maintenance and improvement of the overarching legislative framework, and laws and services for territories.

Department of Infrastructure and Regional Development

5.13.2 The Department of Infrastructure and Regional Development (Infrastructure) manages a range of programs that include investment in infrastructure, transport security, surface transport, road safety, air transport, regional development, local government and services

to territories. The department also provides resources to assist the Office of the Inspector of Transport Security and the International Air Services Commission in the performance of their functions.

5.13.3 The department reported grant expenditure of \$4.7 billion and investments in other Australian Government entities of \$4.5 billion in 2014–15.

Areas of audit focus

5.13.4 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the financial management and reporting of grant and subsidy programs, which are diverse and material to the financial statements;
- the accounting for, and appropriate disclosure of, the loan to the ACT Government in relation to the Loose Asbestos Removal Program;
- the accounting for the abolition of the Infrastructure Australia special account and its related transactions as a result of amendments to the *Infrastructure Australia Act 2008*, which came into effect on 1 September 2014. This resulted in Infrastructure Australia becoming a corporate Commonwealth entity under the PGPA Act; and
- the complexity of the valuation methods and calculations underpinning administered investments, given that they represent 75 per cent of Infrastructure's total administered assets.

Audit results

5.13.5 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Airservices Australia

5.13.6 Airservices Australia (Airservices) is a corporate Commonwealth entity responsible for the provision of air navigation services across Australian and oceanic airspace, and the provision of aviation rescue firefighting at Australian airports. Airservices is supported by a national network of communications, surveillance and navigation facilities and infrastructure. Airservices is funded through charges levied on its customers and borrowings from debt markets.

5.13.7 In 2014–15, Airservices reported income of \$1 billion and its infrastructure related assets were valued at \$757 million.

Areas of audit focus

5.13.8 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the 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;

- the completeness and accuracy of airways revenue due to the complexity of data which relies on a number of IT information systems;
- the dependence on IT for critical business systems, given the complex and sophisticated systems employed to support key processes;
- provisions for legal obligations and associated contingencies that involve significant judgement and estimation;
- accounting for financial instruments, due to the complex nature of the recognition, classification and disclosure;
- the measurement, classification and presentation of liabilities that involve significant judgement and estimation;
- valuation of defined benefit superannuation liabilities that involve significant accounting estimation;
- the valuation and disclosure of infrastructure assets given their significance; and
- the form and content of the financial statements given recent changes in reporting requirements.

Audit results

5.13.9 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Australian Rail Track Corporation

5.13.10 The Australian Rail Track Corporation Ltd (the Corporation) plays a key role in the development, maintenance and management of some of Australia’s major rail networks, including the National Interstate Rail Network and the Hunter Valley Coal Network. These networks are used to move a range of commodities including general freight, coal, iron ore, other bulk minerals and agricultural products, in addition to providing access for interstate and inter-city passenger services.

5.13.11 The Corporation is predominantly self-funded through a range of rail access charges and undertakes its capital works on rail networks through the use of these funds, together with the use of debt facilities and a range of Government grants. As at 30 June 2015, the Corporation held \$4.5 billion in infrastructure related assets.

Areas of audit focus

5.13.12 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the estimation of the fair value of infrastructure assets, in view of the judgemental nature of the underlying assumptions;
- taxation related balances, in view of the judgements involved in accounting for deferred tax assets;
- revenue recognition for a number of income streams;

- estimates of provisions at year end, which involve significant judgements; and
- the Corporation's debt management, particularly the ability to meet the repayment of significant current liabilities in future periods.

Audit results

5.13.13 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

National Capital Authority

5.13.14 The National Capital Authority (the Authority) is responsible for managing the strategic planning, promotion and enhancement of Canberra as the National Capital through the development and administration of the National Capital Plan, the operation of the National Capital Exhibition and delivering education and awareness programs and works to enhance the character of the National Capital.

5.13.15 As part of the carrying out its responsibilities the Authority maintained, constructed and upgraded assets with a value of \$793 million, collected rental income of \$2 million, and managed the collection of fees and fines associated with pay parking on national land of \$14 million in 2014–15.

Areas of audit focus

5.13.16 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the valuation and accounting for non-financial assets due to the significance of the balance to the financial statements and the judgements involved;
- the collection of revenue relating to the pay parking scheme on national land as it was material to the financial statements.

Audit results

5.13.17 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Comments on non-material entities

Audit results

Summary of audit findings

5.13.18 There were no significant or moderate audit findings or significant legislative matters noted in 2013–14 or 2014–15 in non-material entities within the portfolio, except in relation to the Administration of Norfolk Island and the Norfolk Island Hospital Enterprise, which form part of the Australian Territory of Norfolk Island.

Australian Territory of Norfolk Island

5.13.19 Norfolk Island is a non-self-governing external territory governed by the *Norfolk Island Act 1979 (Cth)* (Norfolk Island Act). In accordance with this Act, the Auditor-General is the

auditor of the financial statements of the Administration of Norfolk Island and the Consolidated Group (the ANI). Norfolk Island provides three sets of financial statements to the Auditor-General for audit. They are the Administration of Norfolk Island, the Norfolk Island Hospital Enterprise (Hospital), and the Norfolk Island Government Tourist Bureau (Tourist Bureau). These auditing arrangements took effect from 1 July 2011.

5.13.20 The financial statements of the ANI are prepared in accordance with section 48B of the Norfolk Island Act and the *Commonwealth Finance Minister's (Norfolk Island) Orders 2011*.

5.13.21 The auditor's report on the 2011–12, 2012–13 and 2013–14 financial statements of all three reporting entities contained a disclaimer of opinion. There were a number of economic factors that indicated the ANI would not be able to meet the cost of ongoing essential services on Norfolk Island without continuing financial assistance from the Australian Government. In view of these funding uncertainties, these entities may not have been able to continue operations as a going concern.

5.13.22 On 17 June 2015, the Norfolk Island Act was amended to dissolve the Norfolk Island Legislative Assembly and establish a process to transition the Norfolk Island Government into a Regional Council, effective from 1 July 2016.⁴³ The amending legislation provides that the assets and liabilities of the ANI will be transferred to the Regional Council, subject to the Commonwealth Minister ruling that specific assets and liabilities are to be transferred to the Australian Government. Under the revised arrangements, the Regional Council will make its own audit arrangements.

Audit results

Summary of audit findings

5.13.23 The following table summarises the status of audit findings reported by the ANAO in 2013–14 and 2014–15 for the three reporting entities.

Rating	Closing position (at the end of the 2013–14 final audit phase)	Findings resolved (during the 2014–15 interim audit phase)	New findings identified (during the 2014–15 interim audit phase)	Findings resolved (during the 2014–15 final audit phase)	New findings identified (during the 2014–15 final audit phase)	Closing position (at the end of the 2014–15 final audit phase)
A	1	0	0	(1) ^a	1	1
B	6	0	0	(2)	2	6
L1	0	0	0	0	0	0
Total	7	0	0	(3)	3	7

Note a: During 2014–15, this finding was downgraded from a significant finding to a minor finding. Details are at paragraph 5.13.27.

New significant and moderate audit findings

5.13.24 The ANAO identified the following new findings during 2014–15:

43 Op cit (refer note a on p. 110)

- the Hospital did not have a capital management plan for its building and property, plant and equipment assets. The absence of a capital management plan meant that the valuation of the Hospital was based on incorrect information. This resulted in a material error in the first valuation which needed to be corrected in the financial statements;
- weaknesses in the Administration's cash management controls resulted in errors in the recognition of cash and assets held in trust balances; and
- the Administration had not developed an asset management plan that considered risks, cost and priorities to support future capital expenditure.

Unresolved moderate audit findings

5.13.25 The following findings in relation to the ANI's corporate governance framework, the maintenance of accounts and records, and the preparation of the financial statements remain unresolved from previous years:

- the Administration did not have a number of key elements of an effective corporate governance framework including: a risk management plan; risk registers; and an internal audit plan.
- financial and management reporting processes require further improvement. In particular, the strengthening of monthly management reports to enable the regular monitoring of financial performance, and improving financial statements quality assurance processes to improve the accuracy of the draft statements presented for audit;
- there were no controls in place designed to ensure the Administration's contract register was complete and accurate; and
- the Hospital had not fully established key elements of its corporate governance framework including a strategic and operational plan, and a risk management framework.

5.13.26 The Administration and the Hospital have advised that the resolution of these matters will be a focus for management and the audit committee in 2015–16.

Resolved audit finding

Goods and Services Tax Compliance Framework

5.13.27 In 2013–14 the ANAO identified significant weaknesses in relation to the assessment and collection of GST revenue. During 2014–15 the Administration implemented actions to address this matter, including enhancing the GST compliance framework and improving the documentation of existing GST processes. In view of these changes, this finding was downgraded to a minor finding and will be monitored as part of the 2015–16 audit.

5.14 Parliamentary Departments

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified/resolved
Department of Parliamentary Services	Yes	✓	17 Sept 15	17 Sept 15	◆

✓: auditor's report not modified

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

Portfolio overview

5.14.1 The parliamentary departments consist of the Department of Parliamentary Services, the Department of the House of Representatives, the Department of the Senate and the Parliamentary Budget Office. Their role is to support the Australian Parliament.

Department of Parliamentary Services

5.14.2 The Department of Parliamentary Services (the department) provides essential services to support the work of the Australian Parliament, maintains Parliament House as a symbol of Australian democracy, and make the building and the activity that takes place within it accessible and engaging for all.

5.14.3 In September 2014 the Australian Government raised the National Terrorism Public Alert Level to high and additional funding of \$5 million was provided to the department to increase the level of security in Parliament House. The department received appropriations revenue of \$121 million in 2014–15 and expensed \$79 million of employee benefits.

5.14.4 The department's primary asset is Parliament House which the department manages on behalf of the Australian Government. A valuation of Parliament House was undertaken in 2014–15 and a value of \$2 billion was reported in the 2014–15 financial statements.

Areas of audit focus

5.14.5 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the valuation of land, buildings, plant and equipment, predominately consisting of Parliament House as the assessment involves significant judgements and assumptions; and
- progress in remediating weaknesses in the department's IT general and application control environments, that had previously been raised in former management reviews and internal audits.

Audit results

5.14.6 The following table summarises the status of audit findings reported by the ANAO in 2013–14 and 2014–15.

Rating	Closing position (at the end of the 2013–14 final audit phase)	Findings resolved (during the 2014–15 interim audit phase)	New findings identified (during the 2014–15 interim audit phase)	Findings resolved (during the 2014–15 final audit phase)	New findings identified (during the 2014–15 final audit phase)	Closing position (at the end of the 2014–15 final audit phase)
A	0	0	0	0	1 ^a	0 ^a
B	0	0	0	0	2	3 ^a
L1	0	0	0	0	0	0
Total	0	0	0	0	3	3

Note a: The significant finding related to weaknesses in access management to the department's FMIS discussed at paragraphs 5.14.7 to 5.14.12 below. This finding was reclassified from a significant finding to a moderate finding as a result of action taken by the department to address the finding during the 2014–15 final audit.

New audit finding

Weaknesses in user access to key financial systems

5.14.7 During the 2014–15 audit, the ANAO identified a significant audit finding and two moderate audit findings relating to the management of access to the department's FMIS and HRMIS by privileged users, database administrators and other users. There was also a lack of logging and monitoring of activities of these users.

5.14.8 In the absence of appropriate access controls, there was an increased risk of inappropriate system access, processing of inaccurate or inappropriate transactions, and unauthorised changes being made to financial data during 2014–15.

5.14.9 The ANAO confirmed that the department had taken action to remove inappropriate access to the FMIS from July 2015. The ANAO undertook additional audit procedures to compensate for the risks of inappropriate access to the FMIS during 2014–15 and no issues that could have resulted in a material misstatement to the 2014–15 financial statements were identified.

5.14.10 As a result of action taken by the department to remove the inappropriate access to the FMIS, the ANAO reclassified the significant audit finding to a moderate audit finding.

5.14.11 The department also advised that it had implemented controls supporting the granting and monitoring of privileged user access, developed processes to assess whether a general user's responsibilities required access to the FMIS and HRMIS prior to access approval being granted, and taken remediation action to address weaknesses associated with user access of database administrators.

5.14.12 The ANAO will assess the effectiveness of these controls as part of the 2015–16 audit.

5.15 Prime Minister and Cabinet Portfolio

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified/resolved
Department of the Prime Minister and Cabinet	Yes	✓	10 Sept 15	10 Sept 15	▲◆□
Indigenous Business Australia	Yes	✓	17 Sept 15	17 Sept 15	
Indigenous Land Corporation	No ^a	✓	16 Sept 15	16 Sept 15	
- Voyages Indigenous Tourism Australia Pty Ltd	Yes	✓	28 Aug 15	28 Aug 15	
Northern Land Council	No	✓	5 Oct 15	7 Oct 15	▲
Outback Stores Pty Ltd	No	✓	27 Aug 15	27 Aug 15	□

✓: auditor's report not modified

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

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

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2014–15 interim audit phase, now downgraded or resolved

Note a: 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

5.15.1 The role of the Prime Minister and Cabinet portfolio is to provide policy advice and support to the Prime Minister, the Cabinet, and Ministers on matters that are in the forefront of public and government administration.

Department of the Prime Minister and Cabinet

5.15.2 The principal responsibilities of the Department of the Prime Minister and Cabinet (the department) comprise:

- 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.

Areas of audit focus

5.15.3 The ANAO's 2014–15 audit approach identified the following areas of audit focus, that had the potential to impact the financial statements:

- key controls designed to ensure the effective operation and management of the shared services arrangements with the Departments of Human Services, Social Services, Education and Training and Employment;
- internal control activities and financial reporting arrangements in respect of the Indigenous functions and administered grant programs transferred to the department as a result of the 2013 Machinery of Government changes, particularly where issues with program compliance processes had been identified during the interim audit phase;
- the valuation of employee liabilities particularly for those staff transferred to department as a result of the 2013 Machinery of Government changes, where inadequate controls and quality assurance processes over the transfer had been previously identified;
- compliance with statutory and other legal requirements, including constitutional requirements relevant to special appropriations and special accounts;
- the valuation of non-financial assets and administered investments, following the significant increase in these balances, as a result of the 2013 Machinery of Government changes, and the technical requirements to be met for each balance;
- internal controls supporting the preparation and hosting of the inaugural G20 forum in Australia; and
- the IT general and application controls for key systems that support the preparation of the financial statements.

Audit results

5.15.4 The following table summarises the status of audit findings reported by the ANAO in 2013–14 and 2014–15.

Rating	Closing position (at the end of the 2013–14 final audit phase)	Findings resolved (during the 2014–15 interim audit phase)	New findings identified (during the 2014–15 interim audit phase)	Findings resolved (during the 2014–15 final audit phase)	New findings identified (during the 2014–15 final audit phase)	Closing position (at the end of the 2014–15 final audit phase)
A	0	0	0	0	0	0
B	1	0	1	(1)	1 ^a	2
L1	1	0	0	(1) ^b	0	0
Total	2	0	1	(2)	1	2

Note a: This finding related to grant acquittal management processes discussed at paragraphs 5.15.9 to 5.15.11. This was reclassified from a minor finding to a moderate finding as a result of issues identified during the 2014–15 final audit.

Note b: This finding is closed. A discussion on potential and actual breaches of section 83 of the Constitution is at paragraphs 2.57 to 2.63 of chapter 2.

Resolved audit finding

Controls over transferred employee balances and transactions

5.15.5 During the 2013–14 audit, the ANAO identified there was inadequate controls and quality assurance processes over the transfer of employee leave balances following the 2013 Machinery of Government changes. As a result, individual leave balances were incorrectly uploaded into the HRMIS.

5.15.6 The department subsequently commenced a remediation program to review and correct leave balances in the HRMIS, where required. This included reviewing data migration, HRMIS configuration controls and strengthening of internal policies and procedures. At the conclusion of the 2014–15 audit the remediation work was substantially completed, providing assurance that the employee leave balances in the financial statements were materially correct.

Unresolved audit finding

The Remote Jobs and Communities Programme compliance processes

5.15.7 The Remote Jobs and Communities Programme, (renamed the Community Development Programme from 1 July 2015) provides jobs, participation and community-development services in 60 remote regions across Australia. The delivery of services is through contracted service providers over the five year period, 2013 to 2018, at an estimated total cost of \$1.1 billion.

5.15.8 At the conclusion of the final audit the department continued to experience delays in the implementation of a consolidated program compliance framework, including formalising management reporting and oversight responsibilities. This delay increased the risk of not providing the necessary level of management monitoring to provide financial accountability for this program. The ANAO will review the effectiveness of the implementation of the new framework as part of the 2015–16 audit.

Grant acquittal management processes

5.15.9 During 2013–14, a review of acquittal processes identified a significant backlog in the acquittal of grants expenditure, in relation to the programs that had transferred to the department as part of the 2013 Machinery of Government changes.

5.15.10 The department commenced a remediation program to review and clear the backlog of un-acquitted grants expenditure. However, during 2014–15 weaknesses were identified in internal acquittal practices, which meant that the department were unable to effectively conclude on the results of the remediation work at the conclusion of the audit.

5.15.11 Until program expenditure is formally acquitted there remains a risk that funds were spent in a manner that was not consistent with the terms and conditions of the grant agreements, which impacts the department's ability to demonstrate that policy outcomes are being achieved efficiently and effectively. As the remediation program is ongoing, the ANAO will review the remediation measures as part of the 2015–16 audit.

Indigenous Business Australia

5.15.12 Under its enabling legislation, the *Aboriginal and Torres Strait Islander Act 2005*, Indigenous Business Australia's purpose is to:

- assist and enhance Aboriginal and Torres Strait Islander self-management and economic self-sufficiency; and
- advance the commercial and economic interest of Aboriginal and Torres Strait Islanders by accumulating and using a substantial capital base for the benefit of the Aboriginal and Torres Strait Islander peoples.

Areas of audit focus

5.15.13 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the valuation of the loan portfolio, including the accounting for gains and losses resulting from changes in the fair value of loans, and the valuation of investment properties, land and buildings and investments in associate entities, in view of the judgements and assumptions involved in these valuations; and
- revenue recognition of own source revenue as there are a number of streams of commercial income.

Audit results

5.15.14 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Comments on non-material entities

Audit results

Summary of audit findings

5.15.15 There were no significant or moderate audit findings or significant legislative matters noted in 2013–14 or 2014–15 in non-material entities within the portfolio, except in relation to the Northern Land Council and Outback Stores Pty Ltd.

Northern Land Council

5.15.16 The Northern Land Council (the Council) is a corporate Commonwealth entity formed under section 21 of the *Aboriginal Land Rights (Northern Territory) Act 1976*.

Unresolved audit findings

Financial management and financial statement close processes

5.15.17 Weaknesses relating to the financial management and financial statement close processes of the Council were first reported as a moderate audit finding during the 2011–12 audit. These weaknesses, particularly poor quality reporting and reconciliation processes, resulted in a number of audit adjustments to the 2011–12 financial statements. The finding was not resolved during 2013–14 and delayed the 2013–14 audit, which was not completed until January 2015. As a result, the finding was re-categorised to a significant audit finding.

5.15.18 During 2014–15, improvements were noted in the Council's financial statement preparation processes and the auditor's report was signed on 7 October 2015. However, a number of weaknesses in financial processes relating to the management of royalties received remain unresolved.

5.15.19 The Council advised that it considers that the level of management review and accountability for key financial processes is now adequate. The ANAO will review these processes as part of the 2015–16 audit.

Royalty Trust Account

5.15.20 Previous audits identified 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 owners of the land within six months after that amount is received through the royalty trust account.

5.15.21 During 2014–15, the ANAO identified that issues of non-compliance continue to occur as not all of the funds in the Council's royalty trust account had been distributed to traditional owners, within the agreed timeframe.

Outback Stores Pty Ltd and Controlled Entities

5.15.22 Outback Stores Pty Ltd (Outback Stores) is a Commonwealth company whose principal activities are the provision of management services to remote Indigenous community stores across Australia and commercial loans and other financial support to unviable remote community stores.

Resolved audit finding

Non-disclosure of related party transactions

5.15.23 During the 2013–14 audit weaknesses in the management and reporting of related party transactions resulted in transactions being initially omitted from the related party disclosures in the 2013–14 financial report. Revisions to these disclosures delayed the signing of the financial statements and auditor's report until December 2014.

5.15.24 During 2014–15, Outback Stores implemented new processes to capture and monitor related party transactions, and accurately report them in the 2014–15 financial statements.

5.16 Social Services Portfolio

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified/resolved
Department of Social Services	Yes	✓	31 Aug 15	31 Aug 15	▲◆□
Australian Hearing	Yes	✓	28 Aug 15	31 Aug 15	
Department of Human Services	Yes	✓	9 Sept 15	9 Sept 15	◆□
National Disability Insurance Scheme Launch Transition Agency	Yes	✓	24 Sept 15	24 Sept 15	◆□

✓: auditor's report not modified

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

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

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2014–15 interim audit phase, now downgraded or resolved

Portfolio overview

5.16.1 The Social Services portfolio has policy responsibility for: social security; families and communities; ageing and aged care; housing; and disability and carers. The portfolio entities 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.

Department of Social Services

5.16.2 The Department of Social Services (Social Services) works in partnership with other government and non-government organisations, particularly with the Department of Human Services, with the aim of effectively developing, managing and delivering a range of policies, programs and services that are focused on improving the wellbeing of people and families in Australia.

5.16.3 These responsibilities involve Social Services managing: personal benefit programs including age pensions, the family tax benefit, the disability support pension, assistance to unemployed and families with children, with an outlay of \$112.4 billion; subsidy payments for ageing and aged care programs of \$11.0 billion; a large number of grant programs, including home support of \$3.0 billion; and payments under disability employment services of \$791 million.

Areas of audit focus

5.16.4 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- controls over personal benefit payments including child care related programs, many of which 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 complex IT systems managed by the Departments of Human Services and Health; and
- the financial management of grants, including the adequacy of documentation to support grant acquittals. Social Services administers a large number of grant payments using different business systems.

Audit Results

5.16.5 The following table summarises the status of audit findings reported by the ANAO in 2013–14 and 2014–15.

Rating	Closing position (at the end of the 2013–14 final audit phase)	Findings resolved (during the 2014–15 interim audit phase)	New findings identified (during the 2014–15 interim audit phase)	Findings resolved (during the 2014–15 final audit phase)	New findings identified (during the 2014–15 final audit phase)	Closing position (at the end of the 2014–15 final audit phase)
A	0	0	1 ^a	0	0	1 ^a
B	0	0	0	0	1	1
L1	1	0	0	(1) ^b	0	0
Total	1	0	1	(1)	1	2

Note a: This finding, discussed at paragraphs 5.16.9 to 5.16.12, is associated with the Early Childhood Education and Care programme which was transferred to Social Services from Education, following the 23 December 2014 Administrative Arrangements Order. Responsibility for this programme, and resolution of the finding, has since been returned to Education, following the Administrative Arrangements Order of 30 September 2015.

Note b: This finding is closed. A discussion of potential and actual breaches of section 83 of the Constitution is at paragraphs 2.57 to 2.63 of chapter 2.

New moderate audit finding

Disability Employment Services Assurance and Compliance Framework

5.16.6 The management of the Disability Employment Services programme is governed by the *Disability Services Act 1986*. The programme is delivered by Social Services in collaboration with approved providers. The providers deliver services directly to clients and claim relevant fees electronically from Social Services. The payments are processed by an automated payment system that is managed by the Department of Employment. Social Services implemented an Assurance and Compliance Framework (Compliance Framework) to assist in validating the integrity of payments made under the Disability Employment Services programme.

5.16.7 During the 2014–15 audit, the ANAO identified weaknesses in the governance and management oversight arrangements necessary to achieve the objectives of a risk-based compliance program. The ANAO identified a lack of:

- regular oversight and monitoring of the Compliance Framework;

- evidence of how the performance of compliance activities was regularly measured and reported, including how relevant and proportionate opportunities for improvements were identified;
- documented regular monitoring by management of the risk profiles to confirm consistent and appropriate risk assessments were performed across all service providers; and
- a documented rationale for the sampling methodology used to select claims for review.

5.16.8 Social Services has advised that it has taken steps to strengthen the governance arrangements over the Compliance Framework, including regular reporting to governance committees and a documented rationale for the sampling methodology for selecting claims for review. The ANAO will review the progress made by Social Services as part of the 2015–16 audit.

Unresolved significant audit finding

Child Care Compliance – estimated incorrect payments

5.16.9 In 2013–14, the ANAO identified significant weaknesses in the child care compliance program implemented by the former Department of Education and a significant amount of estimated incorrect payments being made to childcare service providers. At that time, the Department of Education indicated that improvements to its child care compliance framework had been implemented and they were working to further strengthen compliance activities through a significant reallocation of resources, including establishing a taskforce focused on serious non-compliance matters, and increasing the level of other monitoring activities, including risk based data interrogation and analysis.

5.16.10 In 2014–15, responsibility for the childcare program transferred to Social Services. Social Services identified that the statistical estimate of incorrect payments made to child care service providers due to non-compliance during 2014–15 was \$693 million.

5.16.11 The 2014–15 audit found that Social Services had made progress in the implementation of measures designed to protect and improve the integrity of the child care fee assistance payments. These measures included:

- implementing a plan to strengthen the compliance program with a focus on services identified as being at high risk of non-compliance; and
- progressing changes to policy and legislation relating to child care payments designed to improve payment integrity. Social Services advised that the proposed child care legislation would provide a tighter and more robust compliance regime including the ability to take stronger action against non-compliant child care service providers.

5.16.12 The ANAO will monitor progress of this matter as part of the 2015–16 audit.⁴⁴

44 As a result of Administrative Arrangement Orders in September 2015, the Early Childhood Education and Care programme was transferred to the Department of Education and Training, including responsibility for the resolution of this finding, in 2015–16.

Australian Hearing

5.16.13 Australian Hearing is a government owned for-profit entity. Australian Hearing is the largest provider of government funded hearing services through a national network of hearing centres to clients eligible under the Australian Government Hearing Services Program.

5.16.14 In May 2014 a scoping study into the potential sale of Australian Hearing was announced by the Government. In May 2015 the Minister for Finance announced that the Government would carry out consultation with the hearing community in relation to the findings of the scoping study.

Areas of audit focus

5.16.15 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- 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 adequacy of management estimates relating to various liability balances.

Audit results

5.16.16 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Department of Human Services

5.16.17 The Department of Human Services (Human Services) delivers social and health related services and payments through the Centrelink, Medicare, and Child Support programs. It also makes aged care payments to services funded under the *Aged Care Act 1997* which includes residential care, home care and flexible care services.

5.16.18 To deliver its functions, in 2014–15 Human Services incurred \$4.2 billion in employee and supplier expenses; managed property, plant, equipment valued at \$474 million; and purchased, developed and maintained software systems recorded at \$441 million. Human Services' child support program also collected \$1.4 billion from non-custodial parents and paid it to custodial parents.

Areas of audit focus

5.16.19 The ANAO's 2014–15 audit approach identified the following areas for audit focus that had the potential to impact the department's financial statements:

- the internal control environment, including the IT infrastructure supporting the financial statements;
- child support transactions, specifically focusing on complexities associated with IT system controls, as well as the valuation methodology used to estimate the collectability of child support debts; and

- intangible assets due to the complexities associated with the valuation and measurement of these assets, and the need to assess if the carrying value of assets remains appropriate.

5.16.20 Human Services processes and delivers personal benefit payments in the order of \$164 billion on behalf of the Department of Social Services, the Department of Health and a number of other entities. The areas highlighted for specific audit coverage in relation to these personal benefit payments for 2014–15 were:

- the internal control environment, including the IT general controls related to change, security and access management that support Centrelink, Medicare, and Aged Care related payments;
- controls over the validation and approval of personal benefit payments in accordance with the relevant legislation;
- the judgements and estimates involved in determining significant year- end balances reported in other entities' financial statements;
- the department's compliance and quality assurance activities over the integrity of payments;
- the department's arrangements for providing assurance over the accuracy and completeness of financial reports to other reporting entities; and
- the status of changes to the Aged Care Management Payment System to correct errors in payments and data integrity issues. These payments are made on behalf of the Department of Social Services.

5.16.21 The ANAO assessed the IT environment including an examination of IT general controls in relation to system changes and security management over the systems that support the preparation of financial statements in Human Services and other relevant entities.

Audit results

5.16.22 The following table summarises the status of audit findings reported by the ANAO in 2013–14 and 2014–15.

Rating	Closing position (at the end of the 2013–14 final audit phase)	Findings resolved (during the 2014–15 interim audit phase)	New findings identified (during the 2014–15 interim audit phase)	Findings resolved (during the 2014–15 final audit phase)	New findings identified (during the 2014–15 final audit phase)	Closing position (at the end of the 2014–15 final audit phase)
A	0	0	0	0	0	0
B	1	0	0	(1)	1	1
L1	1	0	0	(1) ^a	0	0
Total	2	0	0	(2)	1	1

Note a: This finding is closed. A discussion on potential and actual breaches of section 83 of the Constitution is at paragraphs 2.57 to 2.63 of chapter 2.

Resolved audit finding

Development and implementation of an Aged Care Management and Payment System

5.16.23 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. In 2013–14 the ANAO reported that defects were detected in ACMPS relating to controls over user acceptance testing and change management approval processes and incident management. The department also identified issues related to system changes, duplicate records, and incorrect payments. The ANAO also had identified a variance between payments made in the system and the records in the general ledger.

5.16.24 During the 2014–15 final audit the ANAO confirmed improvements had been made to the system design and controls strengthened over user acceptance testing and change management approval processes. The ANAO also reviewed the department's identification and recalculation processes over the net \$21 million of overpayments made to aged care providers. This review included an assessment of the department's remediation plan with stakeholders. At the time of signing the 2014–15 financial statements, recovery action was underway. The ANAO has assessed that the controls over the aged care program are reasonable.

New audit finding

Farm Household Allowance payments

5.16.25 The Farm Household Allowance (FHA) is an income support payment, with complex legislative conditions, available to farmers and their partners facing financial hardship. Payments of the allowance are made by Human Services on behalf of the Department of Agriculture, totalling \$54 million in 2014–15. The *Farm Household Support Act 2014* (the Act) outlines the criteria to become eligible for the allowance to be paid. During 2014–15 the FHA personal benefit payments were processed through a new Social Services Plan payment system. In the initial stages of the program the calculation of benefit payments was calculated manually and details entered into the Social Services Plan system. In December 2014, the department began to transfer customers from this manual calculation process to the automated calculation system process.

5.16.26 For a sample of FHA recipients the ANAO recalculated the allowance and assessed the entitlement and accuracy of payments against the eligibility criteria of the Act. This identified that some payments were being made to recipients that failed eligibility assessment criteria such as the Australian residency test criteria or being a farmer. In addition, the ANAO found occasions where the FHA benefits payment calculations were not indexed in accordance with the Act. The department has agreed to strengthen its controls over the assessment of eligibility, application of payment rates, debt monitoring and recovery.

National Disability Insurance Scheme Launch Transition Agency

5.16.27 The National Disability Insurance Scheme (the Scheme) was established under the *National Disability Insurance Scheme Act 2013* (the NDIS Act) and commenced operations on 1 July 2013. The National Disability Insurance Scheme Launch Transition Agency (the Agency) is the entity with statutory responsibility for delivering the Scheme.

5.16.28 The Scheme is designed to provide individual control and choice in the delivery of reasonable and necessary care and supports, to improve the independence, social and economic participation of eligible people with a disability, their families and carers and associated referral services and activities.

Areas of audit focus

5.16.29 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- provider and participant expenses and related provisions. Payments to eligible scheme participants and registered scheme service providers depend on the requirements specified in the individual support agreements with participants. Establishing the basis of funding arrangements with participants is complex and an actuarial estimate is required for outstanding claims at year-end; and
- revenue and receivables particularly related to in-kind services. The Agency has a range of sources of income including in-kind contributions from 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 2015 but not claimed at that date.

Audit results

5.16.30 The following table summarises the status of audit findings reported by the ANAO in 2013–14 and 2014–15.

Rating	Closing position (at the end of the 2013–14 final audit phase)	Findings resolved (during the 2014–15 interim audit phase)	New findings identified (during the 2014–15 interim audit phase)	Findings resolved (during the 2014–15 final audit phase)	New findings identified (during the 2014–15 final audit phase)	Closing position (at the end of the 2014–15 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 finding

Financial statement preparation process

5.16.31 During the 2013–14 audit, the ANAO identified that the Agency did not have adequate processes in place to ensure the timely and accurate preparation of their financial statements. The preparation process in 2014–15 improved. A financial statement preparation timetable was adhered to and the quality of work papers to support the financial statements was satisfactory.

New audit finding

Segregation of duties

5.16.32 The ANAO identified that the Agency did not have adequate segregation of duties between the assessment and approval of scheme eligibility and approval of individual plans for support services. This increases the risk of ineligible or fraudulent claims being made under the Scheme. The Agency advised the ANAO that an information technology system solution would be incorporated as part of a new system due to be implemented on 1 July 2016. Interim measures to reduce the risk exposure had been implemented.

5.17 Treasury Portfolio

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified/resolved
Department of the Treasury	Yes	✓	8 Oct 15	9 Oct 15	☐
Australian Bureau of Statistics	Yes	✓	14 Aug 15	14 Aug 15	☐
Australian Office of Financial Management	Yes	✓	19 Aug 15	19 Aug 15	
Australian Prudential Regulation Authority	No	✓	17 Sept 15	21 Sept 15	☐
Australian Reinsurance Pool Corporation	Yes	✓	22 Sept 15	22 Sept 15	
Australian Securities and Investments Commission	Yes	✓	13 Aug 15	13 Aug 15	☐
Australian Taxation Office	Yes	✓	16 Sept 15	16 Sept 15	
Clean Energy Finance Corporation	Yes	✓	19 Aug 15	19 Aug 15	
Reserve Bank of Australia (RBA)	Yes	✓	2 Sept 15	2 Sept 15	
Royal Australian Mint	No	✓	25 Sept 15	25 Sept 15	▲

✓: auditor's report not modified

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

☐: significant or moderate findings and/or legislative matters identified in previous periods, or the 2014–15 interim audit phase, now downgraded or resolved

Portfolio overview

5.17.1 The Treasury portfolio consists of the Department of the Treasury and a number of statutory and non-statutory bodies. The portfolio undertakes a range of activities aimed at achieving strong, sustainable economic growth and the improved wellbeing of Australians. This entails the provision of policy advice to portfolio Ministers and the effective implementation and administration of policies that fall within the portfolio Ministers' responsibilities.

Department of the Treasury

5.17.2 The Department of the Treasury (the Treasury) is the primary advisory body to the Australian Government on economic policy and development. The Treasury develops and implements policies to improve the wellbeing of the Australian people by achieving strong, sustainable economic growth through the provision of advice to the Australian Government, and the efficient administration of federal financial relations.

5.17.3 The key activities of the Treasury which contribute to this objective are payments of financial support to the states and territories. The Commonwealth currently provides financial support, in the form of grants, to the states and territories for service delivery through:

- general revenue assistance of \$54.7 billion, consisting of GST payments to be used for any purpose;

- national specific purpose payments of \$19.6 billion to be spent in key service delivery sectors including, health and disability services, affordable housing, and skills and workforce development; and
- national partnership payments of \$10 billion to deliver specific outcomes in areas specified within the respective national partnership agreements.

Areas of audit focus

5.17.4 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- 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 Commonwealth entities;
- the methodology used to estimate the Natural Disaster Relief and Recovery Arrangements (NDRRA) provision due to the complex estimation process involved; and
- the valuation, accounting and reporting of disclosures associated with the Commonwealth's investments in international financial institutions.

Audit Results

5.17.5 The following table summarises the status of audit findings reported by the ANAO in 2013–14 and 2014–15.

Rating	Closing position (at the end of the 2013–14 final audit phase)	Findings resolved (during the 2014–15 interim audit phase)	New findings identified (during the 2014–15 interim audit phase)	Findings resolved (during the 2014–15 final audit phase)	New findings identified (during the 2014–15 final audit phase)	Closing position (at the end of the 2014–15 final audit phase)
A	0	0	0	0	0	0
B	0	0	1	(1) ^a	0	0
L1	1	0	0	(1) ^b	0	0
Total	1	0	1	(2)	0	0

Note a: The moderate finding identified during the 2014–15 interim audit relating to NDRRA has been downgraded to a minor finding.

Note b: This finding is closed. A discussion on potential and actual breaches of section 83 of the Constitution is at paragraphs 2.57 to 2.63 of chapter 2.

Resolved audit finding

Calculation of the natural disaster relief and recovery arrangements (NDRRA) provision

5.17.6 The Treasury included in its financial statements a provision for the estimate of costs expected to be incurred for disasters that had occurred in the states and territories. During the 2014–15 interim audit, the ANAO identified opportunities to strengthen the control framework relating to the processes for assessing the NDRRA liability.

5.17.7 During the 2014–15 final audit, the ANAO reviewed the Treasury's progress in strengthening the framework. The Treasury, in consultation with the Attorney-General's Department, had reviewed the processes by the Commonwealth and state and territory governments for estimating the NDRRA liability. Additional policies and procedures for the assessment and review of the liability have been developed including the certification of estimates data received from the states and territories. While the Treasury has made progress in addressing the finding, the ANAO considers that the Treasury, in consultation with the Attorney-General's Department, should continue to work with the states and territories to further develop assurance activities, including the provision of detailed project level information. This information will further assist the Treasury to undertake a comprehensive analysis over data used to support the estimate of the NDRRA provision at year-end. This matter has been downgraded to a minor finding. The ANAO will continue to monitor the Treasury's progress in addressing this finding as part of the 2015–16 audit.

Australian Bureau of Statistics

5.17.8 The Australian Bureau of Statistics (the Bureau) is Australia's official national statistical entity, providing key official statistics on a wide range of economic, environmental and social issues. The role of the ABS is to assist and encourage informed decision-making, research and discussion within governments and the community, by leading the collection, analysis and provision of high-quality, objective and relevant statistical information.

Areas of audit focus

5.17.9 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- impairment and valuation of non-financial assets in view of the transformation program underway which may impact the useful lives of these assets, particularly internally developed software; and
- controls over IT user access in view of the unresolved moderate finding in relation to the lack of logging and monitoring of the activities of IT database administrators.

Audit results

5.17.10 The following table summarises the status of audit findings reported by the ANAO in 2013–14 and 2014–15.

Rating	Closing position (at the end of the 2013–14 final audit phase)	Findings resolved (during the 2014–15 interim audit phase)	New findings identified (during the 2014–15 interim audit phase)	Findings resolved (during the 2014–15 final audit phase)	New findings identified (during the 2014–15 final audit phase)	Closing position (at the end of the 2014–15 final audit phase)
A	0	0	0	0	0	0
B	1	0	0	(1)	0	0
L1	0	0	0	0	0	0
Total	1	0	0	(1)	0	0

Resolved audit finding

Monitoring of database administrator activities

5.17.11 The 2013–14 interim audit identified that the Bureau did not log or monitor the activities of its IT database administrators. During 2014–15 the Bureau implemented procedures to log and monitor the activities of the database administrators. The process was observed by the ANAO to be operating satisfactorily.

Australian Office of Financial Management

5.17.12 The Australian Office of Financial Management is responsible for managing Australian Government debt and financial assets and issues treasury bonds, treasury indexed bonds and treasury notes, manages the Australian Government’s cash balances and invests in financial assets. As at 30 June 2015, the Australian Office of Financial Management managed in fair value terms \$409.9 billion in Treasury bonds and notes and held \$40.6 billion in financial assets.

5.17.13 Historically, the Government has issued treasury bonds to maintain liquid and efficient bond and bond futures markets, reflecting the important role that these markets play in the Australian financial system.

Areas of audit focus

5.17.14 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the fair value measurement of financial assets and debt securities that is complex due to the judgements involved;
- the control environment and the establishment of adequate controls to enable compliance with aspects of relevant financial management legislation;
- the management and control framework for the issuance of debt instruments including treasury bonds, treasury indexed bonds and treasury notes; and
- internal assurance activities, including compliance reporting and fraud prevention activities.

Audit results

5.17.15 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Australian Reinsurance Pool Corporation

5.17.16 The Australian Reinsurance Pool Corporation (the Corporation) is a public financial corporation, established to provide reinsurance to participating Australian insurers who provide commercial cover for economic loss caused by acts of terrorism. In 2014–15, the Corporation reported \$128 million of premium revenue and \$71 million of reinsurance premium expenses. At 30 June 2015, the Corporation carried \$560 million of investments in fixed term deposits against which it had a claims reserve of \$510 million.

5.17.17 In May 2015, the Board approved the relocation of all operations to Sydney, this resulted in a separations and redundancies provision of \$0.5 million being reported in the 2014–15 financial statements.

Areas of audit focus

5.17.18 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- exposure to the underwriting and claims handling risk associated with the occurrence of a declared terrorism incident;
- the complexity of the allocation of unearned premiums to revenue consistent with the risks and claims experience; and
- reinsurance arrangements with third parties given the risk of exposure resulting from inadequate coverage in the event of a declared terrorist incident.

Audit results

5.17.19 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Australian Securities and Investments Commission

5.17.20 The Australian Securities and Investments Commission (the Commission) is Australia's corporate, markets and financial services regulator. The Commission plays a key role in achieving a sound and effective financial and corporate regulatory framework. Its objectives include maintaining, facilitating and improving the performance of the financial system (including fair and efficient markets), promoting the confident and informed participation of investors and consumers, and conducting an efficient registry.

5.17.21 The Commission administers activities on behalf of the government that are associated with the collection of a range of fees from companies and other entities under the *Corporations Act 2001*. The Commission is also responsible for administering unclaimed monies collected under the *Banking Act 1959*, the *Life Insurance Act 1995* and the *Corporations Act 2001*. In 2014–15, \$977 million was collected on behalf of the Government in fees, charges and unclaimed monies.

Areas of audit focus

5.17.22 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the accuracy and completeness of administered revenues and receivables, in the view of the complex IT systems involved;
- the relevance and reliability of the actuarial assumptions used to determine the estimate of likely claims relating to the future claims of unclaimed monies previously collected;
- the Government's scoping study relating to the potential sale of the Business Registry Function.

Audit results

5.17.23 The following table summarises the status of audit findings reported by the ANAO in 2013–14 and 2014–15.

Rating	Closing position (at the end of the 2013–14 final audit phase)	Findings resolved (during the 2014–15 interim audit phase)	New findings identified (during the 2014–15 interim audit phase)	Findings resolved (during the 2014–15 final audit phase)	New findings identified (during the 2014–15 final audit phase)	Closing position (at the end of the 2014–15 final audit phase)
A	0	0	0	0	0	0
B	2	0	0	(2)	0	0
L1	0	0	0	0	0	0
Total	2	0	0	(2)	0	0

Resolved audit findings

Management of privileged user access and shared accounts

5.17.24 The Commission manages 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.

5.17.25 Previously, the ANAO identified that the Commission 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.

5.17.26 The use of shared accounts increased the risk that if inappropriate or unauthorised changes were made to the system, ASIC would not have been able to identify the specific users who made these changes.

5.17.27 The Commission has implemented controls to manage privileged user access and the use of shared accounts.

Monitoring of privileged user activity logs

5.17.28 Previously, the ANAO also identified that the Commission did not have arrangements in place to monitor privileged user activity logs, including for those privileged accounts shared between application developers and database administrators. Inadequate monitoring of system access, particularly for privileged users, increased the risk that inappropriate activity would not be detected.

5.17.29 The Commission has implemented controls to address these issues.

Australian Taxation Office

5.17.30 The Australian Taxation Office is the Australian Government's principle revenue and collection entity and administers Australia's taxation system and significant aspects of Australia's superannuation system. This also includes maintaining custodianship of the Australian Business Register and governing a range of programs that result in transfers and benefits back to the Australian community.

5.17.31 In 2014–15, the ATO collected taxation revenue of \$341.6 billion, including \$56.5 billion in goods and services tax (GST) on behalf of the states and territories and also made payments through the taxation system of subsidies and personal benefits of \$9.5 billion and \$1.2 billion respectively. The ATO have utilised non-financial assets of \$0.9 billion and paid employee benefits of \$2 billion in the administration of the taxation system.

Areas of audit focus

5.17.32 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the compliance program relating to the collection of taxation revenues, particularly 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 taxation receivable balance at year end;
- processes for recording Higher Education Loan Program debts and collections on behalf of the Department of Education;
- the ATO's reliance on IT business systems and associated processes; and
- accounting processes related to employees, suppliers, asset management, and executive remuneration.

Audit results

5.17.33 The following table summarises the status of audit findings reported by the ANAO in 2013–14 and 2014–15.

Rating	Closing position (at the end of the 2013–14 final audit phase)	Findings resolved (during the 2014–15 interim audit phase)	New findings identified (during the 2014–15 interim audit phase)	Findings resolved (during the 2014–15 final audit phase)	New findings identified (during the 2014–15 final audit phase)	Closing position (at the end of the 2014–15 final audit phase)
A	0	0	0	0	0	0
B	1	0	0	(1)	0	0
L1	1	0	0	(1) ^a	0	0
Total	2	0	0	(2)	0	0

Note a: This finding is closed. A discussion on potential and actual breaches of section 83 of the Constitution is at paragraphs 2.57 to 2.63 of chapter 2.

Resolved audit finding

Drawing reports from the data warehouse

5.17.34 The ANAO identified during the 2013–14 audit that a large proportion of reports from the data warehouse were 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.

5.17.35 The ATO has completed the migration of those reports that were deemed suitable for standardisation into an appropriate control framework.

Clean Energy Finance Corporation

5.17.36 The Clean Energy Finance Corporation (the Corporation) was established under the *Clean Energy Finance Corporation Act 2012*. The Corporation's purpose is to facilitate flows of finance into the clean energy sector. The primary functions of the Corporation include undertaking or assisting investment in clean energy technologies either in its own right, or through the development of relationships with other bodies such as industry, the banking sector and the Australian Renewable Energy Agency.

5.17.37 In June 2014, the Government introduced the *Clean Energy Finance Corporation (Abolition) Bill 2014* to abolish the Corporation. At the date of the signing of the 2014–15 financial statements, the legislation had not been passed by Parliament.

Areas of audit focus

5.17.38 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- the recognition, valuation and classification of the Corporation's loans and investments including the concessional components of any non-market rate loans entered into;
- the financial reporting of interest and fee income from the Corporation's loans and deposits; and

- the impact on the financial statements of the Government's policy intent to abolish the Corporation.

Audit results

5.17.39 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Reserve Bank of Australia

5.17.40 The Reserve Bank of Australia (RBA) conducts monetary policy, works to maintain a strong financial system and issues the nation's currency. As well as being a policy-making body, the RBA provides selected banking and registry services to a range of Australian government entities and to a number of overseas central banks and official institutions. It also manages Australia's gold and foreign exchange reserves.

5.17.41 As part of its policy functions, the RBA held Australian dollar investments of \$86.3 billion, foreign exchange of \$65.2 billion and gold of \$3.9 billion. The RBA's net gains on securities and foreign exchange during the year were \$6.1 billion. In addition, the RBA had \$65.5 billion of notes on issue and \$60.5 billion in deposits.

Areas of audit focus

5.17.42 The ANAO's 2014–15 audit approach identified the following areas of audit focus that had the potential to impact the financial statements:

- 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.

5.17.43 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

5.17.44 There were no significant or moderate audit findings arising from the 2013–14 or 2014–15 audits.

Comments on non-material entities

Audit results

Summary of audit findings

5.17.45 There were no significant or moderate audit findings or significant legislative matters noted in non-material entities within the portfolio except in relation to the Australian Prudential Regulation Authority and the Royal Australian Mint.

Australian Prudential Regulation Authority

5.17.46 The Australian Prudential Regulation Authority (the Authority) is the prudential regulator of the Australian financial services industry. It oversees banks, credit unions, building societies, general insurance and reinsurance companies, life insurance, private health insurance, friendly societies, and most of the superannuation industry. The Authority is funded largely by the industries that it supervises.

Resolved audit finding

Management of privileged user access

5.17.47 During the 2013–14 audit, the ANAO identified weaknesses in the management of privileged user access for the Authority's operating system which supports its financial systems. These weaknesses increased the risk that inappropriate activity would not be detected, or unauthorised access may have occurred.

5.17.48 In 2014–15 APRA implemented controls to address the identified weaknesses.

Royal Australian Mint

5.17.49 The Royal Australian Mint (the Mint) is the sole supplier of Australia's coins, and produces coins for other countries, along with medals, medallions, and tokens for both national and international clients. The Mint is also the custodian of Australia's National Coin Collection and provides educational and tourist services to local and overseas residents.

5.17.50 The Mint is primarily self-funded and in 2014–15 generated a surplus of \$0.8 million. The Mint paid \$65 million in Seigniorage⁴⁵ to the Australian Government and sold 202.5 million coins with a face value of \$106 million to commercial banks in 2014–15.

Unresolved audit finding

Inventory costing model

5.17.51 During the 2011–12 audit, the ANAO identified one moderate audit finding in relation to the allocation of overhead costs in determining the value of the Mint's inventory. The Mint has taken steps to revise its standard costing model and address the finding. The ANAO reviewed the updated model and noted that the key assumptions used in the model and policies and procedures implemented to support the model are appropriate. However, the Mint was unable to effectively analyse the underlying causes of overhead allocation variances that arose during the

45 Seigniorage represents the difference between the face value of coins sold to the Australian financial institutions and the cost of production to the Mint. Seigniorage is treated as an administered item within the Mint's administered statements.

year from using the standard costing model. As a result, the Mint was unable to appropriately attribute these variances to the inventory. The Mint advised that it was implementing further changes to its processes during 2015–16 to address this finding.



Grant Hehir
Auditor-General

Canberra ACT
17 December 2015

Appendices

Appendix 1 Listing of entities by Portfolio

Portfolio and reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report signed	Audit findings identified/resolved
Agriculture					
Department of Agriculture ^a	Yes	✓	7 Sept 15	7 Sept 15	□
Australian Fisheries Management Authority	No	✓	9 Sept 15	9 Sept 15	
Australian Grape and Wine Authority	No	✓	30 Sept 15	30 Sept 15	
Australian Pesticides and Veterinary Medicines Authority	No	✓	10 Sept 15	10 Sept 15	
Cotton Research and Development Corporation	No	✓	20 Aug 15	20 Aug 15	
Fisheries Research and Development Corporation	No	✓	26 Aug 15	26 Aug 15	
Grains Research and Development Corporation	Yes	✓	11 Aug 15	11 Aug 15	
Rural Industries Research and Development Corporation	No	✓	9 Sept 15	9 Sept 15	
Attorney-General's					
Attorney-General's Department	Yes	✓	24 Aug 15	24 Aug 15	▲□
Administrative Appeals Tribunal	No	✓	21 Sept 15	21 Sept 15	
Australia Business Arts Foundation Limited ^b	No	✓	17 Sept 15	17 Sept 15	
Australia Council ^b	No	✓	26 Aug 15	26 Aug 15	
Australian Commission for Law Enforcement Integrity	No	✓	24 Sept 15	24 Sept 15	
Australian Crime Commission	No	✓	24 Sept 15	24 Sept 15	
Australian Federal Police	Yes	✓	3 Sept 15	3 Sept 15	
Australian Film, Television and Radio School ^b	No	✓	28 Aug 15	29 Aug 15	
Australian Financial Security Authority	No	✓	23 Sept 15	23 Sept 15	□
Australian Government Solicitor ^c	Yes	✓ E	24 Aug 15	24 Aug 15	
Australian Human Rights Commission	No	✓	29 Sept 15	29 Sept 15	
Australian Institute of Criminology	No	✓	24 Sept 15	24 Sept 15	
Australian Law Reform Commission	No	✓	14 Sept 15	14 Sept 15	
Australian National Maritime Museum ^b	No	✓	26 Aug 15	26 Aug 15	
- Australian National Maritime Foundation ^b	No	✓	26 Aug 15	26 Aug 15	
Australian Security Intelligence Organisation	Yes	✓	10 Sept 15	10 Sept 15	

Portfolio and reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report signed	Audit findings identified/resolved
Australian Transaction Reports and Analysis Centre	No	✓	1 Oct 15	1 Oct 15	
Bundanon Trust ^b	No	✓	30 Sept 15	1 Oct 15	
CrimTrac Agency	No	✓	25 Sept 15	25 Sept 15	
Family Court and Federal Circuit Court	Yes	✓	1 Sept 15	1 Sept 15	
Federal Court of Australia	No	✓	1 Sept 15	1 Sept 15	□
High Court of Australia	Yes	✓	14 Sept 15	14 Sept 15	
National Archives of Australia	Yes	✓	4 Sept 15	4 Sept 15	
National Film and Sound Archive of Australia ^b	No	✓	24 Sept 15	25 Sept 15	
National Gallery of Australia ^b	Yes	✓	26 Aug 15	26 Aug 15	
- National Gallery of Australia Foundation ^b	No	✓	26 Aug 15	26 Aug 15	
National Library of Australia ^b	Yes	✓	7 Aug 15	7 Aug 15	
National Museum of Australia ^b	Yes	✓	20 Aug 15	20 Aug 15	
National Portrait Gallery of Australia ^b	No	✓	9 Oct 15	9 Oct 15	
Office of Parliamentary Counsel	No	✓	23 Sept 15	24 Sept 15	
Office of the Australian Information Commissioner	No	✓	7 Sept 15	7 Sept 15	
Office of the Commonwealth Director of Public Prosecutions	No	✓	29 Sept 15	29 Sept 15	
Old Parliament House ^b	No	✓	1 Oct 15	1 Oct 15	
Screen Australia ^b	No	✓	7 Sept 15	8 Sept 15	
Communications					
Department of Communications ^d	Yes	✓	18 Sept 15	18 Sept 15	
Australian Broadcasting Corporation	Yes	✓	6 Aug 15	6 Aug 15	
Australian Communications and Media Authority	Yes	✓	3 Sept 15	3 Sept 15	
Australian Postal Corporation	Yes	✓	27 Aug 15	27 Aug 15	
- Australia Post Licensee Advisory Council Limited	No	✓	18 Aug 15	18 Aug 15	
- Australia Post Transaction Services Pty Ltd	No	✓	29 Sept 15	29 Sept 15	□
- Australia Post Services Pty Ltd	No	✓	29 Sept 15	29 Sept 15	
- Our Neighbourhood Trust	No	✓	2 Dec 15	2 Dec 15	
NBN Co Limited	Yes	✓	17 Aug 15	17 Aug 15	
Special Broadcasting Service Corporation	Yes	✓	27 Aug 15	27 Aug 15	

Portfolio and reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report signed	Audit findings identified/resolved
Telecommunications Universal Service Management Agency ^e	No	✓	25 Sept 15	25 Sept 15	
Defence					
Department of Defence	Yes	✓	16 Sept 15	16 Sept 15	◆□
AAF Company	No	✓	12 Oct 15	13 Oct 15	□
Army and Air Force Canteen Service	No	✓	1 Sept 15	1 Sept 15	
Australian Military Forces Relief Trust Fund	No	✓	17 Sept 15	17 Sept 15	
Australian Strategic Policy Institute Ltd	No	✓ E	9 Oct 15	9 Oct 15	
Australian War Memorial	Yes	✓	20 Aug 15	20 Aug 15	
Defence Housing Australia	Yes	✓	13 Aug 15	13 Aug 15	
- DHA Investment Management Limited	No	✓	13 Aug 15	13 Aug 15	
Defence Materiel Organisation ^f	Yes	✓	16 Sept 15	16 Sept 15	▲◆□
Defence Service Homes Insurance Scheme	No	✓	30 Sept 15	30 Sept 15	
Department of Veterans' Affairs	Yes	✓	30 Sept 15	30 Sept 15	□
Military Superannuation and Benefits Scheme	No	✓	29 Sept 15	29 Sept 15	
Royal Australian Air Force Veterans' Residences Trust Fund	No	✓	18 Sept 15	18 Sept 15	
Royal Australian Air Force Welfare Recreational Company	No	✓	6 Oct 15	7 Oct 15	
Royal Australian Air Force Welfare Trust Fund	No	✓	26 Aug 15	26 Aug 15	
Royal Australian Navy Central Canteens Board	No	✓	9 Oct 15	12 Oct 15	
Royal Australian Navy Relief Trust Fund	No	✓	25 Sept 15	25 Sept 15	
Education and Training					
Department of Education and Training	Yes	✓	17 Sept 15	18 Sept 15	□
Australian Curriculum Assessment and Reporting Authority	No	✓	21 Aug 15	21 Aug 15	
Australian Institute for Teaching and School Leadership Limited	No	✓	28 Aug 15	28 Aug 15	
Australian Institute of Aboriginal and Torres Strait Islander Studies	No	✓	25 Sept 15	25 Sept 15	
- AIATSIS Foundation Incorporated	No	✓	9 Nov 15	9 Nov 15	
Australian National University	No	✓ ^g	27 Mar 15	27 Mar 15	
- ANU Enterprise Pty Ltd	No	✓ ^g	25 Mar 15	25 Mar 15	

Portfolio and reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report signed	Audit findings identified/resolved
- The Social Research Centre Pty Ltd	No	✓ ^{CF}	25 Mar 15	25 Mar 15	
- BRU Holdings Pty Ltd	No	✓ ^{CF}	26 Mar 15	26 Mar 15	
- SA2 Holdings Pty Ltd	No	✓ ^{CF}	26 Mar 15	26 Mar 15	
- Australian Scientific Instruments Pty Ltd	No	✓ ^{CF}	25 Mar 15	25 Mar 15	
Australian Research Council	Yes	✓	9 Sept 15	9 Sept 15	
Australian Skills Quality Authority	No	✓	8 Sept 15	9 Sept 15	
Tertiary Education Quality and Standards Agency	No	✓	1 Oct 15	2 Oct 15	
Employment					
Department of Employment	Yes	✓	11 Sept 15	12 Sept 15	☐
Asbestos Safety and Eradication Agency	No	✓	4 Nov 15	4 Nov 15	
Coal Mining Industry (Long Service Leave Funding) Corporation	Yes	✓	6 Oct 15	6 Oct 15	
Comcare	Yes	✓	18 Sept 15	18 Sept 15	
Fair Work Commission	No	✓	10 Sept 15	10 Sept 15	
Office of the Fair Work Building Industry Inspectorate	No	✓	7 Sept 15	7 Sept 15	
Office of the Fair Work Ombudsman	No	✓	21 Sept 15	23 Sept 15	
Safe Work Australia	No	✓	18 Sept 15	18 Sept 15	
Seacare Authority (Seafarers Safety, Rehabilitation and Compensation Authority)	No	✓	18 Sept 15	18 Sept 15	
Workplace Gender Equality Agency	No	✓	17 Sept 15	17 Sept 15	
Environment					
Department of the Environment	Yes	✓	27 Aug 15	27 Aug 15	
Bureau of Meteorology	Yes	✓	31 Aug 15	1 Sept 15	
Clean Energy Regulator	Yes	✓	6 Oct 15	6 Oct 15	
Climate Change Authority	No	✓	1 Oct 15	1 Oct 15	
Director of National Parks	No	✓	13 Oct 15	13 Oct 15	
Great Barrier Reef Marine Park Authority	No	✓	7 Sept 15	7 Sept 15	
Murray–Darling Basin Authority ⁹	No	✓	27 Oct 15	27 Oct 15	
National Water Commission	No	✓ ^{CF}	18 Aug 15	18 Aug 15	
Natural Heritage Trust of Australia	No	✓	27 Aug 15	27 Aug 15	
Sydney Harbour Conservancy Limited	No	✓	16 Sept 15	16 Sept 15	

Portfolio and reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report signed	Audit findings identified/resolved
Sydney Harbour Federation Trust	No	✓	16 Sept 15	16 Sept 15	
Finance					
Department of Finance	Yes	✓	26 Aug 15	26 Aug 15	
Albury–Wodonga Development Corporation	Yes	✓ E ^g	23 Mar 15	23 Mar 15	
ASC Pty Ltd	Yes	✓	2 Sept 15	2 Sept 15	
- ASC AWD Shipbuilder Pty Ltd	No	✓	2 Sept 15	2 Sept 15	
- ASC Engineering Pty Ltd	No	✓	2 Sept 15	2 Sept 15	
- ASC Ship Building Pty Ltd	No	✓	2 Sept 15	2 Sept 15	
Australian Electoral Commission	Yes	✓	10 Sept 15	10 Sept 15	◆□
Australian River Co Limited	Yes ^a	✓ E ^g	31 Mar 15	31 Mar 15	□
Commonwealth Superannuation Corporation	No	✓	29 Sept 15	29 Sept 15	
Commonwealth Superannuation Scheme	No	✓	29 Sept 15	29 Sept 15	
ComSuper ^h	No	✓ E	29 Sept 15	29 Sept 15	◆
Future Fund Management Agency and the Board of Guardians	Yes	✓	25 Sept 15	25 Sept 15	
Public Sector Superannuation Accumulation Plan	No	✓	29 Sept 15	29 Sept 15	
Public Sector Superannuation Scheme	No	✓	29 Sept 15	29 Sept 15	
Foreign Affairs and Trade					
Department of Foreign Affairs and Trade	Yes	✓	16 Sept 15	17 Sept 15	□
Australian Centre for International Agriculture Research	No	✓	11 Sept 15	11 Sept 15	
Australian Secret Intelligence Service	No	✓	4 Nov 15	4 Nov 15	
Australian Trade Commission	Yes	✓	21 Aug 15	21 Aug 15	
Export Finance and Insurance Corporation	Yes	✓	27 Aug 15	27 Aug 15	
Tourism Australia	No	✓	26 Aug 15	26 Aug 15	
Health					
Department of Health	Yes	✓	8 Sept 15	8 Sept 15	□
- Therapeutic Goods Administration	No	✓	24 Aug 15	27 Aug 15	
Australian Commission on Safety and Quality in Health Care	No	✓	16 Sept 15	17 Sept 15	
Australian Institute of Health and Welfare	No	✓	24 Sept 15	24 Sept 15	
Australian National Preventive Health Agency	No	✓	8 Sept 15	8 Sept 15	

Portfolio and reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report signed	Audit findings identified/resolved
Australian Radiation Protection and Nuclear Safety Agency	No	✓	14 Sept 15	14 Sept 15	□
Australian Sports Anti-Doping Authority	No	✓	4 Sept 15	4 Sept 15	
Australian Sports Commission	Yes	✓	13 Aug 15	13 Aug 15	
Australian Sports Foundation Limited	No	✓	26 Aug 15	26 Aug 15	
Cancer Australia	No	✓	11 Sept 15	11 Sept 15	
Food Standards Australia New Zealand	No	✓	17 Sept 15	17 Sept 15	
General Practice Education and Training	No	✓ E ☞	10 Apr 15	10 Apr 15	
Health Workforce Australia	No	✓ E ☞	24 Feb 15	24 Feb 15	
Independent Hospital Pricing Authority	No	✓	16 Sept 15	16 Sept 15	
National Blood Authority	Yes	✓	4 Sept 15	4 Sept 15	
National Health and Medical Research Council	Yes	✓	21 Sept 15	21 Sept 15	
National Health Funding Body	No	✓	9 Oct 15	9 Oct 15	
National Health Performance Authority	No	✓	22 Sept 15	22 Sept 15	
National Mental Health Commission	No	✓	22 Oct 15	22 Oct 15	
Organ and Tissue Authority	No	✓	23 Sept 15	23 Sept 15	
Private Health Insurance Administration Council	No	✓ E	17 Sept 15	18 Sept 15	
Private Health Insurance Ombudsman	No	✓	23 Sept 15	23 Sept 15	
Professional Services Review	No	✓	7 Oct 15	7 Oct 15	
Immigration and Border Protection					
Department of Immigration and Border Protection	Yes	✓	15 Sept 15	15 Sept 15	◆□
Australian Customs and Border Protection Service ⁱ	Yes	✓	15 Sept 15	15 Sept 15	◆□
Migration Review Tribunal and Refugee Review Tribunal ^l	No	✓	21 Sept 15	21 Sept 15	
Industry and Science					
Department of Industry and Science ^k	Yes	✓	4 Sept 15	4 Sept 15	□
Australian Institute of Marine Science	No	✓	28 Aug 15	28 Aug 15	
Australian Nuclear Science and Technology Organisation	Yes	✓	13 Aug 15	13 Aug 15	
- ANSTO Nuclear Medicine Pty Ltd	No	✓	13 Aug 15	13 Aug 15	
- PETNET Australia Pty Ltd	No	✓	13 Aug 15	13 Aug 15	
- Synchrotron Light Source Australia Pty Ltd	No	✓	13 Aug 15	13 Aug 15	

Portfolio and reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report signed	Audit findings identified/resolved
Australian Renewable Energy Agency ¹	Yes	✓	25 Aug 15	26 Aug 15	
Commonwealth Scientific and Industrial Research Organisation	Yes	✓	28 Aug 15	28 Aug 15	
- Science and Industry Endowment Fund	No	✓	17 Aug 15	17 Aug 15	
- WLAN Services Pty Limited	No	✓	24 Jul 15	24 Jul 15	
Geoscience Australia	No	✓	17 Sept 15	17 Sept 15	
IIF Investments Pty Ltd	No	✓ E	23 Oct 15	23 Oct 15	
IP Australia	No	✓	23 Sept 15	23 Sept 15	
National Offshore Petroleum Safety and Environmental Management Authority	No	✓	17 Sept 15	17 Sept 15	
Infrastructure and Regional Development					
Department of Infrastructure and Regional Development	Yes	✓	31 Aug 15	31 Aug 15	
Administration of Norfolk Island	No	✓ E	11 Nov 15	11 Nov 15	▲ ◆ □
- Norfolk Island Hospital Enterprise	No	✓ E	11 Nov 15	11 Nov 15	▲ ◆
- Norfolk Island Government Tourist Bureau	No	✓ E	11 Nov 15	11 Nov 15	
Airservices Australia	Yes	✓	10 Sept 15	10 Sept 15	
Australian Maritime Safety Authority	No	✓	24 Sept 15	24 Sept 15	
Australian Rail Track Corporation	Yes	✓	27 Aug 15	27 Aug 15	
Australian Transport Safety Bureau	No	✓	6 Oct 15	6 Oct 15	
Civil Aviation Safety Authority	No	✓	28 Aug 15	28 Aug 15	
Infrastructure Australia	No	✓	7 Oct 15	8 Oct 15	
Moorebank Intermodal Company Limited	No	✓	25 Sept 15	25 Sept 15	
National Capital Authority	Yes	✓	28 Aug 15	1 Sept 15	
National Transport Commission	No	✓	21 Aug 15	21 Aug 15	
Parliamentary Departments					
Department of Parliamentary Services	Yes	✓	17 Sept 15	17 Sept 15	◆
Department of the House of Representatives	No	✓	24 Aug 15	25 Aug 15	
Department of the Senate	No	✓	25 Sept 15	25 Sept 15	
Parliamentary Budget Office	No	✓	25 Sept 15	25 Sept 15	
Prime Minister and Cabinet					
Department of the Prime Minister and Cabinet	Yes	✓	10 Sept 15	10 Sept 15	▲ ◆ □

Portfolio and reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report signed	Audit findings identified/resolved
- Aboriginals Benefit Account	No	✓	10 Sept 15	10 Sept 15	
Aboriginal Hostels Limited	No	✓	1 Oct 15	1 Oct 15	
Anindilyakwa Land Council	No	✓	14 Sept 15	16 Sept 15	
Australian Public Service Commission	No	✓	17 Sept 15	17 Sept 15	
Central Land Council	No	✓	24 Aug 15	24 Aug 15	
Indigenous Business Australia	Yes	✓	17 Sept 15	17 Sept 15	
- Asset Leasing Trust	No	✓	6 Nov 15	6 Nov 15	
- Consolidated Manufacturing Enterprise Pty Ltd	No	✓	16 Oct 15	20 Oct 15	
- Darwin Hotel Holdings Trust	No	✓	18 Nov 15	19 Nov 15	
- Gagudju Crocodile Hotel Trust	No	✓	30 Oct 15	3 Nov 15	
- Gagudju Lodge Cooida Trust	No	✓	30 Oct 15	3 Nov 15	
- Hotel Enterprises Pty Ltd	No	✓	26 Oct 15	27 Oct 15	
- Hotel Holdings Trust	No	✓	17 Nov 15	17 Nov 15	
- IBA Retail Asset Management Pty Ltd	No	✓	6 Nov 15	10 Nov 15	
- IBA Retail Property Trust	No	✓	18 Nov 15	18 Nov 15	
- Ikara Wilpena Enterprises Pty Ltd	No	✓	20 Oct 15	22 Oct 15	
- Ikara Wilpena Holdings Trust	No	✓	30 Oct 15	3 Nov 15	
- Indigenous Economic Development Trust	No	✓	6 Nov 15	6 Nov 15	
- Indigenous Real Estate Investment Trust	No	✓	18 Sept 15	18 Sept 15	
- Kakadu Tourism (GCH) Pty Ltd	No	✓	12 Nov 15	16 Nov 15	
- Kakadu Tourism (GLC) Pty Ltd	No	✓	12 Nov 15	16 Nov 15	
- Larrakia Darwin Hotel Partnership	No	✓	18 Nov 15	18 Nov 15	
- Leonora Investment Trust	No	✓	20 Nov 15	20 Nov 15	
- Li Ar Yalug Land Holding Trust	No	✓	13 Nov 15	16 Nov 15	
- Minjerribah Camping Partnership	No	✓	19 Nov 15	19 Nov 15	
- North Stradbroke Enterprises Trust	No	⇒			
- South Hedland Indigenous Property Trust	No	✓	1 Dec 15	1 Dec 15	
- Swanbrook Road Holding Trust	No	✓	6 Nov 15	6 Nov 15	
- Tennant Creek Foodbarn Partnership	No	✓	16 Nov 15	17 Nov 15	
- Tennant Creek Land Holding Trust	No	✓	1 Dec 15	1 Dec 15	
- Tjapukai Aboriginal Cultural Park Partnership	No	✓	20 Oct 15	20 Oct 15	

Portfolio and reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report signed	Audit findings identified/resolved
- Wilpena Pound Aerodrome Services Pty Ltd	No	✓	20 Oct 15	23 Oct 15	
Indigenous Land Corporation	No*	✓	16 Sept 15	16 Sept 15	
- National Centre of Indigenous Excellence Limited	No	✓	27 Aug 15	27 Aug 15	
- National Indigenous Pastoral Enterprises Pty Ltd	No	✓	1 Sept 15	1 Sept 15	
- The Owners – Strata Plan No. 86156	No	✓	21 Sept 15	21 Sept 15	
- Voyages Indigenous Tourism Australia Pty Ltd	Yes	✓	28 Aug 15	28 Aug 15	
National Australia Day Council Limited	No	✓	17 Sept 15	17 Sept 15	
Northern Land Council	No	✓	5 Oct 15	7 Oct 15	▲
Office of National Assessments	No	✓	23 Oct 15	23 Oct 15	
Office of the Commonwealth Ombudsman	No	✓	16 Sept 15	16 Sept 15	
Office of the Inspector-General of Intelligence and Security	No	✓	29 Sept 15	29 Sept 15	
Office of the Official Secretary to the Governor-General	No	✓	7 Oct 15	7 Oct 15	
Outback Stores Pty Ltd	No	✓	27 Aug 15	27 Aug 15	□
Tiwi Land Council	No	✓	9 Sept 15	11 Sept 15	
Torres Strait Regional Authority	No	✓	9 Sept 15	9 Sept 15	
Wreck Bay Aboriginal Community Council	No	✓	14 Sept 15	16 Sept 15	
Social Services					
Department of Social Services	Yes	✓	31 Aug 15	31 Aug 15	▲ ◆ □
Australian Aged Care Quality Agency ^m	No	✓	10 Sept 15	10 Sept 15	
Australian Hearing	Yes	✓	28 Aug 15	31 Aug 15	
Australian Institute of Family Studies	No	✓	4 Sept 15	4 Sept 15	
Department of Human Services	Yes	✓	9 Sept 15	9 Sept 15	◆ □
National Disability Insurance Scheme Launch Transition Agency	Yes	✓	24 Sept 15	24 Sept 15	◆ □
Treasury					
Department of the Treasury	Yes	✓	8 Oct 15	9 Oct 15	□
Australian Bureau of Statistics	Yes	✓	14 Aug 15	14 Aug 15	□
Australian Competition and Consumer Commission	No	✓	25 Aug 15	25 Aug 15	
Australian Office of Financial Management	Yes	✓	19 Aug 15	19 Aug 15	

Portfolio and reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report signed	Audit findings identified/resolved
Australian Prudential Regulation Authority	No	✓	17 Sept 15	21 Sept 15	□
Australian Reinsurance Pool Corporation	Yes	✓	22 Sept 15	22 Sept 15	
Australian Securities and Investments Commission	Yes	✓	13 Aug 15	13 Aug 15	□
Australian Taxation Office	Yes	✓	16 Sept 15	16 Sept 15	
Clean Energy Finance Corporation ¹	Yes	✓	19 Aug 15	19 Aug 15	
Commonwealth Grants Commission	No	✓	25 Sept 15	25 Sept 15	
Corporations and Markets Advisory Committee	No	⇒			
Inspector-General of Taxation	No	✓	17 Sept 15	17 Sept 15	
National Competition Council	No	✓	26 Sept 15	27 Sept 15	
Office of the Auditing and Assurance Standards Board	No	✓	14 Oct 15	15 Oct 15	
Office of the Australian Accounting Standards Board	No	✓	8 Oct 15	9 Oct 15	
Productivity Commission	No	✓	27 Aug 15	27 Aug 15	
Reserve Bank of Australia	Yes	✓	2 Sept 15	2 Sept 15	
- Note Printing Australia Ltd	No	✓	22 July 15	22 July 15	
Royal Australian Mint	No	✓	25 Sept 15	25 Sept 15	▲

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter. Refer to appendix 3 for details.

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

⇒: financial year end date other than 30 June 2015

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

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2014–15 interim audit phase, now downgraded or resolved

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

Note a: The name of the portfolio and the department was changed to Agriculture and Water Resources as a result of the Administrative Arrangements Order made on 30 September 2015.

Note b: These entities transferred to the Communications and Arts portfolio as a result of the Administrative Arrangements Order made on 9 July 2015, as amended by the Administrative Arrangements Order made on 30 September 2015.

Note c: As discussed at paragraph 5.2.15, the Australia Government Solicitor ceased to operate as a separate government business enterprise and was consolidated into the Attorney-General's Department from 1 July 2015.

Note d: The name of the portfolio and the department was changed to Communications and the Arts as a result of the Administrative Arrangements Order made on 30 September 2015.

Note e: This entity ceased to exist as at 30 June 2015.

Note f: As discussed at paragraph 5.4.29, the Defence Materiel Organisation merged with the Department of Defence from 1 July 2015.

Note g: This entity was transferred to the Agriculture and Water Resources portfolio as a result of the Administrative Arrangements Order made on 30 September 2015.

Note h: As discussed at paragraph 5.8.34, ComSuper merged with the Commonwealth Superannuation Corporation from 1 July 2015.

- Note i: As discussed at paragraph 5.11.2, the Australian Customs and Border Protection Service merged with the Department of Immigration and Border Protection from 1 July 2015.
- Note j: As discussed at paragraph 5.11.3, the Migration Review Tribunal and Refugee Review Tribunal merged with the Administrative Appeals Tribunal, which forms part of the Attorney-General's portfolio, from 1 July 2015.
- Note k: The name of the portfolio and the department was changed to Industry, Innovation and Science as a result of the Administrative Arrangements Order made on 30 September 2015.
- Note l: This entity was transferred to the Environment portfolio as a result of the Administrative Arrangements Order made on 30 September 2015.
- Note m: These entities were transferred to the Health portfolio as a result of the Administrative Arrangements Order made on 30 September 2015.

Appendix 2 Changes in audit responsibilities in 2014–15

The following is a listing of new entities in 2014–15 and entities that ceased to be audited by the Auditor-General.

New entities audited in 2014–15

Australian Grape and Wine Authority

AIATSIS Foundation Limited

Australia Post Services Pty Ltd

IBA Retail Asset Management Pty Ltd

IBA Real Estate Investment Trust

Infrastructure Australia

Our Neighbourhood Pty Limited

Social Research Centre Pty Limited

Entities that ceased to be audited by the Auditor-General

ANU Section 68

Deep Blue Tech Pty Ltd

Grape and Wine Research and Development Corporation

Low Carbon Australia

Medibank Private Limited

Australian Health Management Group Pty Ltd

Medibank Health Solutions Group Pty Ltd

Port Botany Transfer Station Trust

Sugar Research and Development Corporation

Wildman River Lodge Trust

Wildman Wilderness Lodge Pty Ltd

Wine Australia Corporation

Appendix 3 Entities with an emphasis of matter reference in the 2014–15 auditor’s report

Entities with an emphasis of matter⁴⁶

Entity	Reason for emphasis of matter
Administration of Norfolk Island and the Consolidated Group, including: Norfolk Island Government Tourist Bureau; and Norfolk Island Hospital Enterprise.	The Administration of Norfolk Island and the Consolidated Group, including its subsidiaries, will cease to exist on 30 June 2016. The emphasis of matters in each entity’s auditor’s report drew attention to the ceasing of those entities, and the reason for continuing to apply Australian Accounting Standards as the basis for preparing the 2014–15 financial statements.
Albury-Wodonga Development Corporation	The Corporation ceased to exist from 1 January 2015 as a result of the passing of the <i>Albury-Wodonga Development Corporation (Abolition) Act 2014</i> . The emphasis of matter drew attention to the Corporation ceasing to be a going concern.
Australian Government Solicitor	The Australian Government Solicitor ceased to exist on 1 July 2015 as a result of the passing of the <i>Judiciary Amendment Act 2015</i> . At that time, all functions of the Australian Government Solicitor merged into the Attorney-General’s Department. The emphasis of matter drew attention to the Australian Government Solicitor ceasing to exist.
Australian River Company Limited	The Company was deregistered in July 2015. The emphasis of matter drew attention to the Company ceasing to be a going concern.
Australian Strategic Policy Institute	The Australian Strategic Policy Institute (the Institute) is a Commonwealth company that is partially funded by the Department of Defence with other sources of revenue including sponsorship, commissioned tasks, a membership scheme, sale of publications, advertising and event registration fees. The emphasis of matter drew attention to the expiration of the entity’s funding agreement with the Department of Defence on 30 June 2015 and the reasons for the directors continuing to prepare the financial statements on a going concern basis.
ComSuper	ComSuper ceased to exist from 1 July 2015 as a result of the passing of <i>The Governance of Australian Superannuation Schemes Legislation Amendment Act 2015</i> . The emphasis of matter drew attention to ComSuper ceasing to exist from 1 July 2015.
General Practice Education and Training Limited	During 2014–15 the functions of the Company transferred to the Department of Health and the Company was deregistered in June 2015. The emphasis of matter drew attention to the Company ceasing to be a going concern.
Health Workforce Australia	Health Workforce Australia ceased to exist on 7 October 2014 as a result of the passing of the <i>Health Workforce Australia (Abolition) Act 2014</i> . At that time, Health Workforce Australia’s functions transferred to the Department of Health. The emphasis of matter drew attention to Health Workforce Australia ceasing to exist.

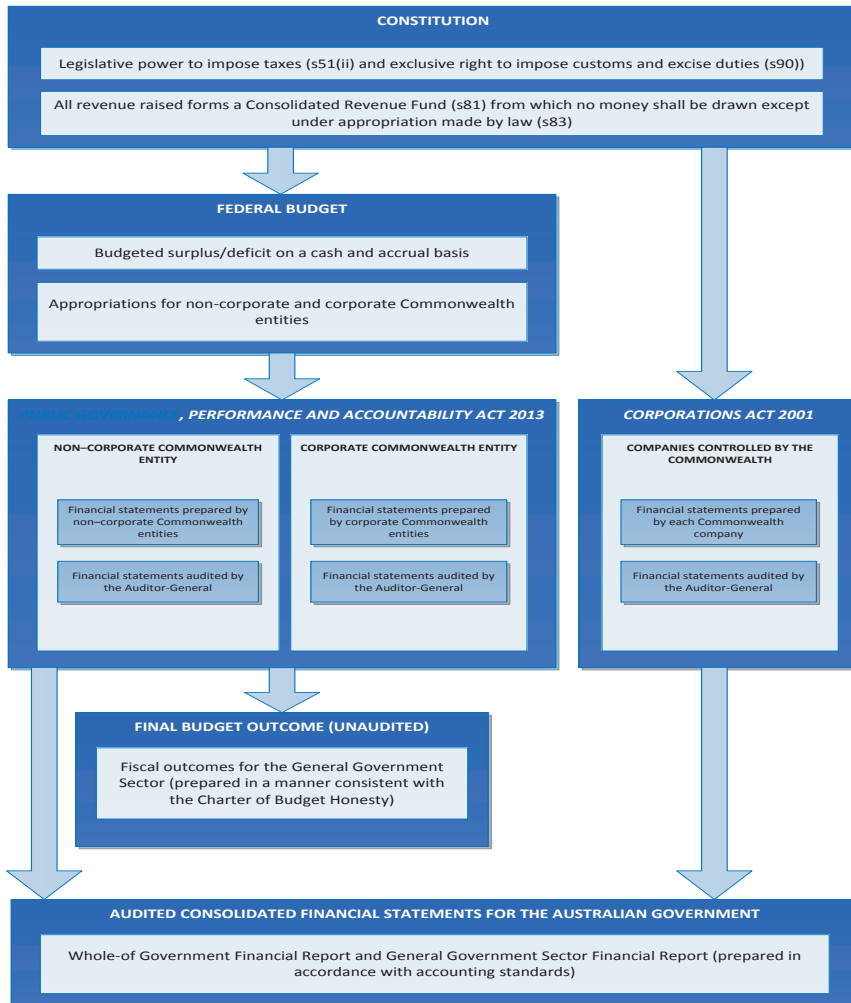
⁴⁶ Appendix 4 explains the purpose of an emphasis of matter reference in the auditor’s report. This table excludes emphasis of matters drawing attention to financial statements prepared in accordance with a special purpose framework, and as a result the financial statements may not be suitable for another purpose.

Entity	Reason for emphasis of matter
IIF Investments Pty Ltd	During 2014–15, IIF Investments Pty Ltd (the Company) transferred its remaining investments to the Department of Industry and Science. The Directors expect that the Company will be wound up during 2015–16. The emphasis of matter drew attention to the fact that the Company is not a going concern.
Private Health Insurance Administration Council	Following the enactment of the <i>Private Health Insurance (Prudential Supervision (Consequential Amendments and Transitional Provisions) Act 2015</i> , the Private Health Insurance Administration Council ceased to exist from 1 July 2015 and its prudential supervision functions, assets and liabilities transferred to the Australian Prudential Regulation Authority. The emphasis of matter drew attention to the Council ceasing to be a going concern.

Source: Entity 2014–15 financial statements and ANAO auditor's reports.

Appendix 4 The financial reporting framework for 2014–15 financial statements

Key elements of the Australian Government’s financial reporting framework are outlined in the diagram below. An overview of the financial reporting requirements for the various types of Australian Government entities covered by the framework and the audit approach for the financial statements of these entities is also described below.



Australian Government Reporting Entities

Commonwealth Government of Australia

Section 48 of the PGPA Act requires the Finance Minister to prepare annual consolidated financial statements for the Commonwealth Government of Australia. These financial statements are a general purpose financial report consolidating the financial activities and

financial position of Commonwealth entities and other entities controlled by the Commonwealth Government.

The PGPA Act prescribes the AASs and any other requirements prescribed by the rules, as the applicable financial reporting framework for the consolidated financial statements. The *PGPA (Financial Reporting) Rule 2014* (FRR) prescribes the minimum financial reporting requirements for Australian Government reporting entities in preparing their financial statements.

Commonwealth entities

A Commonwealth entity is a department of state, a Parliamentary department, a listed entity or a body corporate established by a law of the Commonwealth. There are two types of Commonwealth entities: a non-corporate Commonwealth entity, which is a Commonwealth entity that is not a body corporate⁴⁷; and a corporate Commonwealth entity, which is a Commonwealth entity that is a body corporate and legally separate from the Commonwealth.

Section 42 of the PGPA Act requires the Accountable Authority of a Commonwealth entity to prepare annual financial statements that comply with the AASs and any other requirements prescribed by the rules.

Non-corporate Commonwealth entities

Non-corporate Commonwealth entities, comprising departments of state, Parliamentary departments and other listed entities, are subject to the provisions of the PGPA Act.

The PGPA Act prescribes the AASs and FRR as the applicable financial reporting framework for non-corporate Commonwealth entities.

Corporate Commonwealth entities and subsidiaries

Corporate Commonwealth entities are bodies corporate that hold money on their own account and have been created by the Parliament to perform specific functions. Corporate Commonwealth entities operate under their own enabling legislation and also must comply with the relevant provisions of the PGPA Act.

The PGPA Act prescribes the AASs and FRR as the applicable financial reporting framework for corporate Commonwealth entities. The financial reporting framework applicable to subsidiaries of corporate Commonwealth entities depends 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.

The applicable financial reporting framework for Commonwealth companies is the Corporations Act, including the AASs and the Corporations Regulations.

47 Three entities have a body corporate status but are prescribed as non-corporate Commonwealth entities. These are the Australian Competition and Consumer Commission; the Australian Prudential Regulation Authority; and the Australian Securities and Investments Commission.

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 'by arrangement' provisions in section 20 of the *Auditor General Act 1997*. These bodies consist primarily of trusts or joint ventures entered into by Commonwealth entities.

Audit of Australian Government entity financial statements

Audit scope

The Accountable Authority of an Australian Government entity is responsible for the preparation and presentation of the financial statements and for maintaining records, internal controls, procedures and processes that support the preparation of those statements. The ANAO's independent audits of financial statements are undertaken to form an opinion whether the financial statements are free from material misstatement.

The audits are conducted in accordance with the ANAO Auditing Standards, which incorporate the Australian Auditing Standards (ASAs), to provide reasonable assurance as to whether the financial statements are free of material misstatement.

Audit procedures include examination of the entity's records and its internal control, information systems, control procedures and statutory disclosure requirements. Evidence supporting the amounts and other information in the statements is examined on a test basis, and accounting policies and significant accounting estimates are evaluated.

The entity's internal control relevant to the entity's preparation and fair presentation of the financial statements is considered in order to design audit procedures that are appropriate in the circumstances. In some audits, audit procedures concentrate primarily on substantiating the amounts appearing in the financial statements and do not include detailed testing of systems and internal controls.

The primary responsibility for the prevention and detection of fraud and error rests with both those charged with the governance and the management of an entity. An audit conducted in accordance with ASAs is designed to provide reasonable assurance that the financial 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 financial statements

The ANAO auditor's report on the financial statements includes a statement of the auditor's opinion as to whether the financial statements present fairly the entity's financial position, the results of its financial operations and its cash flows in accordance with the applicable financial reporting framework.

If the auditor is not of that opinion, 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.

Details of entities' auditor's reports that contained an emphasis of matter are outlined in appendix 3.

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.

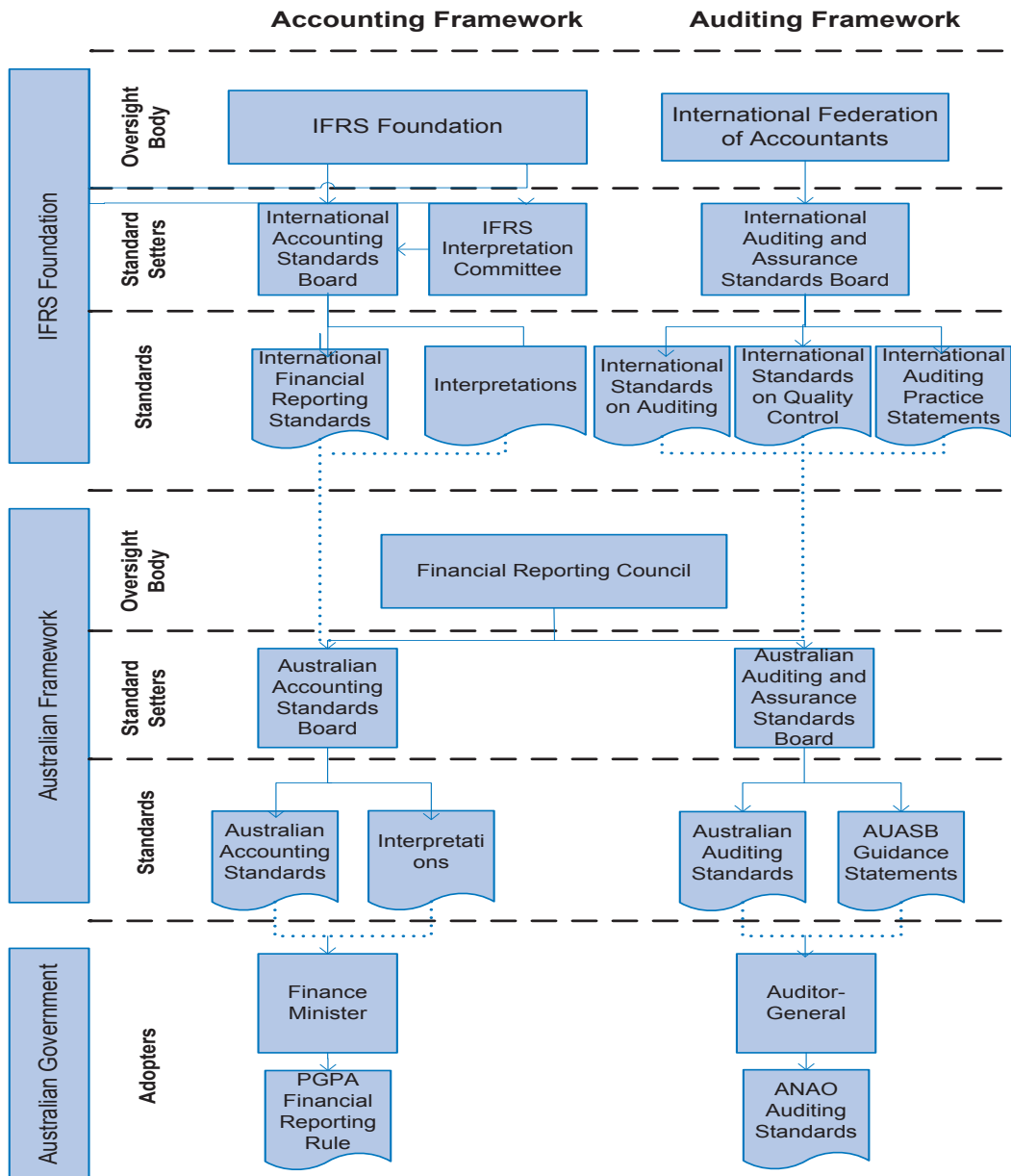
Report on other legal and regulatory requirements

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 findings such as issues relating to the entity's compliance with section 83 of the Constitution.

Appendix 5 The financial reporting and auditing standards frameworks for 2014–15

The figure below depicts the standard setting framework, for financial reporting and auditing, in the Australian Government context.



Source: ANAO compilation.

Appendix 6 Glossary of commonly used accounting terms

Administered:	Those items that an entity 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 entity:	<p>Government entities are classified based on the extent to which their financial information has a material impact on the Whole of Government financial statements. The breakdown is determined by aggregating the total income, expenses, assets and liabilities of all entities. Entities whose total income, expenses, assets and liabilities in aggregate are within the top 99 per cent of the aggregate of these balances for all General Government Sector entities are classified as material entities.</p> <p>Departments of state and entities in the Public Financial Corporation and Public Non-Financial Corporation sectors are also considered to be material entities by nature.</p>
Materiality:	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:	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 entity for payment to the corporate entity (corporate entity item). <p>It includes PGPA Act section 74 receipts of amounts by non-corporate Commonwealth entities, and is adjusted for any repayments by the Commonwealth made under PGPA Act section 77.</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>