

The Auditor-General
ANAO Report No.33 2016–17
Financial Statement Audit

**Audits of the Financial Statements of
Australian Government Entities for the
Period Ended 30 June 2016**

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Senior Executive Director
Corporate Management Branch
Australian National Audit Office
19 National Circuit
BARTON ACT 2600

Or via email:

communication@anao.gov.au.

Canberra ACT
23 January 2017

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken the audits of the 2015–16 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 2016*.

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



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.

For further information contact:
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Phone: (02) 6203 7300
Fax: (02) 6203 7777
Email: ag1@anao.gov.au

ANAO audit reports and information about the ANAO are available on our website:
<http://www.anao.gov.au>

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Executive Summary

1. The primary purpose of financial statements is to provide relevant and 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. 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 9 December 2016. These audit results have been reported to the responsible Minister(s) and those charged with governance of each entity.

Consolidated Financial Statements

3. 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. The 2015–16 Consolidated Financial Statements were signed by the Minister for Finance on 27 November 2016 and an unmodified auditor's report was issued on 28 November 2016.
4. The previous qualification included in the 2014–15 Consolidated Financial Statements auditor's report has been removed following work by the Department of Finance and the Department of Defence to conclude that Specialist Military Equipment, including Defence Weapons Platforms, can be reliably measured at fair value in accordance with Australian Accounting Standards. These assets were reported at fair value in the 2015–16 Consolidated Financial Statements.

Financial audit results and other matters

5. The Auditor-General and senior staff under delegation also issued auditor's reports on 246 entities' 2015–16 financial statements up until 9 December 2016. All auditors' reports were unmodified.
6. A total of 245 findings were reported to entities as a result of our 2015–16 financial statement audits. These comprised four significant, 32 moderate and 209 minor findings. Five legislative breaches were also reported to entities during 2015–16.
7. Seventy-five per cent of significant and moderate findings were in the areas of: compliance and quality assurance frameworks supporting program payments, revenue collection and financial reporting; management of IT controls, particularly the management of privileged users; and the management of non-financial assets.

Improving financial statements disclosure

8. In 2015–16, the Department of Finance issued a template to support entities with the preparation of streamlined financial statements. The ANAO noted that approximately 85 per cent of entities adopted the Department of Finance's streamlined template to prepare their 2015–16

financial statements. Forty-five per cent of these entities made improvements beyond those set out in the template to further enhance the overall readability of their financial statements.

9. The Department of Finance advised that it is continuing to work towards the implementation of a Reduced Disclosure Regime under AASB 1053 *Application of Tiers of Accounting Standards* in future reporting periods. The ANAO will continue to support initiatives that make financial statements easier to read and generates timelier annual reporting, to the extent that the needs of the Parliament continue to be met.

Audit Committees

10. The establishment of an effective audit committee is a fundamental component to good corporate governance in both the public and private sector. Audit committees play a key governance role in supporting Accountable Authorities in discharging their responsibilities through providing independent advice and assurance.

11. During 2015–16, the ANAO considered the governance arrangements for the audit committees of a sample of twenty material entities. Our analysis concluded that the entities considered had implemented the requirements of the *Public Governance, Performance and Accountability Act 2013* rule for audit committees. The ANAO observed there is now an opportunity for entities to build on the core requirements of the rule and to consider how the effectiveness of audit committees could be further enhanced.

Financial sustainability

12. 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 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

13. The AASB has extended the application of AASB 124 *Related Party Disclosures* (AASB 124) to all not-for-profit public sector entities for reporting periods beginning on or after 1 July 2016. AASB 124 also requires disclosures of key management personnel remuneration by major category of remuneration. There would be benefit in government considering making the aggregate level of transparency for key management personnel remuneration in the public sector consistent with that required for listed entities.

14. Commonwealth entities are now required to publish a corporate plan by 31 August each reporting period and include a performance statement in their annual reports. The ANAO has undertaken audit work in this area and it will continue to be a focus in future performance audit work programs.

15. In December 2015, the Australian Auditing and Assurance Standards Board issued a suite of new and revised standards dealing with auditor reporting. A number of revisions were made to enhance the value of auditors' reports by providing greater transparency about the audit that was

performed, including the reporting of key audit matters. The ANAO expects to report on key audit matters in the 2016–17 financial statements audit reports for a number of significant entities.

Cost of this Report

16. 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 (CFS), which includes the Whole of Government and the General Government Sector financial statements for the year ended 30 June 2016, and the Australian Government's financial outcome for 2015–16.

Audit results

The 2015–16 CFS were signed by the Minister for Finance on 27 November 2016 and the Auditor-General's unmodified auditor's report was issued on 28 November 2016.

In 2014–15, the Auditor-General's audit report on the CFS included a modified (qualified) audit opinion. The qualification was on the basis that the potential effect 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 (SME) was material to the CFS.

The audit qualification has been removed following work by the Department of Finance and the Department of Defence to conclude that SME, including Defence Weapons Platforms, can be reliably measured at fair value in accordance with Australian Accounting Standards. The SME assets are reported at fair value in the 2015–16 CFS. Other valuation issues identified in 2014–15 regarding the reporting of non-SME assets at fair value have also been addressed during 2015–16. The effect of total adjustments from these matters has been an \$11.4 billion increase in the CFS asset values.

In 2014–15, the ANAO reported a moderate audit finding in relation to a number of weaknesses associated with the CFS' quality assurance and preparation processes. As a result of the revised assurance processes implemented by the Department of Finance in 2015–16 this audit finding has been closed.

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 financial performance and position of the Australian Government. The CFS is prepared by the Department of Finance (Finance) and issued by the Minister for Finance.

1.2 The CFS presents the consolidated whole of government financial results inclusive of all Australian Government controlled entities, as well as the General Government Sector (GGS) financial statements¹. The 2015–16 CFS is prepared in accordance with section 48 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the requirements of the Australian Accounting Standards, including AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049).

1 Since 2009–10 the CFS has incorporated both the whole of government and GGS financial reports as required by AASB 1049.

1.3 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 the 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.

Key areas of financial statement risk

1.4 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the CFS. Table 1.1 highlights risks that are either specific to the CFS' quality assurance and preparation process or risks at the government entity level that may pose a risk of material misstatement to the CFS.

1.5 The table also includes, where relevant, the CFS financial statement items associated with the key areas of risk, the factors contributing to the risk assessment, and the specific entities contributing to those risks.

1.6 All other significant and moderate risks identified at the government entity level are included in each entity's commentary in Chapter 4 this report.

Table 1.1: Key areas of financial statements risk

Relevant financial statement item, impact & entity ²	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Specialist Military Equipment (SME) \$56.2 billion <i>Department of Defence</i>	Valuation of SME	Higher	<ul style="list-style-type: none"> complexity in measuring assets at fair value; annual impairment and revision of useful lives are subject to a high degree of judgement and subjectivity; management of assets under construction is dispersed across numerous projects that have complex multi-year contractual arrangements and project management requirements; and need to restate the balance of SME to fair value for the comparative period to correct opening balances. 	The qualification of the audit opinion has been removed—refer to paragraph 1.7 to 1.16 below.
Taxation revenue \$368.9 billion <i>Australian Taxation Office</i>	Recognition of taxation revenue	Higher	<ul style="list-style-type: none"> complex estimation processes, involving significant judgement and specialist knowledge; completeness, relevance and accuracy of source data; and volatility in economic conditions increases the uncertainty of factors underpinning the estimates. 	Refer to the Australian Taxation Office's detailed results in Chapter 4.
Superannuation liabilities ^(a) \$315.0 billion <i>Department of Defence</i> <i>Department of Finance</i>	Valuation of superannuation liabilities	Higher	<ul style="list-style-type: none"> complexity of the calculation and the nature of the economic and demographic assumptions involved; and the provision of complete and accurate data to the Actuary. 	Refer to the Department of Defence and Department of Finance's detailed results in Chapter 4.

2 Figures presented in Table 1.1 may differ from the financial statements of individual entities as a result of: eliminations and adjustments at the CFS level; or where the entities identified contribute a majority to the balance of the financial statement line item.

Relevant financial statement item, impact & entity ²	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
All financial statement line items This item relates to preparing the CFS	CFS assurance and consolidation process	Moderate	<ul style="list-style-type: none"> • large value and number of complex elimination adjustments required to be processed to prepare the CFS; • manual nature of the preparation of consolidation reports used to prepare the CFS; • number of entities that adopt different accounting policies than that which is required for the CFS; • high level of dependency on government entities to advise of complex accounting issues and adjustments for differences in accounting policies; and • moderate audit finding identified in relation to the CFS preparation process in 2014–15. 	The moderate audit finding previously identified has been closed—refer to paragraphs 1.17 to 1.21 below.
Land and buildings \$39.5 billion Property, plant and equipment \$36.4 billion <i>Numerous entities</i>	Measurement of non-SME assets at Fair Value	Moderate	<ul style="list-style-type: none"> • differences in accounting policies applied by Government Businesses such as nbn co. Limited and Australia Post as to that required for the preparation of the CFS; • complex valuation process and judgement involved in valuing assets such as the nbn co. Limited network; and • inconsistent approaches identified in 2014–15 in relation to the valuation of assets under construction. 	<p>No significant or moderate audit findings identified.</p> <p>A prior period adjustment was required to account for the fair value of nbn co. Limited's assets.</p>

Relevant financial statement item, impact & entity ²	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Grant payments (to the States and Territories) \$105.2 billion ^(b) <i>Department of the Treasury</i> <i>Department of Education and Training</i> <i>Department of Infrastructure and Regional Development</i>	Grant payments to the States and Territories	Moderate	<ul style="list-style-type: none"> the size and number of different types of payments made to stakeholders; and reliance on a number of government entities which are responsible for administering the program, assessing eligibility and advising the Department of the Treasury of the amount to be paid. 	Refer to the Departments of the Treasury; Education and Training; and Infrastructure and Regional Development's detailed results in Chapter 4.
Investments, loans and placements \$286.8 billion <i>Future Fund Management Agency and Board of Guardians</i> <i>Reserve Bank of Australia</i>	Valuation of investments	Moderate	<ul style="list-style-type: none"> the inherent subjectivity of valuations and illiquid market conditions for certain investments; complex portfolio across broad range of investments and currencies; and potential for significant impact by fluctuations in the value of the Australian dollar. 	Refer to the Future Fund Management Agency and Board of Guardians' and the Reserve Bank of Australia's detailed results in Chapter 4.
Personal benefits \$131.6 billion ^(c) <i>Department of Human Services</i> <i>Department of Social Services</i>	Personal benefits	Moderate	<ul style="list-style-type: none"> dependence on the correct disclosure of personal circumstances by a large number of recipients across diverse social economic groups; and the complexity and high volume of various personal benefit payment programs processed by the Department of Human Services on ageing IT systems. 	Refer to the Departments of Human Services; and Social Services detailed results in Chapter 4.
Australian Government securities \$480.8 billion <i>Australian Office of Financial Management</i>	Valuation of Australian Government securities	Moderate	<ul style="list-style-type: none"> significant liability with increases in volume in prior and current period; and fair value movements have a material impact on the financial statements and are impacted by external factors. 	Refer to the Australian Office of Financial Management's detailed results in Chapter 4.

Note a: These are the main government entities administering the balance of Australian Government superannuation liabilities. Liabilities also include schemes managed by other entities, such as the Australian Postal Corporation.

Note b: Current and capital grants to and through State and Territory governments are limited to grants under the Federal Financial Relations framework. Other grant payments may be made to these institutions as part of other programs and are disclosed as 'Grants to non-profit institutions' in the CFS.

Note c: A large portion of personal benefits payments are administered by the Department of Social Services, in conjunction with the Department of Human Services. Other Australian Government entities also have responsibility for personal benefit programs. The focus of the selected risk relates to the programs, such as support for the aged and unemployed, administered by the Department of Social Services.

Source: ANAO 2015–16 audit results, and the CFS for the year ended 30 June 2016.

Audit results

Removal of the qualification from the auditor's report

1.7 Specialist military equipment (SME), which includes Defence Weapons Platforms (DWPs)³, is recorded in the 30 June 2016 Balance Sheets of the Australian Government and of the GGS at fair value of \$56.2 billion, net of accumulated depreciation and accumulated impairment losses (the carrying amount). In the 2014–15 CFS the value of SME was recorded at a cost of \$42.7 billion and has been restated as at 30 June 2015 to \$51.9 billion.

1.8 At the time of the initial application of AASB 1049 in 2008–09, DWPs were measured in 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, however, 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 2014–15, a qualified audit opinion was issued by the Auditor-General on the CFS on the basis that the Australian Government, through Finance, had not completed its work to establish a reliable measurement of the fair value of SME, including DWPs, in time for the preparation and finalisation of the 2014–15 CFS.

1.10 As a result, the Auditor-General was unable to obtain sufficient and appropriate audit evidence over whether a material difference existed between the carrying amount and the fair value of SME as at 30 June 2015. The auditor's report noted that it was possible that the difference between the carrying amount and the fair value was material at 30 June 2015 and that it was possible that the difference would be material to the SME and depreciation expenses balances and associated disclosures.

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

3 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.

1.12 In 2015–16, Finance amended the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (PGPA Rule) to remove the exemption which previously allowed the Department of Defence (Defence) to report the value of SME at cost. Accordingly, Defence is now required to measure SME at fair value in its financial statements from 2015–16.

1.13 Given the size of the valuation exercise, Finance and Defence have worked collaboratively with the ANAO to develop a three-year strategy to measure all SME assets at fair value using either the market or a cost approach that maximises the use of market information.

1.14 The Australian Government, through Finance and Defence, has completed its assessment and considers that it has been able to reliably measure SME at fair value and has reported SME at fair value as at 30 June 2016 and 30 June 2015 (by restating the 2014–15 balances in the CFS, previously stated at cost).

1.15 The impact of the measurement at fair value was an increase in the value of SME of \$1.1 billion as at 30 June 2016 and an increase in the SME asset value of \$9.2 billion as at 30 June 2015.

1.16 As a result of the work performed by Finance and Defence to measure SME at fair value, the Auditor-General was able to obtain sufficient appropriate audit evidence to conclude that:

- the measurement of SME assets at fair value in the CFS comply with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*; and
- the previous qualification in the auditor’s report on the CFS be removed.

Resolved audit finding

CFS preparation process

1.17 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.

1.18 The preparation of the CFS is a significant and complex 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 journals required to eliminate transactions between government entities for the consolidation.

1.19 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. These weaknesses included:

- assets (including SME) that are required to be measured at fair value being measured at cost in the CFS;
- adjustments not identified by Finance’s quality assurance processes;

- the 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.

1.20 In response to the identified weaknesses, Finance implemented the following during 2015–16:

- the development of a detailed work plan in consultation with the ANAO. The progress of the work plan was regularly discussed between Finance and the ANAO;
- updating the *Resource Management Guide No.125*. The Resource Management Guide provides guidance to entities on fair value measurement of non-financial assets including assets under construction and work in progress;
- standardising and formalising the information collection process through the introduction of the CFS Supplementary Reporting Pack (SRP). Further information on the SRP is provided at paragraphs 1.22 to 1.27;
- enhancing its accounting issues database to identify new accounting matters as a result of budget measures, legislation and international treaty changes, and changes to the accounting standards;
- utilising the information in the SRP to assist in preparing CFS consolidation journal adjustments;
- limiting the number of draft versions of the CFS; and
- engaging an independent assurer to review the CFS consolidation process.

1.21 No new audit issues relating to the assurance process were identified in 2015–16 and as a result of Finance’s response, the moderate audit finding has been resolved. Finance will need to continue to maintain robust quality assurance and preparation processes to ensure that changing circumstances and information provided in government entity financial statements is adequately captured and reported in the CFS.

CFS supplementary reporting pack

1.22 In addressing the moderate audit issue identified in 2014–15, Finance developed the SRP and required each government entity to prepare and lodge the SRP as part of the CFS consolidation process. The information included in the SRP is used to identify differences in accounting policies and disclosures between consolidated entities and complete CFS specific disclosures required under AASB 1049.

1.23 The introduction of the SRP was also in response to the ongoing simplification of the presentation of individual entity’s financial statements that has removed some disclosures necessary for CFS consolidation but considered not a material disclosure for the users of the individual entity financial statements.

1.24 Finance required the SRP to be completed by all reporting entities and subject to appropriate quality assurance, equivalent to that applied to the entity’s financial statements, to provide assurance over the material completeness and accuracy of the information provided for the preparation of the CFS.

1.25 The introduction of the SRP has strengthened the CFS assurance and preparation processes. The ANAO considers that the SRP:

- provides an appropriate and consistent mechanism for Finance to collect information necessary to prepare the CFS;
- provides a mechanism for Finance to target its quality assurance processes at an appropriate level of consolidation; and
- supports Finance's intent to introduce a reduced disclosure reporting regime to enhance accessibility of Commonwealth entities' financial statements.

1.26 Finance has addressed the issues identified in 2014–15 and strengthened the quality assurance and preparation processes for the CFS. There will continue to be a need to have strong assurance processes in place given the changing content and variability of information provided in entities' financial statements. This includes reinforcing to entities the need to ensure that the same assurance processes that are performed on entity financial statements are also performed over the completeness and accuracy of the information reported in the SRP.

1.27 On the basis of the steps taken by Finance, the improvements that have been identified in the CFS preparation process through the introduction of the SRP would support Finance's intent to introduce a Reduced Disclosure Reporting regime for entity financial statements in 2016–17.

Australian Government's financial outcome for 2015–16

1.28 The reported 2015–16 operating result attributable to the Australian Government was a deficit of \$61.1 billion (2014–15: deficit of \$29.5 billion) and a comprehensive result - total change in net worth of (\$114.7) billion compared to (\$35.7) billion in 2014–15.

1.29 The fiscal balance⁴ was a deficit of \$47.3 billion (2014–15: deficit of \$46.8 billion) and the reported negative net worth⁵ position was a net asset deficiency of \$414.0 billion (2014–15: net asset deficiency of \$299.8 billion⁶).

1.30 These outcomes reflect the financial effect of government policies and the economic environment for the year ended 30 June 2016, and the associated movement in assets and liabilities as at the financial year end.

Analysis of revenues and expenses

1.31 Revenue has grown at an average rate of 3.5 per cent and expenses at an average rate of 3.2 per cent across the period 2011–12 to 2015–16. The rate of growth in Gross Domestic Product (GDP) was an average of 2.6 per cent over the same period⁷.

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

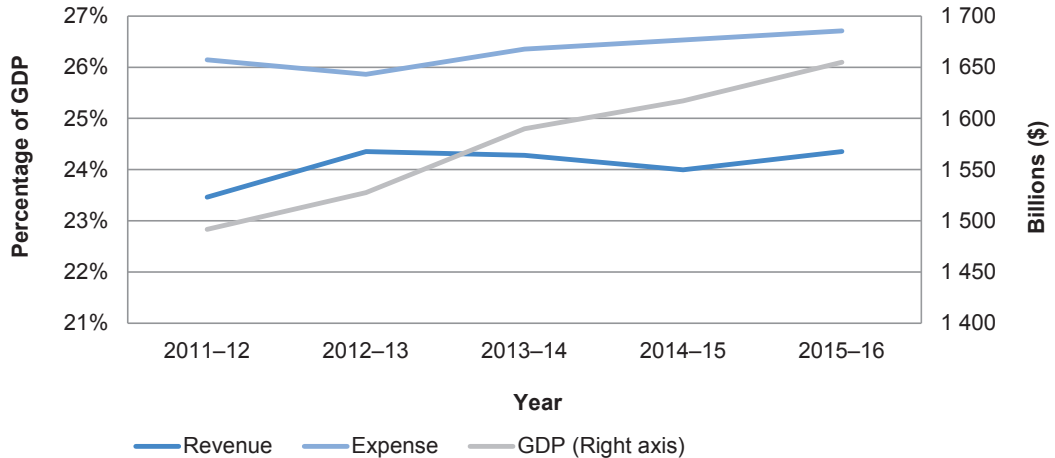
5 Net worth equals assets less liabilities.

6 This balance includes the fair value restatement discussed in Table 1.2.

7 Australian Bureau of Statistics, *5206.0 - Australian National Accounts: National Income, Expenditure and Product*, September 2016, available from: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5206.0Sep%202016?OpenDocument> [accessed 13 January 2016].

1.32 In 2015–16, expenses were 26.8 per cent of GDP (2011–12 26.1 per cent) and revenues were 24.4 per cent of GDP (2011–12: 23.5 per cent).

Figure 1.1: Australian Government’s total revenue and total expenses as a per cent of GDP



Source: ANAO analysis of CFS from 2011–12 to 2015–16. This does not include purchases of non-financial assets, which are not reported as expenses in the Australian Government operating statement.

1.33 The changes in significant categories of expenses from 2011–12 to 2015–16 were:

- personal benefits, comprising social and medical welfare payments, such as assistance to the aged and families (2011–12: 29.0 per cent, 2015–16: 29.8 per cent);
- grant payments to the State and Territory governments and other institutions (2011–12: 32.5 per cent, 2015–16: 30.5 per cent);
- interest expense (2011–12: 5.4 per cent, 2015–16: 6.0 per cent);
- payments to suppliers (2011–12: 22.2 per cent, 2015–16: 21.8 per cent); and
- employees expenses (2011–12: 6.8 per cent, 2015–16: 7.0 per cent).

1.34 Figure 1.1 illustrates the per cent of total revenue and expenses against GDP for the period 2011–12 to 2015–16.

Assets and liabilities

1.35 Since 2011–12, total liabilities have exceeded total assets. The Australian Government’s net worth has declined from a net asset deficiency of \$256.3 billion in 2011–12 to \$414.0 billion in 2015–16.

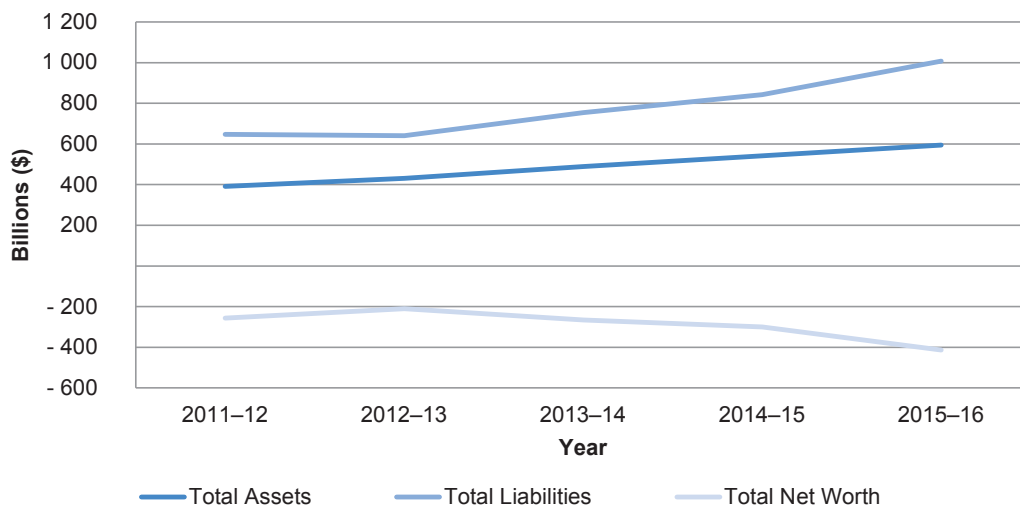
1.36 Increases in the following liabilities from 30 June 2012 to 30 June 2016 have contributed to the decline in the Australian Government’s net worth:

- Australian Government securities from \$268.1 billion to \$480.8 billion;
- superannuation for Commonwealth and Defence employees from \$235.8 billion to \$315.0 billion; and

- provisions for military compensation payments from \$4.8 billion to \$9.9 billion.

1.37 Figure 1.2 illustrates the total liabilities and assets of the Australian Government since 2011–12. Refer to paragraphs 1.40 to 1.47 for further discussion of these liabilities.

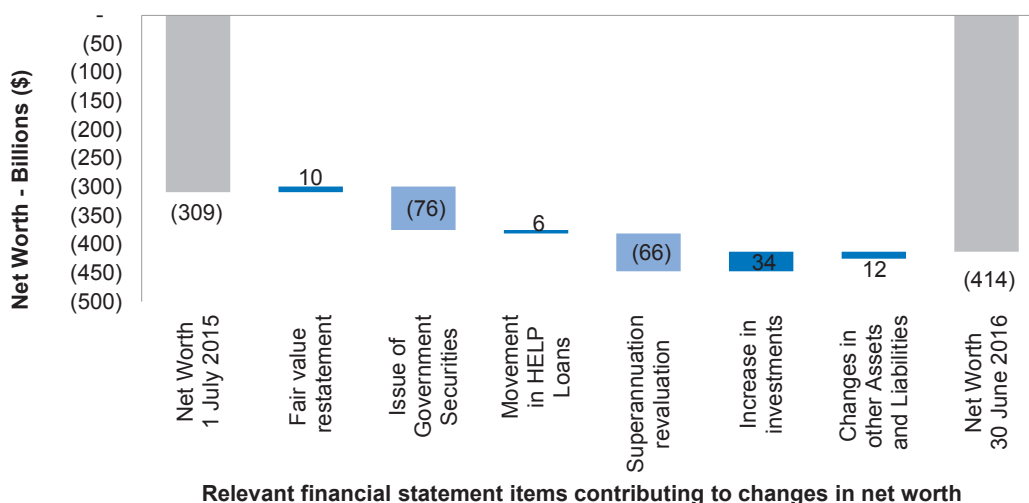
Figure 1.2: Australian Government’s total assets, total liabilities and net worth



Source: ANAO analysis of CFS from 2011–12 to 2015–16. The 2014–15 balance of total assets has been restated for adjustments made at 30 June 2015 as described in Note 1.5 of the CFS.

1.38 Figure 1.3 provides an analysis of the movement in net worth from 1 July 2015 to 30 June 2016.

Figure 1.3: Total changes in the Australian Government’s net worth in 2015–16



Source: ANAO analysis of 2015–16 CFS.

1.39 Table 1.2 provides commentary on the main contributors to the change in net worth of the Australian Government identified in Figure 1.3.

Table 1.2: Explanation of key movements in net worth

Relevant financial statement item	Primary reason for movement in net worth
<p>Fair value restatement (Opening balance adjustments)</p>	<p>Adjustments to the closing balance of the Australian Government's net worth at 30 June 2015, as described in Note 1.5 of the CFS, were made primarily due to accounting for the fair value of:</p> <ul style="list-style-type: none"> • Specialist military equipment. As described at paragraph 1.15 the opening balance of the SME assets was restated by \$9.2 billion to record the increase in value from cost to fair value for SME assets held at 1 July 2015; and • non-financial assets of nbn co. Limited (nbn)^(a), primarily network infrastructure, which had previously been reported on a cost basis, increasing the fair value of these assets by \$0.8 billion.
<p>Government Securities (assurance and valuation)</p>	<p>The Australian Office of Financial Management, on behalf of the Australian Government, undertakes debt management activities including the issuance of Government securities, such as, Treasury Bonds and Treasury Indexed Bonds.</p> <p>Government securities have increased by \$76.7 billion of which \$17.6 billion relates to an increase in the fair value of Government securities. The increase in fair value is primarily due to the decrease in the discount rate^(b).</p>
<p>HELP Loans</p>	<p>The Higher Education Loan Program (HELP) provides loans for student tuition and are repayable to the Commonwealth when the student reaches a prescribed level of personal income.</p> <p>In 2015–16, the increase in loans receivable is due to:</p> <ul style="list-style-type: none"> • an increase in the number of loans made to students for tertiary studies under HELP; and • movements in the parameters (largely the discount rate) and assumptions used to value the receivables (monies owed).
<p>Increase of Investments</p>	<p>The increase in Investments includes, but is not limited to:</p> <ul style="list-style-type: none"> • \$7.3 billion increase in balances held by RBA with other central banks; • \$6.8 billion increase in funds under management by the Future Fund; • \$5.4 billion increase in funds managed by the Future Fund for the Medical Research Future Fund and the DisabilityCare Australia Fund due to contributions into the funds; and • \$5.4 billion increase in the investment quota for the International Monetary Fund.
<p>Superannuation revaluation</p>	<p>An actuarial revaluation of the Australian Government's defined benefit superannuation liabilities increased the liability by \$66.4 billion. This movement is due to the change in discount rate (interest rate applied to present value future cash flows) applied to determine the fair value of the liability. Refer to paragraphs 1.40 to 1.45 for further discussion.</p> <p>The change in the superannuation liability resulting from a change in the discount rate does not impact on the cash flows required to fund the liability in future periods^(b).</p>

Relevant financial statement item	Primary reason for movement in net worth
Changes in Other Assets and Liabilities	<p>A range of other factors contributed to the change in the asset and liability balances. Significant movements include an increase of:</p> <ul style="list-style-type: none"> • \$4.7 billion in the liability for Australian Currency on issue recognised by the RBA; • \$4.8 billion in liabilities for promissory notes to the International Monetary Fund; • \$11.3 billion in non-financial assets such as land, buildings and infrastructure, predominately comprising increases in the purchases of and fair value of assets held by Defence (\$6.1 billion) and nbn (\$5.0 billion); and • \$2.3 billion in the provisions for military compensation and health care benefits met by the Department of Veterans Affairs. The compensation scheme and benefits scheme has seen large increases in the liability over the past five years.

Note a: nbn does not report the value of non-financial assets at fair value in their financial statements. As the GFS manual requires that assets and liabilities are reported at fair value in the CFS, an adjustment has been made to account for this.

Note b: Discount rates are the interest rate used to present value future cash flows. In 2015–16 the discount rate has decreased with falling interest rates. A lower discount rate will increase the fair value as the discount on nominal cash flows is lower.

Source: ANAO analysis of 2015–16 CFS.

Superannuation liabilities

1.40 The Australian Government has partially unfunded superannuation liabilities arising from the obligations to employees for defined benefit superannuation schemes. Note 11C of the CFS provides information on the nature of these schemes. The total superannuation liability for these schemes was \$315.0 billion as at 30 June 2016 (\$248.6 billion as at 30 June 2015). The significant balances of the reported liability comprises the:

- Commonwealth Superannuation Scheme (\$86.1 billion);
- Public Sector Superannuation Scheme (\$100.6 billion);
- Military Superannuation Benefits Scheme (\$74.4 billion); and
- Defence Force Retirement and Death Benefits Scheme (\$50.4 billion).⁸

1.41 The primary reason for the increase in the liability is the decrease in the discount rate between 30 June 2015 and 30 June 2016. The discount rate applied is the 30 June 2016 long term government bond rate of 2.7 per cent (3.7 per cent at 30 June 2015). The long term nature of the superannuation liability means that small changes to the discount rate can have a large impact on the liability.

1.42 The Future Fund was established by the *Future Fund Act 2006* to strengthen the Australian Government's long-term financial position through the acquisition of financial assets and investments to assist in the discharge of the Australian Government's superannuation liabilities.

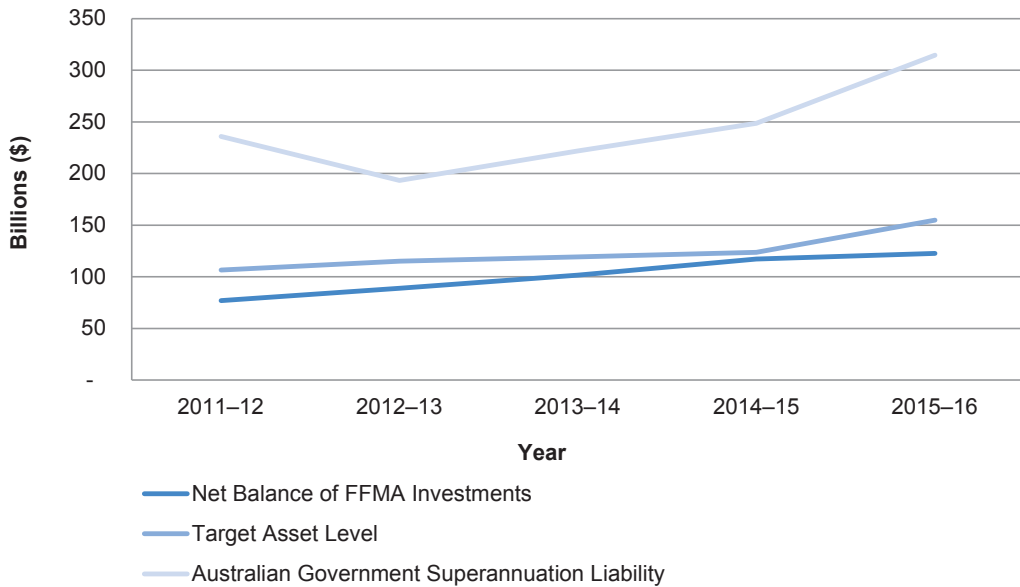
1.43 The Future Fund Management Agency (FFMA) is responsible for deciding how to invest the assets of the Future Fund through balancing the risk aspects of each investment mandate to

⁸ These schemes are closed to new members.

maximise returns. The Future Fund is required to make a benchmark rate of return on investments of the rate of the consumer price index plus 4.5 to 5.5 per cent per annum. Over the last ten years, on average, the returns of the Future Fund have exceeded the benchmark return.

1.44 Figure 1.4 provides an overview of the balances of the Australian Government superannuation liabilities, the net investment balance of the Future Fund and the target asset level from 2011–12 to 2015–16.

Figure 1.4: Total value of Australian Government superannuation liabilities and Future Fund investments; and the target asset level



Source: ANAO analysis of CFS and the Future Fund Management Agency financial statements.

1.45 The target asset level represents the best estimate of the Future Fund balance required, together with the investment earnings on the superannuation funds, to meet future benefit payments. Figure 1.4 shows that the 2015–16 estimate of the target asset level is \$154.9 billion⁹, which is \$32.4 billion above what the net balance of FFMA Investments is at 30 June 2016. The Future Fund cannot be accessed to fund the superannuation liability until 2020, unless the value of the Future Fund exceeds the target asset level.

Military compensation unfunded liability

1.46 The Department of Veterans’ Affairs’ military compensation liability represents an estimate of the present value of future payments in respect of claims under the *Military Rehabilitation and Compensation Act 2004* (MRCA) and the *Safety, Rehabilitation and Compensation Act 1988* (SRCA) arising from services rendered before 30 June 2016. This valuation is complex and subject to significant estimation uncertainty in view of the unique nature of these compensation arrangements including: no time limit for bringing forward a claim; claims potentially having a tail

9 Finance’s Actuary’s Report: Target Asset Level Declaration dated 21 July 2015.

of greater than 50 years; and future claims estimates based on SRCA experience in view of limited historical experience to project the more recent MRCA estimates.

1.47 In the last five years, the estimate of the military compensation liability has increased by more than \$5.1 billion (from \$4.8 billion in 2011–12 to \$9.9 billion in 2015–16). While a significant portion of this increase is directly attributed to movements in the discount rate, the remaining increases are the result of changes in business assumptions to reflect trends in current claims payment data. The key trends include:

- increasing healthcare claims and costs for both the MRCA and SRCA cohorts;
- increasing permanent impairment claims for MRCA;
- decreasing exit rates for MRCA and SRCA long-tail incapacity and rehabilitation claims;
- increasing costs of MRCA-based claims as the scheme matures, which were originally estimated based on experience from SRCA; and
- slower than expected drop-off of SRCA claims, since the closure of the scheme in 2004.

2. Financial audit results and other matters

Chapter coverage

This chapter provides:

- a summary of 2015–16 auditors' reports issued by the ANAO;
- an analysis of the quality and timeliness of entities' financial reporting;
- a discussion on material entities' structures and processes to support audit committees;
- an analysis of the financial sustainability of material entities; and
- a summary of findings identified during the course of the 2015–16 financial statements audits of entities.

Conclusion

The ANAO issued 247 unmodified auditors' reports as at 9 December 2016.

Entities continued to improve the quality and timeliness of their financial reporting, with an increase in the percentage of material entities seeking to streamline their financial statements for the benefit of users' understanding.

The ANAO's review of a sample of entities' implementation of the PGPA Rule for audit committees noted that those entities were meeting the requirements set out in the rule. The ANAO's observations indicate there is an opportunity for entities to build on the core requirements of the PGPA Rule and to consider how the effectiveness of audit committees could be further enhanced.

An analysis of the operating results and balance sheet positions for material entities concluded that the financial sustainability of a majority of those 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.

The ANAO reported four significant, 32 moderate and 209 minor audit findings at the completion of the final audits. The main weaknesses identified during 2015–16 financial statement audits are consistent with those in 2014–15. The highest number of findings continue to be in the categories of:

- compliance and quality assurance frameworks supporting program payments, revenue collection, and financial reporting; and
- management of IT security and user access, in particularly the management of privileged users.

Introduction

2.1 The ANAO publishes two reports annually addressing the outcomes of the financial statements audits of Australian Government entities and the Consolidated Financial Statements of the Australian Government (CFS) to provide Parliament an independent examination of the financial accounting and reporting of public sector entities.

2.2 This report presents the final results of the 2015–16 audits of the Consolidated Financial Statements and 246 Australian Government entities.¹⁰ ANAO Report No.7 2016–17 *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Entities for the year ending 30 June 2016*, focused on the results of the interim audit phases, including an assessment of entities' key internal controls, for 21 departments and other major general government sector entities.

Summary of 2015–16 auditors' reports

2.3 The Auditor-General is required to complete the financial statements audits of all Australian Government entities and their controlled subsidiaries on an annual basis.

2.4 Table 2.1 is a comparison of the number and type of auditors' reports issued by the Auditor-General and his delegates in 2014–15 and 2015–16, including the CFS. Appendix 4 explains in more detail the financial reporting frameworks applicable to the Australian Government and the form and content of auditors' reports.

Table 2.1: Summary of auditors' reports issued and outstanding

Auditor's report	2015–16	2014–15
Unmodified	247	253
– Included an emphasis of matter	0	12
– Included a Report on other legal and regulatory requirements	0	0
Modified	0	1
Auditors' reports issued	247	254
Not yet issued	5 ^(a)	2
Total number of financial statements audits	252	256

Note a: As at 9 December 2016 the following entities had not completed the work required to present financial statements for audit: the Corporations and Markets Advisory Committee (for both years ended 30 June 2015 and 30 June 2016); the National Health Performance Authority; the Administration of Norfolk Island; and the Norfolk Island Hospital Enterprise.

Source: 2014–15 and 2015–16 ANAO auditors' reports.

2.5 Appendix 2 details the changes to the financial statement audits the Auditor-General was required to carry out between 2014–15 and 2015–16.

Quality and timeliness of financial reporting

Improving the presentation of financial statements

2.6 The primary purpose of financial statements is to provide relevant and reliable information to users about a reporting entity's financial position and performance. Financial statements

10 The 2015–16 financial statements audit for five entities had not been completed at the date of this report as noted in Table 2.1. Of these entities, significant and moderate audit findings were identified and agreed to by the management of the Administration of Norfolk Island and the Norfolk Island Hospital Enterprise prior to the publication of this report. Details of these findings can be found from paragraphs 4.13.67 to 4.13.78. No significant or moderate audit findings were identified in the remaining three entities.

preparation is often a complex task, involving compliance with a large number of requirements reflected in Australian Accounting Standards¹¹ and the Financial Reporting Rules.

2.7 During 2014–15 the ANAO engaged with entity management and their audit committees to assist in identifying opportunities to improve entities' financial statements. In ANAO Audit Report No.15 2015–16 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2015*, the ANAO reported that thirty four (50 per cent) material entities improved the presentation of their 2014–15 financial statements.

2.8 The Department of Finance (Finance) issued a template to support entities with the preparation of streamlined financial statements in 2015–16. Guidance issued by Finance highlighted the need for entities to consider the concept of materiality and to include only those disclosures required by Australian Accounting Standards and the Financial Reporting Rules relevant to their operations.

2.9 In 2015–16, the ANAO extended this analysis to 168¹² Australian Government entities. The ANAO identified during the 2015–16 financial statement audits that 144 entities (86 per cent) adopted Finance's streamlined template to prepare their financial statements resulting in more concise and easier to read financial statements.¹³ In particular, entities:

- reported accounting policy information in the relevant financial statement line item notes. Entities had previously disclosed this information in a separate note; and
- grouped like information under sub-headings within the notes to the financial statements. For example, financial risks arising from the entities' operating environment were grouped as 'managing uncertainties' and included disclosures relating to fair value measurement and contingent liabilities.

2.10 Of these 144 entities, 65 (45 per cent) made further improvements than those included in the Finance template. The approaches adopted by these entities included:

- tailoring the financial statements to include information relevant to the entity's financial performance;
- providing additional disclosures for financial statement line items subject to complex and significant judgements; and
- revisiting the overall design of the financial statements to enhance the comparability and understandability of the results of the entity.

2.11 Finance has advised that it is continuing to work towards the implementation of a Reduced Disclosure Regime under AASB 1053 *Application of Tiers of Accounting Standards* in future reporting periods. The ANAO supports initiatives that make financial statements easier to read and generates timelier annual reporting, to the extent that the needs of the Parliament continue to be met.

11 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.

12 Entities excluded from the analysis included subsidiaries and companies required to prepare financial statements under the *Corporations Act 2001*.

13 The entities that did not adopt simplified reporting for the 2015–16 financial statements are intending to move to more simplified reporting in 2016–17.

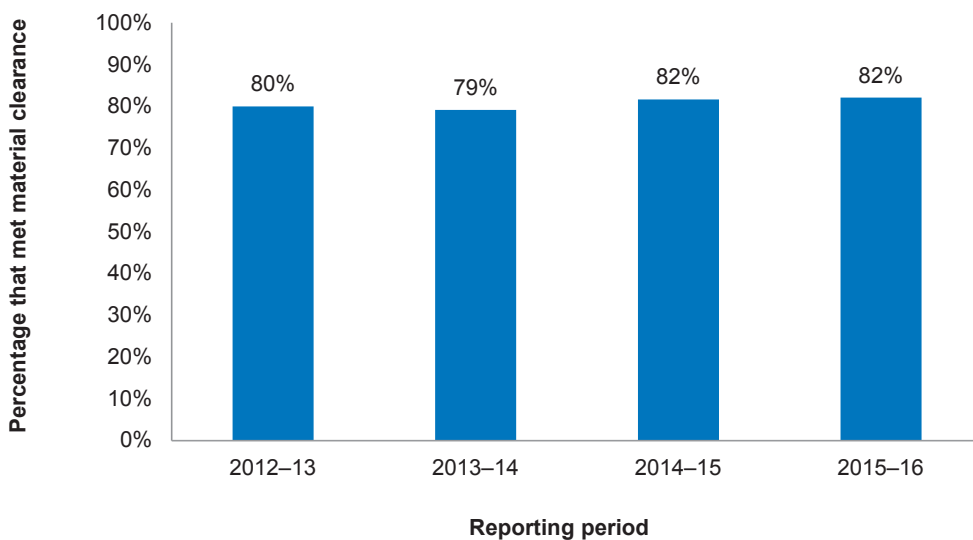
Timeliness of financial reporting

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

2.13 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 in 2015–16 was 29 August. These deadlines are set to assist the Australian Government to prepare the Final Budget Outcome by 30 September and the CFS by 30 November each year.

2.14 Figure 2.1 presents an analysis of the percentage of material entities, excluding subsidiaries consolidated into parent entities, that met the deadlines for submitting audit cleared financial statements to the Department of Finance over the past four financial years.

Figure 2.1: Audit clearance of material entities



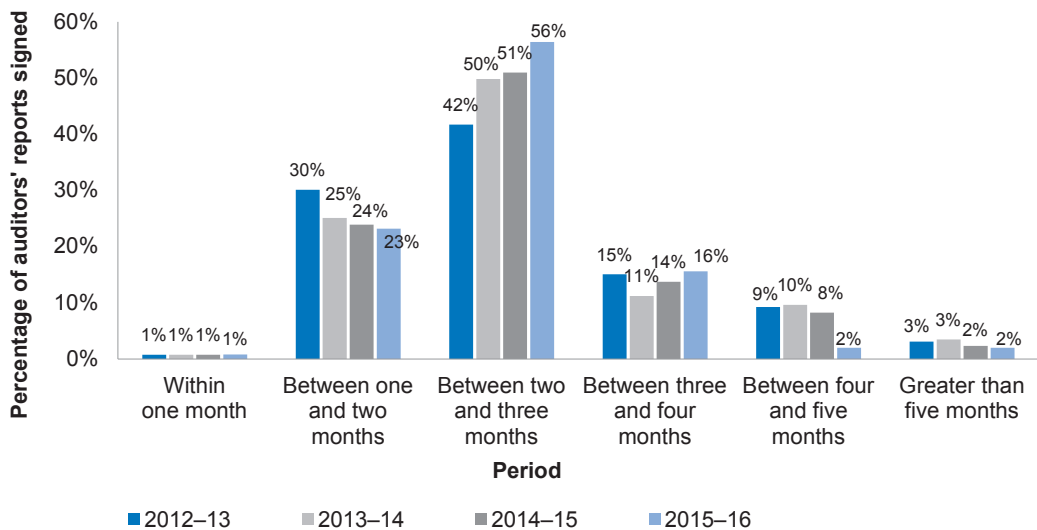
Source: ANAO analysis of audit clearance dates.

2.15 In the past four years, approximately 80 per cent of material entities have met the material clearance deadlines set by the Department of Finance. During 2015–16, sixty-five per cent of non-material entities met the material clearance deadline of 29 August 2016. Successfully meeting material clearance deadlines is an important baseline for the timely finalisation of entities' financial statements and the issuance of an auditor's report soon after, facilitating the publication of the annual report.

2.16 The ANAO works closely with entities to facilitate the timely finalisation of the financial statements. During 2015–16, ninety-nine per cent of auditors' reports were issued within two business days of the signed financial statements, which is consistent with the previous four years.

2.17 An analysis of the timeframes in which auditors' reports were issued on the signed financial statements of entities is presented in Figure 2.2.

Figure 2.2: Timeframes for entity reporting from end of financial year reporting date



Source: ANAO analysis of issued auditors' reports.

2.18 In 2015-16, there has been a decline in the signing of entities' financial statements and associated auditor's report within two months of financial reporting year end (2015-16: 23 per cent compared to 2014-15: 24 per cent). Ninety-six per cent of entities had signed financial statements and the associated auditor's report issued within four months of year end, compared to 90 per cent in the prior year. Entities that had signed financial statements and the associated auditor's report issued within three months of year end also improved (2015-16: 80 per cent compared to 2014-15: 76 per cent).

2.19 Entities are required to table their annual report by the 15th day of the fourth month after the end of the reporting period for the entity.

Audit committees

2.20 The establishment of an effective audit committee is a fundamental component to good corporate governance in both the public and private sector. Audit committees play a key governance role in supporting Accountable Authorities in discharging their responsibilities through providing independent advice and assurance.

2.21 Generally, an audit committee:

- focuses on issues relevant to the integrity of an entity's financial reporting;
- oversees external audit, internal audit, risk management, internal control and compliance; and
- liaises with the Accountable Authority, internal and external auditors and management.

2.22 Section 17 of the PGPA Rule¹⁴ sets out the minimum requirements relating to the audit committee of a Commonwealth entity. Key requirements of the PGPA Rule include:

- a written charter, set by the Accountable Authority, determining the functions of the audit committee for the entity. These functions must include reviewing the appropriateness of the Accountable Authority's:
 - financial reporting;
 - performance reporting;
 - system of risk oversight and management; and
 - system of internal control.
- membership of the committee to include at least three persons with appropriate qualifications, skills or experience to assist the committee to perform its functions and a majority of committee members must be independent of the entity.

2.23 These requirements generally align with the principles applied to audit committees in the private sector. The Australian Stock Exchange Corporate Governance Council's *Corporate Governance Principles and Recommendations*¹⁵ sets out these principles, which include that an audit committee should:

- comprise at least three members and a majority of independent members;
- have a Chair who is an independent director;
- have a charter that clearly sets out the role of the audit committee, including reviewing and making recommendations to the Board regarding:
 - the adequacy of corporate reporting processes;
 - the appropriateness of accounting judgements or choices made by management in preparing the financial statements; and
 - whether the financial statements provide a true and fair view of the financial position and performance of the entity.
- be of sufficient size, and members that between them have accounting and financial expertise, and a sufficient understanding of the industry in which the entity operates, to be able to discharge the committee's mandate effectively.

14 The commencement of the *Public Governance, Performance and Accountability Act 2013* on 1 July 2014 introduced increased requirements for public sector entities including, specifying the composition of audit committees and reviewing entity performance reporting.

15 Principle 4: Safeguard integrity in corporate reporting, Recommendation 4.1, *Corporate Governance Principles and Recommendations*, 3rd edition, ASX Corporate Governance Council. S&P/ASX 300 entities are required to comply with these recommendations regarding the structure of audit committees.

2.24 During 2015–16, the ANAO considered the governance arrangements for the audit committees of a sample of twenty material entities¹⁶, including their composition, operational arrangements and the administrative support they receive.

Composition

2.25 The distinguishing feature of an audit committee is its independence, ensuring the committee acts in an objective and impartial manner, free from conflicts of interest, inherent bias or undue external influence. As set out above, the PGPA Rule requires that audit committees have a majority of independent members.

2.26 *Audit Committees A Guide to Good Practice*, released jointly by the Auditing and Assurance Standards Board, the Australian Institute of Company Directors and the Institute of Internal-Auditors Australia, notes that independent audit committee members are those:

... free from any management, business or other relationship that could reasonably be perceived to materially interfere with their ability to act in the best interests of the entity. Independence is arguably a state of mind, and cannot necessarily be assessed by a person's relationship with the entity. It is commonplace to examine an audit committee members' past and current relationships with the entity as indicators of independence, or otherwise.

2.27 The ANAO observed that all entities within the sample had established audit committees consisting of a majority of members that were assessed by the entity to be independent.

2.28 The recommendations and principles outlined in paragraph 2.23 regarding audit committee structures are required to be applied by S&P/ASX 300 entities, including the appointment of an independent chair. This is not a requirement of the PGPA Rule for public sector audit committees. The ANAO noted that fifteen (75 per cent) of the entities in the sample had appointed an independent audit committee chair.

2.29 Appointing members with appropriate qualifications, skills and industry experience supports the effective operation of an audit committee. In all entities, the ANAO observed that a consideration of the qualifications, skills and experience was made prior to appointment of an audit committee member. In some entities, this assessment was first made by the secretariat of the committee, which was then presented to the existing committee members prior to a recommendation being made to the Accountable Authority. In other entities it was made by the audit committee members or chair directly to the Accountable Authority.

2.30 The level to which appointment processes were standardised and documented varied amongst entities—many, due to the infrequency of appointments, adopted a more ad-hoc approach, determining criteria and making an assessment when required. The ANAO noted that the corporate Commonwealth entities and companies included in the sample documented the appointment process in their charter.

16 The entities considered included the: Airservices Australia; ASC Pty Ltd; Attorney-General's Department; Australian Renewable Energy Agency; Australian Taxation Office; Australian Trade and Investments Commission; Departments of Agriculture and Water Resources; Defence; Education and Training; Finance; Foreign Affairs and Trade; Health; the Prime Minister and Cabinet; Social Services; and the Treasury; Future Fund Management Agency and Board of Guardians; Indigenous Business Australia; National Gallery of Australia; nbn co Limited; and Special Broadcasting Service.

2.31 Most committees met at least four times per year, with average meeting lengths exceeding three hours, and some more than five. In light of this time commitment, a potential member's ability to dedicate sufficient time to their committee role is another key factor that should be considered by entities when determining new appointments. The ANAO noted that of the entity audit committees selected, seven independent members held two or more other government entity audit committee roles, and two held memberships on at least five of the material entities' audit committees included in this sample.

Operational arrangements

2.32 All entities had developed and endorsed an audit committee charter which set out the responsibilities as required by the PGPA Rule. Sixteen of the entities had also developed a formal work plan detailing at which meetings those responsibilities would be considered during the financial year.

2.33 Ten entities¹⁷ had established a sub-committee to support the audit committee in discharging its responsibility in regard to advising the Accountable Authority on the appropriateness of the entity's financial reporting. Of these, eight entities' sub-committees comprised internal staff members and were chaired by an independent member of the audit committee. The remaining two entities' sub-committees were chaired by a non-independent audit committee member. The sub-committees reported to the audit committee through either a standing agenda item at each meeting or at year-end. In setting up such sub-committees, audit committee members should ensure that they are not delegating their responsibilities or independence as required under the PGPA Rule.

2.34 Sixteen of the entities considered had implemented a formal process for assessing the performance of the audit committee. In these entities the review of the audit committee's performance involved a mixture of formal and informal self-assessment by members accompanied by input from the Accountable Authority, observers including internal and external audit, and senior management.

Administrative support

2.35 To assist in maximising the effectiveness of the audit committee, it is important that the committee is appropriately supported by effective secretariat arrangements. The secretariat is responsible for arranging meetings, collating and distributing meeting papers and recording and distributing associated minutes. Audit committees rely on this information to obtain the necessary understanding of the entity's operations in order to provide informed and relevant advice to the Accountable Authority. This is particularly important for independent members, as they do not have the same level of exposure to the departmental operations as other members may.¹⁸

2.36 To assist members, meetings should be well planned and structured to allow for the most effective use of members' time. In light of this, the scheduling of meetings, and circulation of agendas, supporting papers and minutes should provide members with sufficient time and

17 The Australian Taxation Office; the Departments of Agriculture and Water Resources; Education; Finance; Foreign Affairs; Health; Social Services; and Treasury; and Indigenous Business Australia.

18 ANAO Better Practice Guide, *Public Sector Audit Committees—Independent Assurance and Advice for Accountable Authorities*, March 2015.

information to understand the key issues and keep abreast of developments affecting the entity, allowing for informed advice. All of the entities' secretariat functions were structured to provide papers to members and observers at least one week prior to the audit committee meeting.

2.37 In two entities, the ANAO noted that, on occasion, the committees received verbal updates on matters without supporting papers. This may be appropriate in some circumstances but may limit the ability of independent members to adequately prepare and consider any potential implications prior to the meeting.

2.38 The timing of distribution of minutes for members' review varied. Three entities had a limit of five working days and thirteen entities issued draft minutes as soon as possible but no later than two weeks after the meeting. Four entities meeting minutes were not distributed for comment or consideration by members until the next meeting.

2.39 The entities considered in this sample have met the requirements set out in the PGPA rule for audit committees. The ANAO's observations indicate there is an opportunity for entities to build on the core requirements of the PGPA Rule and to consider how the effectiveness of audit committees could be further enhanced.

Financial sustainability

2.40 Integral to an audit 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. This can provide an indication of financial management issues or can point to an increased risk that entities may require additional government funding.

2.41 The ANAO developed parameters based on generally accepted concepts of financial sustainability and applied these to the operating results and balance sheets of the 66 material entities¹⁹. These parameters²⁰ are described in Table 2.2 and Table 2.3.

Analysis of operating results

2.42 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.

2.43 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 large deficits or surpluses in a not-for-profit Commonwealth entity could suggest the need for additional or refocused funding, elimination of non-value adding costs, and/or improved financial management.

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

20 These parameters have been applied to entity operations classified as departmental. It excludes items not under the control of entities that are classified as administered items.

2.44 Similarly in the case of for-profit entities and those with quasi-commercial operations, there is an expectation that those entities' financial management focuses on maximising profits.²¹ As a result, any entity in this category averaging a large deficit should be considered more closely.

2.45 Against this background, the ANAO analysed the operating results of all material entities over a five year period: 2011–12 to 2015–16. This analysis is based on reported surpluses or deficits after adjusting for unfunded expenses²², where relevant, highlighting the full cost of operations. Of the 66 entities considered in this analysis, 48 are not-for-profit and 18 are for-profit or have quasi-commercial operations or departmental functions operating on a for-profit basis.

2.46 The ANAO grouped material entities into three operating result categories as part of this analysis, outlined in Table 2.2 below.

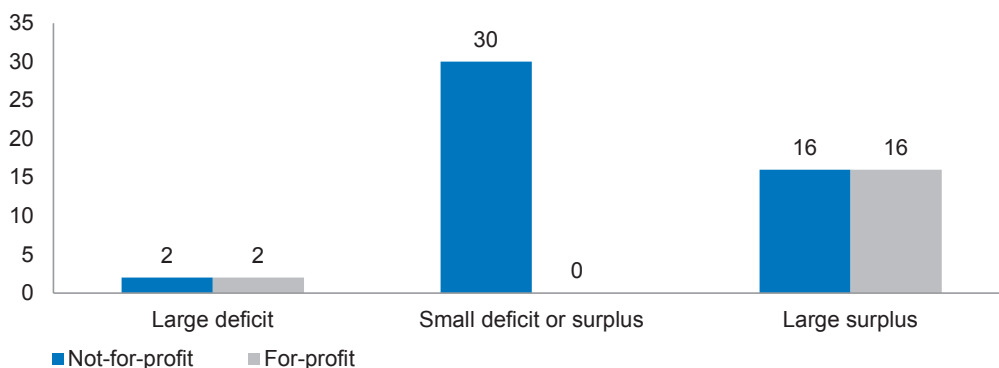
Table 2.2: Operating result categories

Category	Parameters
Large deficits	An entity's average deficit for the past five years is greater than one per cent of total expenses.
Small deficits or surpluses	An entity's average deficit or surplus for the past five years is less than one per cent of total expenses.
Large surpluses	An entity's average surplus for the past five years is greater than one per cent of total expenses.

Source: ANAO developed parameters.

2.47 Figure 2.3 demonstrates 30 material not-for-profit entities were classified as achieving small deficits or surpluses and managing within their breakeven mandate. Sixteen for-profit entities recorded average large surpluses.

Figure 2.3: Operating results analysis



Source: ANAO analysis of material entities' operating results.

- 21 In the context of for-profit Commonwealth entities, the equivalent term for a surplus is profit and for a deficit is loss.
- 22 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 the Government.

2.48 Of the remaining twenty entities, two for-profit and two not-for-profit entities have averaged large deficits and 16 not-for-profit entities have averaged large surpluses. The following discussion focuses on these entities.

Large deficit

2.49 For the period 2011–12 to 2015–16 the following for-profit entities recorded large deficits: Moorebank Intermodal Company Limited; and nbn. In both cases, these entities have been in the start-up phase of large scale infrastructure projects requiring significant up-front investment which has led to ongoing operating losses. From 2020–21, the revenues are expected to start to exceed cost projections.

2.50 Two not-for-profit entities also averaged large deficits during this period: Comcare; and the High Court of Australia.

2.51 Comcare’s significant average deficit is the result of a change in the accounting policy supporting the estimate of outstanding claims in 2011–12. This resulted in a significant increase to the liability and associated expense of approximately \$500 million. Comcare subsequently adjusted the premiums charged to contributing entities resulting in average surpluses in 2013–14 to 2015–16.

2.52 In 2011–12 and 2013–14, the High Court’s operating result was significantly impacted by the accounting treatment to recognise significant write-offs of the library collection (2011–12: \$3.4 million and 2013–14: \$4.2 million). This accounting treatment does not impact the cash flows of the entity. The collection was determined to have significantly declined in value due to the prevalence of digitised records. While these losses were significant and have contributed to an average loss greater than six per cent of expenses over the five year period, the High Court operating results in 2014–15 and 2015–16 reflect an average loss of less than one per cent.

Large surpluses

2.53 As outlined in Figure 2.3, 16 material not-for-profit entities²³ reported average surpluses of more than one per cent of total expenses over the period of analysis. The following discussion focuses on the common drivers for these entities’ large average surpluses.

2.54 Cultural institutions represented more than a quarter of the entities in this category. These entities were the: Australian War Memorial, National Archives of Australia, National Gallery of Australia, National Museum of Australia and the National Library of Australia. Cultural institutions are funded through Government contributions, and are also able to accept and retain donations and bequests of cash or items deemed to be of cultural value. The accounting recognition of these items results in revenue being recorded in the period they are received without a corresponding expense. The outcome is that the receiving entity records a significant surplus in those years, affecting the average over the longer term.

23 Those entities were the: Australian Electoral Commission; Australian Prudential Regulation Authority; Australian Renewable Energy Agency; Australian Research Council; Australian Trade and Investments Commission; Australian War Memorial; Department of Employment; Department of Infrastructure and Regional Development; Family Court and Federal Circuit Court; Grains Research and Development Corporation; National Archives of Australia; National Blood Authority; National Disability Insurance Agency; National Gallery of Australia; National Library of Australia; and National Museum of Australia.

2.55 Machinery of Government changes can significantly impact the operating result of an entity in any year, including the periods immediately following the changes. Four entities in this category were impacted by transfers of functions and associated funding due to Machinery of Government changes during the five year period. Those entities were: the Australian Trade and Investments Commission; the Departments of Employment, and Infrastructure and Regional Development; and the Family Court and Federal Circuit Court.

2.56 For these entities the timing of the Machinery of Government changes and the transfer of funding associated with those functions did not align with the related expenditure which occurred in the following financial periods. The operating results of these entities subsequent to the Machinery of Government changes are significantly reduced and in the coming periods, the average should reduce to one per cent or less.

2.57 The timing of events or project milestones may also affect the operating result of an entity in a particular year. This has been a factor impacting the average operating result of the: Australian Electoral Commission, Australian Renewable Energy Agency (ARENA), and Australian Research Council (ARC). The Australian Electoral Commission received appropriation funding for a proposed referendum in 2013 that was not held. The funds were quarantined and could not be spent by the Commission, however the recognition of the revenue resulted in a significant surplus in that year and affected the longer term average. The funds have now been returned to Government and the operating results in 2014–15 and 2015–16 have averaged approximately 0.5 per cent.

2.58 ARENA and ARC have recognised significant surpluses in previous periods due to the timing and recognition of funding associated with milestone based grants where the expenditure is recorded when milestones are met rather than when the payment is made. This has an ongoing impact on the operating results of these entities as additional funding for new grants is provided each year.

2.59 The Australian Prudential Regulation Authority collects levies from industry bodies as part of the entity's funding arrangements. The levies are assessed and adjusted on an annual basis. In 2014–15 levies in excess of costs were collected resulting in a significant surplus. The levies were reduced in 2015–16 with a surplus of less than two per cent. The Grains Research and Development Corporation experienced large surpluses in 2012–13 and 2013–14 following a rise in grains production and prices which led to increases in the fees levied on producers. In response, the Grains Research and Development Corporation increased expenditure on research and development to use these surplus funds and return to a break-even position.

2.60 Other one-off factors have resulted in the National Disability Insurance Agency and National Blood Authority recording a significant surplus in a prior period which has contributed to a higher average overall. The National Disability Insurance Agency is in the transition phase to the Full Scheme. It is expected that the funds will be expended in future periods and the entity will move to a breakeven position. The National Blood Authority (NBA) received one-off revenue items in 2013–14 and 2014–15 relation to the accounting recognition of gains relating to an adjustment against the leasehold provision, and services provided to the Department of Health. In other years, NBA averaged a less than one per cent surplus.

Balance sheet analysis

2.61 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.

2.62 The ANAO analysed the balance sheet positions of material Australian Government entities as at 30 June 2016. 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.

2.63 The ANAO grouped material entities into the following categories:

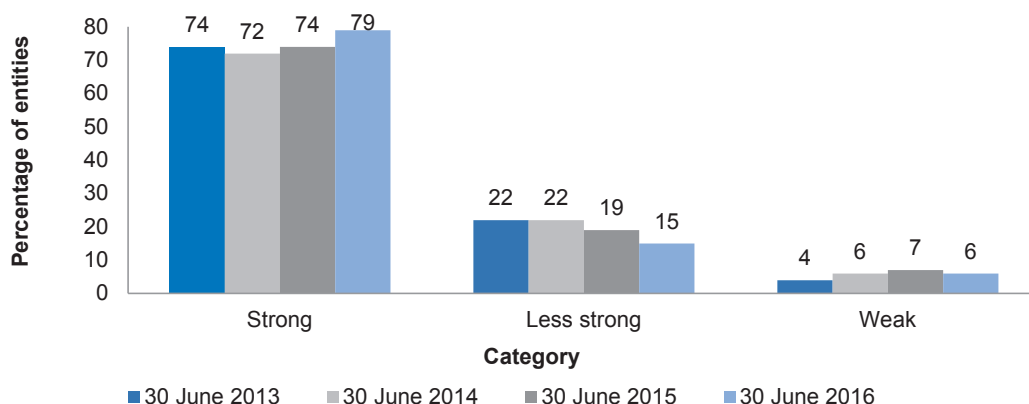
Table 2.3: Balance sheet categories

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 was 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.

2.64 Figure 2.4 presents the percentage of entities in each balance sheet category from 2012–13 to 2015–16.

Figure 2.4: Balance sheet analysis



Source: ANAO analysis of entity balance sheets.

2.65 Seventy-nine per cent of material entities had strong balance sheets in 2015–16, the highest level in the past four financial years. This indicates that the balance sheet positions of the large majority of material entities remain sound and for some entities, their position is improving.

2.66 The entities with weak balance sheets are those 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, the ANAO has noted that three entities have consistently appeared in this category for the past four years: the Australian Bureau of Statistics, the Australian Taxation Office and the Department of the Environment and Energy.

2.67 The Australian Bureau of Statistics experienced a significant loss in 2012–13 which heavily impacted the gearing ratio as the loss was required to be offset against existing reserves. The Bureau has implemented reductions to their work program and productivity savings to manage within its funding profile. These efforts, coupled with equity injections associated with the Statistical Business Transformation Program in 2015–16, have resulted in an improvement in the Bureau's gearing ratio in the current year, increasing to 17 per cent. The Australian Bureau of Statistics has advised it will continue to prioritise elements of its work program and consult with key users to ensure that it can continue to operate within its allocated funding in future periods.

2.68 The Australian Taxation Office's liquidity ratio has remained relatively stable, averaging 43 per cent, for the past four years. The gearing ratio has improved during that same period: rising from nine per cent in 2012–13 to 20 per cent in 2015–16. The upwards trend in this ratio indicates the ATO has been actively managing and working to improve their gearing position. As the gearing ratio continues to improve in future periods, the ATO will move out of the weak balance sheet category.

2.69 The Department of the Environment and Energy's ongoing weak balance sheet position can be attributed to 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 and Energy 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.

Audit findings

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

Table 2.4: Audit findings rating scale

Rating	Description
Significant (A)	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.
Moderate (B)	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.
Minor (C)	Issues that pose a low business or financial management risk to the entity. These may include accounting issues that, if not addressed, could pose a moderate risk in the future.

Source: ANAO reporting policy.

2.71 A summary of findings identified for the period ended 30 June 2016 by category is presented in Table 2.5. Following this table is an analysis of trends in significant, moderate and minor audit findings in each category between 2014–15 and 2015–16.

Table 2.5: Audit findings by category for the period ended 30 June 2016

Category	Main areas of weakness			
	Significant	Moderate	Minor	
IT control environment	0	7	82	<ul style="list-style-type: none"> Security management, particularly user access and monitoring of privileged users.
Compliance and quality assurance frameworks	3	12	30	<ul style="list-style-type: none"> Compliance frameworks for program payments and revenue collection; and Appropriate quality assurance frameworks supporting financial reporting.
Revenue, receivables and cash management	0	3	19	<ul style="list-style-type: none"> Timeliness and completion of reconciliations.
Accounting and control of non-financial assets	1	4	30	<ul style="list-style-type: none"> Processes supporting the valuation and assessment of impairment of assets.
Human resources financial processes	0	2	21	<ul style="list-style-type: none"> Review processes supporting employee commencements and termination.
Purchases and payables management	0	1	12	<ul style="list-style-type: none"> Authorisation of expenditure; and Maintenance of vendor data.
Other control matters	0	3	15	<ul style="list-style-type: none"> Memoranda of understanding and service level agreements; and Grants management, including acquittals processes.
Total	4	32	209	

Source: ANAO compilation of findings.

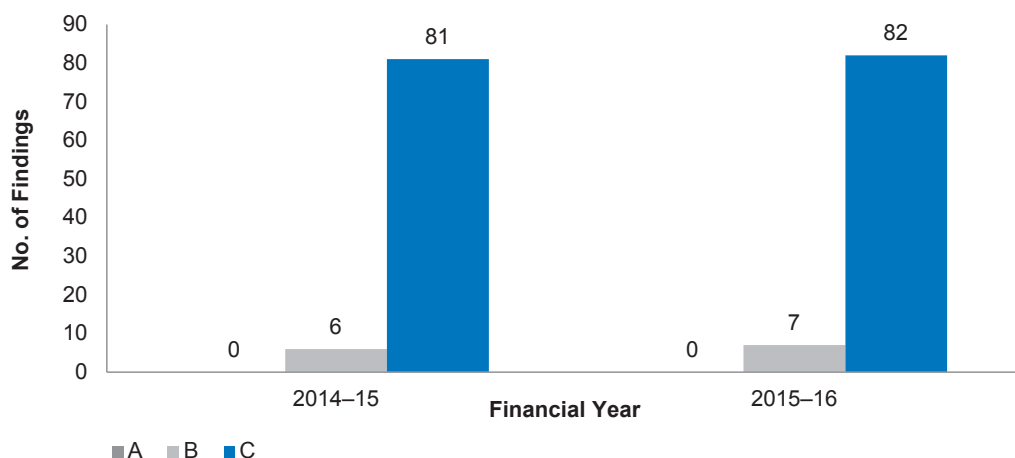
2.72 Five legislative findings were reported during 2015–16. Of these, two were significant and three non-significant.²⁴ The significant legislative findings were reported to the Northern Land Council and are not included in the table above. Further detail regarding these findings can be found in Chapter 4, paragraphs 4.15.33 to 4.15.36.

2.73 Table 2.5 does not include the moderate audit finding in relation to the preparation of the CFS first reported to the Department of Finance in 2014–15. Further detail regarding this finding can be found in Chapter 1, paragraphs 1.19 to 1.21.

Information Technology control environment

2.74 The review of information systems and related controls is an integral part of an entity's control environment supporting the preparation of financial statements. Figure 2.5 demonstrates the trend in audit findings related to entities' IT control environments from 2014–15 to 2015–16.

Figure 2.5: IT control environment audit findings



2.75 There was an increase of two IT control environment audit findings from 2014–15 to 2015–16. The most common area of weakness across all findings was in security management, in particular, the management of user access and monitoring of privileged users. A lack of controls around privileged users increases the risk of unauthorised changes being made to systems and data, or unauthorised data leakage and is an area requiring sustained focus by entities.

2.76 Five of the six moderate findings reported in the previous year had been resolved, or reclassified to a minor audit finding, during 2015–16.²⁵ One moderate finding related to the National Disability Insurance Agency was carried forward and remains unresolved at the

24 A significant legislative finding is reported where: a significant potential or actual breach of the Constitution occurs; or non-compliance with an entity's enabling legislation, legislation the entity is responsible for administering, or the PGPA Act is identified. A non-significant legislative finding is reported where instances of non-compliance with other legislation, or sub-ordinate legislation, are identified.

25 Refer to the following entities' detailed results in Chapter 4 for further detail: the Attorney-General's Department, the Australian Electoral Commission and the Department of Parliamentary Services.

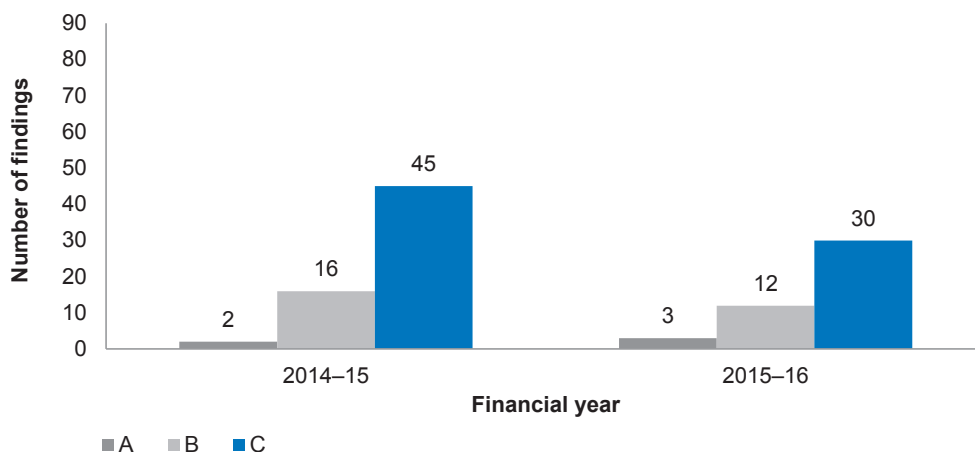
conclusion of 2015–16. Details of the six new moderate audit findings reported in 2015–16 can be found in the following entities’ detailed results in Chapter 4:

- Australian Film and Television Radio School;
- Department of Education and Training;
- Department of Employment;
- Fair Work Commission;
- Office of the Fair Work Ombudsman; and
- Royal Australian Mint.

Compliance and quality assurance frameworks

2.77 The implementation of effective compliance frameworks, and processes that provide assurance regarding the completeness and accuracy of information, are integral to the preparation of financial statements that are free of material misstatement. Figure 2.6 demonstrates the trend in audit findings related to entities’ compliance and quality assurance frameworks from 2014–15 to 2015–16.

Figure 2.6: Compliance and quality assurance frameworks audit findings



2.78 As demonstrated by Figure 2.6, the number of significant audit findings relating to entities’ compliance and quality assurance frameworks between 2014–15 and 2015–16 has increased by one. One of the two significant audit findings reported in 2014–15 remained unresolved at the conclusion of the 2015–16 audits. This finding relates to the Department of Education and Training and is outlined in detail at paragraphs 4.5.27 to 4.5.30. The resolved significant audit finding related to the Northern Land Council and was reclassified to a minor audit finding during 2015–16.

2.79 Of the two new significant audit findings, one was identified during 2015–16 relating to the National Disability Insurance Agency, and is discussed further at paragraphs 4.16.43 to 4.16.48. The other significant audit finding relates to the Administration of Norfolk Island, and was first reported in 2014–15 as a moderate audit finding and subsequently reclassified to a significant audit finding during 2015–16. Detail regarding the Administration of Norfolk Island finding is provided at paragraphs 4.13.68 to 4.13.71.

2.80 Eight of the sixteen moderate audit findings reported in 2014–15 remain unresolved or were reclassified at the conclusion of the 2015–16 audits. These findings relate to: the Attorney-General’s Department; the Department of Defence; the Department of Immigration and Border Protection, the Administration of Norfolk Island; and Norfolk Island Hospital Enterprise. Three of the five new moderate findings related to the Australian Taxation Office, while the fourth and fifth related to Defence Housing Australia and the Department of Industry, Innovation and Science respectively. Details of all resolved, unresolved and reclassified significant and moderate audit findings can be found in the relevant entities’ detailed results section in Chapter 4.

2.81 While the overall decrease in the number of minor audit findings in this category is an improvement, the high number of significant and moderate audit findings indicate there remains a need for entities to focus greater attention on:

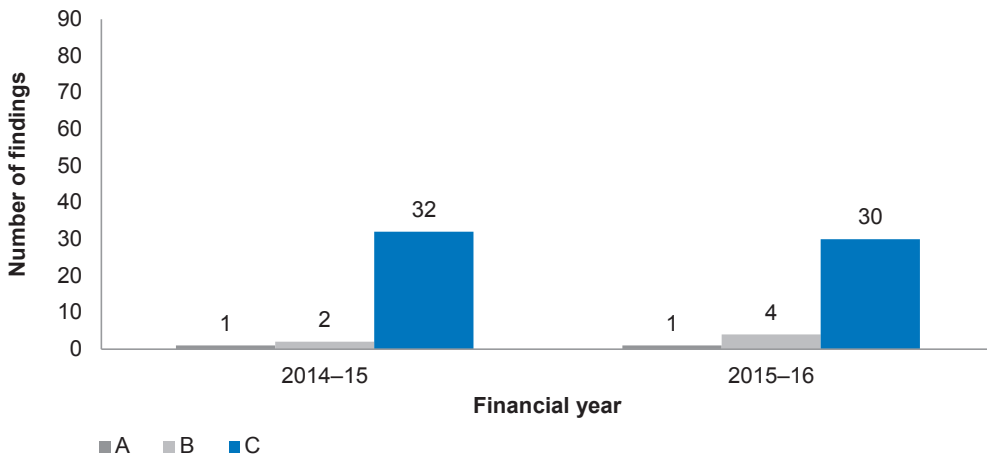
- maintaining effective governance arrangements over third party or joint service delivery arrangements; and
- the risk management arrangements that support the effective engagement with risk in the delivery of programs.

Accounting and control of non-financial assets

2.82 Entities control a diverse range of non-financial assets on behalf of the Commonwealth, including land and buildings, specialist military equipment, leasehold improvements, infrastructure, plant and equipment, inventories and internally-developed software.

2.83 The number of audit findings related to entities’ management of non-financial assets between 2014–15 and 2015–16 is presented in Figure 2.7.

Figure 2.7: Accounting and control of non-financial assets audit findings



2.84 The significant audit finding reported in 2015–16 is the result of the reclassification of a moderate audit finding reported in 2014–15 to the Administration of Norfolk Island. This was following the downgrading of the 2014–15 significant finding related to the Norfolk Island Hospital Enterprise during 2015–16, leading to the total significant findings remaining consistent. Further detail regarding both of these findings can be found at paragraphs 4.13.72 to 4.13.76.

2.85 The four moderate audit findings reported in 2015–16, compared to two in 2014–15, comprise:

- two new findings reported by the Department of Defence;
- one new finding related to the Administration of Norfolk Island which was reclassified from a minor finding during 2015–16; and
- the reclassified finding referred to in paragraph 2.84 for Norfolk Island Hospital Enterprise.

2.86 The second moderate audit finding reported in 2014–15 related to the Royal Australian Mint and was resolved during 2015–16.

2.87 Minor findings in this category decreased from 32 findings to 30. The common weaknesses related to entities' processes for:

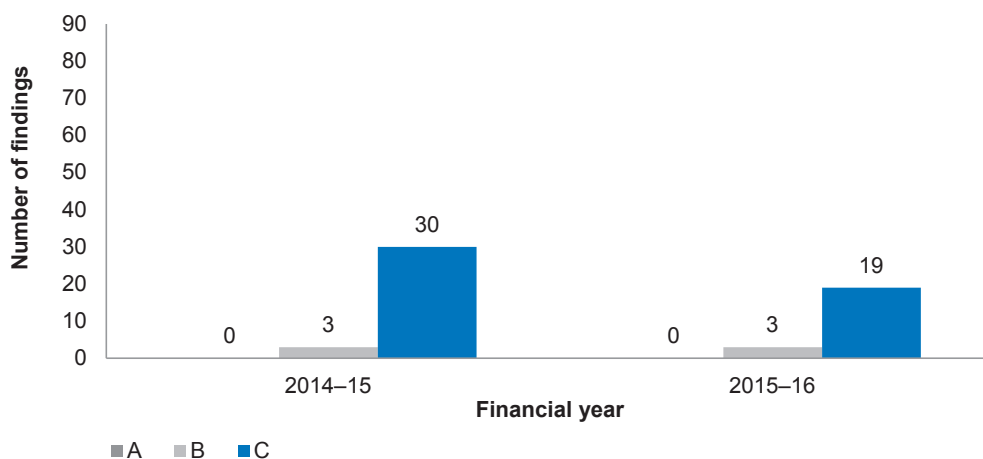
- monitoring assets under construction and capitalisation of project costs;
- valuation adjustments and assessments for impairment of assets and restoration obligations; and
- stocktake procedures.

Revenue, receivables and cash management

2.88 The key financial statement items related to 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.

2.89 Figure 2.8 outlines trends in findings related to revenue, receivables and cash management identified between 2014–15 and 2015–16.

Figure 2.8: Revenue, receivables and cash management audit findings



2.90 Of the three moderate audit findings reported in 2014–15, two were resolved by the Department of Immigration and Border Protection and Department of Defence during 2015–16.

One finding has been carried forward and remains unresolved relating to the Administration of Norfolk Island. The two new moderate audit findings identified during 2015–16 relate to the Department of Health and the Royal Australian Mint. Further detail regarding these findings can be found in the detailed results for each entity in Chapter 4.

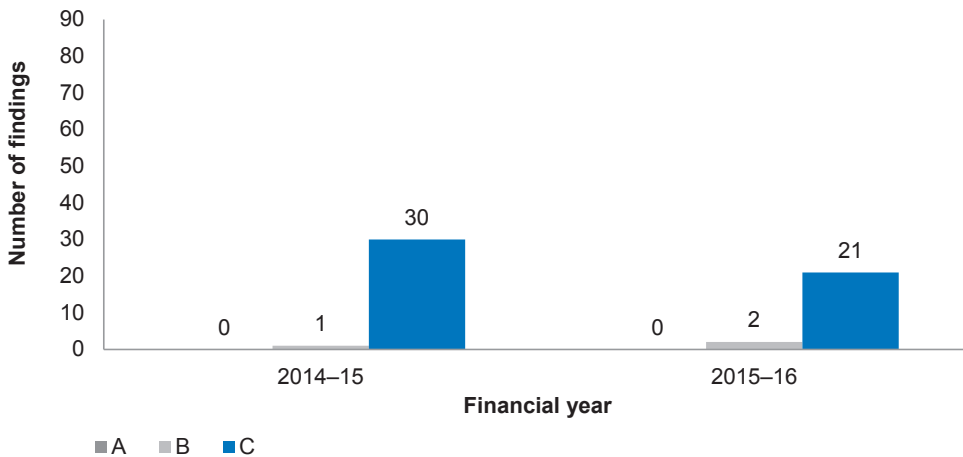
2.91 The reduction in the number of minor audit findings indicate that entities have established controls in relation to revenue and cash management processes, and address identified weaknesses when identified. Common areas for entities to continue to improve include:

- recognition of revenue arising from multi-year contracts;
- bank reconciliation processes, including the timeliness of those reconciliations; and
- processes supporting the complete and accurate recording of revenue.

Human resources financial processes

2.92 Human resources encompass the day-to-day management and administration of employee entitlements and payroll functions. Expenditure associated with employee benefits represents the largest departmental expenditure item for most entities and employee entitlement liabilities are typically the largest liability.

Figure 2.9: Human resources financial processes audit findings



2.93 While the decrease in the number of minor audit findings indicates entities have made a concerted effort to address previously identified control weaknesses, there has been an increase of one in the number of moderate audit findings.

2.94 Of the two moderate audit findings identified during 2015–16, one relates to the National Disability Insurance Agency and has not been previously reported, while the other relates to the Department of Immigration and Border Protection and was reclassified during 2015–16 from a minor audit finding in 2014–15.

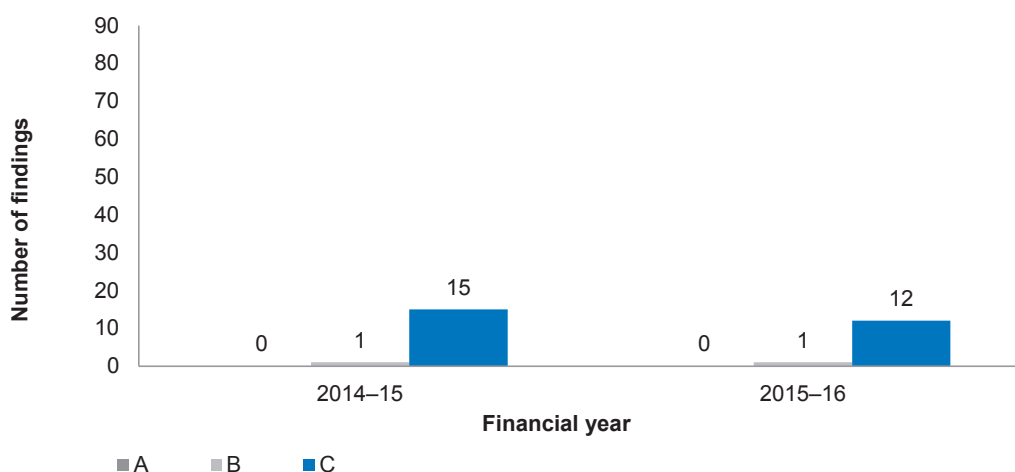
2.95 The moderate finding previously reported in 2014–15 related to the Commonwealth Superannuation Corporation and was resolved during 2015–16.

2.96 Further detail regarding each of these findings can be found in the relevant entity's detailed results section in Chapter 4.

Purchases and payables management

2.97 The main financial statement components of purchases and payables are payments to, or due to, suppliers including contractor and consultancy expenses, lease payments and general administrative and utility payments. These typically comprise the other significant departmental expenditure item of entities. The trend in audit findings related to this category between 2014–15 and 2015–16 is outlined in Figure 2.10.

Figure 2.10: Purchases and payables management audit findings



2.98 The moderate audit finding reported in 2014–15 related to the Administration of Norfolk Island and was reclassified to a minor audit finding during 2015–16. A new moderate audit finding was subsequently identified relating to the Administration of Norfolk Island's procurement processes during 2015–16. Further detail regarding these findings can be found at paragraphs 4.13.75 and 4.13.78.

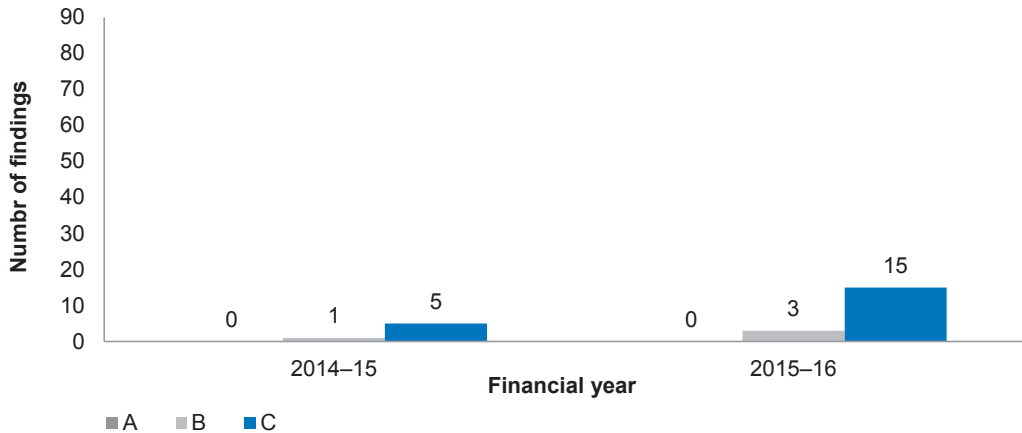
2.99 As demonstrated by the figure above, the controls in this area are established, indicating entities' focus on proper processes to support the expenditure of public monies with the number of minor audit findings decreasing from 15 to 12 between 2014–15 and 2015–16. Of those minor findings, the most common areas for improvement by entities were:

- processes supporting the authorisation of expenditure, including maintaining proper segregation of duties;
- maintenance of vendor records; and
- processes supporting the accurate recording of accrual information.

Other control matters

2.100 Other control matters typically include items regarding the management and implementation of service level agreements or memoranda of understanding, and the administration of processes that impact more broadly than the financial statements only. Figure 2.11 demonstrates the trend in this finding category between 2014–15 and 2015–16.

Figure 2.11: Other control matters audit findings



2.101 The number of moderate findings has increased between 2014–15 and 2015–16. The moderate audit finding reported in 2014–15 was related to the Department of the Prime Minister and Cabinet and was resolved during 2015–16.

2.102 Further detail on the three new moderate findings identified in 2015–16 can be found in the Administration of Norfolk Island, the Australian Taxation Office and the Department of Immigration and Border Protection sections in Chapter 4.

2.103 In addition to the increase in moderate findings, there has been growth in the number of minor audit findings in this category. The increase of findings in this category indicates a need for entities to place a greater focus on:

- establishing appropriate contractual arrangements with external service providers;
- improving monitoring of performance against service level agreements and memoranda of understanding; and
- improving the design and implementation of Business Continuity or Disaster Recovery arrangements.

3. Reporting and auditing frameworks

Chapter coverage

This chapter outlines recent and future changes to the public sector reporting framework, including the introduction of performance reporting and measures to improve the quality and timeliness of financial reporting. This chapter also discusses changes to the Australian auditing framework relating to the auditor's report on financial statements.

Summary of developments

The AASB has extended the application of AASB 124 Related Party Disclosures (AASB 124) to all not-for-profit public sector entities for reporting periods beginning on or after 1 July 2016. AASB 124 also requires disclosures of key management personnel remuneration by major category of remuneration. There would be benefit in government considering making the aggregate level of transparency for key management personnel remuneration in the public sector consistent with that required for listed entities.

Commonwealth entities are now required to publish a corporate plan by 31 August each reporting period and include a performance statement in their annual reports. The ANAO has undertaken audit work in this area, which will continue to be a focus in future performance audit work programs.

Initiatives by Australian standard setters and the Department of Finance are in place to improve the quality of entities' financial reporting. There are also initiatives underway to improve the timeliness of financial reporting.

In December 2015, the Australian Auditing and Assurance Standards Board issued a suite of new and revised standards dealing with auditor reporting. A number of revisions were made to enhance the value of auditors' reports by providing greater transparency about the audit that was performed. The ANAO expects to report on key audit matters in the 2016–17 financial statement audit reports for a number of significant entities.

Introduction

3.1 The Australian Government's financial reporting framework is based, in large part, on standards made independently by the Australian Accounting Standards Board (AASB). The framework is designed to support decision-making by, and accountability to, the Parliament.

3.2 The AASB bases its accounting standards on the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. Because IFRS are designed primarily for use by private sector and 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.

3.3 The Finance Minister prescribes additional reporting requirements for Australian Government entities. These are contained in the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (the FRR). The FRR is made under the *Public Governance, Performance and Accountability Act 2013* (the PGPA Act). The PGPA Act also includes requirements for entity corporate plans and performance reports.

3.4 The audits of the financial statements of Australian Government entities are conducted in accordance with the ANAO Auditing Standards, which are made by the Auditor-General under section 24 of the *Auditor-General Act 1997*. The ANAO Auditing Standards incorporate, by reference, the auditing standards made by the Australian Auditing and Assurance Standards Board. The Australian Auditing and Assurance Standards Board base its standards on those made by the International Auditing and Assurance Standards Board, an independent standard setting board of the International Federation of Accountants.

3.5 The financial reporting and auditing frameworks that applied in 2015–16 are illustrated in Appendix 3 and Appendix 4 of this report.

Changes to the Australian public sector reporting framework

Related party transactions including remuneration

3.6 AASB 124 *Related Party Disclosures* (AASB 124) requires an entity to disclose transactions with its related parties. The AASB has extended the application of this standard to all not-for-profit public sector entities for reporting periods beginning on or after 1 July 2016, previously these entities were exempt from AASB 124. The purpose of the related party disclosures is to inform users about the possibility that the financial position and results of the entity may have been affected by transactions and outstanding balances with parties related to the entity. AASB 124 paragraph 6 provides the following examples of how this may occur:

- ...an entity that sells goods to its parent at cost may not sell on those terms to another customer; and
- ...transactions between related parties may not be made at the same amounts as between unrelated parties.

3.7 As discussed above, from 1 July 2016, AASB 124 requires all Australian Government controlled entities to disclose material related party transactions in the notes to the financial statements. This will include transactions between Ministers and their departments and between Cabinet Ministers and all Australian Government entities. Transactions with entities controlled by Ministers and with close family members of Ministers will also be disclosed.

3.8 AASB 124 also requires disclosure of key management personnel remuneration by major category of remuneration. Prior to 2014–15, the Finance Minister's Orders²⁶ required Commonwealth entities to provide detailed remuneration disclosures for senior executives, including key management personnel. Figure 3.1 provides an example of these disclosures.

26 The Finance Minister's Orders were made under the *Commonwealth Authorities and Companies Act 1997* and *Financial Management and Accountability Act 1997*.

Figure 3.1: Finance Ministers Orders 2013–14 model remuneration disclosures

Note 6 Senior Executive Remuneration

Note 6A: Senior Executive Remuneration Expenses for the Reporting Period

	20X2 \$	20X1 \$
Short-term employee benefits		
Salary	-	-
Performance bonuses	-	-
[Disclose other major categories]	-	-
Total short-term employee benefits	-	-
Post-employment benefits		
Superannuation	-	-
[Disclose other major categories]	-	-
Total post-employment benefits	-	-
Other long-term employee benefits		
Annual leave	-	-
Long-service leave	-	-
[Disclose other major categories]	-	-
Total other long-term employee benefits	-	-
Termination benefits		
[Disclose by major categories]	-	-
Total termination benefits	-	-
Total senior executive remuneration expenses	-	-

Note 6B: Average Annual Reportable Remuneration paid to Substantive Senior Executives during the Reporting Period

Average annual reportable remuneration paid to substantive senior executives in 20X2

Average annual reportable remuneration	Substantive senior executives No.	Reportable salary \$	Contributed superannuation \$	Reportable allowances \$	Bonus paid \$	Total reportable remuneration \$
Total reportable remuneration (including part-time arrangements)						
Less than [Disclose Table B threshold]	-	-	-	-	-	-
[Disclose Table B threshold] to [disclose amount equal to Table B threshold plus \$29,999]	-	-	-	-	-	-
[Disclose by relevant band]	-	-	-	-	-	-
Total number of substantive senior executives	-					

Note 6C: Average Annual Reportable Remuneration Paid to Other Highly paid Staff during the Reporting Period

Average annual reportable remuneration paid to other highly paid staff in 20X2

Average annual reportable remuneration	Other highly paid staff No.	Reportable salary \$	Contributed superannuation \$	Reportable allowances \$	Bonus paid \$	Total reportable remuneration \$
Total reportable remuneration (including part-time arrangements)						
[Disclose Table C threshold] to [disclose amount equal to Table C threshold plus \$29,999]	-	-	-	-	-	-
[Disclose by relevant band]	-	-	-	-	-	-
Total number of other highly paid staff	-					

Source: Department of Finance, *Forms of Financial Statements 2013-14*.

3.9 At that time, private sector disclosing entities were required to disclose compensation for individual key management personnel under AASB 124. Those requirements were deleted from AASB 124 from 1 July 2013 to support international harmonisation. Listed companies are required to disclose this information in a separate remuneration report under the remuneration reporting requirements of the *Corporations Act 2001*. In 2014–15, with the introduction of the PGPA Act and FRRs, disclosure by band was discontinued and the disclosure requirements under the FRRs were aligned with those of AASB 124, refer Figure 3.2.

3.10 The remuneration for certain Commonwealth officers is publicly available through the Remuneration Tribunal. The Remuneration Tribunal issues determinations detailing remuneration, including allowances, for: Part-time Officers (Commonwealth boards, councils and committees); specified statutory offices; full-time public offices; Secretaries; parliamentary offices; and judicial and related offices.

Figure 3.2: Financial Reporting Rule 2015 model remuneration disclosures

Note 6 Senior Management Personnel Remuneration		
	20X2	20X1
Short-term employee benefits		
Salary	-	-
Performance bonuses	-	-
Motor vehicle and other allowances	-	-
[Disclose other major categories]	-	-
Total short-term employee benefits	-	-
Post-employment benefits		
Superannuation	-	-
[Disclose other major categories]	-	-
Total post-employment benefits	-	-
Other long-term employee benefits		
Annual leave	-	-
Long-service leave	-	-
[Disclose other major categories]	-	-
Total other long-term employee benefits	-	-
Termination benefits		
[Disclose by major categories]	-	-
Voluntary redundancy payments	-	-
Total termination benefits	-	-
Total senior executive remuneration expenses	-	-

The total number of senior management personnel that are included in the above table are [disclose no. of senior management personnel] (20X1: [disclose no. of senior management personnel]).

Source: Department of Finance, 2015-16 *PRIMA Forms of Financial Statements for Commonwealth Entities*.

3.11 The executive remuneration presentation disclosures of Australian Government entities are consistent with the requirements for private sector entities that are not listed companies. The disclosures required under the Department of Finance Resource Management Guide No. 125 *Commonwealth Entities Financial Statements Guide May 2016* (RMG 125) encompass all senior management personnel²⁷, including key management personnel.

3.12 Listed companies provide more detailed disclosures of individual key management personnel remuneration in their remuneration reports, which are not part of the financial

27 Senior management personnel include Directors, Accountable Authorities, Senior Executive Service (SES) and equivalent officers.

statements, under the *Corporations Act 2001* requirements. Figure 3.3 provides an example of these disclosures.

Figure 3.3: *Corporations Act 2001* model remuneration disclosures

Remuneration Report											
Remuneration expenses for executive KMP											
The following table shows details of the remuneration expense recognised for the group's executive key management personnel for the current and previous financial year measured in accordance with the requirements of the accounting standards.											
	Year	Fixed remuneration					Variable remuneration			Total	Performance Related %
		Cash salary	Non-monetary benefits	Annual and long service leave	Post-employment benefits	Other	Cash bonus	Rights to deferred shares	Options		
Executive directors											
Executive director A	20X2	-	-	-	-	-	-	-	-	-	-
	20X1	-	-	-	-	-	-	-	-	-	-
Executive director B (from 1/1/20X2)	20X2	-	-	-	-	-	-	-	-	-	-
	20X1	-	-	-	-	-	-	-	-	-	-
Executive director C	20X2	-	-	-	-	-	-	-	-	-	-
	20X1	-	-	-	-	-	-	-	-	-	-
Other key management personnel											
Key management person A	20X2	-	-	-	-	-	-	-	-	-	-
	20X1	-	-	-	-	-	-	-	-	-	-
Key management person B (from 1/10/20X1 - 30/6/20X2)	20X2	-	-	-	-	-	-	-	-	-	-
	20X1	-	-	-	-	-	-	-	-	-	-
Key management person C	20X2	-	-	-	-	-	-	-	-	-	-
	20X1	-	-	-	-	-	-	-	-	-	-
Total executive directors and other KMPs	20X2	-	-	-	-	-	-	-	-	-	-
	20X1	-	-	-	-	-	-	-	-	-	-
Total non-executive director remuneration	20X2	-	-	-	-	-	-	-	-	-	-
	20X1	-	-	-	-	-	-	-	-	-	-
Total KMP remuneration	20X2	-	-	-	-	-	-	-	-	-	-
	20X1	-	-	-	-	-	-	-	-	-	-

Source: ANAO analysis of *Corporations Act 2001* requirements.

3.13 There would be benefit in government considering making the aggregate level of transparency for key management personnel remuneration in the public sector consistent with that required for listed entities.

Enhanced performance reporting

3.14 Financial reporting is only one element of reporting by not-for-profit entities. Such entities are established to deliver services, and users need reports on entities' performance in delivering those services.

3.15 The PGPA Act requires each Commonwealth entity to produce a corporate plan at least once each reporting period and provide it to the responsible Minister and the Finance Minister. The corporate plan is intended to be the primary planning document for entities. Corporate plans are required to be published by 31 August each year.

3.16 Each Commonwealth entity is also required to include a performance statement in its annual report. These statements provide an assessment of the extent to which entities have succeeded in achieving their purposes, as outlined in their corporate plans. The first performance

statements were included in entity annual reports for 2015–16. The PGPA Act does not require performance statements to be audited by the Auditor-General, however the responsible Minister or the Finance Minister may request this.

3.17 This new performance framework is intended to be a catalyst for improving the quality of performance information in the public sector.

3.18 In December 2015, the Joint Committee of Public Accounts and Audit (JCPAA) reported overall the framework was robust and was a clear improvement on the previous system. It also found a number of ways the framework could be improved, including: clear criteria for performance information; additional guidance on achieving a ‘clear read’ on performance information through the annual cycle; more information in the Portfolio Budget Statements; and ongoing monitoring, reporting and evaluation by Finance.²⁸

3.19 In August 2016, the ANAO released a performance audit on nine entities’ implementation of the corporate planning requirements.²⁹ It noted that Finance had provided effective support and the majority of these entities had sound processes for developing their first corporate plan. It also noted that these entities’ arrangements for monitoring implementation of corporate plans were less mature, which could be expected in the early stages of the framework.

3.20 In September 2016, the Government response to the JCPAA included a commitment by Finance to continue supporting entities and to monitor the implementation of the framework. The Government’s response also noted that the independent review of the operation of the PGPA Act and Rules³⁰ would comment on the ongoing monitoring, reporting and evaluation of the framework.

3.21 The ANAO has developed a methodology for auditing performance statements, which will be trialled as a performance audit in 2016–17. The ANAO will continue to review entity performance measures in its regular performance audits.

Improving the timeliness of reporting

3.22 An important attribute of any report is its timeliness. In May 2016, the JCPAA stated that bringing forward the delivery of the annual reports of Australian Government entities would be both valuable and viable.³¹ The ANAO agrees with this view.

3.23 Achieving this may require, amongst other things:

- finalisation of framework issues such as simplified reporting and provision of the financial reporting rules and guidance by 31 December each year;
- entity financial statements to be prepared earlier; and
- ANAO adjustment to the timing of audit procedures to audit financial statements items earlier. This will require coordination with entities to agree elements of entity preparation that can be finalised prior to the final audit phase.

28 JCPAA, Report 453 *Development of the Commonwealth Performance Framework*, December 2015.

29 ANAO Report No.6 2016–17 *Corporate Planning in the Australian Public Sector*.

30 Section 112 of the PGPA Act requires a review of the operation of the PGPA Act and Rules to be conducted as soon as practicable after 1 July 2017.

31 JCPAA, Report 457 *Development of the Commonwealth Performance Framework – Second Report*, May 2016.

3.24 The ANAO will continue to work with entities to promote earlier completion of financial statement audits.

Simplified reporting

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

3.26 In 2014, the AASB published a staff paper³² 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 International Accounting Standards Board'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.

3.27 Australian Accounting Standards include a Reduced Disclosure Regime (RDR) option that allows for certain disclosures to be omitted from annual financial statements. As the RDR is not permitted at the whole-of-government level, if RDR is applied by individual entities, Finance needs to collect information that might not be reported in entity financial statements, but is required for the whole-of-government statements. Finance has indicated its intention to enable entities to move to RDR in future reporting periods.

3.28 The ANAO supports these initiatives, to the extent that the needs of Parliament are met. Entities need to take advantage of these initiatives, if the full potential for change is to be achieved. Australian Government entities have responded positively to this challenge, but greater efforts in this area are still possible.

Revenue recognition

3.29 The AASB has developed proposals³³ to change the way not-for-profit entities recognise income from non-commercial transactions such as grants and appropriations. Currently, entities recognise income from these transactions when they receive, or are eligible to receive, funds. Under the proposals, entities would recognise income as they fulfil their obligations, if any, to the party providing the funds. This is expected to lead, in some cases, to later recognition of income and closer matching of income with related expenses.

Changes to the Australian auditing framework

Auditor's report on financial statements

3.30 In December 2015, the Australian Auditing and Assurance Standards Board issued a suite of new and revised standards dealing with auditor reporting.³⁴ A number of revisions were made in the standards with the aim of increasing the transparency and value of auditor reporting. In a

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

33 ED 260 *Income of Not-for-Profit Entities*, April 2015.

34 These included: ASA 700 *Forming an Opinion and Reporting on a Financial Report*; ASA 570 *Going Concern*; and ASA 720 *The Auditor's Responsibilities Relating to Other Information*.

key change to the form of the auditor's report, the auditor's opinion on the financial statements will form the first section of the report, directly followed by the basis of the opinion.

3.31 The content of the auditor's report will change to add information about the ability of the entity to continue operating and the auditor's responsibilities, particularly those relating to auditor independence and audit procedures around the entity's annual report. These revisions to the auditing standards apply to financial years ending on or after 15 December 2016. The ANAO has included the auditor's opinion as part of the opening paragraph of the auditor's report for the year ended 30 June 2016.

3.32 The auditor reporting suite also includes a new auditing standard ASA 701 *Communicating Key Audit Matters* (ASA 701) in the Independent Auditor's Report. The purpose of communicating key audit matters is to provide greater transparency about the audit that was performed. Communicating key audit matters helps users of financial statements better understand those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements. Key audit matters may relate to, for example, the highest risks of material misstatement, highly uncertain accounting estimates or significant events or transactions during the reporting period. Communicating key audit matters may also assist users to understand the entity and the areas of significant management judgment in the financial statements.

3.33 ASA 701 applies from 15 December 2016 to audits of listed entities' financial statements and also in circumstances where the auditor otherwise decides or is required by law to communicate key audit matters in the auditor's report.

3.34 In the 2015–16 audit cycle, the ANAO conducted a limited pilot of key audit matters reporting to assess risks and to inform development of ANAO's methodology. A report on key audit matters is being presented to the Accountable Authorities, directors, audit committees and senior management of these entities for their information. These reports will be in addition to the published auditor's report on the financial statements. The ANAO expects to report on key audit matters in the 2016–17 financial statement audit reports for a number of significant entities.

Data analytics

3.35 Data analytics is the process of using modern software to download and analyse large amounts of data from entity systems. In the audit context, it involves using that data in ways that potentially enhance auditors' ability to gather evidence and enhance their insights into the entity and its environment.

3.36 The auditing standards do not currently address the use of data analytics in an audit. The International Auditing and Assurance Standards Board has commenced a project to investigate whether, and how, auditing standards should change to reflect the use of data analytics; it has released a consultation paper *Exploring the Growing Use of Technology in Audit, with a Focus on Data Analytics*. Key questions in the paper include how data analytics might replace or supplement existing audit procedures, the extent of general IT controls testing required to rely on data analytics and how to respond to exceptions identified through data analytics.

3.37 The ANAO is updating its methodology and training to facilitate the adoption of data analytics in our financial and performance audits under the existing auditing standards. The ANAO is actively monitoring industry developments and standard-setting activity in this area.

4. Results of financial statement audits by portfolio

Chapter coverage

This chapter outlines the results of the audits of the 2015–16 financial statements of individual entities by portfolio based on arrangements existing at 30 June 2016.

The chapter also details:

- movements between 2014–15 and 2015–16 in key departmental and administered financial statement items for all material entities; and
- key areas of financial statements risk and the factors contributing to those risks for all material entities; and
- the status of significant and moderate audit findings identified during 2015–16 and previous years for all entities.

Audit results

Thirty-six significant and moderate audit findings were reported in 2015–16 compared with 32 in 2014–15, and two significant legislative breaches compared to one in 2014–15.

This increase in overall findings, coupled with the increase in the number of unresolved findings carried forward from the previous year, indicate that greater focus is required by entities to identify and resolve control weaknesses in a timely manner.

Results of financial statement audits

4.0.1 The portfolio arrangements presented in this chapter are those established by the September 2015 Administrative Arrangements Orders. A full listing of entities is presented at Appendix 1.

4.0.2 Table 4.0.1 presents a summary of significant and moderate findings at 30 June 2016 and 30 June 2015 by portfolio and entity, including the number carried forward as unresolved from the previous year.

4.0.3 Table 4.0.1 does not include significant legislative breaches. The Northern Land Council reported two significant legislative breaches in 2015–16 (2014–15: one). Of these, one is unresolved from 2014–15.

Table 4.0.1: Significant and moderate audit findings by portfolio and entity

Portfolio	Entity	30 June 2016		30 June 2015	
		Findings ^(a)	Repeat/unresolved findings ^(b)	Findings ^(a)	Repeat/unresolved findings ^(b)
Attorney-General's	Attorney-General's Department	1	1	2	1
Communications and the Arts	Australian Film, Television and Radio School	1	–	–	–
Defence	Department of Defence	4	2	3	–
	Defence Housing Australia	1	–	–	–
	Defence Materiel Organisation ^(c)	N/A	N/A	4	–
Education and Training	Department of Education and Training	3	1	–	–
Employment	Department of Employment	1	–	–	–
	Fair Work Commission	1	–	–	–
	Office of the Fair Work Ombudsman	1	–	–	–
Finance	Australian Electoral Commission	–	–	1	–
	Comsuper	–	–	1	–
Health	Department of Health	1	–	–	–
Immigration and Border Protection	Department of Immigration and Border Protection	3	2	2	–
	Australian Customs and Border Protection Service ^(d)	N/A	N/A	1	–
Industry, Innovation and Science	Department of Industry, Innovation and Science	1	–	–	–
Infrastructure and Regional Development	Administration of Norfolk Island	7	4	5	N/A
	– Norfolk Island Hospital Enterprise	2	2	2	N/A

Portfolio	Entity	30 June 2016		30 June 2015	
Parliamentary Departments	Department of Parliamentary Services	–	–	3	–
Prime Minister and Cabinet	Department of the Prime Minister and Cabinet	–	–	2	1
	Northern Land Council	–	–	1	1
Social Services	Department of Social Services	–	–	2	1
	Department of Human Services	–	–	1	–
	National Disability Insurance Scheme Launch Transition Agency	3	1	1	–
Treasury	Australian Taxation Office	4	–	–	–
	Royal Australian Mint	2	–	1	1
Whole of Government	Consolidated Financial Statements	–	–	1	–
TOTAL		36	13	33	5

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

Note b: Repeat/unresolved findings are categorised as such if unresolved from a prior financial year. 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: The four unresolved findings from 30 June 2015 for the Defence Materiel Organisation were transferred to the Department of Defence following the merge of the two entities from 1 July 2015.

Note d: The unresolved finding from 30 June 2015 for the Australian Customs and Border Protection Service was transferred to the Department of Immigration and Border Protection following the merge of the two entities from 1 July 2015.

Source: 2015–16 and 2014–15 ANAO correspondence.

4.1 Agriculture and Water Resources Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Agriculture and Water Resources	Yes	✓	6 Sept 16	6 Sept 16	
Grains Research and Development Corporation	Yes	✓	19 Aug 16	19 Aug 16	

✓: auditor's report not modified

Portfolio overview

4.1.1 The Agriculture and Water Resources portfolio supports the sustainability, profitability and competitiveness of Australia's agriculture, fisheries and forestry industries and the sustainable and productive management and use of rivers and water resources.

4.1.2 The Department of Agriculture and Water Resources is the lead entity in the portfolio. The portfolio also includes statutory regulators for fisheries and agricultural and veterinary chemicals, research and development entities for wine, cotton, fisheries, grains and rural industries, and water resource management for the Murray-Darling Basin.

4.1.3 The ANAO's financial statements audit approach identifies key areas of risk that have the potential to impact an entity's financial statements and develops audit procedures to address those risks. The results of recent performance audits form part of this risk identification process.

4.1.4 The following sections provide a summary of the 2015–16 financial statements audit results for the Department of Agriculture and Water Resources and the Grains Development Research Corporation. Where a performance audit was tabled during 2015–16 and relevant to the financial management or administration of a portfolio entity, the impact of those observations on the audit approach are also discussed.

4.1.5 The observations of performance audits tabled since 1 July 2016 and relevant to the financial management or administration of entities within the Agriculture portfolio will inform the ANAO's 2016–17 financial statements audits risk identification processes.

Department of Agriculture and Water Resources

4.1.6 The Department of Agriculture and Water Resources (Agriculture) is responsible for developing and implementing policies and programs that: advance the prosperity of Australia's agricultural, fisheries, food and forestry industries; safeguard Australia against animal and plant pests and diseases; and improve water use efficiency and the health of rivers, communities, environmental assets and production systems.

4.1.7 As a result of the September 2015 Machinery of Government changes, responsibility for water policy and resources transferred from the Department of the Environment to Agriculture, this included the transfer of a substantial grants program, water assets, and approximately 150 staff. As part of the Machinery of Government changes, the Murray-Darling

Basin Authority and the River Murray Initiative and Living Murray Initiative joint operations were also transferred to the portfolio.

Summary of financial performance

4.1.8 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by the department, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.1.1: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(358.1)	(281.2)
Revenue from government	338.5	300.8
Surplus/(deficit) attributable to the Australian Government	(19.6)	19.6
Total other comprehensive income	(2.0)	–
Total comprehensive income/(loss) attributable to the Australian Government	(21.6)	19.6
Total assets	304.3	291.1
Total liabilities	228.5	209.0
Total equity	75.8	82.1

Source: Agriculture’s financial statements for the year ended 30 June 2016.

4.1.9 The net cost of services increased as a result of increases in employee expenses and supplier expenses. The increase in employee and supplier expenses was primarily related to the Machinery of Government changes referred to above.

4.1.10 The supplier expenses increase was also due to delays in the recruitment of in-house staff which resulted in additional spending on contractors and consultants in the year.

4.1.11 In addition, the movement in the bond rate used in the employee provision calculation further contributed to the costs of employees in 2015–16.

4.1.12 The decrease in total equity is attributed to an increase in liabilities arising from the additional leave entitlements associated with the transfer of Water Resources employees and a decrease in the bond rate used in the employee provision calculation. This was partly offset by an increase in intangible assets comprising software, both purchased and internally generated, as part of a project to modernise Agriculture’s IT infrastructure.

Table 4.1.2: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	1 180.3	977.3
Total income	654.4	524.6
Deficit	(525.9)	(452.7)
Total other comprehensive income	6.9	(2.7)
Total comprehensive loss	(519.0)	(455.4)
Total assets administered on behalf of Government	1 662.5	905.7
Total liabilities administered on behalf of Government	138.9	127.5
Net assets	1 523.6	778.2

Source: Agriculture's financial statements for the year ended 30 June 2016.

4.1.13 The Machinery of Government changes also resulted in an increase in grants payments associated with Water Reform activities. Other administered expenses that transferred from the Department of the Environment include Water Entitlements assets which are expensed when they are transferred from Agriculture to the Commonwealth Water Entitlements Holder. Total income increased as a result of Agriculture recognising Water Entitlements received free of charge and gains from the River Murray Initiative and Living Murray Initiative joint operations.

4.1.14 Total assets increased due to additional lending to farmers associated with drought relief programs and an increase in the value of the net assets of the various portfolio entities. Total liabilities also increased due to an increase in Water Reform grants payable at year end which transferred to Agriculture as a result of the Machinery of Government changes referred to earlier.

Key areas of financial statements risk

4.1.15 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.1.3.

Table 4.1.3: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Primary industry levies and charges revenue \$523.1 million	Completeness of primary industry levy revenue	Higher	<ul style="list-style-type: none"> self-assessment nature of collections; and complexities involved in estimating the level of agricultural production on which revenue is based. 	No significant or moderate audit findings identified.
Administered Primary industry levies and charges receivable \$61.0 million	Valuation of the receivable balance at reporting date	Moderate	<ul style="list-style-type: none"> the degree of estimation and judgement required to determine primary industry levies and charges receivable as at the reporting date; and complexities involved in the forecasting of agricultural production. 	No significant or moderate audit findings identified.
Administered Levy disbursements and Commonwealth contributions \$771.8 million	Levy disbursements and Commonwealth contributions	Moderate	<ul style="list-style-type: none"> payments are made in accordance with a range of legislation, with some payments required to meet eligibility criteria; complexities in payment calculations; and significant dollar value of payments made, both individually and in aggregate. 	No significant or moderate audit findings identified.
Departmental Quarantine and export revenue and receivable \$360.2 million and \$14.6 million	Quarantine and export revenue and receivable	Moderate	<ul style="list-style-type: none"> large range of revenue streams, collected across the country through multiple systems; complex cost recovery arrangements; collection of a significant portion of biosecurity revenues by the Department of Immigration and Border Protection; estimation involved in the calculation of the provision for doubtful debts; and complex disclosure requirements for cost recovery arrangements. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Farm finance, drought and dairy assistance loans \$552.2 million	Valuation of drought assistance loans	Moderate	<ul style="list-style-type: none"> • variation in loan terms across jurisdictions; • potential changes in the accounting treatment for loans should they be deemed concessional in nature; • the level of estimation involved in determining any potential impairment of loans, with the likelihood increasing as the loans age; and • management of loans is undertaken by a third party, who is responsible for the approval of recipients, and the ongoing monitoring and maintenance of loans. 	No significant or moderate audit findings identified.
Administered Personal benefits payments \$57.2 million	Eligibility of personal benefits payments	Moderate	<ul style="list-style-type: none"> • susceptibility to fraudulent benefit claims; • eligibility for personal benefits paid by the Department of Human Services under the Farm Household Allowance scheme is subject to the applicants meeting a number of complex legislative conditions; and • a moderate audit finding reported by the Department of Human Services relating to their role in the Farm Household Allowance scheme. Refer to paragraphs 4.16.32 to 4.16.33 for further detail. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Multiple financial statement line items	Machinery of Government changes	Moderate	<ul style="list-style-type: none"> risk associated with the transfer of employees and related leave balances to Agriculture's systems; timely and accurate recognition of revenue and expenses from the time of legal transfer; transfer of significant administered assets; and additional financial statements disclosures. 	No significant or moderate audit findings identified.
Administered Grants expenses \$212.2 million	Grants and funding assistance	Moderate	<ul style="list-style-type: none"> the level of subjectivity in assessing eligibility requirements for particular grants; the risks of non-compliance with grant agreements by recipients; and new grant programs in relation to the water resources functions, which will be processed via a third party system. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and Agriculture's financial statements for the year ended 30 June 2016.

4.1.16 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of Agriculture's 2015–16 financial statements.

4.1.17 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. ANAO Audit Report No.28 2015–16 *Administration of Concessional Loans Programs* was tabled during 2015–16. The audit assessed the department's establishment and administration of the Farm Finance and Drought Concessional Loans programs. The financial controls over this program were evaluated during the audit and no significant or moderate findings were identified.

Audit results

4.1.18 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Grains Research and Development Corporation

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

Summary of financial performance

4.1.20 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by GRDC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.1.4: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(87.7)	(80.8)
Revenue from government	70.2	68.0
Deficit attributable to the Australian Government	(17.5)	(12.8)
Total other comprehensive income	(0.2)	0.4
Total comprehensive loss attributable to the Australian Government	(17.7)	(12.4)
Total assets	262.5	278.3
Total liabilities	88.9	87.0
Total equity	173.6	191.3

Source: GRDC's financial statements for the year ended 30 June 2016.

4.1.21 The increase in net cost of services is the result of a reduction in industry revenue in 2015–16 compared to 2014–15. Industry revenue was lower due to a fall in the average price of grains and wheat.

4.1.22 The reduction in total assets is the result of GRDC continuing to utilise cash surpluses, particularly for research and development activities. The surpluses had been achieved prior to the 2014–15 financial year due to higher grain production as a result of improved climatic conditions and grain prices.

Key areas of financial statements risk

4.1.23 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.1.5.

Table 4.1.5: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Investments \$197.0 million	Valuation of investments	Moderate	<ul style="list-style-type: none"> the value of investments are influenced by external factors such as volatility in the financial markets; and the process for valuing investments involves judgement and estimation. 	No significant or moderate audit findings identified.
Research and development expenditure \$192.8 million	Research and development expenses have been correctly recorded	Moderate	<ul style="list-style-type: none"> the accounting treatment of research and development expenditure is complex in nature and involves judgement. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and GRDC’s financial statements for the year ended 30 June 2016.

4.1.24 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of GRDC’s 2015–16 financial statements.

4.1.25 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.1.26 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

4.2 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
Attorney-General's Department	Yes	✓	12 Sept 16	12 Sept 16	▲□
Administrative Appeals Tribunal	No	✓	19 Sept 16	19 Sept 16	□
Australian Federal Police	Yes	✓	8 Sept 16	8 Sept 16	
Australian Security Intelligence Organisation	Yes	✓	23 Aug 16	23 Aug 16	
Family Court and Federal Circuit Court	Yes	✓	2 Sept 16	2 Sept 16	
High Court of Australia	Yes	✓	16 Sept 16	16 Sept 16	
National Archives of Australia	Yes	✓	2 Sept 16	2 Sept 16	

✓: 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 2015–16 interim audit phase, now reclassified or resolved

Portfolio overview

4.2.1 The Attorney-General's Portfolio covers a diverse range of functions and policy areas including: privacy; family law and marriage; evidence; private international law; administrative law; freedom of information; personal property securities; native title; international crime cooperation; drugs; firearms; anti-money laundering; corruption; cybercrime; cyber security; and protective security.

4.2.2 The Attorney-General's Department is the lead entity in the portfolio. In addition to the department, 18 entities within the portfolio deliver programs and initiatives across a number of outcomes that reflect the Government's priorities in relation to law and justice, emergency management, national security, and criminal threats.

4.2.3 The ANAO's financial statements audit approach identifies key areas of risk that have the potential to impact an entity's financial statements and develops audit procedures to address those risks. The results of recent performance audits form part of this risk identification process.

4.2.4 The following sections provide a summary of the 2015–16 financial statements audit results for the Attorney-General's Department and material entities in the portfolio. Where a performance audit was tabled during 2015–16 and relevant to the financial management or administration of a portfolio entity, the impact of those observations on the audit approach are also discussed.

4.2.5 The observations of performance audits tabled since 1 July 2016 and relevant to the financial management or administration of entities within the Attorney-General's portfolio will inform the ANAO's 2016–17 financial statements audit risk identification processes.

Attorney-General's Department

4.2.6 The Attorney-General's Department (AGD) is responsible for providing advice and services on a range of law and justice, national security, emergency management, and disaster recovery assistance to portfolio ministers and to government.

4.2.7 As a result of the Machinery of Government changes in September 2015, the department transferred responsibility for cultural affairs, classification and copyright functions and associated legislation to the Department of Communications and the Arts (Communications). The Australian Government Solicitor (AGS) also merged into the department from 1 July 2015 as a result of the *Judiciary Amendment Act 2015*.

Summary of financial performance

4.2.8 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by the department, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.2.1: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(206.6)	(240.3)
Revenue from government	194.0	225.7
Deficit attributable to the Australian Government	(12.6)	(14.6)
Total other comprehensive income	(1.7)	(0.1)
Total comprehensive loss attributable to the Australian Government	(14.3)	(14.7)
Total assets	235.3	240.0
Total liabilities	129.3	104.3
Total equity	106.0	135.7

Source: AGD's financial statements for the year ended 30 June 2016.

4.2.9 The decrease in the net cost of services is mainly the result of increased revenue associated with the merger of the AGS into the department as referred to above. The decrease in overall costs was partly offset by an increase in expenses relating to the AGS employees.

4.2.10 The decrease in revenue from government largely reflects the AGD's efficiency dividend and the transfer of funding associated with the transfer of cultural affairs, classification and copyright functions and associated legislation to Communications.

4.2.11 The decrease in total assets was due to the transfer of the Art Bank's art collection to Communications under the Machinery of Government changes referred above.

4.2.12 The increase in total liabilities mainly relates to the AGS employee provisions transferred to the department.

Table 4.2.2: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	854.7	1 275.8
Total income	36.9	56.2
Deficit	(817.8)	(1 219.6)
Total other comprehensive income	21.6	492.8
Total comprehensive loss	(796.2)	(726.8)
Total assets administered on behalf of Government	461.4	9 340.5
Total liabilities administered on behalf of Government	28.3	33.9
Net assets	433.1	9 306.6

Source: AGD's financial statements for the year ended 30 June 2016.

4.2.13 As a result of the Machinery of Government changes, a number of entities have been transferred from the AGD portfolio to the Communications portfolio. Consequently, the expenses relating to these entities is now reflected in Communications. Likewise, the significant decrease in the total other comprehensive income and total assets administered by AGD on behalf of Government are due to these entities being transferred to Communications.

Key areas of financial statements risk

4.2.14 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.2.3.

Table 4.2.3: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Grants expenses \$396.2 million Personal benefit payments \$24.9 million	Administered grants management and personal benefit payments	Moderate	<ul style="list-style-type: none"> AGD has a decentralised grants management system which encompasses multiple and varied practices; a significant component of the grants expense is managed by the Department of Social Services; and personal benefits payments are managed by the Department of Human Services. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Sale of goods and rendering of services \$166.3 million	Revenue recognition and classification	Moderate	<ul style="list-style-type: none"> AGS revenue is derived from time recorded on matters and as a result revenue recognition and recovery is subject to management judgement; and risks associated with the migration of AGS data to a new IT environment. 	No significant or moderate audit findings identified.
All financial statement line items	Machinery of Government changes, including the integration of the AGS	Moderate	<ul style="list-style-type: none"> Machinery of Government changes in September 2015 resulted in several new disclosures in the financial statements, including accounting for the functions of AGS; and financial statements information for AGS will be sourced from a separate general ledger and the adequacy of internal controls will need to be assessed. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the AGD's financial statements for the year ended 30 June 2016.

4.2.15 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the AGD's 2015–16 financial statements.

4.2.16 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.2.17 The following table summarises the status of audit findings reported by the ANAO in 2014–15 and 2015–16.

Table 4.2.4: Status of audit findings

Category	Closing position (2014–15)	New findings (2015–16)	Findings resolved (2015–16)	Closing position (2015–16)
A	0	0	0	0
B	2	1	(2) ^(a)	1
Total	2	1	(2)	1

Note a: One moderate audit finding was resolved during the 2015–16 interim audit. Details regarding this finding were reported to Parliament in ANAO Report No.7 2016–17 *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Entities for the year ending 30 June 2016*.

Resolved moderate audit finding

Monitoring of AGS privileged IT users

4.2.18 During the 2015–16 interim audit, the ANAO identified that a privileged user account was used to access the AGS network. This access was not monitored and the department was unable to identify the user. In addition, there was no formal process to identify and disable inactive users of the network. These weaknesses increase the risk that unauthorised changes can be made without being detected.

4.2.19 At the conclusion of the 2015–16 final audit, the ANAO observed that AGS had implemented a number of additional controls to address the issues identified and these will be tested as part of the 2016–17 financial statements audit. As a result, this matter was reclassified to a minor audit finding.

Unresolved moderate audit finding

Administration of the Natural Disaster Relief and Recovery Arrangements

4.2.20 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 AGD is responsible for the management of state and territory claims for reimbursement of expenditure relating to natural disasters and for estimates of future expenditure in accordance with the determination.

4.2.21 The department provides information on claims for payment and estimates of future expenditure to the Department of the Treasury (Treasury) for inclusion in the Treasury's financial statements. The Treasury reported a provision of \$1.73 billion for future payments as at 30 June 2016.

4.2.22 The 2015–16 audit noted that the AGD had improved process documentation relating to how NDRRA claims are made and estimates of future expenditure are developed, along with enhanced certification from the states, supported by more comprehensive analytical analysis. Other documentation reviewed by the ANAO related to the restructure of the responsible area in the department to improve the governance and controls relating to the NDRRA activities under the AGD's management.

4.2.23 The ANAO noted that AGD executive management endorsed a model for ongoing NDRRA collaborative assurance audits on state NDRRA financial claims that includes the governance, compliance and assurance frameworks. The ANAO agreed that the completion of the collaborative audits under this assurance model would be an effective way for the AGD to demonstrate the department's substantiation of the NDRRA claims and estimates, in conjunction with existing processes for state certification. The AGD also advised that no NDRRA payments would be made until the collaborative audits were completed.

4.2.24 Subsequent to the completion of the 2015–16 audit, AGD advised that the collaborative audits had been largely completed and the department was in the process of seeking feedback from the states on the findings of the audits. The ANAO will review the results of the collaborative audits during 2016–17.

4.2.25 There were no other significant or moderate audit findings arising from the 2015–16 financial statements audit.

Australian Federal Police

4.2.26 The Australian Federal Police (AFP) is an independent statutory authority. Its role is to enforce Commonwealth criminal law, contribute to combating organised crime and to protect Commonwealth interests from criminal activity in Australia and overseas. The AFP is Australia’s international law enforcement and policing representative, and the Government’s primary source of advice on policing issues.

Summary of financial performance

4.2.27 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by the AFP, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.2.5: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(1 129.7)	(1 160.9)
Revenue from government	1 006.0	1 060.6
Deficit attributable to the Australian Government	(123.6)	(100.4)
Total other comprehensive income	–	0.1
Total comprehensive loss attributable to the Australian Government	(123.6)	(100.3)
Total assets	791.7	863.5
Total liabilities	389.8	424.8
Total equity	401.9	438.7

Source: AFP’s financial statements for the year ended 30 June 2016.

4.2.28 The higher net cost of services reported by the AFP in 2014–15 compared to 2015–16 was the result of the significant impairment of an asset recognised in that year. Additionally, a receivable arising from contract arrangements was recovered during 2015–16 which had been previously impaired, leading to an increase in revenue in 2015–16 of \$15.6 million.

Table 4.2.6: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	14.2	18.3
Total income	1.4	1.8
Deficit	(12.8)	(16.5)
Total other comprehensive income	–	–
Total comprehensive loss	(12.8)	(16.5)
Total assets administered on behalf of Government	0.1	1.9
Total liabilities administered on behalf of Government	1.2	3.7
Net liabilities	1.1	1.8

Source: AFP's financial statements for the year ended 30 June 2016.

4.2.29 The decrease in total expenses is a result of the Government's requirements for AFP involvement in Aid programs. These programs provide capacity development and skill building in Pacific island nations, such as the Solomon Islands and Tonga, including infrastructure projects.

Key areas of financial statements risk

4.2.30 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.2.7.

Table 4.2.7: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Departmental Employee benefits \$900.2 million	Recognition and measurement of payroll expenses and senior management personnel remuneration disclosures	Moderate	<ul style="list-style-type: none"> • complex remuneration structure and associated disclosures. 	No significant or moderate audit findings identified.
Departmental Intangibles \$36.5 million	Intangible assets capitalisation and amortisation	Moderate	<ul style="list-style-type: none"> • determining valuation and impairment is subject to estimation and judgement; and • significant impairment recognised in 2014–15. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the AFP's financial statements for the year ended 30 June 2016.

4.2.31 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the AFP's 2015–16 financial statements.

4.2.32 As mentioned above, the ANAO considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.2.33 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audit.

Australian Security Intelligence Organisation

4.2.34 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 the Government.

Summary of financial performance

4.2.35 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by ASIO, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.2.8: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(462.5)	(444.9)
Revenue from government	381.1	368.4
Deficit attributable to the Australian Government	(81.4)	(76.5)
Total other comprehensive income	15.1	–
Total comprehensive loss attributable to the Australian Government	(66.3)	(76.5)
Total assets	491.7	518.6
Total liabilities	109.5	116.1
Total equity	382.2	402.5

Source: ASIO's financial statements for the year ended 30 June 2016.

4.2.36 The increase in revenue from government is due to additional funding provided to ASIO as part of the National Security – additional counter-terrorism funding measure.

4.2.37 Total other comprehensive income increased due to ASIO undertaking a revaluation of assets.

Key areas of financial statements risk

4.2.38 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.2.9.

Table 4.2.9: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Employee benefits expenditure \$235.3 million	The accuracy and completeness of employee benefits	Moderate	<ul style="list-style-type: none"> limitations in the payroll system mean that some entitlements need to be calculated manually. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and ASIO's financial statements for the year ended 30 June 2016.

4.2.39 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of ASIO's 2015–16 financial statements.

4.2.40 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.2.41 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Family Court and Federal Circuit Court

4.2.42 The Family Court, through its specialist judges and staff, has a role in assisting Australians to resolve complex legal family disputes. The Federal Circuit Court also provides an alternative to litigation in both the Family Court and Federal Court of Australia (the Courts).

Summary of financial performance

4.2.43 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by the Courts, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.2.10: Departmental key financial statements items

Departmental key	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(164.3)	(164.0)
Revenue from government	152.5	148.7
Deficit attributable to the Australian Government	(11.8)	(15.3)
Total other comprehensive income	0.1	–
Total comprehensive loss attributable to the Australian Government	(11.7)	(15.3)
Total assets	56.5	63.1
Total liabilities	46.8	49.1
Total equity	9.7	14.0

Source: The Court's financial statements for the year ended 30 June 2016.

4.2.44 The reduction in the deficit from 2014–15 is largely the result of an increase in revenue from government in 2015–16. The reduction in total assets is due depreciation expenses associated with property, plant and equipment, partly offset by an increase in land and buildings additions.

Table 4.2.11: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	1.6	0.9
Total income	60.0	58.1
Surplus	58.4	57.2
Total other comprehensive income	–	–
Total comprehensive income	58.4	57.2
Total assets administered on behalf of Government	7.2	1.9
Total liabilities administered on behalf of Government	0.5	–
Net assets	6.7	1.9

Source: The Court's financial statements for the year ended 30 June 2016.

4.2.45 The increase in total assets was due to a change in banking arrangements during the year. Fees and fines income due was collected by the Federal Court of Australia on behalf of the Courts during the final part of the year, increasing the accounts receivable asset balance at year end.

Key areas of financial statements risk

4.2.46 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.2.12.

Table 4.2.12: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Multiple financial statement line items	Merger with the Federal Court of Australia	Moderate	<ul style="list-style-type: none"> the integrity of current risk management and fraud control frameworks; multiple IT systems currently in use by the Courts and their ongoing maintenance; and revised staffing levels associated with the merger and the potential loss of corporate knowledge as a result of separation of excess staff. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Departmental Land and buildings, and property, plant and equipment \$35.4 million	Valuation of assets	Moderate	<ul style="list-style-type: none"> the period of time that has elapsed since the prior valuation; and the potential impacts on the current valuation due to the merger. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the Court’s financial statements for the year ended 30 June 2016.

4.2.47 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the Court’s 2015–16 financial statements.

4.2.48 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.2.49 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

High Court of Australia

4.2.50 The High Court of Australia (the High Court), is the highest court in the Australian judicial system. The High Court is responsible for interpreting and applying the law of Australia, deciding on cases of special federal significance, including challenges to the constitutional validity of laws, and hearing appeals, by special leave, from federal, state and territory courts.

Summary of financial performance

4.2.51 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by the High Court, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.2.13: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(19.6)	(18.3)
Revenue from government	13.3	13.4
Deficit attributable to the Australian Government	(6.3)	(4.9)
Total other comprehensive income	4.5	(12.9)
Total comprehensive loss attributable to the Australian Government	(1.8)	(17.8)
Total assets	221.5	219.7
Total liabilities	3.0	3.3
Total equity	218.5	216.4

Source: The High Court's financial statements for the year ended 30 June 2016.

4.2.52 The increase in net cost of services is primarily due to a new contract for security services with the Australian Federal Police and additional maintenance expenses relating to the High Court's technology equipment. In addition, the High Court reassessed the library holdings assets' life expectancies from 30 June 2015 which resulted in an increase in depreciation expense in 2015–16.

Table 4.2.14: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	–	–
Total income	1.9	2.1
Surplus	1.9	2.1
Total other comprehensive income	–	–
Total comprehensive income	1.9	2.1
Total assets administered on behalf of Government	–	–
Total liabilities administered on behalf of Government	–	–
Net assets/(liabilities)	–	–

Source: The High Court's financial statements for the year ended 30 June 2016.

4.2.53 The High Court's administered income relates to the Court's hearing and filing fees. The Court's hearing activities remained relatively stable between 2014–15 and 2015–16, as demonstrated above.

Key areas of financial statements risk

4.2.54 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.2.15.

Table 4.2.15: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Land and buildings \$188.7 million Property, plant and equipment \$16.0 million	Valuation and disclosure of land and buildings, and property, plant and equipment	Moderate	<ul style="list-style-type: none"> • unique features of the High Court's land, building and property, plant and equipment assets, such as location, special purpose development and heritage listing; and • the valuation process involves judgement. 	No significant or moderate audit findings identified.

Source: The High Court's financial statements for the year ended 30 June 2016.

4.2.55 The ANAO also completed appropriate substantive audit procedures on all material financial statements items that supported the preparation of the High Court's 2015–16 financial statements.

4.2.56 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.2.57 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

National Archives of Australia

4.2.58 The National Archives of Australia (the Archives) has two main roles under the *Archives Act 1983*: to preserve Australia's most valuable government records and to encourage their use by the public; and to promote sound records management by Australian Government entities. 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.

Summary of financial performance

4.2.59 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by the Archives, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.2.16: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(63.2)	(56.4)
Revenue from government	58.3	59.0
Surplus/(deficit) attributable to the Australian Government	(4.9)	2.6
Total other comprehensive income	(4.1)	19.7
Total comprehensive income/(loss) attributable to the Australian Government	(9.0)	22.3
Total assets	1 519.8	1 517.7
Total liabilities	24.3	18.2
Total equity	1 495.5	1 499.5

Source: The Archives' financial statements for the year ended 30 June 2016.

4.2.60 The increase in the net cost of services reflects a reduction in revenue recognised from heritage and cultural assets donated in comparison to 2014–15.

4.2.61 Amounts recognised as other comprehensive income reflect the outcome of the revaluation of property, plant and equipment in 2015–16 in comparison to the revaluation of the archival collection in 2014–15.

Key areas of financial statements risk

4.2.62 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.2.17.

Table 4.2.17: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Property, plant and equipment \$1.5 billion	Valuation of the archival collection	Moderate	<ul style="list-style-type: none"> the complex and unique nature of the archival collection. 	No significant or moderate audit findings identified.
Intangibles \$16.9 million	Capitalisation of the digitised collection	Moderate	<ul style="list-style-type: none"> the classification of costs associated with the digitisation of the collection is complex and subject to judgement. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the Archives' financial statements for the year ended 30 June 2016.

4.2.63 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the Archives' 2015–16 financial statements.

4.2.64 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.2.65 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Comments on non-material entities

Administrative Appeals Tribunal

4.2.66 The Administrative Appeals Tribunal (AAT) conducts independent merit reviews of administrative decisions made under Commonwealth laws. The AAT reviews decisions made by Australian Government ministers, departments and entities and, in limited circumstances, decisions made by state government and non-government bodies.

4.2.67 On 1 July 2015 the Migration Review Tribunal-Refugee Review Tribunal (MRT-RRT), and Social Security Appeals Tribunal (SSAT) were merged with the AAT. The AAT is funded through appropriations from Government and in 2015–16 was appropriated \$124 million.

4.2.68 The ANAO identified two moderate audit findings at the completion of the AAT interim audit. These findings were reclassified to minor findings at the completion of the final audit.

Resolved moderate audit findings

Completeness of administered revenue

4.2.69 The AAT did not have a formal reconciliation process in place to provide assurance that the revenue collected was completely and accurately reported in the financial management information system. During the final audit phase, the AAT conducted a full reconciliation and developed a process to undertake regular and timely reconciliations that are evidenced as reviewed in 2016–17. As a result, this finding was reclassified to a minor audit finding and the new process will be reviewed as part of the 2016–17 audit.

Integration of Tribunals

4.2.70 The ANAO identified weaknesses in AAT's control environment and corporate governance supporting the merge with MRT-RRT and SSAT. There were significant delays in developing and formalising the new corporate governance structure, updated Accountability Instructions and the transfer of data into the AAT systems. As a result of progress made by the AAT, these weaknesses were reclassified to minor audit findings during the final audit phase. The new processes will be reviewed as part of the 2016–17 audit.

4.3 Communications and the Arts Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Communications and the Arts	Yes	✓	19 Sept 16	20 Sept 16	
Australian Broadcasting Corporation	Yes	✓	4 Aug 16	4 Aug 16	
Australian Communications and Media Authority	Yes	✓	2 Sept 16	2 Sept 16	
Australian Film, Television and Radio School ^(a)	No	✓	2 Sept 16	2 Sept 16	◆
Australian National Maritime Museum ^(a)	No	✓	16 Sept 16	16 Sept 16	□
Australian Postal Corporation	Yes	✓	25 Aug 16	25 Aug 16	
NBN Co Limited	Yes	✓	10 Aug 16	10 Aug 16	
National Gallery of Australia ^(a)	Yes	✓	31 Aug 16	31 Aug 16	
National Library of Australia ^(a)	Yes	✓	5 Aug 16	5 Aug 16	
National Museum of Australia ^(a)	Yes	✓	9 Sept 16	9 Sept 16	
Special Broadcasting Service Corporation	Yes	✓	31 Aug 16	31 Aug 16	

✓: 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 2015–16 interim audit phase, now reclassified or resolved

Note a: 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.

Portfolio overview

4.3.1 The Communications and the Arts Portfolio is responsible for implementing government policy and programs with respect to digital technologies, communications services and public access to art and culture.

4.3.2 The Department of Communications and the Arts is the lead entity in the portfolio. The portfolio, excluding subsidiaries, delivers programs including postal services, public broadcasting, national broadband infrastructure, and cultural activities.

4.3.3 The ANAO's financial statements audit approach identifies key areas of risk that have the potential to impact an entity's financial statements and develops audit procedures to address those risks. The result of recent performance audits form part of this risk identification process.

4.3.4 The following sections provide a summary of the 2015–16 financial statements audit results for the Department of Communications and the Arts and material entities in the portfolio. Where a performance audit was tabled during 2015–16 and relevant to the financial management or administration of a portfolio, the impact of those observations on the audit approach are also discussed.

4.3.5 The observations of performance audits tabled since 1 July 2016 and relevant to the financial management or administration of entities within the Communications and the Arts Portfolio will inform the ANAO’s 2016–17 financial statements audit risk identification processes.

4.3.6 Commentary has also been included for the following non-material entities where moderate audit findings were identified: the Australian Film, Television and Radio School; and the Australian National Maritime Museum.

Department of Communications and the Arts

4.3.7 The Department of Communications and the Arts’ (Communications) responsibilities include the promotion of an innovative and competitive communication sector, through policy development, advice and program delivery, to achieve the full potential of digital technologies and communications services. The department’s role includes support for participation in, and access to, Australia’s arts and culture through developing and supporting cultural expression.

4.3.8 As a result of the September 2015 Machinery of Government changes, the responsibility for the Arts transferred to the department from the Attorney-General's Department while responsibility for enhancing digital productivity and data policy functions were transferred to the Department of Industry, Innovation and Science and the Department of the Prime Minister and Cabinet respectively. From 1 July 2015, Communications also commenced administration of the telecommunications universal services obligation from the former Telecommunications Universal Service Management Agency, as announced in the 2014–15 Budget.

Summary of financial performance

4.3.9 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by the department, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.1: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(104.8)	(96.7)
Revenue from government	99.9	91.4
Deficit attributable to the Australian Government	(4.9)	(5.3)
Total other comprehensive income	(0.7)	(1.6)
Total comprehensive loss attributable to the Australian Government	(5.6)	(7.0)
Total assets	82.0	36.1
Total liabilities	38.3	33.6
Total equity	43.7	2.5

Source: Communications' financial statements for the year ended 30 June 2016.

4.3.10 The Machinery of Government changes and commencement of administration of the telecommunications universal services obligation discussed in paragraph 4.3.8 were the primary reasons for significant movements in the departmental financial statements.

Table 4.3.2: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	2 026.5	1 490.1
Total income	10.0	3.3
Deficit	(2 016.5)	(1 485.9)
Total other comprehensive income	(1 948.6)	(1 729.2)
Total comprehensive loss	(3 965.1)	(3 215.1)
Total assets administered on behalf of Government	26 340.6	12 290.6
Total liabilities administered on behalf of Government	367.2	25.4
Net assets	25 973.3	12 265.1

Source: Communications' financial statements for the year ended 30 June 2016.

4.3.11 The increase in administered expenses and liabilities is also largely a result of the Machinery of Government changes and commencement of the administration of the telecommunications universal services obligation. The significant increase in administered assets is attributed to:

- the recognition of a number of additional entities as administered investments following the Machinery of Government changes (\$9.2 billion); and
- the value of the government's administered investment in NBN Co Limited and the Australian Postal Corporation increased by \$4.6 billion and \$158 million respectively following the valuation undertaken in 2015–16.

Key areas of financial statements risk

4.3.12 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.3.3.

Table 4.3.3: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Other investments NBN Co Limited \$13.1 billion Australian Postal Corporation \$2.5 billion	Valuation of the Australian Government's investment in the NBN Co Limited and Australian Postal Corporation	Higher	<ul style="list-style-type: none"> complexity of the valuation process in light of estimates and judgements required. 	No significant or moderate audit findings identified.
Administered Property, plant and equipment Regional Backbone Blackspots Program (RBBP) assets \$165.7 million	Valuation of network infrastructure - RBBP	Moderate	<ul style="list-style-type: none"> complex infrastructure assets requiring significant judgement and expert assessment. 	No significant or moderate audit findings identified.
Administered Contingent liabilities and commitments	Guarantees to Telstra Corporation Limited and the Optus Group under contracts with NBN Co Limited	Moderate	<ul style="list-style-type: none"> guarantees are difficult to measure accurately as there are extensive and complex contract and project management arrangements associated with third party delivery of the new broadband network. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Multiple financial statement line items	Machinery of Government changes, including cultural affairs classification and copyright functions transferred from the Attorney-General's Department	Moderate	<ul style="list-style-type: none"> the functions acquired by the department are diverse both in nature and geographical location; the new functions require the department to implement new systems and processes; and complexity associated with the accurate reporting and disclosure of a number of balances. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and Communications' financial statements for the year ended 30 June 2016.

4.3.13 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the Communications' 2015–16 financial statements.

4.3.14 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.3.15 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Australian Broadcasting Corporation

4.3.16 The Australian Broadcasting Corporation (ABC), established under the *Australian Broadcasting Corporation Act 1983*, is Australia's primary national public broadcaster. The objective of the ABC is to inform and educate, facilitate public debate and foster the performing arts by providing innovative and comprehensive broadcasting services of a high standard to the nation.

Summary of financial performance

4.3.17 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by the ABC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.4: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(1 050.6)	(1 101.6)
Revenue from government	1 064.4	1 063.2
Surplus/(deficit) attributable to the Australian Government	13.8	(38.4)
Total other comprehensive income	18.2	13.4
Total comprehensive income/(loss) attributable to the Australian Government	32.0	(24.9)
Total assets	1 409.1	1 385.0
Total liabilities	355.9	363.9
Total equity	1 053.2	1 021.1

Source: ABC's financial statements for the year ended 30 June 2016.

4.3.18 The reduction in ABC's net cost of services was mainly due to lower supplier expenses (\$47 million) and write-down/impairment costs (\$15 million) in 2015–16 as a result of the closure of the retail business arm of ABC. In addition, there was an \$18 million reduction in expenses in 2015–16 mainly driven by a decline in television program inventory in previous years, which resulted in a reduction in program amortisation costs. The closure of the retail business arm also resulted in less income being received from the sale of goods and rendering of services (\$22 million) for the ABC.

4.3.19 ABC's total assets and liabilities did not change significantly from 2014–15 to 2015–16.

Key areas of financial statements risk

4.3.20 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.3.5.

Table 4.3.5: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Land and buildings \$727.2 million	Valuation and disclosure of net value of land and buildings	Moderate	<ul style="list-style-type: none"> valuation is subject to judgement and market factors. 	No significant or moderate audit findings identified.
Program inventories \$108.0 million	Valuation of program inventory and related amortisation policy	Moderate	<ul style="list-style-type: none"> assessment of whether program inventories are impaired is subject to judgement. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Employee expenses \$511.1 million Employee provisions \$150.2 million	Valuation of long service leave provisions	Moderate	<ul style="list-style-type: none"> the calculations involve complex methodology and are subject to judgement. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and ABC's financial statements for the year ended 30 June 2016.

4.3.21 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the ABC's 2015–16 financial statements.

4.3.22 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.3.23 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Australian Communications and Media Authority

4.3.24 The role of the Australian Communications and Media Authority (ACMA) is to regulate broadcasting, radio communications (spectrum management), telecommunications and online content. Spectrum management is technically complex and involves licensing, auctions and trading.

Summary of financial performance

4.3.25 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by the authority, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.6: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(92.7)	(97.3)
Revenue from government	82.9	89.2
Deficit attributable to the Australian Government	(9.8)	(8.1)
Total other comprehensive income	1.4	–
Total comprehensive loss attributable to the Australian Government	(8.4)	(8.1)
Total assets	82.4	87.1
Total liabilities	28.8	31.1
Total equity	53.6	55.9

Source: ACMA's financial statements for the year ended 30 June 2016.

4.3.26 The reduction in net cost of services and total liabilities is primarily due to a decrease in employee benefits expenditure associated with fewer voluntary redundancies taken up during the 2015–16 year, and fewer assets being written-down in 2015–16. Total assets mainly decreased due to the amortisation of intangible assets during 2015–16.

Table 4.3.7: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	2.0	–
Total income	835.3	2 789.2
Surplus	833.3	2 789.2
Total other comprehensive income	–	–
Total comprehensive income	833.3	2 789.2
Total assets administered on behalf of Government	214.4	245.1
Total liabilities administered on behalf of Government	96.6	162.2
Net assets	117.8	82.9

Source: ACMA's financial statements for the year ended 30 June 2016.

4.3.27 Total expenses increased as a result of the write-down of aged radio communication tax receivables, as well as an increase in expenditure following the establishment of the Office of the Children's e-Safety Commissioner Special Account.

4.3.28 Total income is predominantly made up of sales of Fifteen Year Spectrum Licences. The decrease in total income is mainly a result of fewer licence sales following the expiration and renewal of a smaller portion of licences than in 2014–15.

4.3.29 The decrease in total assets mainly relates to a decrease in taxation receivables and a decrease in trade and other receivables. The decrease in taxation receivables is primarily attributed to a rebate on broadcasting licence fees under the *Television Licence Fees Amendment*

(Licence Fee Rebate) Regulation 2016 and changes to customer charges and penalties under the Telecommunications Numbering Plan 2015, offset by an increase in Radio Communication Licence receivables following the extension of payment terms. The decrease in trade and other receivables is mainly due to one significant annual carrier licence charge which was outstanding in the prior year not being outstanding as at 30 June 2016.

4.3.30 Total liabilities mainly decreased due to lower unearned revenue at year end relating to radio communication multi-year licences. The decrease was partially offset by an increase in subscriptions for this licence class.

Key areas of financial statements risk

4.3.31 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.3.8.

Table 4.3.8: Key areas of financial statement risk and audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Income \$835.3 million Receivables \$213.2 million Other payables – unearned income \$95.8 million	Recognition and measurement of administered income, receivables and unearned income	Higher	<ul style="list-style-type: none"> significant judgement associated with taxation revenue and receivables which are estimated based on prior year fees; and the uncertainty in estimating the income associated with the renewal and auction of spectrum licences. 	No significant or moderate audit findings identified.
Departmental Non-financial assets \$57.2 million Depreciation and amortisation expense \$11.3 million	Recognition and measurement of non-financial assets	Moderate	<ul style="list-style-type: none"> significant judgement required in determining the depreciation and amortisation, useful life, and fair value of non-financial assets. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and ACMA's financial statements for the year ended 30 June 2016.

4.3.32 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of ACMA's 2015–16 financial statements.

4.3.33 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.3.34 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Australian Postal Corporation

4.3.35 The Australian Postal Corporation (Australia Post) is a government business enterprise that operates post offices and distributes mail and parcels in Australia and internationally.

Summary of financial performance

4.3.36 In 2015–16, Australia Post and its controlled entities (the Group) reported income of \$6.6 billion and expenses of \$6.5 billion. In addition, Australia Post and its controlled entities' assets were valued at \$5.0 billion.

4.3.37 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by the Australia Post and its controlled entities, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.9: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total income	6 562.2	6 373.8
Total expenses	6 525.8	6 595.5
Net profit/(loss) for the year	36.4	(221.7)
Total other comprehensive income/(loss) for the year	(111.1)	371.3
Total comprehensive income/(loss) for the year	(74.7)	149.6
Total assets	5 043.2	5 094.4
Total liabilities	3 204.3	3 180.9
Total equity	1 838.9	1 913.5

Source: Australia Post and its controlled entities' financial statements for the year ended 30 June 2016.

4.3.38 As outlined above, Australia Post reported a net profit during 2015–16, in comparison to a loss in the previous year. The return to profit primarily reflects an approximate increase in revenue from goods and services of \$199.1 million while reducing expenses incurred by \$69.7 million.

4.3.39 While mail volumes continue to decline, the increase in revenue is partly attributable to the benefits arising from Australia Post's reform of its letters service business, including an increase to the basic postage rate from 70 cents to \$1, which came into effect from January 2016.

4.3.40 These reforms contributed to a reduction in the magnitude of the loss incurred in the delivery of the traditional letters service. The losses incurred in the delivery of the letters service continue to be offset by the profits provided from the provision of parcel services which increased by approximately eight per cent in 2015–16.

4.3.41 The significant reduction in other comprehensive income, to a loss, is primarily due to movements in Australia Post’s defined benefit superannuation plan, with a loss of \$111.1 million in 2015–16 compared to a gain of \$371.3 million in the prior year. The movement is mainly a result of a decrease in the discount rate partially offset by a change in the salary growth rate.

4.3.42 Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.3.43 The ANAO’s 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.3.10.

Table 4.3.10: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Revenue \$6.5 billion	Revenue recognition, including the financial impact of implementation of postal reforms	Higher	<ul style="list-style-type: none"> implementation of the two-speed mail product; and complex accounting for the impact of any new or amended significant contracts. 	No significant or moderate audit findings identified.
Restructuring provisions \$200.2 million	Recognition and measurement of liabilities arising from Group restructuring activities, including postal reforms	Higher	<ul style="list-style-type: none"> the number of staff affected by restructuring activities; and the complexity of the calculation, including the extent of management’s judgement 	No significant or moderate audit findings identified.
Intangible assets including goodwill and customer relationships \$564.5 million	Carrying value of goodwill and customer relationships	Moderate	<ul style="list-style-type: none"> the assessment of carrying value is affected by management judgement and estimate. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Defined benefit superannuation asset \$403.6 million	Measurement of the assets and liabilities attributable to the Australia Post Superannuation Scheme	Moderate	<ul style="list-style-type: none"> complexity of the calculation and the nature of the economic and demographic assumptions involved; and the use of both actuarial and valuation expertise. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and Australia Post and its controlled entities' financial statements for the year ended 30 June 2016.

4.3.44 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of Australia Post and its controlled entities' 2015–16 financial statements.

4.3.45 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.3.46 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

NBN Co Limited

4.3.47 The primary objective of nbn co. Limited (nbn) is to ensure all Australians have access to fast broadband as soon as possible, at affordable prices, and at least cost. The nbn is a government business enterprise incorporated under the *Corporations Act 2001*.

Summary of financial performance

4.3.48 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by nbn, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.11: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total revenue and income	460.0	193.0
Total expenses	3 199.0	2 227.0
Loss before income tax	(2 739.0)	(2 034.0)
Income tax (expenses)/benefit	(11.0)	15.0
Net loss for the year	(2 750.0)	(2 019.0)
Total other comprehensive income	(25.0)	36.0
Total comprehensive loss for the year	(2 775.0)	(1 983.0)
Total assets	18 552.0	13 259.0
Total liabilities	6 529.0	5 551.0
Total equity	12 023.0	7 708.0

Source: nbn's financial statements for the year ended 30 June 2016.

4.3.49 In 2015–16, nbn generated revenue and income of \$460 million and reported a net loss of \$2.8 billion, after taxation. Revenue increased as the network continues to roll out with 613 000 premises activated during the year. In addition the average revenue per user also increased from \$40 to \$43. A corresponding increase was observed in payments to Telstra and Optus for customer disconnection and migration activity.

4.3.50 As at 30 June 2016, nbn reported total assets of \$18.6 billion, an increase of \$5.3 billion compared with 2014–15, primarily due to an increase of \$4.8 billion in property, plant and equipment and intangibles as a result of capital expenditure, and a \$477 million increase in cash and cash equivalents, held to maturity investments and other current assets. The key drivers of capital expenditure during the year related to design, construction and activation activities for the deployment of nbn's access technologies across Australia.

4.3.51 During the year, nbn received Government equity injections of \$7.1 billion, which were primarily used in acquiring property, plant and equipment (including network assets), and intangible assets supporting operational requirements. As at 30 June 2016, the contributed equity of \$20.3 billion has been offset by accumulated losses of \$8.3 billion.

Key areas of financial statements risk

4.3.52 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.3.12.

Table 4.3.12: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Property, plant and equipment \$15.2 billion Intangibles \$1.3 billion	Valuation of network assets	Higher	<ul style="list-style-type: none"> accounting for the valuation of network assets are subject to a high degree of judgement and capitalisation of significant expenditure on network construction and software development. 	No significant or moderate audit findings identified. Assets are valued based on depreciated cost in nbn's financial statements. nbn's assets are valued at fair value within the Whole of Government Consolidated Financial Statements.
Subscriber costs \$582.0 million Network Assets \$14.8 billion Other financial liabilities \$4.4 billion	Accounting for significant agreements with Telstra and Optus	Higher	<ul style="list-style-type: none"> these contracts are significant and complex in nature and represent a portion of the associated financial statements items. 	No significant or moderate audit findings identified.
Telecommunications Revenue \$403.0 million	Accounting for and reporting telecommunications revenue	Moderate	<ul style="list-style-type: none"> revenue has increased significantly as the network continues to roll out with systems and controls continuing to evolve with scale. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the nbn's financial statements for the year ended 30 June 2016.

4.3.53 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the nbn's 2015–16 financial statements.

4.3.54 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.3.55 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

National Gallery of Australia

4.3.56 The purpose of the National Gallery of Australia (the Gallery), as expressed in the *National Gallery Act 1975*, is to:

- develop and maintain a national collection of works of art;
- exhibit, or make available for exhibition by others, works of art from the national collection or works of art that are otherwise in the possession of the Gallery; and
- use every endeavour to make the most advantageous use of the national collection in the national interest.

Summary of financial performance

4.3.57 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by the Gallery, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.13: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(45.8)	(37.0)
Revenue from government	32.6	33.8
Deficit attributable to the Australian Government	(13.2)	(3.2)
Total other comprehensive income	423.8	625.6
Total comprehensive income attributable to the Australian Government	410.6	622.4
Total assets	6 264.6	5 839.0
Total liabilities	10.5	12.3
Total equity	6 254.1	5 826.7

Source: The Gallery's financial statements for the year ended 30 June 2016.

4.3.58 The net cost of services increased due to a reduction in own source income as a result of lower donations and gifts of works of art compared to 2014–15.

4.3.59 Total other comprehensive income relates to movements in the value of the Gallery's heritage and cultural assets collection. In both 2014–15 and 2015–16, there were significant increases in the value of the collection, due to an overall improvement in the market popularity and importance of individual works of art.

Key areas of financial statements risk

4.3.60 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.3.14.

Table 4.3.14: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Heritage and cultural assets \$5.9 billion	Valuation of the collection	Higher	<ul style="list-style-type: none"> significant judgement and expertise required to assess the value of items in the collection. 	No significant or moderate audit findings identified.
Heritage and cultural assets \$5.9 billion	Capitalisation of employee costs relating to the acquisition and creation of assets	Moderate	<ul style="list-style-type: none"> complex accounting judgements and estimates are required. 	No significant or moderate audit findings identified.
Land and buildings \$301.4 million	Valuation of land and buildings	Moderate	<ul style="list-style-type: none"> complex accounting judgements and estimates are required. 	No significant or moderate audit findings identified.
Own-source income \$21.7 million	Completeness and accuracy of revenue	Moderate	<ul style="list-style-type: none"> multiple own-source revenue streams, including sponsorships, retail revenues and contributions. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the Gallery’s financial statements for the year ended 30 June 2016.

4.3.61 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the Gallery’s 2015–16 financial statements.

4.3.62 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.3.63 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

National Library of Australia

4.3.64 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 of library material relating to Australia and the Australian people, and to make this material available to the public.

Summary of financial performance

4.3.65 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by the Library, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.15: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(57.8)	(59.5)
Revenue from government	48.7	50.4
Deficit attributable to the Australian Government	(9.0)	(9.1)
Total other comprehensive income	6.0	(150.5)
Total comprehensive loss attributable to the Australian Government	(3.0)	(159.6)
Total assets	1 697.1	1 691.8
Total liabilities	16.4	17.7
Total equity	1 680.7	1 674.1

Source: The Library's financial statements for the year ended 30 June 2016.

4.3.66 The significant movement between years in other comprehensive income, and associated impact on the total comprehensive income, is mainly due to the decrease in the value of the national collection following an independent valuation exercise in 2014–15. This was due to a fall in comparable assets prices at 30 June 2015. During 2015–16, a review was conducted that resulted in minimal valuation changes to the fair value of the national collection.

Key areas of financial statements risk

4.3.67 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.3.16.

Table 4.3.16: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Heritage and cultural assets \$1.3 billion	Fair value measurement of the national collection	Moderate	<ul style="list-style-type: none"> significant judgement and expertise required to assess the value of items in the collection, due to the unique nature of the collection assets and lack of a market of comparable assets. 	No significant or moderate audit findings identified.
Own-source revenue \$17.3 million	Completeness and accuracy of revenue	Moderate	<ul style="list-style-type: none"> multiple revenue streams, with different recognition criteria. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the Library’s financial statements for the year ended 30 June 2016.

4.3.68 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the Library’s 2015–16 financial statements.

4.3.69 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.3.70 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

National Museum of Australia

4.3.71 The National Museum of Australia (the Museum) is responsible for providing stewardship of the National Historical Collection and 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 programs on Australia’s past, present and future; contribution to research on Australian history; and undertaking commercial activities in support of these functions.

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

Summary of financial performance

4.3.73 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by the Museum, and include commentary regarding significant movements between years contributing to overall performance.

Table 4.3.17: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(42.1)	(43.0)
Revenue from government	40.8	41.6
Deficit attributable to the Australian Government	(1.3)	(1.4)
Total other comprehensive income	3.4	7.6
Total comprehensive income attributable to the Australian Government	2.1	6.2
Total assets	478.8	475.3
Total liabilities	8.2	8.7
Total equity	470.6	466.6

Source: The Museum's financial statements for the year ended 30 June 2016.

4.3.74 The overall financial performance of the Museum in both years is consistent. The movement in other comprehensive income is mainly due to the difference of the asset revaluation adjustments conducted on the assets relating to the collection between 2014–15 and 2015–16. These changes are mainly attributable to the general market movements.

Key areas of financial statements risk

4.3.75 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.3.18.

Table 4.3.18: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Heritage and cultural assets \$270.5 million	Valuation of heritage and cultural assets	Higher	<ul style="list-style-type: none"> significant judgement and expertise required to assess the value of items in the collection, due to the unique nature of the collection assets and lack of a market of comparable assets. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Heritage and cultural assets \$1.0 million	Capitalisation of employee costs	Moderate	<ul style="list-style-type: none"> the capitalisation of salary cost in the acquisition or creation of new assets involves subjectivity and judgement. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the Museum’s financial statements for the year ended 30 June 2016.

4.3.76 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the Museum’s 2015–16 financial statements.

4.3.77 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.3.78 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Special Broadcasting Service Corporation

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

Summary of financial performance

4.3.80 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by the SBS, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.19: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(287.0)	(285.5)
Revenue from government	287.4	285.8
Surplus attributable to the Australian Government	0.3	0.3
Total other comprehensive income	–	0.2
Total comprehensive income attributable to the Australian Government	0.3	0.5
Total assets	258.8	259.3
Total liabilities	59.4	60.3
Total equity	199.4	199.0

Source: SBS's financial statements for the year ended 30 June 2016.

4.3.81 As outlined in the table above, there were no significant movements in the SBS' key financial statement items between 2014–15 and 2015–16. A decrease in staffing levels led to lower employee benefit expenses of \$4 million which were countered by a \$5 million increase in supplier expenses as a result of increased broadcast transmission outsourcing costs and advertising/media expenditure.

4.3.82 Higher cash and receivable balances were offset by lower reported values for buildings, plant and equipment. The small decrease in employee benefits provisions was expected given the decrease in staffing levels referred to above.

Key areas of financial statements risk

4.3.83 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.3.20.

Table 4.3.20: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Program inventories \$61.9 million	Valuation of program inventory and related amortisation policy	Higher	<ul style="list-style-type: none"> assessment of whether program inventories are impaired is subject to judgement. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Plant and equipment \$23.2 million Goodwill and intangibles \$21.4 million	Valuation of plant and equipment, goodwill and intangibles and related policy	Moderate	<ul style="list-style-type: none"> valuation is subject to judgement and market factors due to the nature of the assets. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the SBS's financial statements for the year ended 30 June 2016.

4.3.84 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the SBS's 2015–16 financial statements.

4.3.85 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.3.86 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Comments on non-material entities

Australian Film, Television and Radio School

4.3.87 The Australian Film, Television and Radio School (AFTRS) is a corporate Commonwealth entity. The objective of AFTRS is to provide advanced education and training to advance the skills and knowledge of talented individuals to meet the needs of Australia's screen and broadcast industries.

Unresolved moderate audit finding

Audit logging and monitoring of privileged user profiles

4.3.88 During the 2015–16 interim audit, the ANAO identified that AFTRS was not logging or conducting periodic reviews of their ICT systems as required by AFTRS's ICT Systems Administration Security Policy. Inadequate monitoring of system access, particularly for privileged users, increases the risk that inappropriate activity will not be detected by AFTRS.

4.3.89 At the conclusion of the 2015–16 audit, AFTRS advised that it has implemented controls to address this issue. The ANAO will review the effectiveness of these controls as part of the 2016–17 audit.

Australian National Maritime Museum

4.3.90 The Australian National Maritime Museum (the Maritime Museum) is a corporate Commonwealth entity. The role of the Maritime Museum is to preserve and manage the national maritime collection and to promote a broad interpretation of maritime heritage and culture.

Resolved moderate audit finding

IT general controls and governance framework

4.3.91 Effective IT controls are critical to the integrity of financial information presented in the Maritime Museum’s financial statements. As part of the 2015–16 interim audit, the ANAO tested key aspects of the Maritime Museum’s IT general control and governance framework, including controls supporting the FMIS and HRMIS.

4.3.92 The ANAO identified a number of weaknesses including:

- inadequate logging and monitoring of privileged user access in the IT network, FMIS and HRMIS;
- key plans and documents supporting the IT control framework, governance processes and strategy have not been regularly reviewed or updated. The ANAO noted that the Maritime Museum has commenced this process in 2015–16; and
- appropriate procedures were not in place for caller identity authentication when re-setting user account passwords at the IT service provider.

4.3.93 During the final audit, the ANAO completed additional substantive testing and no material misstatements were identified. The ANAO also reviewed activity undertaken by the Maritime Museum in addressing the weaknesses in relation to user access and monitoring of IT networks. As a result of progress made by the Maritime Museum, this finding was reclassified to a minor finding during the final audit. The new processes will be reviewed as part of the 2016–17 audit.

4.4 Defence Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Defence	Yes	✓	19 Sept 16	19 Sept 16	□▲◆
Australian War Memorial	Yes	✓	1 Sept 16	1 Sept 16	
Defence Housing Australia	Yes	✓	17 Aug 16	17 Aug 16	◆
Department of Veterans' Affairs	Yes	✓	15 Sept 16	15 Sept 16	

✓: 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 2015–16 interim audit phase, now reclassified or resolved

Portfolio overview

4.4.1 The Defence portfolio includes a range of entities that together are responsible for the defence of Australia and its national interests.

4.4.2 The Department of Defence is the lead entity in the portfolio. The portfolio also includes a number of smaller portfolio entities, including statutory offices, trusts and companies that have been established to provide support services to Australian Defence Force personnel. The Department of Veterans' Affairs, Defence Housing Australia and the Australian War Memorial are also part of the broader Defence portfolio.

4.4.3 The ANAO's financial statements audit approach identifies key areas of risk that have the potential to impact an entity's financial statements and develops audit procedures to address those risks. The results of recent performance audits form part of this risk identification process.

4.4.4 The following sections provide a summary of the 2015–16 financial statements audit results for the Department of Defence and material entities in the portfolio. Where a performance audit was tabled during 2015–16 and relevant to the financial management or administration of a portfolio entity, the impact of those observations on the audit approach are also discussed.

4.4.5 The observations of performance audits tabled since 1 July 2016 and relevant to the financial management or administration of entities within the Defence portfolio will inform the ANAO's 2016–17 financial statements audit risk identification processes.

Department of Defence

4.4.6 The Department of Defence and the Australian Defence Force, collectively known as Defence, are responsible for protecting and advancing Australia's strategic interests through the provision of appropriately prepared and equipped armed forces. Accordingly, Defence prepares for and conducts military operations and other tasks as directed by the Government.

Summary of financial performance

4.4.7 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by Defence, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.4.1: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(28 706.8)	(26 277.5)
Revenue from government	28 900.4	26 298.2
Surplus attributable to the Australian Government	193.6	20.7
Total other comprehensive income	9 775.7	407.1
Total comprehensive income attributable to the Australian Government	9 969.3	427.8
Total assets	94 140.3	78 411.8
Total liabilities	8 347.7	6 443.6
Total equity	85 792.6	71 968.2

Source: Department of Defence's financial statements for the year ended 30 June 2016.

4.4.8 On 1 July 2015, as a result of the First Principles Review, the former Defence Materiel Organisation (DMO) was delisted and its functions merged with Defence. The effects of the merge, predominantly the increase in employee benefits, prepayments and provisions, are reflected in the increases in net cost of services, revenue from government, total assets and total liabilities.

4.4.9 The increase in total other comprehensive income is primarily driven by the revaluation of specialist military equipment (SME) to bring these assets to fair value as at 30 June 2016 as required by the Financial Reporting Rule applicable for 2015–16. This requirement was not applied retrospectively and as a result SME was recognised at depreciated historical cost as at 30 June 2015.

4.4.10 The increase in total assets is also driven by assets acquired by Defence in the ordinary course of business, net of depreciation and impairment.

Table 4.4.2: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	6 855.1	5 927.00
Total income	1 673.9	1 430.3
Deficit	(5 181.2)	(4 496.7)
Total other comprehensive income	(25 922.3)	(7 297.9)
Total comprehensive loss	(31 103.5)	(11 794.6)
Total assets administered on behalf of Government	3 355.3	3 245.9
Total liabilities administered on behalf of Government	124 736.0	94 106.9
Net liabilities	121 380.7	90 861.1

Source: Department of Defence's financial statements for the year ended 30 June 2016.

4.4.11 An actuary is engaged by Defence to estimate the provisions of the Defence Force Retirement and Death Benefits Scheme and Military Superannuation Benefits Scheme at 30 June each year. The increase in the provision during 2015–16 is reflected in the total other comprehensive losses and total liabilities administered on behalf of government, and is the result of changes in two key assumptions:

- a decrease in the discount rate from 3.7 per cent to 2.7 per cent; and
- an increase in the number of members in both schemes, moving from 57 349 in 2014–15 to 58 161 in 2015–16.

4.4.12 The increase in members also contributed to higher service costs and contributions, increasing expenses and income respectively.

Key areas of financial statements risk

4.4.13 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.4.1.

Table 4.4.3: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Departmental SME \$56.2 billion Prepayments \$2.8 billion	The accounting for, and valuation of, SME which includes Defence Weapons Platforms (DWPs), Military Support Items (MSI) and Assets under Construction (AUC) and associated prepayments	Higher	<ul style="list-style-type: none"> complexity in measuring assets at fair value. This was a new requirement for Defence for 2015–16; annual impairment and revision of useful lives are subject to a high degree of judgement and subjectivity; management of AUC is dispersed across numerous projects that have complex multi-year contractual arrangements and project management requirements; and large prepayments are often made in relation to the acquisition and sustainment of SME. 	Three moderate audit findings identified—refer to paragraphs 4.4.18 to 4.4.20 and 4.4.36 to 4.4.40 below.
Departmental Inventory \$6.7 billion	Management and valuation of inventory	Higher	<ul style="list-style-type: none"> decentralised holdings and management by multiple parties; and identification of, and accounting for, obsolete stock. 	One moderate audit finding resolved—refer to paragraphs 4.4.30 to 4.4.31 below.
Administered Military superannuation liabilities \$124.7 billion	Valuation of military superannuation liabilities	Higher	<ul style="list-style-type: none"> complexity of the calculation and the nature of the economic and demographic assumptions involved. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Departmental General assets \$26.0 billion	Management and valuation of general assets	Moderate	<ul style="list-style-type: none"> • high volume of capital works and associated purchases managed across numerous locations; • completeness and accuracy of the fixed assets register; and • accuracy of calculations of depreciation or impairment adjustments. 	One moderate audit finding identified—refer to paragraphs 4.4.21 to 4.4.25 below.

Source: ANAO 2015–16 audit results, and Defence’s financial statements for the year ended 30 June 2016.

4.4.14 The ANAO also completed appropriate audit procedures on all material financial statements items and the information technology general and application controls for key systems that supported the preparation of Defence’s 2015–16 financial statements.

4.4.15 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. The following performance audit reports were tabled during 2015–16 relevant to the financial management or administration of Defence:

- Audit Report No.9 2015–16 *Test and Evaluation of Major Defence Equipment Acquisitions*;
- Audit Report No.16 2015–16 *Major Projects Report*;
- Audit Report No.26 2015–16 *Defence’s Management of the Mulwala Propellant Facility*; and
- Audit Report No.33 2015–16 *Defence’s Management of Credit and Other Transaction Cards*.

4.4.16 These reports included observations relevant to each of the key areas of financial statements risk outlined in Table 4.4.3, in particular SME and general assets, and will be considered in the development of the 2016–17 financial statements audit approach.

Audit results

4.4.17 The following table summarises the status of audit findings reported by the ANAO in 2014–15 and 2015–16.

Table 4.4.4: Status of audit findings

Category	Closing position (2014–15)	New findings (2015–16)	Finding resolved (2015–16)	Closing position (2015–16)
A	0	0	(0)	0
B	7 ^(a)	4 ^(b)	(7)	4
Total	7	4	(7)	4

Note a: Following the merger of DMO and Defence, the responsibility for addressing four unresolved findings transferred to Defence.

Note b: Two moderate audit findings were identified during the 2015–16 interim audit phase. Details regarding these findings were first reported to Parliament in ANAO Report No.7 2016–17 *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Entities for the year ending 30 June 2016*.

New moderate audit findings

Data integrity of the Specialist Military Equipment fixed asset register

4.4.18 Specialist Military Equipment (SME) is dispersed across Defence bases with the custodian and sustainment responsibility residing with Systems Project Offices. On an annual basis Systems Project Offices are required to complete a questionnaire advising the Asset Accounting Team of changes to asset componentisation³⁵, inspection costs, nominal costs associated with decommissioning and useful lives.

4.4.19 Through our review of the questionnaires and the SME fixed asset register, the ANAO observed:

- incorrect application of Defence’s componentisation policy when assets are brought into service;
- the carrying amounts of the cost of previous inspections were not being derecognised when each subsequent inspection was performed;
- insufficient or inaccurate data was provided to support the nominal costs associated with decommissioning; and
- instances where the useful lives applied had not been updated to align with the Key Defence Asset Register, which reflects the decisions of the Defence Capability and Investment Committee.

4.4.20 These weaknesses may result in the misstatement of the SME balance and depreciation expense.

Revaluation and impairment of general assets

4.4.21 On an annual basis, Defence completes a comprehensive valuation and impairment program for general assets. The valuation is performed by independent valuation specialists. Each year one third of the asset portfolio is reviewed by physical inspection, with the remaining two thirds by desktop review. Impairment assessments are performed by Service Groups and Business Areas, with the results reviewed by the Asset Accounting Team.

35 Componentisation is the separation of large and complex Defence Weapon Platforms, into parts which are capable of being removed and/or replaced at different times over the life of the complex asset.

4.4.22 Through our review of the valuation report provided by the independent valuation specialists, the ANAO noted the following limitations in the scope of the valuer's work:

- a regime of external inspections had been adopted due to practical difficulties of gaining internal access to many buildings; and
- the inspection of infrastructure was problematic as much is buried underground.

4.4.23 Our review of the assets excluded from the valuation identified a number of high value buildings that were not assessed on the basis that cost equated fair value given their recent acceptance into use. The ANAO's inspection of documentation supporting the acceptance into use of these assets highlighted significant delays prior to the asset being recognised in the fixed asset register. Delays of this nature increase the risk that cost is no longer the most appropriate measure of fair value and the ANAO noted during 2015–16 significant revaluation write-downs for some assets first recognised on the fixed asset register in 2014–15 under similar circumstances.

4.4.24 The ANAO also observed:

- contrary to Defence's asset management policy, many Heritage and Cultural assets had not been revalued in the past five years; and
- where a partial impairment was recognised for an asset, the accounting treatment applied by Defence was inconsistent with the requirements of the applicable Australian Accounting Standards.

4.4.25 The observations noted above may result in the misstatement of general assets.

Resolved moderate audit findings

Unauthorised changes to applications and information technology infrastructure

4.4.26 An external organisation has been engaged by Defence to manage and maintain Defence's IT infrastructure that hosts business applications. Under the services contract, the organisation is required to obtain authorisation from Defence for any changes to applications and IT systems. During 2015–16 the ANAO identified that changes had been made by the service organisation without prior approval.

4.4.27 During the final audit, the ANAO confirmed that Defence had updated its security procedures and the issues surrounding unauthorised changes to applications and IT infrastructure had been remediated. As a result, this finding was resolved.

Granting and terminating access of privileged users in supporting systems

4.4.28 During 2015–16, the ANAO identified deficiencies in the operation of the controls supporting the granting of access for new users and terminating access procedures within a number of domain servers.

4.4.29 During the final audit, the ANAO confirmed that Defence had updated its security procedures and the issues and associated finding surrounding granting and terminating access of privileged users have been resolved.

General Stores Inventory pricing

4.4.30 Defence undertakes an annual assurance process, in consultation with an independent statistician, to calculate an adjustment for in-year pricing errors over General Stores Inventory by

testing a statistical sample of purchases. Historically, the ANAO has identified a number of pricing errors which were not identified through Defence's assurance process.

4.4.31 During 2015–16, the ANAO observed that Defence had made significant progress in refining the assurance methodology and obtaining appropriate evidence to support prices. However, inconsistencies in the assessment of a small number of transactions were still identified and as a result this finding has been reclassified to a minor finding.

Accounting for commitments

4.4.32 The former DMO entered into large, complex contracts to deliver Defence's capability requirements which made up the majority of the commitments balance. Historically, a number of issues were identified with DMO's commitments balance. This balance has been embedded into Defence's process of accounting for commitments and the finding has been resolved.

Effectiveness of assurance process

4.4.33 During the 2014–15 final audit, the ANAO identified that the former DMO's quality assurance activities over some balances reported in its financial statements were not effective. All balances are now subject to Defence's financial reporting quality assurance activities and the finding has been resolved.

Valuation and management of overseas bank accounts

4.4.34 Prior to 2014–15 the former DMO reported the balance of overseas bank accounts, established to facilitate payments to the United States of America's Department of Defense for the acquisition or sustainment of SME, as cash. In 2014–15, DMO reassessed the nature of these arrangements and determined that they would be better classified as prepayments. During the 2014–15 final audit, the ANAO identified errors in the method of accounting for foreign exchange translation on the prepayment balance. During 2015–16, these balances were embedded in Defence's processes for reporting prepayments and the finding has been resolved.

Accuracy and completeness of month-end System Project Office job kits

4.4.35 During 2014–15 the ANAO identified a number of issues affecting the accuracy and completeness of financial information provided by the System Project Offices. During 2015–16 this process was embedded into Defence's period-end reporting process and the finding has been resolved.

Unresolved moderate audit findings

Estimation of Military Support Items impairment

4.4.36 In 2014–15, Defence implemented an annual assurance process, in consultation with an independent statistician, to calculate an adjustment to MSI impairment by testing a statistical sample of these assets. ANAO's review of the assurance process identified:

- a number of instances where evidence was not provided, or was inappropriate; 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.

4.4.37 In 2015–16 the number of instances where evidence was not provided or received in a timely manner from asset managers, which delayed the review and opportunity to remediate issues, continued to limit the level of confidence of the adjustment to the MSI impairment.

However, improvements were observed with the appropriateness of evidence supplied. Defence advised that they are investigating alternate methods of gathering evidence for 2016–17 to increase the level of confidence that can be placed on this adjustment.

Estimation of Defence Weapon Platforms (including assets under construction) impairment

4.4.38 Defence is required to assess DWPs for indicators of impairment on an annual basis. As these assets are dispersed across Defence bases, the Systems Project Offices are required to submit a questionnaire for consideration in the assessment and calculation of impairment. In 2014–15 the ANAO observed a number of deficiencies in this process, including:

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

4.4.39 Defence implemented an assurance program during 2015–16, however it was not effectively embedded into the impairment process. As a result, the ANAO observed the following deficiencies:

- not attributing impairment values to component assets prior to considering the overall platform; and
- the use of incomplete or inaccurate data.

4.4.40 Defence advised that it has commenced activities to refine their assurance program, taking into consideration the observations documented above. The ANAO will review Defence’s progress in addressing this finding during the 2016–17 audit.

Defence Housing Australia

4.4.41 The objective of Defence Housing Australia (DHA) is to provide housing and related services to members of the Australian Defence Force and their families, in line with the operational requirements of Defence. To meet these requirements, DHA is responsible for purchasing land and constructing properties on that land, and purchasing new and established properties. Each year, DHA sells a portion of its properties through a sale and leaseback program. Revenue generated from sale and leaseback activity provides DHA’s primary source of capital funding, and funds DHA’s capital program to acquire new properties.

Summary of financial performance

4.4.42 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by DHA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.4.5: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total revenue, income and share of joint venture profits	1 370.4	1 331.0
Total expenses	1 230.4	1210.6
Profit before tax	140.0	120.4
Income tax expense	35.5	29.4
Net profit after income tax	104.5	91.0
Other comprehensive income	–	–
Total comprehensive income	104.5	91.0
Total assets	2 346.3	2 291.1
Total liabilities	839.2	825.8
Total equity	1 507.1	1 465.3

Source: DHA's financial statements for the year ended 30 June 2016.

4.4.43 During 2015–16, there was an increase in the number of investment properties and sales of developed land, as DHA finalised a number of land development sites compared to only one major development in 2014–15. The increase in sales, accompanied by higher margins achieved on those sales, largely contributed to an overall increase in contribution by services and total comprehensive income. These increases were partially offset by lower revenue and margins achieved on sale and lease back of properties compared to the previous year as a result of softening market conditions.

Key areas of financial statements risk

4.4.44 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.4.6.

Table 4.4.6: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Inventory \$1.1 billion	Valuation of inventory	Higher	<ul style="list-style-type: none"> the volume properties and the complexity and detail of the model used to determine the correct valuation basis for inventory as either cost or net realisable value; the accuracy and uncertainty associated with the market data which is a key input into the valuation model used to calculate the net realisable value; management judgement applied in determining key inputs into the valuation model used to determine net realisable value; the accuracy and completeness of the inventory data held in the finance and other supporting systems due to the volume of properties; and depth of detailed judgement in applying the complex technical requirements of the financial framework for presentation and disclosure. 	No significant or moderate audit findings identified.
Investment properties \$807.0 million	Valuation of investment properties	Higher	<ul style="list-style-type: none"> complex valuation method, multiple data sources and assumptions subject to management judgment, including determining impairment; and judgement to determine the correct classification of investment properties as either as held for sale or non-current assets. 	No significant or moderate audit findings identified.
Revenue \$1.3 billion	Recognition of revenue and its classification	Moderate	<ul style="list-style-type: none"> the nature of the revenue streams and complexity of systems used to capture and record the financial information. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Work in progress – capitalised costs included as part of inventories \$427.0 million	Capitalisation of costs and recovery of deferred costs through sale	Moderate	<ul style="list-style-type: none"> costs incurred in the acquisition of development properties, and work in progress, may not be recoverable due to decline in market value or overcapitalisation. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and DHA's financial statements for the year ended 30 June 2016.

4.4.45 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the DHA's 2015–16 financial statements.

4.4.46 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.4.47 No significant or moderate audit findings were identified during the 2014–15 audit. One moderate audit finding was identified during 2015–16 and is detailed in the following section.

New moderate audit finding

Financial statements preparation process

4.4.48 During the final phase of the 2015–16 audit, the ANAO identified that DHA did not have adequate processes to support the timely and accurate preparation of the financial statements. The ANAO identified weaknesses in:

- quality assurance review processes;
- a lack of adherence to financial statements preparation timetables; and
- the preparation of work papers to support the financial statements and associated notes.

4.4.49 As a result of these weaknesses, a number of amendments were required to the draft financial statements submitted for audit, and there were subsequent delays in the completion of the financial statements audit.

4.4.50 DHA has advised that it will be implementing procedures to address these weaknesses in 2016–17. The ANAO will review the progress made by DHA to improve its financial statements preparation process as part of the 2016–17 audit.

Australian War Memorial

4.4.51 The Australian War Memorial is responsible for maintaining and developing the national memorial to Australians who have lost their lives in wars or warlike operations. It is also responsible for developing, maintaining and exhibiting a national collection of historical material, and conducts and fosters research into the Australian military.

Summary of financial performance

4.4.52 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by the Australian War Memorial, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.4.7: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(39.9)	(48.1)
Revenue from government	42.5	44.0
Surplus/(deficit) attributable to the Australian Government	2.6	(4.1)
Total other comprehensive income	33.7	4.4
Total comprehensive income attributable to the Australian Government	36.3	0.3
Total assets	1 328.5	1 286.7
Total liabilities	9.6	11.5
Total equity	1 318.9	1 275.2

Source: Australian War Memorial's financial statements for the year ended 30 June 2016.

4.4.53 Net cost of services improved during 2015–16 mainly due to an increase in the amount of donations, sponsorships and bequests received by the Australian War Memorial during the year.

4.4.54 The Australian War Memorial also undertook a valuation of heritage and cultural assets during 2015–16, which contribute to approximately \$1.1 billion of total assets. The resulting adjustment is reflected in the increase to other comprehensive income and total assets.

Key areas of financial statements risk

4.4.55 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.4.8.

Table 4.4.8: Key areas of financial statement risk and audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Heritage and cultural assets \$1.1 billion	Valuation of the collection	Moderate	<ul style="list-style-type: none"> valuation is subject to judgements and assumptions, including assessments for impairment; and judgement is involved in determining what costs should be capitalised and the appropriate depreciation of the collection. 	No significant or moderate audit findings identified
Land and buildings \$140.5 million	Valuation of land and buildings	Moderate	<ul style="list-style-type: none"> valuation is subject to judgements and assumptions, including assessments. 	No significant or moderate audit findings identified

Source: ANAO 2015–16 audit results, and the Australian War Memorial's financial statements for the year ended 30 June 2016.

4.4.56 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the Australian War Memorial's 2015–16 financial statements.

4.4.57 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.4.58 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Department of Veterans' Affairs

4.4.59 The Department of Veterans' Affairs (Veterans' Affairs) is the primary service delivery entity responsible for implementing programs to assist the veteran and defence force communities.

Summary of financial performance

4.4.60 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by the department, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.4.9: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(309.5)	(330.3)
Revenue from government	303.1	283.3
Deficit attributable to the Australian Government	(6.4)	(47.0)
Total other comprehensive income	3.0	(2.9)
Total comprehensive loss attributable to the Australian Government	(3.4)	(49.9)
Total assets	202.4	198.0
Total liabilities	135.6	141.6
Total equity	66.8	56.4

Source: Veterans' Affairs' financial statements for the year ended 30 June 2016.

4.4.61 The reduction in net cost of services and deficit largely relates to reductions in the impairment of intangible assets following a strategic decision by the department to not continue with the development of some software programs.

4.4.62 Revenue from government increased primarily due to additional funding being provided to support DVA objectives and meet commitments associated with the consolidation of leased office accommodation and employee expenses.

Table 4.4.10: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	13 497.0	13 338.0
Total income	30.0	7.0
Deficit	(13 467.0)	(13 331.0)
Total other comprehensive income	36.0	–
Total comprehensive loss	(13 431.0)	(13 331.0)
Total assets administered on behalf of Government	1 482.0	1 412.0
Total liabilities administered on behalf of Government	10 418.0	8 027.0
Net liabilities	8 936.0	6 615.0

Source: Veterans' Affairs' financial statements for the year ended 30 June 2016.

4.4.63 The increase in liabilities was due to a significant increase in the provision for military compensation. The decrease in the long term discount rate used to calculate the present value of the liability accounted for \$1.4 billion or 56 per cent of the increase in the liability. Other increases were driven by changes in actuarial assumptions to reflect recent claims experience in relation to permanent incapacity and health care costs for veterans.

4.4.64 The increase in assets and other comprehensive income reflects the increase in the administered investment valuation of the Australian War Memorial, as reflected in the increase in total equity.

Key areas of financial statements risk

4.4.65 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.4.11.

Table 4.4.11: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Personal benefit and healthcare provisions \$10.2 billion	Valuation of military compensation provision	Higher	<ul style="list-style-type: none"> complexity of assumptions and calculations underpinning the actuarial assessment of the military compensation provision; increasing value of the provision; and availability, quality and completeness of data used to derive the valuation. 	No significant or moderate audit findings identified.
Administered Personal benefit and healthcare expenses \$13.4 billion	Accuracy of personal benefit and healthcare payments	Higher	<ul style="list-style-type: none"> complex legislation applicable to individual claims; ageing IT infrastructure that supports the personal benefit and healthcare payments; dependence on veteran-provided information; and reliance on shared service providers. 	No significant or moderate audit findings identified.
Departmental Non-financial assets \$96.7 million	Valuation of departmental non-financial assets	Moderate	<ul style="list-style-type: none"> complexity of the valuation process; and judgements applied to the capitalisation of costs associated with internally developed software. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
All expense items	Legislative compliance, including section 83 of the Constitution	Moderate	<ul style="list-style-type: none"> conditions legislated by Parliament must be met before payments are made; and potential section 83 breaches are reported in the financial statements. 	No significant or moderate audit findings identified.
Departmental Employee provisions \$68.4 million	Human resource management	Moderate	<ul style="list-style-type: none"> complexity in assumptions and calculations underlying the actuarial assessment of employee provisions. 	No significant or moderate audit findings identified.
All financial statement line items	IT control environment	Moderate	<ul style="list-style-type: none"> large number of ageing IT systems involved in the capturing and processing of financial data required to produce the financial statements. 	No significant or moderate audit findings identified.
All financial statement line items	Financial statement preparation and quality assurance	Moderate	<ul style="list-style-type: none"> prior period finding relating to weaknesses in financial statement preparation and quality assurance processes. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and Veterans' Affairs' financial statements for the year ended 30 June 2016.

4.4.66 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of Veterans' Affairs' 2015–16 financial statements.

4.4.67 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. The following performance audit reports were tabled during 2015–16 relevant to the financial management or administration of Veterans' Affairs:

- Audit Report No.5 2015–16 *Implementation of Audit Recommendations*; and
- Audit Report No.32 2015–16 *Administration of Rehabilitation Services under the Military Rehabilitation and Compensation Act 2004*.

4.4.68 Report No.32 2015–16 included observations relevant to the valuation of the department's military compensation liability as outlined in Table . These observations included whether there were effective governance and coordination arrangements to support the administration of rehabilitation services, and whether the program is achieving intended outcomes. The valuation of the military compensation liability will remain an area of focus for 2016–17.

Audit results

4.4.69 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

4.5 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
Department of Education and Training	Yes	✓	21 Sept 16	21 Sept 16	▲◆
Australian Research Council	Yes	✓	7 Sept 16	7 Sept 16	

✓: 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

Portfolio overview

4.5.1 The Education and Training Portfolio is responsible for assisting the Australian Government to take a national leadership role in education at all stages, including: early childhood, school, tertiary and international; and the policy development that supports this role.

4.5.2 The Department of Education and Training is the lead entity in the portfolio. The portfolio also includes entities that work with the department to improve the quality and consistency of education and research within Australia's schools, vocational institutions and universities.

4.5.3 The ANAO's financial statements audit approach identifies key areas of risk that have the potential to impact an entity's financial statements and develops audit procedures to address those risks. The results of recent performance audits form part of this risk identification process.

4.5.4 The observations of performance audits tabled since 1 July 2016 and relevant to the financial management or administration of entities within the Education and Training Portfolio will inform the ANAO's 2016–17 financial statements audit risk identification processes.

4.5.5 The following sections provide a summary of the 2015–16 financial statements audit results for the Department of Education and Training and the Australian Research Council. Where a performance audit was tabled during 2015–16 and relevant to the financial management or administration of a portfolio entity, the impact of those observations on the audit approach are also discussed.

Department of Education and Training

4.5.6 The Department of Education and Training (Education) works with state and territory governments, other government entities and a range of service providers to deliver education and training related policy, advice and services for the benefit of Australians. These policies and programs range from quality early childhood education and child care, school and international education, higher education, academic research, skills and training

4.5.7 Education is responsible for administering a number of programs to assist with the cost of child care, the Higher Education Loan Program (HELP), grants to schools, and supplementary funding to assist eligible universities to meet certain superannuation expenses for eligible current and former university employees.

Summary of financial performance

4.5.8 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by Education, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.5.1: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(334.2)	(300.4)
Revenue from government	313.1	276.9
Deficit attributable to the Australian Government	(21.1)	(23.5)
Total other comprehensive income	(0.4)	–
Total comprehensive loss attributable to the Australian Government	(21.5)	(23.5)
Total assets	228.9	199.5
Total liabilities	124.9	110.3
Total equity	104.0	89.2

Source: Education's financial statements for the year ended 30 June 2016.

4.5.9 As a result of the September 2015 Machinery of Government changes the Child Care services programs transferred to Education from the Department of Social Services (Social Services). The increase in net cost of services represents the costs of employees and supporting expenses associated with the Child Care services. In 2014–15, the Skills Programs Group also transferred to Education from the Department of Industry, Innovation and Science as a result of a Machinery of Government change in December 2014.

4.5.10 The 2015–16 financial statements represent the costs associated with the Skills Program for a full reporting period and the costs of the Child Care programs for half of the reporting period. The addition of these programs to Education has resulted in increases to revenue from Government, assets and liabilities.

Table 4.5.2: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	33 472.4	30 531.0
Total income	1 352.6	2 641.8
Deficit	(32 119.8)	(27 889.2)
Total other comprehensive income	(31.6)	0.9
Total comprehensive loss	(32 151.4)	(27 888.3)
Total assets administered on behalf of Government	40 061.1	33 104.4
Total liabilities administered on behalf of Government	8 079.1	6 176.2
Net assets	31 982.0	26 928.2

Source: Education's financial statements for the year ended 30 June 2016.

4.5.11 As referred to above, the responsibility for administering significant functions were transferred to Education in both 2014–15 and 2015–16, which is reflected in an overall increase to total expenses and the deficit.

4.5.12 The movement in net assets reflects an increase in the number of loans made to students for tertiary studies under the Higher Education Loan Program (HELP); movements in the parameters used to value the receivables; and improvements in the underlying model used to estimate the receivable. This increase was offset by movements in liabilities which increased as a result of the transfer of liabilities associated with the Child Care and Skills programs in 2015–16 and 2014–15 respectively.

Key areas of financial statements risk

4.5.13 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.5.3.

Table 4.5.3: Key areas of financial statements risk audit results

Relevant financial statement item & impact ^(a)	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Child Care Program ^(m) Personal benefits and other administered expenses \$5.2 billion Personal benefits receivable \$465.4 million Personal benefits payable \$149.3 million Provision for personal benefits \$872.8 million	The Child Care program was transferred from Social Services as a result of the September 2015 Machinery of Government changes	Higher	<ul style="list-style-type: none"> the complex legislation and administration of child care benefits; payments are reliant on information provided by recipients and child care service providers; the IT environment is highly dependent on external information systems to Education, which are administered by the Departments of Human Services and Social Services; the payments rely on self-assessment of the claimants; and a significant audit finding was raised in 2013–14 which remains unresolved. 	One significant audit finding identified—refer to paragraphs 4.5.27 to 4.5.30 below.
Administered HELP Program HELP receivable \$36.8 billion Personal benefits expense \$39.2 million Finance costs \$621.8 million HELP fair value loss \$221.7 million Interest income \$456.5 million Other revenue (loan fee) \$675.5 million	The valuation of the HELP receivable	Higher	<ul style="list-style-type: none"> the balance is derived from complex actuarial estimates, as such the estimate contains a degree of uncertainty; the estimate includes judgements that relate to discount factors; trends over a varied cohort of students seeking tertiary education; and the estimation of repayment information; and payment data is provided by sources external to Education such as: the Australian Taxation Office; universities; and other third parties. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact ^(a)	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Provision for grants \$6.9 billion Grants expense \$230.0 million HESP fair value loss \$836.5 million HESP receivable \$392.0 million	The valuation of the Higher Education Superannuation Program (HESP) receivable and provision	Higher	<ul style="list-style-type: none"> the valuation of the liability is subject to an actuarial estimation process and sensitive to movements in discount factors and bond rates; and the valuation is complex as it is heavily reliant on accurate source data which is provided by third parties external to Education. 	No significant or moderate audit findings identified.
Administered Public sector grants expense \$15.7 billion Private sector grants expense (excluding Child Care and HESP) \$9.6 billion	The administration of multiple and diverse grant programs	Moderate	<ul style="list-style-type: none"> grants programs are decentralised and are managed across a number of different systems that rely on third parties; and the payments process relies on third party assessment of eligibility to receive a nominated grant. 	No significant or moderate audit findings identified.
All financial statement line items	Financial statements preparation	Moderate	<ul style="list-style-type: none"> the complexities arising from data managed by a number of areas, both internal and external to Education; and issues noted in the prior year including a high level of dependency placed on a limited number of individuals. 	One moderate audit finding identified. Refer to paragraph 4.5.23 to 4.5.26 below.

Note a: The Administered Child Care personal benefit figures are a sub-set of the financial statements items presented in Education's 2015–16 financial statements.

Source: ANAO 2015–16 audit results, and Education's financial statements for the year ended 30 June 2016.

4.5.14 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of Education's 2015–16 financial statements.

4.5.15 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. Audit Report No.31 2015–16 *Administration of Higher Education Loan Program Debt Repayments* was tabled during 2015–16 and included observations relevant to the HELP outlined in Table 4.5.3. The objective of the report was to assess the effectiveness of the administration of HELP debt and repayments.

4.5.16 During the 2015–16 financial statements audit the ANAO concluded the following with regard to the HELP receivable:

- reliance can be placed on the internal control environment; including IT application controls, within the Australian Taxation Office that relate to the completeness and accuracy of data used in estimating the HELP receivable;
- the methodology and assumptions applied by Education’s actuary to estimate the fair value of the receivable are reasonable; and
- the actuarial model assumed that approximately \$1.2 billion of VET FEE-HELP debts incurred between 2014 and 2015 are likely to be irrecoverable based on a number of factors, including the recent legal action by the Australian Competition and Consumer Commission against education providers for misleading representation and unconscionable conduct.

4.5.17 The HELP receivable will be a key area of financial statements risk due to the multiple factors that contribute to the balance and the complex actuarial modelling required to estimate the fair value of this receivable at reporting date.

Audit results

4.5.18 The following table summarises the status of audit findings reported by the ANAO in 2014–15 and 2015–16.

Table 4.5.4: Status of audit findings

Category	Closing position (2014–15)	New findings (2015–16)	Findings resolved (2015–16)	Closing position (2015–16)
A	0	1 ^(a)	(0)	1
B	0	2	(0)	2
Total	0	3	(0)	3

Note a: One significant audit finding, associated with the Early Childhood Education and Care program, was transferred from Social Services as a result of the September 2015 Machinery of Government changes.

New moderate audit findings

Governance arrangements for the Shared Services Centre

4.5.19 As part of the Australian Government’s shared and common services strategy, Education and the Department of Employment (Employment) are jointly responsible for the effective operation of a service organisation known as the Shared Services Centre (SSC). The SSC delivers a variety of services such as payroll and financial processing, banking, and information technology support on behalf of Education and Employment and to other Government entities (client entities).

4.5.20 During the 2015–16 audit, the ANAO identified weaknesses in the design and operational effectiveness of SSC’s controls related to the FMIS. In order to assess the extent of deficiencies noted, additional audit procedures were performed which identified further issues stemming from the SSC’s governance arrangements supporting services provided to Education, Employment and the client entities.

4.5.21 These issues included:

- insufficient documentation in the Memoranda of Understanding between the SSC and each of its clients regarding the allocation of roles and responsibilities in relation to financial reporting, governance and accountability;
- an inappropriate number of users had access to payment files prior to processing by the Reserve Bank of Australia (RBA). This level of access allowed for users to access, edit or delete payment information; and
- security features that identify changes to financial information prior to processing by the RBA had not been activated by the SSC, and as a result, reconciliation processes do not effectively detect inappropriate changes made to financial information arising from these identified weaknesses.

4.5.22 These weaknesses pose a moderate risk to Education, Employment and the client entities that an incorrect payment, either due to fraud or error, may go undetected. The ANAO will review the progress made by the SSC in addressing this matter as part of Education's 2016–17 audit.

Financial statements preparation

4.5.23 Balances and disclosures within Education's financial statements are underpinned by multiple complex business information systems; data provided by third-parties; and significant accounting judgements and estimates. This increases the risk of potential misstatements, particularly in the absence of adequate financial statement preparation processes.

4.5.24 During 2015–16, the ANAO noted weaknesses in Education's financial statements preparation processes, including:

- management had not performed sufficient analysis of information supporting the fair value measurement of administered investments. This balance represents a significant portion of the administered assets balance in the financial statements; and
- the omission of a significant disclosure related to judgements and estimates used to calculate the HELP receivable balance.

4.5.25 These weaknesses contributed to the ANAO identifying approximately \$688 million of audit differences in the financial statements presented for audit.

4.5.26 The absence of a robust, quality assured financial statements preparation process impacts the quality of the financial statements and leads to inefficiencies in the process. Education advised that it would undertake a review of the preparation process in 2016–17 with a view of having improved arrangements in place. The ANAO will review Education's progress in resolving this issue during the 2016–17 audit.

Unresolved significant audit finding

Child care compliance – estimated incorrect payments

4.5.27 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 reallocation of resources, these activities included establishing a taskforce focused on serious non-compliance matters and increasing the level of other monitoring activities, including risk based data interrogation and analysis.

4.5.28 In 2014–15, responsibility for the Child Care 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. The ANAO noted at that time 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 and entitlements.

4.5.29 In 2015–16, responsibility for the Child Care program transferred from Social Services back to Education. Education maintained the compliance program which included parent confirmation of their child’s attendance. This activity seeks to independently verify claims made by service providers, and collects data that is used to determine a statistical estimate of incorrect payments. In addition, Education has directed resources towards the prevention and detection of serious non-compliance, increasing stakeholder engagement and education and increasing the level of other monitoring activities.

4.5.30 As a result of these activities, Education has advised that while the statistical estimate of incorrect payments due to non-compliance has reduced, it remains at \$546 million. The ANAO will continue to assess the effectiveness of these activities and monitor the statistical estimate of incorrect payments as part of the 2016–17 audit.

Australian Research Council

4.5.31 The objective of the Australian Research Council (the Council) is to deliver policy and programs that advance Australian research and innovation globally to benefit the community. The Council looks to advance Australian research and innovation by: providing advice to government on research matters; funding research and research training through the National Competitive Grants Program; and measuring the quality, engagement and impact of research at Australia’s universities.

Summary of financial performance

4.5.32 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by the Council, and include commentary regarding significant movements between years contributing to overall performance.

Table 4.5.5: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(26.1)	(21.5)
Revenue from government	21.0	19.8
Deficit attributable to the Australian Government	(5.1)	(1.7)
Total other comprehensive income	–	–
Total comprehensive loss attributable to the Australian Government	(5.1)	(1.7)
Total assets	29.6	30.1
Total liabilities	7.8	7.1
Total equity	21.8	23.0

Source: The Council's Financial Statements for the year ended 30 June 2016.

4.5.33 The increase in net cost of services and subsequent increase in the deficit attributable to the Australian Government results from the introduction of the Council's new grants management system and the phasing out of the previous system. This resulted in the Council accelerating the depreciation of the previous system as it was phased out, increasing the depreciation expense in 2015–16 in comparison to 2014–15.

Table 4.5.6: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	770.6	847.5
Total income	6.5	8.1
Deficit	(764.1)	(839.4)
Total other comprehensive income	–	–
Total comprehensive loss	(764.1)	(839.4)
Total assets administered on behalf of Government	0.5	0.7
Total liabilities administered on behalf of Government	297.0	350.2
Net liabilities	296.5	349.5

Source: The Council's financial statements for the year ended 30 June 2016.

4.5.34 The reduction of total expenses and total liabilities is the result of fewer grants funding being awarded to universities in 2015–16 in comparison to 2014–15 as a result of a decrease to the funding limit as set out in the *Australian Research Council Act 2001* from 1 July 2015.

Key areas of financial statements risk

4.5.35 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.5.7.

Table 4.5.7: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Grants expense \$756.5 million	Grants administration	Moderate	<ul style="list-style-type: none"> complexity of grant payments, including variations to grant agreements during the year; and migration to a new grants management system in 2015–16. 	No significant or moderate audit findings identified.
Departmental Intangibles \$11.7 million	Valuation of intangibles	Moderate	<ul style="list-style-type: none"> development of the new grants management system; and judgement involved in determining the classification of development costs as expenses or intangible assets. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the Council's financial statements for the year ended 30 June 2016.

4.5.36 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the Council's 2015–16 financial statements.

4.5.37 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.5.38 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

4.6 Employment Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Employment	Yes	✓	9 Sept 16	9 Sept 16	◆
Coal Mining Industry (Long Service Leave Funding) Corporation	Yes	✓	11 Oct 16	11 Oct 16	
Comcare	Yes	✓	22 Sept 16	22 Sept 16	□
Fair Work Commission	No	✓	7 Sept 16	7 Sept 16	◆
Office of the Fair Work Ombudsman	No	✓	10 Oct 16	10 Oct 16	◆

✓: 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 2015–16 interim audit phase, now reclassified or resolved

Portfolio overview

4.6.1 The Employment Portfolio is responsible for assisting the Australian Government to achieve its objectives for employment by providing advice and support, and delivering programs and services to the Australian Government and the wider community. The portfolio is required to work 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.

4.6.2 The Department of Employment is the lead entity in the portfolio. The portfolio also includes entities that provide work, health and safety advice, initiatives and programs. These entities also monitor compliance with Commonwealth workplace laws, and promote workplace gender equality.

4.6.3 The ANAO's financial statements audit approach identifies key areas of risk that have the potential to impact an entity's financial statements and develops audit procedures to address those risks. The result of recent performance audits form part of this risk identification process.

4.6.4 The following sections provide a summary of the 2015–16 financial statements audit results for the Department of Employment and material entities in the portfolio. Where a performance audit was tabled during 2015–16 and relevant to the financial management or administration of a portfolio entity, the impact of those observations on the audit approach are also discussed.

4.6.5 The observations of performance audits tabled since 1 July 2016 and relevant to the financial management or administration of entities within the Employment portfolio will inform the ANAO's 2016–17 financial statements audit risk identification processes.

4.6.6 Commentary has also been included for the following non-material entities where moderate audit findings were identified:

- Fair Work Commission; and
- Office of the Fair Work Ombudsman.

Department of Employment

4.6.7 The Department of Employment's (Employment) role is to provide national policies and programs that help Australians find and keep employment, work in safe, fair and productive workplaces, and improve the employment-related performance of enterprises in Australia.

Summary of financial performance

4.6.8 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by the department, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.6.1: Departmental key financial statements items

Departmental key financial balances for year	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(300.2)	(308.1)
Revenue from government	280.3	296.0
Deficit attributable to the Australian Government	(19.9)	(12.1)
Total other comprehensive income	6.9	–
Total comprehensive loss attributable to the Australian Government	(13.0)	(12.1)
Total assets	267.6	237.8
Total liabilities	120.6	120.5
Total equity	147.0	117.3

Source: Employment's financial statements for the year ended 30 June 2016.

4.6.9 The increase in total other comprehensive income is due to an increase in asset values following a valuation assessment.

4.6.10 The movement in total assets is mainly due to an increase in upgrades to the business systems and data warehouse, as well as an increase in lease incentives associated with a new lease.

Table 4.6.2: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	1 608.1	1 951.7
Total income	240.7	188.3
Deficit	(1 367.3)	(1 763.3)
Total other comprehensive income	16.2	79.2
Total comprehensive loss	(1 351.1)	(1 684.1)
Total assets administered on behalf of Government	288.6	261.9
Total liabilities administered on behalf of Government	2 900.3	2 953.2
Net liabilities	2 611.7	2 691.2

Source: Employment's financial statements for the year ended 30 June 2016.

4.6.11 The reduction in total expenses largely relates to a decrease in supplier and subsidies expenses. These decreases primarily reflect efficiencies obtained with the introduction of Employment's jobactive program and the associated external compliance framework.

4.6.12 The increase in total income and total assets administered on behalf of Government is mainly due to an increase in Commonwealth Asset Recoveries from entities that have become solvent during 2015–16.

4.6.13 The decrease in total other comprehensive income is due to a smaller increase in the net value of Employment's investment in the Coal Mining Industry (Long Service Leave) Corporation (CMIC), mainly due to the sale of equity investments by CMIC during 2015–16.

Key areas of financial statements risk

4.6.14 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.6.3.

Table 4.6.3: Key areas of financial statements risk and audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Employment Services ^(a) Suppliers expenses \$983.3 million Suppliers payable \$59.8 million Personal benefits expense \$56.2 million Personal benefits payable \$2.8 million Subsidies expense \$20.2 million Subsidies payable \$12.2 million Receivables \$13.5 million	The 'jobactive' compliance program	Moderate	<ul style="list-style-type: none"> payments are reliant on assessments made by third party service providers. 	No significant or moderate audit findings identified.

Note a: The Administered Employment Services figures are a sub-set of the financial statements items presented in Employment's 2015–16 financial statements.

Source: ANAO 2015–16 audit results and Employment's financial statements for the year ended 30 June 2016.

4.6.15 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of Employment's 2015–16 financial statements.

4.6.16 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.6.17 There were no audit findings carried forward from 2014–15, and one new moderate audit finding identified during 2015–16.

New moderate audit finding

Governance arrangements for the Shared Services Centre

4.6.18 As part of the Australian Government's shared and common services strategy, Employment and the Department of Education and Training (Education) are jointly responsible for the effective operation of a service organisation known as the Shared Services Centre (SSC). The SSC delivers a variety of services such as payroll and financial processing, banking, and information technology support on behalf of Education and Employment and to other Government entities (client entities).

4.6.19 During the 2015–16 audit, the ANAO identified weaknesses in the design and operational effectiveness of SSC’s controls related to the FMIS. In order to assess the extent of deficiencies noted, additional audit procedures were performed which identified further issues stemming from the SSC’s governance arrangements supporting services provided to Employment, Education and the client entities.

4.6.20 These issues included:

- insufficient documentation in the Memoranda of Understanding between the SSC and each of its clients regarding the allocation of roles and responsibilities in relation to financial reporting, governance and accountability;
- an inappropriate number of users had access to payment files prior to processing by the Reserve Bank of Australia. The level of access allowed for users to access, edit or delete payment information; and
- security features that identify changes to financial information prior to processing by the RBA had not been activated by the SSC, and as a result, reconciliation processes do not effectively detect inappropriate changes made to financial information arising from these identified weaknesses.

4.6.21 These weaknesses pose a moderate risk to Employment, Education and the client entities that an incorrect payment, either due to fraud or error, may go undetected. The ANAO will review the progress made by the SSC as part of Employment’s 2016–17 audit.

Coal Mining Industry (Long Service Leave Funding) Corporation

4.6.22 The Coal Mining Industry (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 a payment to the employee and seeks reimbursement from the Corporation in accordance with legislative arrangements.

Summary of financial performance

4.6.23 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by the Corporation, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.6.4: Key financial statements items

Key financial balances for year	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(130.7)	(79.4)
Revenue from government	146.9	158.6
Surplus attributable to the Australian Government	16.2	79.2
Total other comprehensive income	–	–
Total comprehensive income attributable to the Australian Government	16.2	79.2
Total assets	1 468.8	1 445.8
Total liabilities	1 227.9	1 221.1
Total equity	240.9	224.7

Source: The Corporation's financial statements for the year ended 30 June 2016.

4.6.24 The net cost of services increased primarily due to a reduction in the Corporation's investment revenue resulting from fluctuations in the equity market over the reporting period. This reduction is also attributable to a fall in unrealised gains on investments held at reporting date and reduced distributions from unit trust holdings. Revenue from government decreased due to fewer industry employees being eligible to participate in the scheme.

Key areas of financial statements risk

4.6.25 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.6.5.

Table 4.6.5: Key areas of financial statements risk and audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Unit trusts \$1.4 billion	Valuation of investments	Higher	<ul style="list-style-type: none"> the Corporation's increased holdings of unlisted assets; and the complexity surrounding the valuation of unlisted unit trusts. 	No significant or moderate audit findings identified.
Equity investments \$68.9 million Unit trusts \$1.4 billion	Outsourcing of administration and custodian functions	Moderate	<ul style="list-style-type: none"> the high level of reliance on systems and controls of outsourced providers. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Provisions \$1.2 billion	Valuation of employee provisions	Higher	<ul style="list-style-type: none"> the methodology used to estimate the provision value due to the complex estimation process. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the Corporation’s financial statements for the year ended 30 June 2016.

4.6.26 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the Corporation’s 2015–16 financial statements.

4.6.27 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.6.28 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Comcare

4.6.29 Comcare is responsible for the administration of an integrated safety, rehabilitation and compensation scheme for federal employers, employees and their representatives; some state and territory bodies; and other organisations. Comcare aims to support participation and productivity nationally, through healthy and safe workplaces that minimise harm in the workplace. This also includes the management of a comprehensive workers compensation liability scheme and the Commonwealth common law liabilities for asbestos compensation.

Summary of financial performance

4.6.30 The following section provides a comparison of the 2014–15 and 2015–16 key departmental financial statements items reported by the entity, and include commentary regarding significant movements between years contributing to overall performance.

Table 4.6.6: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net contribution by services	166.5	72.9
Revenue from government	86.5	91.9
Surplus attributable to the Australian Government	253.0	164.8
Total other comprehensive income	4.3	-
Total comprehensive income attributable to the Australian Government	257.3	164.8
Total assets	3 813.3	3 661.9
Total liabilities	4 265.4	4 371.3
Total equity	(452.1)	(709.4)

Source: Comcare's financial statements for the year ended 30 June 2016.

4.6.31 The increase in the net contribution by services and the decrease in total liabilities largely relate to movements in the workers compensation and common law asbestos related disease claims provisions resulting from an independent valuation obtained during 2015–16. The provisions decreased in comparison to 2014–15 due to a number of movements in the parameters used to determine the provisions, including the results of actual claims data during 2015–16, and forecast data relating to future claims. The movement in the provisions also resulted in a decreased in the associated expenses.

4.6.32 Assets increased mainly due to an increase in cash holdings as at 30 June 2016 as a result of a reduction in cash outflows in 2015–16. The movement in cash outflows is largely the result of a reduction in workers compensation payments in 2015–16.

Key areas of financial statements risk

4.6.33 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.6.7.

Table 4.6.7: Key areas of financial statements risk and audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Workers' compensation claims provision \$3.2 billion Common law asbestos related disease claims provision \$1.1 billion	Valuation of workers compensation and asbestos related disease claims provisions	Higher	<ul style="list-style-type: none"> complex nature of the valuation of the provisions, including: the use of actuarial valuation models; the reliance on the accuracy of underlying assumptions, judgements and 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Workers' compensation claims expense \$197.0 million Common law asbestos related disease claims expense \$10.0 million			data; and the inherent difficulties in reflecting macro-economic trends in the valuation model.	
Workers' compensation premiums \$415.0 million Fees and fines \$17.0 million	Accuracy of revenue collection and recognition	Moderate	<ul style="list-style-type: none"> complex nature of the legislative requirements underlying the collection and recognition of revenue. 	No significant or moderate audit findings identified.
Unfunded claims liabilities \$451.0 million	Management of Comcare's unfunded claims liability and the going concern assumption	Moderate	<ul style="list-style-type: none"> complex nature of the calculation and presentation and disclosure of the unfunded claims liability; and the application of a complex premium strategy to manage and reduce the unfunded claims liability over time. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and Comcare's financial statements for the year ended 30 June 2016.

4.6.34 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of Comcare's 2015–16 financial statements.

4.6.35 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.6.36 One moderate audit finding was identified during the 2015–16 interim audit phase. As a result of remediation action taken during 2015–16 this finding has been reclassified to a minor audit finding during the final audit and is discussed below.

Resolved moderate audit finding

IT user access management

4.6.37 During the 2015–16 interim audit phase the ANAO identified a number of weaknesses associated with Comcare's IT user access management across a number of systems. The systems included:

- Aurion XPay—used to process payments to claimants;
- Aardvark—used to record determinations and store supporting documents associated with asbestos claims;
- Aurion HR—human resource management information system; and
- PracSys—used to record determinations and store supporting documents associated with workers compensation claims.

4.6.38 The weaknesses identified included:

- issues where conflicting user roles and levels of access were identified, and a mitigation strategy to address the associated risk had not been documented;
- a lack of formalised processes for undertaking user access reviews for Aurion XPay where user access reviews had not been performed at the time of the interim audit phase. The ANAO also identified that user access reviews had not been undertaken at the time of the interim audit phase for the Aardvark system;
- audit logs had not been maintained and regularly reviewed for Aurion HR. In addition, the ANAO identified that audit logs were maintained for PracSys but had not been subject to review;
- the existence of generic user roles for which an appropriate purpose had not been identified and documented;
- terminated users whose user access had not been removed in a timely manner; and
- a significant number of users with privileged user network access, for which an appropriate purpose could not be established.

4.6.39 The absence of appropriate IT user access management increases the risk of unauthorised or inappropriate transactions in Comcare's IT systems, and may compromise the integrity of data.

4.6.40 In response to these weaknesses, Comcare undertook actions to address the weaknesses identified during the final audit phase, including:

- a review of potential segregation of duties conflicts for three of the four IT systems identified. Review of the remaining system is to be completed in 2016–17;
- formalisation of user access reviews for all IT systems. User access reviews were also undertaken by Comcare for relevant IT systems during the final audit phase; and
- audit logs were maintained and reviewed by management for all IT systems for the latter part of the 2015–16 year.

4.6.41 The ANAO also noted no further issues associated with the timely removal of terminated users during the final audit phase. Due to the actions taken by Comcare in addressing the key areas of weakness this audit finding was reclassified to a minor audit finding during the final audit.

4.6.42 Management has committed to addressing the remaining weaknesses in the first half of the 2016–17 financial year. The ANAO will review the progress of this audit finding during the 2016–17 interim audit phase.

Comments on non-material entities

Fair Work Commission

4.6.43 The Fair Work Commission is Australia’s national workplace relations tribunal. The objective of the Fair Work Commission is to exercise powers under the *Fair Work Act 2009* in accordance with the objects of the Act and in a manner that is fair and just; is quick, informal and avoids unnecessary technicalities.

New moderate audit finding

Access to online payment system and security measures

4.6.44 During the 2015–16 audit, the ANAO identified weaknesses in the Fair Work Commission’s access controls for the online payment system (RBAnet), including that an individual was able to make a payment in RBAnet without requiring authorisation from a second person. The ANAO also identified that the security features that identify changes between the financial management information system (FMIS) and an uploaded payment file within RBAnet was not enabled. These weaknesses increase the risk of unauthorised and/or inappropriate payments.

4.6.45 The Fair Work Commission has advised that these weaknesses have been addressed by removing dual access to the online payment system, restricting access to the location of the output file from the FMIS and investigating the implementation of a tracking functionality which would enable the detection of access, change or action to the import file.

4.6.46 The ANAO will review the effectiveness of these processes as part of the 2016–17 audit.

Office of the Fair Work Ombudsman

4.6.47 The Office of the Fair Work Ombudsman is an independent government agency responsible for ensuring compliance with the *Fair Work Act 2009* through advice, education and, where necessary, enforcement.

New moderate audit finding

Access to the FMIS and online payment system

4.6.48 During the 2015–16 audit the ANAO identified that the configuration of the FMIS provided an inappropriate level of access for up to 10 finance staff. The ANAO also identified that the security features that identify changes between the financial management information system (FMIS) and an uploaded payment file within RBAnet was not enabled. These weaknesses increase the risk of unauthorised and/or inappropriate payments.

4.6.49 Office of the Fair Work Ombudsman has advised that it had taken steps to strengthen the current control framework by reviewing and removing unnecessary access rights within FMIS, restricting access to the location of the output file from the FMIS and progressing implementation of a tracking functionality which would enable the detection of access, change or action to the import file. The ANAO will test these processes as part of the 2016–17 audit.

4.7 Environment and Energy Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of the Environment	Yes	✓	8 Sept 16	8 Sept 16	
Australian Renewable Energy Agency ^(a)	Yes	✓	5 Sept 16	5 Sept 16	
Bureau of Meteorology	Yes	✓	30 Aug 16	30 Aug 16	
Clean Energy Finance Corporation ^(a)	Yes	✓	23 Aug 16	23 Aug 16	
Clean Energy Regulator	Yes	✓	5 Sept 16	5 Sept 16	◆□

✓: 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 2015–16 interim audit phase, now reclassified or resolved

Note a: These entities were transferred to the Environment portfolio as a result of the Administrative Arrangements Order made on 30 September 2015.

Portfolio overview

4.7.1 The Environment and Energy Portfolio³⁶ is responsible for a range of activities that broadly cover sustainable management of Australia's environment, adapting to the impacts of climate change, and improving the health of ecosystems.

4.7.2 The Department of the Environment and Energy is the lead entity in the portfolio. The portfolio also includes entities responsible for related functions, including the supply of renewable energy, weather forecast services, financing the clean energy sector, carbon emissions reductions, advice on climate change mitigation, and conservation of national reserves and the Great Barrier Reef.

4.7.3 The ANAO's financial statements audit approach identifies key areas of risk that have the potential to impact an entity's financial statements and develops audit procedures to address those risks. The result of recent performance audits form part of this risk identification process.

4.7.4 The following sections provide a summary of the 2015–16 financial statements audit results for the Department of the Environment and Energy and material entities in the portfolio. Where a performance audit was tabled during 2015–16 and relevant to the financial management or administration of a portfolio, the impact of those observations on the audit approach are also discussed.

4.7.5 The observations of performance audits tabled since 1 July 2016 and relevant to the financial management or administration of entities within the Environment and Energy portfolio will inform the ANAO's 2016–17 financial statements audit risk identification processes.

³⁶ The Environment Portfolio was renamed to the Environment and Energy Portfolio, and the Department of the Environment was renamed to the Department of the Environment and Energy, as a result of the 19 July 2016 Administrative Arrangements Order.

Department of the Environment and Energy

4.7.6 The Department of the Environment and Energy (Environment) is responsible for advising the Government on environmental policy and for the management of a range of programs designed to achieve a healthy environment, as well as regulatory and operational functions. The department is also 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. Other areas of departmental responsibility include advancing Australia's interests in the Antarctic and managing environmental water use and resources.

4.7.7 As a result of the Machinery of Government changes of September 2015, Environment transferred responsibility for the water resources and population policy functions to the Department of Agriculture and Water Resources. Environment also received the clean energy financing and renewable energy technology development functions from the Department of the Treasury and the Department of Industry, Innovation and Science respectively.

Summary of financial performance

4.7.8 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by Environment, and includes a commentary regarding significant movements between years contributing to overall performance.

Table 4.7.1: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(481.8)	(511.4)
Revenue from government	398.9	419.6
Deficit attributable to the Australian Government	(82.9)	(91.8)
Total other comprehensive income	(37.7)	12.3
Total comprehensive loss attributable to the Australian Government	(120.6)	(79.5)
Total assets	544.1	484.3
Total liabilities	644.8	582.1
Total equity	(100.7)	(97.8)

Source: Environment's financial statements for the year ended 30 June 2016.

4.7.9 The decrease in net cost of services is primarily due to a decrease in employee and supplier expenses as a result of Machinery of Government changes impacting the department in the financial year where Environment relinquished control of its water and population policy functions, and a decrease in depreciation and amortisation expense as a result of assets being fully depreciated before 30 June 2016.

4.7.10 Revenue from government decreased as a result of transfers associated with the September 2015 Machinery of Government changes where Environment relinquished control of its water and population policy function.

4.7.11 The increase in total assets is primarily due to progress payment made by the department for construction of the new Antarctic Icebreaker. The increase in liabilities and corresponding decrease in other comprehensive income is attributable to increases in provisions associated with Australian bases in Antarctica, primarily due to a change in the interest rate factor used to estimate the value of these liabilities at year end. These provisions are not funded for by the Government. Hence, any fluctuations in the provisions attributable to the changes in the assumptions used to calculate the provision results in a loss / gain to the department.

Table 4.7.2: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	618.9	691.3
Total income	521.3	371.7
Deficit	(97.6)	(319.6)
Total other comprehensive income	51.5	139.8
Total comprehensive loss	(46.1)	(179.8)
Total assets administered on behalf of Government	4 832.5	3 736.5
Total liabilities administered on behalf of Government	13.4	23.9
Net assets	4 819.1	3 712.6

Source: Environment's financial statements for the year ended 30 June 2016.

4.7.12 The decrease in total expenses reflects lower grants expenditure associated with relinquished water policy functions following the transfer of the function as a result of the Machinery of Government changes referred to in paragraph 4.7.7. This decrease was partially offset by increased payments to corporate Commonwealth entities in the Environment portfolio.

4.7.13 The increase in total income is primarily attributable to gains from the revaluations of water entitlements.

4.7.14 Total administered assets increased primarily due to the result of September 2015 Machinery of Government changes which resulted in an increase in administered investments.

Key areas of financial statements risk

4.7.15 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.7.3.

Table 4.7.3: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Water assets \$2.9 billion	Valuation of water entitlement assets	Higher	<ul style="list-style-type: none"> the balance is subject to estimation and judgement, particularly given the trading of water assets is a relatively new and developing market; and information to support the valuation is provided by third parties. 	No significant or moderate audit findings identified.
Departmental Antarctic make good provisions \$553.3 million	Valuation of obligations to restore the Antarctic bases	Higher	<ul style="list-style-type: none"> the balance is subject to judgement and estimation, particularly relating to discount rates, escalation factors, asset replacement costs and useful lives. 	No significant or moderate audit findings identified.
Administered Grant expenses \$328.6 million Grant payables \$2.3 million	Administration of grant programs	Moderate	<ul style="list-style-type: none"> the department administers a wide variety of grant programs which constitute a significant expense reported in the department's financial statements. 	No significant or moderate audit findings identified.
Departmental Land and buildings \$257.1 million Property, plant and equipment \$183.5 million Employee expenses \$205.2 million Supplier expenses \$196.7 million	Specialised cost attribution models for the Antarctic Division and Natural Heritage Trust Account	Moderate	<ul style="list-style-type: none"> the models are based on a variety of assumptions and cost drivers, which involve varying level of judgements. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
All financial statement items	Machinery of Government changes	Moderate	<ul style="list-style-type: none"> accurate accounting and reporting of the transferred items in the financial statements; and additional disclosure requirements including reporting of full-year revenues and expenses for all functions transferred to the department. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit result and Environment’s financial statements for the year ended 30 June 2016.

4.7.16 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the Department of the Environment and Energy’s 2015–16 financial statements.

4.7.17 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.7.18 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Australian Renewable Energy Agency

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

Summary of financial performance

4.7.20 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by ARENA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.7.4: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(78.5)	(220.7)
Revenue from government	114.6	244.4
Surplus attributable to the Australian Government	36.1	23.7
Total other comprehensive income	(2.3)	(0.8)
Total comprehensive income attributable to the Australian Government	33.8	22.9
Total assets	74.0	39.3
Total liabilities	5.3	4.4
Total equity	68.7	34.9

Source: ARENA's financial statements for the year ended 30 June 2016.

4.7.21 ARENA's financial results for 2015–16 were primarily impacted by an uncertainty at that time as to ARENA's future operation. This, coupled with a delay in some grant recipients meeting project milestones, consequently reduced grant activity and resulted in a reduction of net cost of services and revenue from government in comparison to the prior period.

4.7.22 A return of unspent grant funds from a grant recipient in 2015–16 as a result of the recipient not meeting a grant condition contributed to an increase in assets and equity at 30 June 2016 following return of the funds.

Key areas of financial statements risk

4.7.23 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.7.5.

Table 4.7.5: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Grants Expense \$113.0 million	Grants management	Moderate	<ul style="list-style-type: none"> there are complex funding arrangements for a number of grant recipients. 	No significant or moderate audit findings identified.
All financial statement line items	Implementation September 2015 Machinery of Government changes	Moderate	<ul style="list-style-type: none"> transfer from the Industry, Innovation and Science portfolio to the Environment portfolio and the associated implementation of system changes and administrative support arrangements. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results and ARENA's financial statements for the year ended 30 June 2016.

4.7.24 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the ARENA's 2015–16 financial statements.

4.7.25 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.7.26 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Bureau of Meteorology

4.7.27 The Bureau of Meteorology (BOM) is Australia's national meteorological authority. Its role is to gather weather, water and atmospheric observations in order to provide forecasts, warnings and long-term weather and climatic outlook.

Summary of financial performance

4.7.28 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by BOM, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.7.6: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(289.9)	(270.5)
Revenue from government	214.0	218.1
Deficit attributable to the Australian Government	(75.9)	(52.4)
Total other comprehensive income	–	–
Total comprehensive loss attributable to the Australian Government	(75.9)	(52.4)
Total assets	676.0	643.2
Total liabilities	169.6	154.8
Total equity	506.4	488.4

Source: BOM's financial statements for the year ended 30 June 2016.

4.7.29 The increase in the total comprehensive loss between 2014–15 and 2015–16 is mainly due to a higher level of expenditure incurred by BOM for the development of its super computer and data management capability. This includes human resources costs and other associated charges to accommodate the super computer.

4.7.30 This investment in computer software and IT assets has also resulted in an increase in total equity in comparison to 2014–15. This increase has been partially offset by an increase in liabilities as at 30 June 2016.

Table 4.7.7: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	–	–
Total income	2.2	1.4
Surplus	2.2	1.4
Total other comprehensive income	–	–
Total comprehensive income	2.2	1.4
Total assets administered on behalf of Government	0.1	0.5
Total liabilities administered on behalf of Government	–	0.1
Net assets	0.1	0.4

Source: BOM's financial statements for the year ended 30 June 2016.

4.7.31 Total administered income relates entirely to income generated through the sale of third-party advertising on BOM's website. During 2015–16, BOM entered into a new advertising contract which resulted in an increase in the volume and associated sales.

Key areas of financial statements risk

4.7.32 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.7.8.

Table 4.7.8: Key areas of financial statement risk and audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Departmental Non-financial assets \$546.3 million	Valuation of non-financial assets	Moderate	<ul style="list-style-type: none"> capitalisation of costs associated with the development of assets can be complex and subject to judgement. 	No significant or moderate audit findings identified.
Departmental revenue \$82.4 million	Accounting for own-source revenue	Moderate	<ul style="list-style-type: none"> multiple sources of revenue and the significance of own-source revenue to the BOM's operating result. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results and BOM's financial statements for the year ended 30 June 2016.

4.7.33 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the BOM's 2015–16 financial statements.

4.7.34 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.7.35 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Clean Energy Finance Corporation

4.7.36 The Clean Energy Finance Corporation (CEFC) was established to facilitate flows of finance into the clean energy sector. The primary functions of the CEFC include investment in clean energy technologies and projects—either directly in its own right, or indirectly through working with industry, banks and other financiers, and project proponents—as well as to liaise with relevant entities including ARENA, the Clean Energy Regulator, other Commonwealth entities and state and territory governments, for the purposes of facilitating its investment function.

4.7.37 From 5 May 2016, CEFC's Investment Mandate was expanded to make available from the CEFC Special Account up to \$100 million per year over the next 10 years for debt and equity investment in emerging clean energy technology projects and businesses that involve technologies that have passed beyond the research and development stages but are not yet

established or of sufficient maturity, size or otherwise commercially ready to attract sufficient private sector investment.

Summary of financial performance

4.7.38 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by the CEFC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.7.9: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net contribution by services	21.1	31.2
Revenue from government	–	–
Surplus attributable to the Australian Government	21.1	31.2
Total other comprehensive income	5.9	1.1
Total comprehensive income attributable to the Australian Government	27.0	32.3
Total assets	1 225.2	1 255.0
Total liabilities	26.1	22.9
Total equity	1 199.1	1 232.1

Source: CEFC's financial statements for the year ended 30 June 2016.

4.7.39 The decrease in net contribution by services was mainly due to decreased interest income from short-term investments and other financial assets, increased concessional loan charges as a result of new concessional loans, and increased employee related costs associated with an increase in employee numbers as CEFC continues to expand its operations. The increase in other comprehensive income was associated with gains in the market value of available for sale financial assets.

4.7.40 Total assets decreased due to a return of equity in the form of surplus cash to the Special Account resulting in lower overall financial assets. This decrease was partially offset by an increase in both loans and advances and available for sale financial assets. The increase in total liabilities was mainly attributable to increased provisions for the concessional loans.

Key areas of financial statements risk

4.7.41 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.7.10.

Table 4.7.10: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
<p>Loans and advances \$402.2 million</p> <p>Available for sale financial assets \$277.7 million</p> <p>Other financial assets \$306.6 million</p> <p>Provision for concessional loans \$13.0 million</p>	<p>Accounting for complex finance agreements including the adequacy of impairment provisions and concessional loan adjustments</p>	<p>Higher</p>	<ul style="list-style-type: none"> • complex lending scenarios to entities undertaking new or emerging technologies in the climate change sector where a mature track record of results is still to be established and where access to other finance has been challenging; • complicated agreements with borrowers impacting on fair value assessment and concessional accounting calculations; and • obtaining relevant benchmark information for related market data from which concessional loan charges are determined requires significant judgement which may lead to misstatements of the loan portfolio; and • complexity of impairment assessments in relation to forecast future cash flows, security valuation and relevant discount factors given the nature of the borrowers and their underlying business. 	<p>No significant or moderate audit findings identified.</p>
<p>Interest and loan fee revenue \$51.0 million</p>	<p>Revenue recognition</p>	<p>Higher</p>	<ul style="list-style-type: none"> • interest and fee income derived from the CEFC's loan portfolio continues to be the material component of the CEFC's total revenue. The payment for establishment and other fees may be in the form of cash or other assets, such as shares. 	<p>No significant or moderate audit findings identified.</p>

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Legislative compliance	Consolidation of equity investments	Higher	<ul style="list-style-type: none"> complex compliance requirements associated with the consolidation of an investment entity (such as a company, trust, partnership, fund) could lead to a legislative breach. 	No significant or moderate audit findings identified.
All financial statement line items	Accounting system migration	Higher	<ul style="list-style-type: none"> risk factors associated with the implementation of a new general ledger system during the year include that data migration could be inaccurate or incomplete, logical access may be incorrectly set up, or modifications to the software may be inappropriately made. 	No significant or moderate audit findings identified.
Senior Management Personnel Remuneration \$3.4 million	Disclosure of senior management personnel remuneration	Moderate	<ul style="list-style-type: none"> payments relating to the variable compensation or retention plans are inconsistent with the parameters set out in those plans; and accruals relating to any such payments are not appropriately accounted for. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and CEFC's financial statements for the year ended 30 June 2016.

4.7.42 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the CEFC's 2015–16 financial statements.

4.7.43 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.7.44 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Clean Energy Regulator

4.7.45 The Clean Energy Regulator (CER) administers schemes legislated by the Australian Government for measuring, managing, reducing or offsetting Australia's carbon emissions and increasing the use of clean energy.

Summary of financial performance

4.7.46 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by the CER, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.7.11: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(85.2)	(91.4)
Revenue from government	73.0	76.6
Deficit attributable to the Australian Government	(12.2)	(14.8)
Total other comprehensive income	–	0.1
Total comprehensive loss attributable to the Australian Government	(12.2)	(14.7)
Total assets	51.5	63.4
Total liabilities	18.6	19.5
Total equity	32.9	43.9

Source: CER's financial statements for the year ended 30 June 2016.

4.7.47 The CER's departmental operations have remained stable in 2015–16 with lower operating expenses attributable to the establishment of the Emissions Reduction Fund in 2014–15.

4.7.48 The decrease in assets mainly reflects the depreciation and amortisation of non-financial assets and intangibles used in the CER's operations.

Table 4.7.12: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	144.8	172.3
Total income	15.1	67.3
Deficit	(129.7)	(105.0)
Total other comprehensive income	–	–
Total comprehensive loss	(129.7)	(105.0)
Total assets administered on behalf of Government	90.5	0.7
Total liabilities administered on behalf of Government	114.6	14.2
Net liabilities	24.1	13.5

Source: CER's financial statements for the year ended 30 June 2016.

4.7.49 The decrease in expenses reflects the final transition of the government from the previous Carbon Pricing Mechanism (CPM) that was repealed effective 1 July 2014, and a full year

operation of the Emissions Reduction Fund (ERF) that replaced the CPM. Final surrenders of Australian Carbon Credit Units (ACCUs) issued under the CPM occurred on 1 February 2015.

4.7.50 The reduction in income also reflects the transition from the CPM which previously generated significant taxation revenue.

4.7.51 The increased administered liabilities mainly represented amounts payable at year-end for the purchase of ACCUs under the ERF, and amounts payable under the continuing small scale technology certificate scheme. The increase in assets mainly represented cash held at year-end to cover the small scale technology amounts payable.

Key areas of financial statements risk

4.7.52 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.7.13.

Table 4.7.13: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Purchases of ACCUs \$138.4 million Commitments for purchases of ACCUs \$1.0 billion	Compliance with Emissions Reduction Fund (ERF) laws	Moderate	<ul style="list-style-type: none"> complex legislation and regulations that mandate the rights and responsibilities of the CER; and maturity of processes to verify government payments for carbon abatement. 	No significant or moderate audit findings identified.
Purchases of ACCUs \$138.4 million Commitments for purchases of ACCUs \$1.0 billion	ERF corporate governance	Moderate	<ul style="list-style-type: none"> Government mandate to promptly commence the ERF, which required appropriate governance, internal control, and risk management policies and procedures to be established; and need for organisational redesign and change management to support the operation and integration of the ERF safeguard capabilities. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Purchases of ACCUs \$138.4 million	ERF controls environment supporting financial transactions	Moderate	<ul style="list-style-type: none"> inherent risks associated with complex assessment of proposed projects; several complex IT systems supporting the ERF, requiring concise interaction to generate transactions; and key IT systems relying on manual detection controls to reconcile critical information. 	No significant or moderate audit findings identified.
Non-financial assets \$25.0 million	Valuation, impairment and capitalisation of non-financial assets	Moderate	<ul style="list-style-type: none"> changing legislative environment which may significantly impact the useful lives of intangible assets. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the CER's financial statements for the year ended 30 June 2016.

4.7.53 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the CER's 2015–16 financial statements.

4.7.54 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.7.55 There were no significant or moderate audit findings arising from the 2014–15 financial statements audit. During the 2015–16 financial statements audit one moderate audit finding was raised during the interim audit concerning privileged user access to the CER's FMIS. This finding was reclassified to a minor audit finding during the final audit and is detailed below.

Resolved moderate audit finding

TechOne FMIS privileged user access management

4.7.56 The ANAO identified a number of user access issues in relation to the CER's FMIS, including:

- unnecessary privileged user access provided to a number of administrators;
- lack of formal review and monitoring processes associated with these access arrangements;
- inappropriate access to privileged user information logs; and
- use of generic system user accounts which do not allow user activity to be appropriately monitored.

4.7.57 Inappropriate levels of access and inadequate monitoring of system access, particularly for privileged users, increases the risk that inappropriate activity would not be detected.

4.7.58 During the final audit, the ANAO confirmed that the CER had implemented effective controls to address the major risks associated with the weaknesses outlined above. As a result, this moderate finding was reclassified to a minor audit finding.

4.8 Finance Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Finance	Yes	✓	29 Aug 16	29 Aug 16	
ASC Pty Ltd	Yes	✓	8 Sept 16	8 Sept 16	
Australian Electoral Commission	Yes	✓	15 Sept 16	15 Sept 16	☐
Commonwealth Superannuation Corporation	No	✓	27 Sept 16	28 Sept 16	☐
Future Fund Management Agency and the Board of Guardians	Yes	✓	27 Sept 16	27 Sept 16	

✓: auditor's report not modified

☐: significant or moderate findings and/or legislative matters identified in previous periods, or the 2015–16 interim audit phase, now reclassified or resolved

Portfolio overview

4.8.1 The Finance Portfolio is responsible for the preparation of the Consolidated Financial Statements of the Australian Government (CFS) and a range of financial related functions that include providing the Australian Government with Budget policy advice on superannuation arrangements for government employees, asset sales and online service delivery initiatives.

4.8.2 The Department of Finance is the lead entity in the portfolio. The portfolio also includes entities responsible for maintaining an impartial and independent electoral system, supporting retirement and insurance benefits for members of Commonwealth superannuation schemes, managing the investment activities of the Future Fund, Nation-building Funds, DisabilityCare Australia Fund and Medical Research Future Fund, in line with the Government's investment directions, and supporting Australia's naval defence capability.

4.8.3 The ANAO's financial statements audit approach identifies key areas of risk that have the potential to impact an entity's financial statements and develops audit procedures to address those risks. The result of recent performance audits form part of this risk identification process.

4.8.4 The following sections provide a summary of the 2015–16 financial statements audit results for the Department of Finance, material entities in the portfolio and the Commonwealth Superannuation Corporation. Where a performance audit was tabled during 2015–16 and relevant to the financial management or administration of a portfolio, the impact of those observations on the audit approach are also discussed.

4.8.5 The observations of performance audits tabled since 1 July 2016 and relevant to the financial management or administration of entities within the Finance portfolio will inform the ANAO's 2016–17 financial statements audit risk identification processes.

Department of Finance

4.8.6 The Department of Finance (Finance) is responsible for supporting the Government's Budget process and oversight of public sector resource management, governance and accountability frameworks. In addition, Finance is responsible for the preparation of the annual Consolidated Financial Statements of the Australian Government, which includes the Whole-of-Government and the General Government Sector financial statements, and the Australian Government's financial outcome.

Summary of financial performance

4.8.7 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by the department, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.8.1: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(154.0)	(333.0)
Revenue from government	271.3	395.4
Income tax (expense)/benefit	(3.8)	5.9
Surplus attributable to the Australian Government	113.5	56.5
Total other comprehensive income after income tax	25.1	16.4
Total comprehensive income attributable to the Australian Government	138.6	72.8
Total assets	2 845.8	2 700.5
Total liabilities	697.7	637.1
Total equity	2 148.1	2 063.4

Source: Finance's financial statements for the year ended 30 June 2016.

4.8.8 Revenue from government decreased largely as a result of Medibank Private Limited (MPL) sale costs being appropriated and incurred in the prior year. An amount of \$82 million was a one off receipt for expenses occurred for the sale of MPL in 2014–15.

4.8.9 Finance's net cost of services improved in 2015–16 largely due to the normalisation of operations following the impact of one-off costs associated with the sale of MPL in 2014–15. In addition, the department's investment property portfolio increased in value to due improved market conditions in the past 12 months compared to the previous year leading to an increase in other comprehensive income and total equity.

Table 4.8.2: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	9 509.5	10 512.9
Total income	1 906.6	8 004.0
Deficit	(7 602.9)	(2 508.9)
Total other comprehensive income	(30 835.3)	(10 324.0)
Total comprehensive loss	(38 438.3)	(12 832.9)
Total assets administered on behalf of Government	18 474.9	13 181.4
Total liabilities administered on behalf of Government	191 333.2	155 818.6
Net liabilities	172 858.3	142 637.2

Source: Finance's financial statements for the year ended 30 June 2016.

4.8.10 Income has decreased due to MPL gains of \$5.7 billion being in the prior year.

4.8.11 Total other comprehensive losses have increased by \$20 billion largely due to the fall in the discount rate used for the superannuation liabilities valuation. The lower discount rate has led to a smaller discount on future cash flow estimates moving the liability closer to its nominal value. This has led to a corresponding increase in liabilities.

4.8.12 There has been additional contribution made to the DisabilityCare Australia Fund which has increased funds under management as well as the contribution of funds for the formation of the Medical Research Future Fund.

Key areas of financial statements risk

4.8.13 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.8.3.

Table 4.8.3: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Superannuation liability \$189.4 billion	Valuation of unfunded public sector superannuation	Higher	<ul style="list-style-type: none"> • complex calculation of each superannuation fund's liability and sensitivity of each fund to demographic factors and other movements, such as salary growth and bond rates; and • reliance on the Commonwealth Superannuation Corporation for the processing of superannuation benefit payments and the provision of complete and accurate data to Finance's actuary. 	No significant or moderate audit findings identified.
Departmental Outstanding insurance provision \$352.6 million	Valuation of the outstanding claims liability under the Australian Government's self-managed general insurance fund	Higher	<ul style="list-style-type: none"> • complex calculation based on assumptions that require significant judgement; and • reliance on the control environment of an external service provider for the effective management of the claims process. 	No significant or moderate audit findings identified.
Departmental Investment property \$626.4 million	Valuation of the Government's non-defence domestic property portfolio	Moderate	<ul style="list-style-type: none"> • use of different valuation methods that require significant judgement on the selection of assumptions within the valuation models across a large portfolio of properties. 	No significant or moderate audit findings identified.
Departmental Intangibles \$71.8 million	Valuation of the Central Budget Management System Redevelopment Project	Moderate	<ul style="list-style-type: none"> • the significant level of judgement required to estimate the value of the system. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Departmental Property, plant and equipment \$28.6 million Lease liabilities \$40.1 million	Accounting for items associated with the relocation to One Canberra Avenue	Moderate	<ul style="list-style-type: none"> recognition of new lease arrangements, including sub-leases, are subject to specific accounting treatments; it is necessary to unwind current accounting treatments relevant to the previous premises; and a large number of assets are to be disposed of, and new ones acquired, as a result of the relocation. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and Finance’s financial statements for the year ended 30 June 2016.

4.8.14 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the Finance’s 2015–16 financial statements.

4.8.15 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.8.16 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

ASC Pty Ltd

4.8.17 The ASC Pty Ltd Consolidated Group (ASC) supports Australia’s naval defence capabilities. 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.

4.8.18 ASC is also 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. 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.

Summary of financial performance

4.8.19 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by ASC and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.8.4: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	762.9	997.9
Total income	800.9	1 029.2
Income tax expense	11.4	9.4
Profit after income tax	26.6	21.9
Total other comprehensive income after income tax	4.2	25.8
Total comprehensive income after income tax	30.8	47.7
Total assets	702.6	683.3
Total liabilities	422.5	418.0
Net assets	280.1	265.3

Source: ASC's financial statements for the year ended 30 June 2016.

4.8.20 Expenses decreased primarily as a result of a reduction in materials and subcontractor and labour costs driven by the phases of the Air Warfare Destroyers shipbuilding project and Collins Class submarine maintenance schedule. This phasing also led to a decrease in total income.

4.8.21 Income also decreased primarily as a result of the phasing of the maintenance of the submarines and a reduction in the recognition of revenue from shipbuilding operations which is based on costs incurred.

4.8.22 The decrease in other comprehensive income after income tax is primarily a result of a decrease in the revaluation increment of land and buildings held by ASC compared to 2014–15.

4.8.23 The increase in assets is mainly due to the increase in trade receivables due to the timing of invoices partially offset by a reduction in cash held at year end due to the timing of receipts.

4.8.24 The increase in liabilities is primarily due to the timing of payments for key projects in 2015–16.

Key areas of financial statements risk

4.8.25 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.8.5.

Table 4.8.5: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Revenue from continuing operations \$800.9 million	Revenue and profit recognition in relation to the Air Warfare Destroyer project and the Collins Class submarine in-service support contract	Higher	<ul style="list-style-type: none"> accounting for revenue, profit recognition, and claims in relation to these projects and contracts is complex and subject to significant estimation and judgement. 	No significant or moderate audit findings identified.
All financial statement line items	The impact of the reform strategy for the Air Warfare Destroyer Project	Higher	<ul style="list-style-type: none"> announcements made as part of the reform strategy could impact both the measurement and disclosure of related items in the financial statements. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the ASC’s financial statements for the year ended 30 June 2016.

4.8.26 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of ASC’s 2015–16 financial statements.

4.8.27 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.8.28 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Australian Electoral Commission

4.8.29 The Australian Electoral Commission (the Commission) is responsible for conducting federal elections and referendums, maintaining the Commonwealth Electoral Roll and administering political funding and disclosure. The Commission provides a range of electoral information and education programs, both in Australia and internationally.

Summary of financial performance

4.8.30 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by the Commission, and

includes commentary regarding significant movements between years contributing to overall performance.

Table 4.8.6: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(257.8)	(113.9)
Revenue from government	232.8	113.5
Deficit attributable to the Australian Government	(25.0)	(0.4)
Total other comprehensive income	1.9	2.1
Total comprehensive income/(loss) attributable to the Australian Government	(23.1)	1.8
Total assets	154.8	95.8
Total liabilities	110.0	38.9
Total equity	44.8	56.9

Source: The Commission's financial statements for the year ended 30 June 2016.

4.8.31 The significant increase in net cost of services, as well as the increases in assets and liabilities is due to preparation for the Federal election held in the first week of July 2016.

Table 4.8.7: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	0.4	0.1
Total income	0.4	1.0
Surplus	–	0.9
Total other comprehensive income	–	–
Total comprehensive income	0.4	0.9
Total assets administered on behalf of Government	–	–
Total liabilities administered on behalf of Government	–	–
Net assets	–	–

Source: The Commission's financial statements for the year ended 30 June 2016.

4.8.32 Administered income relates to fines collected and administered expenses relates to funding payments to political parties. In non-election years, such as 2014–15 and 2015–16, there is minimal activity in the Commission's administered balances.

Key areas of financial statements risk

4.8.33 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.8.8.

Table 4.8.8: Key areas of financial statement risk and audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Departmental Employee benefits expense \$104.6 million Employee provisions \$24.6 million	Accuracy and completeness of employee expenses and provisions	Moderate	<ul style="list-style-type: none"> implementation in 2015–16 of a new HRMIS for processing payroll and other employee benefits. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the Commission’s financial statements for the year ended 30 June 2016.

4.8.34 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the Commission’s 2015–16 financial statements.

4.8.35 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.8.36 There were no significant or moderate audit findings at the conclusion of the 2015–16 financial statements audit.

4.8.37 The ANAO reported one moderate audit finding relating to IT change management during 2014–15, which is outlined below.

Resolved moderate audit finding

IT change management control

4.8.38 Change management is a formal process used to ensure changes to an entity’s computer systems and applications are implemented in a controlled and coordinated manner. During the 2014–15 audit, the ANAO identified weaknesses in the operation of the Commission’s IT change management processes. These weaknesses included changes made to the production environment before formal approval being received and changes being made without appropriate supporting testing documentation being submitted to the business owner.

4.8.39 In 2015–16, the Commission implemented a change control process to monitor changes including a requirement for changes to the systems to be tested. The Commission also implemented review and monitoring activities to confirm compliance with the revised requirements. As a result, this moderate audit finding has been resolved.

Future Fund Management Agency and the Board of Guardians

4.8.40 The Future Fund Board of Guardians (the Board), supported by the Future Fund Management Agency (the FFMA), has responsibility for investment of the assets of the Future Fund under the *Future Fund Act 2006* and other investment funds under the *Nation-building*

Funds Act 2008, the DisabilityCare Australia Fund Act 2013, and the Medical Research Future Fund Act 2015, for the benefit of future generations of Australians.

Summary of financial performance

4.8.41 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by the Board and FFMA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.8.9: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total income	5 940.0	15 973.4
Total expense	288.2	315.7
Operating result	5 651.8	15 657.7
Income tax expense	61.9	52.2
Operating profit after tax	5 589.9	15 605.5
Total assets	124 292.4	118 443.5
Total liabilities	1 556.7	1 297.8
Total equity	122 735.7	117 145.7

Source: The Board and FFMA's financial statements for the year ended 30 June 2016.

4.8.42 The investment earnings for the Future Fund during 2015–16 were well below the prior year and led to a lower operating result. However, the Future Fund continues to achieve its benchmark rate of return (Consumer Price Index plus 4.5 per cent) per its investment mandate on a long term basis (measured over 10 years). These results are largely consistent with the downturn in markets around the world.

Key areas of financial statements risk

4.8.43 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.8.10.

Table 4.8.10: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Investments \$119.8 billion	Investment strategy, management and valuation	Higher	<ul style="list-style-type: none"> the inherent subjectivity of valuations and illiquid market conditions for certain investments. 	No significant or moderate audit findings identified.
Investments \$119.8 billion	Effectiveness of governance processes, including monitoring external service providers and the custodian	Moderate	<ul style="list-style-type: none"> reliant on information from the custodian (including asset valuation, rights, obligations and existence of assets); and potential for financial loss where custodian or sub-custodian fails to meet their obligations in accordance with the agreed terms. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the Board and FFMA’s financial statements for the year ended 30 June 2016.

4.8.44 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the 2015–16 financial statements.

4.8.45 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.8.46 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Comments on non-material entities

Commonwealth Superannuation Corporation

4.8.47 The Commonwealth Superannuation Corporation (CSC), appointed by the Australian Government, is the trustee of the superannuation schemes set up to meet the superannuation needs of Australian Government employees and members of the Australian Defence Force.

4.8.48 From 1 July 2015 the functions of ComSuper were merged into CSC, including the collection of member contributions and maintenance of member accounts, and the payment of benefits and pensions.

Resolved moderate audit finding

Controls over changes to payroll

4.8.49 During the 2014–15 audit of ComSuper, the ANAO identified that all payroll staff, and certain staff of the payroll service provider, were able to make changes to employee details, including bank accounts, without requiring independent review or authorisation. ComSuper had not implemented mitigating controls that would detect such changes.

4.8.50 As a result of the merger referred to above, responsibility for addressing this matter rested with CSC from 1 July 2015. During 2015–16 CSC implemented regular monitoring of system changes through the review of system generated reports that outlined variations to payroll files for each pay period.

4.8.51 The ANAO confirmed the implementation of these processes during the 2015–16 audit, and as a result this finding has been resolved.

4.9 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
Department of Foreign Affairs and Trade	Yes	✓	14 Sept 16	14 Sept 16	
Australian Trade and Investment Commission	Yes	✓	1 Sept 16	1 Sept 16	
Export Finance and Insurance Corporation	Yes	✓	26 Aug 16	26 Aug 16	

✓: auditor's report not modified

Portfolio overview

4.9.1 The objective of the Foreign Affairs and Trade Portfolio is to make Australia stronger, safer and more prosperous by promoting and protecting its interests internationally and contributing to global stability and economic growth, particularly in the Indo-Pacific region.

4.9.2 The Department of Foreign Affairs and Trade is the lead entity in the portfolio. The portfolio also includes entities that are responsible for delivering programs to strengthen Australia's security, promote export trade, support the welfare of Australians overseas, and grow the Australian tourism industry.

4.9.3 The ANAO's financial statements audit approach identifies key areas of risk that have the potential to impact an entity's financial statements and develops audit procedures to address those risks. The result of recent performance audits form part of this risk identification process.

4.9.4 The following sections provide a summary of the 2015–16 financial statements audit results for the Department of Foreign Affairs and Trade and material entities in the portfolio. Where a performance audit was tabled during 2015–16 and relevant to the financial management or administration of a portfolio, the impact of those observations on the audit approach are also discussed.

4.9.5 The observations of performance audits tabled since 1 July 2016 and relevant to the financial management or administration of entities within the Foreign Affairs and Trade Portfolio will inform the ANAO's 2016–17 financial statements audit risk identification processes.

Department of Foreign Affairs and Trade

4.9.6 The Department of Foreign Affairs and Trade (DFAT) is responsible for providing foreign, trade and development policy advice and for leading the Australian Government's international efforts to shape the regional and international environment.

Summary of financial performance

4.9.7 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by DFAT, and includes

commentary regarding significant movements between years contributing to overall performance.

Table 4.9.1: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(1 510.1)	(1 410.9)
Revenue from government	1 381.7	1 304.0
Deficit attributable to the Australian Government	(128.3)	(106.9)
Total other comprehensive income	241.9	473.7
Total comprehensive income attributable to the Australian Government	113.6	366.8
Total assets	4 515.8	4 146.9
Total liabilities	425.0	418.8
Total equity	4 090.8	3 728.1

Source: DFAT's financial statements for the year ended 30 June 2016.

4.9.8 The movement in net cost of services is primarily due to increases in employee and supplier expenses. Employee expenses increased largely as a result of increases in: salary rates; fringe benefits; and payments made for separation and redundancies. Supplier expenses increased due to a higher number of passports being issued during 2015–16 and the increased costs of passport production largely as a result of changes in the value of the Australian dollar.

4.9.9 Other comprehensive income is due to the revaluation of DFAT's overseas property portfolio in 2015–16. The increase in 2015–16 was less compared to the prior year, primarily due to market conditions. Assets increased primarily due to increases in fair value of overseas property portfolio and purchases relating to DFAT's International Communications Network.

4.9.10 Fluctuations in other balances reflect normal business activities.

Table 4.9.2: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	3 827.7	4 798.2
Total income	611.1	888.3
Deficit	(3 216.6)	(3 909.9)
Total other comprehensive income	(1.2)	6.9
Total comprehensive loss	(3 217.8)	(3 903.0)
Total assets administered on behalf of Government	2 642.0	2 576.2
Total liabilities administered on behalf of Government	1 564.9	1 743.2
Net assets	1 077.2	833.0

Source: DFAT's financial statements for the year ended 30 June 2016.

4.9.11 The decrease in administered expenses is predominantly due to the Government's decision to decrease the Aid budget by approximately \$1 billion dollars in 2015–16.

4.9.12 Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.9.13 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.9.3.

Table 4.9.3: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Sale of goods and rendering of services \$455.7 million	Revenue generated from passport operations	Higher	<ul style="list-style-type: none"> a significant proportion of revenue is collected under contractual arrangements by a third party on behalf of the department; and a significant component of the passport inventory balance is held and managed by a third party on behalf of the department. 	No significant or moderate audit findings identified.
Departmental Sale of goods and rendering of services \$123.9 million	Revenue for rental accommodation and other services provided to other government entities at overseas posts	Higher	<ul style="list-style-type: none"> multiple sources of revenue; and revenue is assessed based on attached agencies staffing profiles at post, agreed floor space and other factors. 	No significant or moderate audit findings identified.
Departmental Land and buildings \$3.0 billion	Valuation of the Government's overseas property portfolio	Moderate	<ul style="list-style-type: none"> subject to estimation and judgement; and the management of overseas property is undertaken by a third party through contract arrangements. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered IDA and ADF assets \$1.2 billion IDA and ADF liabilities \$741.0 million	Valuation of IDA and ADF investments and associated liabilities	Moderate	<ul style="list-style-type: none"> subject to estimation and judgement; and complex measurement, classification and disclosure requirements. 	No significant or moderate audit findings identified.
Administered IDA expenses \$3.2 billion IDA and ADF liabilities \$509.8 million	Administered aid program payments	Moderate	<ul style="list-style-type: none"> there is significant geographical spread of aid programs recipients and a diverse range of aid program payments. 	No significant or moderate audit findings identified.
Departmental Suppliers expense \$700.8 million Suppliers payables \$117.9 million Employee benefits expenses \$781.7 million	Financial information associated with overseas posts	Moderate	<ul style="list-style-type: none"> financial information is collected through decentralised operations; and locally engaged staff payments are subject to various employee conditions and benefits based on local laws and regulations. 	No significant or moderate audit findings identified.
Multiple financial statement line items	Management of IT systems	Moderate	<ul style="list-style-type: none"> the financial statements information is derived from a number of unique and distinct IT systems. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the DFAT's financial statements for the year ended 30 June 2016.

4.9.14 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of DFAT's 2015–16 financial statements.

4.9.15 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.9.16 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Australian Trade and Investment Commission

4.9.17 The Australian Trade and Investment Commission's³⁷ (the Commission) objective is 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.

4.9.18 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by the Commission, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.9.4: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(232.9)	(198.0)
Revenue from government	215.3	182.5
Deficit attributable to the Australian Government	(17.6)	(15.5)
Total other comprehensive income	4.6	0.3
Total comprehensive loss attributable to the Australian Government	(13.0)	(15.2)
Total assets	119.1	114.5
Total liabilities	52.3	51.6
Total equity	66.8	62.9

Source: The Commission's financial statements for the year ended 30 June 2016.

4.9.19 The increase in net cost of services is primarily attributable to costs associated with providing information to Australian firms on the new market access offered by concluded free trade agreements and increased costs relating to fluctuations in the Australian dollar during 2015–16.

4.9.20 Revenue from government has increased due to increased funding from the Australian Government for the Commission's operations. This includes funding to support Austrade in providing information to Australian firms on the new market access offered by concluded free trade agreements.

4.9.21 Fluctuations in other balances reflect normal business activities.

37 Australian Trade Commission was renamed to the Australian Trade and Investment Commission to reflect amendments to the *Australian Trade Commission and Investment Commission Act 1985* in May 2016.

Table 4.9.5: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	142.5	146.0
Total income	0.2	0.3
Deficit	(142.3)	(145.7)
Total other comprehensive income	–	–
Total comprehensive loss	(142.3)	(145.7)
Total assets administered on behalf of Government	0.2	–
Total liabilities administered on behalf of Government	11.4	8.8
Net liabilities	11.2	8.8

Source: The Commission's financial statements for the year ended 30 June 2016.

4.9.22 Overall, the Commission's administered functions have remained stable between years. Fluctuations in the balances reflect normal business activities.

Key areas of financial statements risk

4.9.23 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items and the factors contributing to the risk assessment are provided in Table 4.9.6.

Table 4.9.6: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Grant expenditure \$135.8 million	Compliance with the requirements of grant program	Higher	<ul style="list-style-type: none"> complex requirements of the grant program; and judgements associated with the estimation of grant payables at year end. 	No significant or moderate audit findings identified.
Departmental Revenue from rendering of services \$28.4 million	Completeness and accuracy of revenue for services provided to external parties	Moderate	<ul style="list-style-type: none"> timing considerations relating to the recognition and measurement of revenue. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the Commission's financial statements for the year ended 30 June 2016.

4.9.24 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the Commission's 2015–16 financial statements.

4.9.25 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an audit approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.9.26 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Export Finance and Insurance Corporation

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

Summary of financial performance

4.9.28 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. The Australian Government receives the net income from this account and the Corporation is reimbursed for any losses incurred.

4.9.29 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by the Corporation for the Commercial Account and the National Interest Account, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.9.7: Commercial Account key financial statements items

Commercial Account key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	(146.7)	(151.4)
Total income	163.2	169.6
Net profit before tax benefit	16.5	18.2
Surplus attributable to the Australian Government	11.5	18.2
Total other comprehensive income	10.1	10.9
Total comprehensive income attributable to the Australian Government	21.6	29.1
Total assets	3 405.9	3 178.3
Total liabilities	2 961.1	2 741.5
Total equity	444.8	436.8

Source: The Corporation's financial statements for the year ended 30 June 2016.

4.9.30 The minor fluctuations in income and expenses between years are reflective of normal business activities.

4.9.31 The increase in total assets is primarily due to new loans issued by the Corporation during 2015–16, and increase in value of the loan book due to foreign exchange movements of the Australian dollar against the US dollar. A corresponding increase is reflected in total liabilities for new loans issued.

Table 4.9.8: National Interest Account key financial statements items

National Interest Account key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	(39.8)	(36.0)
Total income	54.0	52.0
National Interest Account attributable to the Australian Government	(14.2)	(16.0)
Total assets administered on behalf of Government	608.5	681.7
Total liabilities administered on behalf of Government	608.5	681.7
Net assets	–	–

Source: The Corporation's financial statements for the year ended 30 June 2016.

4.9.32 Loans from the Commercial Account represent \$594.2 million of the National Interest Account liabilities as at 30 June 2016. Assets decreased primarily due to loan repayments to the Commercial Account exceeding amounts withdrawn from this loan facility. This resulted in lower borrowings from the Commercial Account, compared with borrowings in 2014–15.

Key areas of financial statements risk

4.9.33 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.9.9.

Table 4.9.9: Key areas of financial statement risk and audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Commercial account Loans and receivables \$1.9 billion	Impairment of loans and receivables	Moderate	<ul style="list-style-type: none"> • complex measurement, classification and disclosure requirements. 	No significant or moderate audit findings identified.
Commercial account Financial instruments disclosures	Recognition and measurement of financial instruments	Moderate	<ul style="list-style-type: none"> • complex measurement which involves derivatives, available for sale financial securities, borrowings and loans and receivables; and • subject to estimation and judgement. 	No significant or moderate audit findings identified.
Commercial account Interest income \$135.2 million	Interest income from investments	Moderate	<ul style="list-style-type: none"> • subject to estimation and judgement. 	No significant or moderate audit findings identified.
Commercial account Litigation matters	Compliance	Moderate	<ul style="list-style-type: none"> • complexities and judgement in determining the point of recognition and disclosure of litigation matters. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the Corporation’s financial statements for the year ended 30 June 2016.

4.9.34 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the Corporation’s 2015–16 financial statements.

4.9.35 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an audit approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.9.36 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

4.10 Health Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Health	Yes	✓	31 Aug 16	31 Aug 16	◆
Australian Sports Commission	Yes	✓	30 Aug 16	30 Aug 16	
National Blood Authority	Yes	✓	16 Aug 16	16 Aug 16	
National Health and Medical Research Council	Yes	✓	12 Sept 16	13 Sept 16	

✓: auditor's report not modified

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

Portfolio overview

4.10.1 The Health Portfolio covers a range of policy and program areas aimed at achieving better health outcomes for Australians, supporting a high-quality health system and better outcomes in sport, including integrity, performance and participation.

4.10.2 The Department of Health is the lead entity in the portfolio. The portfolio is also responsible for the delivery of programs across a range of areas, including aged care accreditation services, digital healthcare systems, the development of health and welfare data, nuclear safety, anti-doping in sports, cancer research, food safety and hospital pricing.

4.10.3 The ANAO's financial statements audit approach identifies key areas of risk that have the potential to impact the financial statements and develops audit procedures to address those risks. The result of recent performance audits form part of this risk identification process.

4.10.4 The following sections provide a summary of the 2015–16 financial statements audit results for the Department of Health and material entities in the portfolio. Where a performance audit was tabled during 2015–16 and relevant to the financial management or administration of a portfolio, the impact of those observations on the audit approach are also discussed.

4.10.5 The observations of performance audits tabled since 1 July 2016 and relevant to the financial management or administration of entities within the Health Portfolio informed the ANAO's 2016–17 financial statements audit risk identification processes.

Department of Health

4.10.6 The Department of Health (Health) is responsible for achieving the Australian Government's health priorities through evidence-based policy, program administration, research, regulatory activities and partnerships with other government entities, consumers and stakeholders.

4.10.7 The September 2015 Machinery of Government changes resulted in responsibilities for Aged Care and Medicare Provider Compliance being transferred to Health from the Department of Social Services (Social Services), and the Department of Human Services (Human Services) respectively.

Summary of financial performance

4.10.8 This section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by Health, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.10.1: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(619.7)	(517.1)
Revenue from government	595.0	479.9
Deficit attributable to the Australian Government	(24.7)	(37.2)
Total other comprehensive income	–	16.4
Total comprehensive loss attributable to the Australian Government	(24.7)	(20.8)
Total assets	413.9	370.3
Total liabilities	287.5	251.2
Total equity	126.4	119.1

Source: Department of Health's financial statements for the year ended 30 June 2016.

4.10.9 The Machinery of Government changes referred to above were responsible for the majority of the movements in key departmental financial statement items in 2015–16. Approximately 1 350 staff transferred to Health with associated employee provisions of \$38.4 million. Health's deficit attributable to the Australian Government was smaller in 2015–16 largely due to lower depreciation and amortisation expenses than in 2014–15.

Table 4.10.2: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	55 759.4	43 328.4
Total income	2 831.6	2 173.0
Deficit	(52 927.8)	(41 155.4)
Total other comprehensive income	(0.2)	(134.8)
Total comprehensive loss	(52 928.0)	(41 290.2)
Total assets administered on behalf of Government	2 118.5	1 318.1
Total liabilities administered on behalf of Government	3 255.0	2 724.6
Net liabilities	1 136.5	1 406.5

Source: Department of Health's financial statements for the year ended 30 June 2016.

4.10.10 The Machinery of Government changes described in paragraph 4.10.7 also had a significant impact on Health's 2015–16 administered financial statements. Total expenses increased largely due to the financial impact of the transfer of responsibility for Aged Care,

resulting in an additional \$10.5 billion in expenses between 30 September 2015 and 30 June 2016, and \$260.8 million in the associated subsidy liabilities as at 30 June 2016.

4.10.11 The uptake of new high cost Hepatitis C medications, first listed on the Pharmaceutical Benefits Scheme (PBS) in March 2016, also contributed to a further \$816.6 million increase in Health's administered PBS expenses and liabilities during 2015–16. This increase in PBS expenditure was partially offset by an \$855 million increase in high cost drug recovery revenues, of which a significant amount related to Hepatitis C medications. This also increased total assets as at 30 June 2016.

4.10.12 Recoveries also increased by \$907.7 million for Aged Care, cross billing and budget neutrality arrangements entered into between the Australian and State and Territory governments in 2015–16, leading to higher overall total income in comparison to 2014–15.

4.10.13 Partially offsetting the increases described above was a \$1.1 billion decrease in other revenue during 2015–16 as a result of the abolishment of the Health and Hospital Fund and the Private Health Insurance Administration Council. These functions were absorbed into the Australian Prudential Regulation Authority from July 2015.

4.10.14 The movements in total assets, total liabilities and net liabilities between 2014–15 and 2015–16 largely related to the Machinery of Government changes and the accruals for high cost PBS medications.

Key areas of financial statements risk

4.10.15 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.10.3.

Table 4.10.3: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Departmental Sale of goods and rendering of services revenue \$174.6 million	Therapeutic Goods Administration revenue	Higher	<ul style="list-style-type: none"> cost recovery revenue and related unearned revenue from the Therapeutic Goods Administration involves significant estimation. 	No significant or moderate audit findings identified.
Administered Aged Care subsidy expense \$9.1 billion	Aged Care subsidies	Higher	<ul style="list-style-type: none"> payments to nursing home providers are based on self-assessments made by those providers. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Personal benefits expense \$39.5 billion	Payments administered by Human Services on behalf of Health:		<ul style="list-style-type: none"> payments are complex and high volume; and processed on Health's behalf by Human Services on ageing IT systems. 	One new moderate audit finding identified—refer to paragraphs 4.10.21 to 4.10.23.
	Medicare	Moderate		
	Pharmaceutical Benefits Scheme	Moderate		
	Private Health Insurance Rebate	Moderate		
Administered Personal benefits expense and subsidy provisions \$1.7 billion	Medical Indemnity and Medicare Outstanding Claims provisions	Moderate	<ul style="list-style-type: none"> subject to complex valuation methodologies. 	No significant or moderate audit findings identified.
Administered and Departmental assets and liabilities	Machinery of Government changes, including Aged Care and Medicare Provider Compliance functions transferred from Human Services and Social Services	Moderate	<ul style="list-style-type: none"> valuation methods may differ between Health and Human Services and Social Services. 	No significant or moderate audit findings identified.
Administered Grants expense \$5.8 billion Grants payable \$378.1 million	Accuracy and validity of grant program payments	Moderate	<ul style="list-style-type: none"> a significant number of grant programs are administered with different eligibility criteria; and grants may be susceptible to fraud and there are limited recovery options available if payments are made in error. 	No significant or moderate audit findings identified.
Appropriation note disclosures	Completeness and accuracy of appropriations	Moderate	<ul style="list-style-type: none"> a large number of appropriations and special accounts are administered; and specific reporting rules apply. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and Health's financial statements for the year ended 30 June 2016.

4.10.16 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of Health's 2015–16 financial statements.

4.10.17 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. The following performance audit reports were tabled during 2015–16 relevant to the financial management or administration of the Health:

- Audit Report No.12 2015–16 *Administration of the Child Dental Benefits Schedule*; and
- Audit Report No.35 2015–16 *Administration of the Radiation Oncology Health Program Grants Scheme*.

4.10.18 Both reports included observations relevant to the key areas of financial statements risk outlined in Table 4.10.3, specifically the administration of personal benefit payments by the Department of Human Services on behalf of Health (Report No.12) and the accuracy and validity of grant program payments (Report No.35).

4.10.19 In light of the recommendations provided in ANAO's Report No.35 Health advised that the Radiation Oncology Health Program Grants Scheme will be reviewed in 2016. The ANAO will follow up on the outcome of the review when undertaking the audit of the Health's 2016–17 financial statements.

Audit results

4.10.20 No significant audit findings were identified in the 2015–16 or 2014–15 audits. One new moderate finding was identified during the final phase of the 2015–16 audit.

New moderate audit finding

High Cost Drug Recoveries – Pharmaceutical Benefits Scheme

4.10.21 Health's financial statements include administered revenue for High Cost Drug Recoveries (HCDR). This revenue relates to Pharmaceutical Benefits Scheme expenditure that is recovered under risk sharing agreements negotiated between Health and pharmaceutical companies. In 2015–16, \$1.6 billion of recoveries revenue was recognised, representing some 14.5 per cent of the overall Pharmaceutical Benefits Scheme expenditure for the same period.

4.10.22 During the final audit, the ANAO identified that the accounting for HCDR revenue was incomplete and not being undertaken on a full accrual basis. As a result, some HCDR revenue was not recognised and adjustments of \$332 million were made to the 2015–16 financial statements to address this issue.

4.10.23 Health has advised in response to an ANAO recommendation that it is updating the accounting processes and strengthening the associated reconciliation processes for HCDR revenue. These actions are intended to reduce the risk of the incorrect accounting treatment being applied, and increase confidence in the completeness of HCDR revenue in future reporting periods. The ANAO will review the effectiveness of these processes during the 2016–17 audit.

Australian Sports Commission

4.10.24 The Australian Sports Commission (the Commission) is responsible for leading and supporting the development of a cohesive and effective sport sector that enables more people to play sport, and Australian athletes and teams to succeed on the world stage.

Summary of financial performance

4.10.25 This section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by the Commission. The Commission's operations were relatively stable between the two years with modest movements in the key balances. These reflect normal business activities.

Table 4.10.4: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(268.8)	(270.3)
Revenue from government	253.6	266.1
Deficit attributable to the Australian Government	(15.2)	(4.2)
Total other comprehensive income	10.0	7.0
Total comprehensive income/(loss) attributable to the Australian Government	(5.2)	2.8
Total assets	327.5	330.9
Total liabilities	18.1	16.3
Total equity	309.4	314.6

Source: The Commission's financial statements for the year ended 30 June 2016.

Key areas of financial statements risk

4.10.26 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.10.5.

Table 4.10.5: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Grants expense \$168.9 million	Grants management	Moderate	<ul style="list-style-type: none"> the introduction of a new grants processing system in 2015–16; and compliance with grant conditions and the completeness and accuracy of expenditure, payables, receivables and commitments. 	No significant or moderate audit findings identified.
Land and buildings \$224.7 million	Fair value of land and buildings	Moderate	<ul style="list-style-type: none"> land and buildings are significant to the Commission, and were independently valued in 2015–16; and the valuation inherently involved judgement about key assumptions used in the estimation methodology which increases the risk of material misstatement of these assets. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the Commission's financial statements for the year ended 30 June 2016.

4.10.27 The ANAO also completed appropriate audit procedures on all material financial statements items together with IT general and application controls for the key systems that supported the preparation of the Commission's 2015–16 financial statements.

4.10.28 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.10.29 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

National Blood Authority

4.10.30 The role of the National Blood Authority (the Authority) is to deliver a blood supply system that is responsive to patient needs, built on evidence-based clinical practice, and that ensures Australia's blood supply is safe, secure, adequate and affordable now and in the future.

Summary of financial performance

4.10.31 This section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by the Authority. The financial statements for

both departmental and administered are relatively stable between the two years with modest movements in the key balances. These reflect normal business activities.

Table 4.10.6: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	6.0	6.3
Revenue from government	5.7	6.3
Surplus/(deficit) attributable to the Australian Government	(0.3)	–
Total other comprehensive income	–	–
Total comprehensive income/(loss) attributable to the Australian Government	(0.3)	–
Total assets	10.9	11.6
Total liabilities	2.9	3.1
Total equity	8.0	8.5

Source: National Blood Authority's Financial Statements for the year ended 30 June 2016.

Table 4.10.7: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	1 066.4	970.2
Total income	1 045.3	927.5
Deficit	(21.1)	(42.7)
Total other comprehensive income	–	–
Total comprehensive loss	(21.1)	(42.7)
Total assets administered on behalf of Government	498.5	513.9
Total liabilities administered on behalf of Government	51.5	52.9
Net assets	477.0	461.0

Source: National Blood Authority's Financial Statements for the year ended 30 June 2016.

4.10.32 The increase in administered total expenses and income is the result of increased demand for blood products during 2015–16, together with an increase in the cost associated with the supply of those blood products.

4.10.33 The reduction in the 2015–16 deficit is the result of the net impact of the movement outlined above, together with an increase in Commonwealth and State and Territory contributions under the National Blood Agreement.

Key areas of financial statements risk

4.10.34 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific

audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.10.8.

Table 4.10.8: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Inventory \$104.8 million	Valuation of inventory	Moderate	<ul style="list-style-type: none"> • complex valuation technique; and • geographical spread of blood and blood products storage sites. 	No significant or moderate audit findings identified.
Departmental Employee benefits expense \$6.5 million Employee provisions \$1.7 million	Completeness and accuracy of employee expenses and provisions	Moderate	<ul style="list-style-type: none"> • transition year for outsourcing the management of the human resource function by a third party provider. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the National Blood Authority's Financial Statements for the year ended 30 June 2016.

4.10.35 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of Industry's 2015–16 financial statements.

4.10.36 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.10.37 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

National Health and Medical Research Council

4.10.38 The objective of the National Health and Medical Research Council (the Council) is to raise the standard of individual and public health care within Australia; develop consistent health standards; support medical and public health research and training; and foster ethical issues relating to health.

Summary of financial performance

4.10.39 This section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by the Council, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.10.9: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(39.8)	(42.9)
Revenue from government	40.2	40.7
Surplus/(deficit) attributable to the Australian Government	0.4	(2.2)
Total other comprehensive income	0.1	–
Total comprehensive income/(loss) attributable to the Australian Government	0.5	(2.2)
Total assets	27.0	20.6
Total liabilities	12.5	10.7
Total equity	14.5	9.9

Source: The Council's financial statements for the year ended 30 June 2016.

4.10.40 In 2015–16 the Council generated a surplus of \$0.5 million compared to a loss of \$2.2 million in 2014–15. This operating result is mainly due to an increase in revenue received as a result of work performed on behalf of third parties and the receipt of an insurance pay out from Comcover during 2015–16.

4.10.41 Total equity increased due to a capital funding contribution to the Council during 2015–16 to assist with the implementation of the Simplified and Consistent Health and Medical Research program.

Table 4.10.10: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	828.8	850.4
Total income	18.5	14.9
Deficit after income tax	(810.3)	(835.5)
Total other comprehensive income after income tax	–	–
Total comprehensive loss	(810.3)	(835.5)
Total assets administered on behalf of Government	0.7	0.9
Total liabilities administered on behalf of Government	6.4	16.9
Net liabilities	5.7	15.9

Source: The Council's financial statements for the year ended 30 June 2016.

4.10.42 The decrease in total expenses is the result of lower grant expenses to the National Dementia Research Institute in 2015–16. Total income increased as a result of funding received in 2015–16 from the Australian Research Council and the Department of Health for research into Indigenous health services.

Key areas of financial statements risk

4.10.43 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.10.11.

Table 4.10.11: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Medical Research Endowment Account grant expense \$815.2 million	Management of the Medical Research Endowment Account grant program	Higher	<ul style="list-style-type: none"> grants may be subject to external fraudulent claims; and complexities associated with the indexing of grant payments. 	No significant or moderate audit findings identified.
Property, plant and equipment and intangible assets \$8.4 million	Management and valuation of non-financial assets	Higher	<ul style="list-style-type: none"> prior year issues relating to the completeness and accuracy of the asset register. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the Council's financial statements for the year ended 30 June 2016.

4.10.44 The ANAO also completed appropriate audit procedures on all material financial statements items together with the IT general and application controls for key systems that supported the preparation of the Council's 2015–16 financial statements.

4.10.45 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.10.46 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

4.11 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
Department of Immigration and Border Protection	Yes	✓	9 Sept 16	12 Sept 16	▲◆□

✓: 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 2015–16 interim audit phase, now reclassified or resolved

Portfolio overview

4.11.1 The Immigration and Border Protection Portfolio consists solely of the Department of Immigration and Border Protection (Immigration). Immigration is responsible for managing the stay and departure of non-citizens, implementing visa, citizenship and refugee and humanitarian assistance programs, facilitating international trade and collecting border revenue. The Australian Border Force is the operational arm of the department, and has statutory responsibilities to enforce the customs and migration laws and the protection of Australia's border.

4.11.2 The ANAO's financial statements audit approach identifies key areas of risk that have the potential to impact an entity's financial statements and develops audit procedures to address those risks. The result of recent performance audits form part of this risk identification process.

4.11.3 The following sections provide a summary of the 2015–16 financial statements audit results for Immigration. Where a performance audit was tabled during 2015–16 and relevant to the financial management or administration of a portfolio, the impact of those observations on the audit approach are also discussed.

4.11.4 The observations of performance audits tabled since 1 July 2016 and relevant to the financial management or administration of Immigration will inform the ANAO's 2016–17 financial statements audit risk identification processes.

Department of Immigration and Border Protection

4.11.5 All functions of Immigration and the Australian Customs and Border Protection Service (ACBPS) were formally integrated into a single department, the Department of Immigration and Border Protection and the ACBPS ceased to exist from 1 July 2015.

Summary of financial performance

4.11.6 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by Immigration. In view of the integration of ACBPS into Immigration, as a result of the Machinery of Government changes referred to above, the 2014–15 balances are presented separately for the former ACBPS and Immigration. The accompanying commentary explains any significant movements between the

2015–16 balances and the combined 2014–15 balances, taking into account appropriate eliminations and adjustments. Significant fluctuations are predominantly a result of the integration. Significant movements relating to other factors are explained below.

Table 4.11.1: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 Immigration (\$m)	2014–15 ACBPS (\$m)
Net cost of services	(2 794.2)	(1 459.1)	(1 070.6)
Revenue from government	2 494.9	1 373.8	1 034.0
Deficit attributable to the Australian Government	(299.3)	(85.3)	(36.6)
Total other comprehensive income	(3.6)	31.6	6.9
Total comprehensive loss attributable to the Australian Government	(302.9)	(53.7)	(29.7)
Total assets	1 882.2	877.9	991.8
Total liabilities	737.5	429.3	318.2
Total equity	1 144.7	448.6	673.6

Source: Immigration's financial statements for the year ended 30 June 2016.

4.11.7 The increase in the net cost of services reflects increased employee benefits, supplier, depreciation and impairment expenses. The increase in these expenses is primarily attributable to increased operational activity relating to border protection and the management of the Syrian and Iraqi humanitarian crisis.

4.11.8 The increase in depreciation expenses is associated with the introduction of the last Cape Class patrol vessels into service in 2015–16 and increases in fair value of non-financial assets in 2014–15. Fluctuations in other balances reflect normal business activity.

Table 4.11.2: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 Immigration (\$m)	2014–15 ACBPS (\$m)
Total expenses	2 307.0	2 532.9	10.8
Total income	17 325.0	1 880.7	12 130.1
Surplus/(deficit)	15 018.0	(652.2)	12 119.3
Total other comprehensive income	(1.1)	(35.9)	–
Total comprehensive income/(loss)	15 016.9	(688.1)	12 119.3
Total assets administered on behalf of Government	1 965.6	1 558.2	295.0
Total liabilities administered on behalf of Government	279.2	305.8	7.4
Net assets	1 686.4	1 252.4	287.6

Source: Immigration's financial statements for the year ended 30 June 2016.

4.11.9 Administered expenses, and associated liabilities, decreased predominately as a result of the reduction of detention centres operating and number of detainees held in detention compared with 2014–15. In addition, personal benefits expenses decreased due to a lower number of individuals in receiving these payments in 2015–16.

4.11.10 Administered income increased mainly due to increases in customs duty collections and the Passenger Movement Charge (PMC). The increase in customs duty collections relates to an increase in imported tobacco products and the impact of a 12.5 per cent increase in the duty rate on tobacco products on 1 September 2015. A higher number of people travelling overseas during 2015–16 is the main factor in the movement in the PMC.

4.11.11 The increase in assets is mainly due to the construction of assets at the Nauru and Manus Island regional processing centres, and the transfer of the Villawood Immigration Detention Centre to Immigration from the Department of Finance following completion of the construction phase.

Key areas of financial statements risk

4.11.12 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas, and the factors contributing to the risk assessment are provided in Table 4.11.3.

Table 4.11.3: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
All financial statement line items	The integration of the former ACBPS and establishment of the Australian Border Force from 1 July 2015	Higher	<ul style="list-style-type: none"> data migration complexities associated with combining multiple systems into the department's key systems following the integration; alignment of business and accounting processes; and combining governance structures and requirements. 	No significant or moderate audit findings identified.
Administered Customs duty \$14.0 billion	Duty collections and refunds	Higher	<ul style="list-style-type: none"> the nature of a self-assessment regime; complexity of the related IT infrastructure that supports the collection of revenue; and an unresolved moderate audit finding relating to weaknesses in the governance and management oversight of Immigration's compliance program. 	One moderate audit finding identified—refer to paragraphs 4.11.22 to 4.11.24 below.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Other taxes \$1.9 billion	Collection of visa revenue	Higher	<ul style="list-style-type: none"> decentralised collection of revenue including by both domestic and international offices, and by third parties under service level arrangements; and complexity of the related IT infrastructure that supports the collection of revenue. 	No significant or moderate audit findings identified.
Administered Land and buildings \$1.3 billion Property, plant and equipment \$173.8 million Supplier expenses \$1.7 billion	Management of the detention network and estate	Higher	<ul style="list-style-type: none"> complex project and contract management associated with third party providers for health services, detention centre management and construction of detention centre assets; and judgements applied to estimate the value of the detention centre portfolio undertaken by external experts. 	No significant or moderate audit findings identified.
Administered Personal benefits \$401.8 million	Payment of personal benefits under the SSRS program	Moderate	<ul style="list-style-type: none"> complex eligibility criteria for the categories of allowable personal benefits; payments are managed through a memorandum of understanding with the Department of Human Services (Human Services); and a moderate audit finding relating to weaknesses in Immigration's management of the arrangements with Human Services. 	One moderate audit finding previously identified now resolved—refer paragraphs 4.11.19 to 4.11.21 below.
Departmental Employee benefits \$1.5 billion Employee provisions \$417.7 million	Completeness and accuracy of employee entitlements	Moderate	<ul style="list-style-type: none"> selected Immigration staff are entitled to a range of allowances, subject to a number conditions; and staff are located both in Australia and overseas, including locally engaged staff who may be entitled to varying employment conditions and benefits based on local laws and regulations. 	One moderate audit finding identified—refer to paragraphs 4.11.25 to 4.11.27 below.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Multiple financial statement line items	Management of overseas post network	Moderate	<ul style="list-style-type: none"> decentralised nature of operations and controls; and managed under third party arrangements through service level agreements with the Department of Foreign Affairs and Trade, and the Australian Trade and Investment Commission. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and Immigration’s financial statements for the year ended 30 June 2016.

4.11.13 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of Immigration’s 2015–16 financial statements.

4.11.14 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. The following ANAO Audit Report relating to Immigration were tabled during 2015–16:

- ANAO Audit Report No.13 2015–16 *Managing Compliance with Visa Conditions*; and
- ANAO Audit Report No.34 2015–16 *Administration of Tobacco Excise Equivalent Goods*.

4.11.15 The recommendations in these reports are consistent with findings raised by the ANAO during the current and previous financial statements audits of Immigration. The recommendations in ANAO Audit Report No. 34 align to the key area of financial statements risk related to customs duty collections and refunds set out in Table 4.11.3. Paragraphs 4.11.22 to 4.11.24 detail an unresolved moderate audit finding related to Immigration’s customs duty compliance program which includes tobacco excise.

Audit results

4.11.16 The following table summarises the status of audit findings reported by the ANAO in 2014–15 and 2015–16.

Table 4.11.4: Status of audit findings

Category	Closing position (2014–15)	New findings (2015–16)	Findings resolved (2015–16)	Closing position (2015–16)
A	0	0	(0)	0
B	3 ^(a)	2 ^(b)	(2) ^(c)	3
Total	3	2	(2)	3

Note a: One moderate audit finding, 'Customs duty compliance program' was transferred to Immigration from the ACBPS on integration from 1 July 2015.

Note b: One moderate audit finding, 'Human resources management' was first reported to Parliament in ANAO Report No.7 2016–17 *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Entities for the year ending 30 June 2016*.

Note c: One moderate audit finding, 'Appropriation revenue adjustments associated with the funding model agreement', was resolved during the 2015–16 interim audit phase. Details regarding this finding were reported to Parliament in ANAO Report No.7 2016–17 *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Entities for the year ending 30 June 2016*.

New moderate audit finding

Record keeping

4.11.17 Section 41 of the PGPA Act requires that the Accountable Authority of Immigration must cause records to be kept that properly record and explain transactions and Immigration's financial position. Immigration have developed internal financial management and other policies in relation to proper records to be retained relating to the preparation of the financial statements. In undertaking the 2015–16 audit, the ANAO identified weaknesses in record keeping relating to the following processes supporting the preparation of the 2015–16 financial statements:

- working papers and reports supporting the transfer of employee leave balances and other information from the former ACBPS' payroll system to the Immigration payroll system;
- missing transactional documentation relating to the processing of visa application fees and contract performance management;
- delays in the provision of supporting documentation for material processes and balances, such as accounting for operating leases and impairment of trade debtors; and
- inadequate information maintained on Immigration's asset register to support the stocktake of assets related to information technology and infrastructure.

4.11.18 Immigration have advised that they are revising financial management policies to include instructions regarding record keeping, including revising guidelines for the management of information contained within the asset register. The ANAO will review Immigration's progress in addressing these weaknesses in 2016–17.

Resolved moderate audit finding

Personal benefits compliance

4.11.19 In 2014–15 the ANAO identified that Immigration had not established a compliance program to confirm that only valid and accurate payments were made to recipients of the Status Resolution Support Services (SRSS) program. Payments under this program are made by the Department of Human Services on behalf of Immigration. The ANAO also identified that

Immigration had not received detailed performance and financial reporting from Human Services to support payments made.

4.11.20 At the final phase of the 2015–16 audit, Immigration had undertaken the following activities:

- obtained data and regular financial and operational reporting from the Department of Human Services to support the monitoring of payments made and debts outstanding;
- implemented additional manual monitoring processes to confirm the accuracy and validity of payment information transferred to and from Human Services; and
- developed a compliance framework for the SRSS program that is expected to be fully implemented in 2016–17.

4.11.21 As a result of the remediation action taken by Immigration, the ANAO reclassified this finding to minor at the final phase of the 2015–16 audit. The ANAO will review Immigration’s progress in continuing to address this finding in 2016–17.

Unresolved moderate audit findings

Customs duty compliance program

4.11.22 During the 2014–15 audit, the ANAO reviewed the former ACBPS’ customs duty compliance program and identified weaknesses in the governance and management oversight arrangements. In particular, the ANAO identified a lack of regular oversight and monitoring; inconsistent policies and procedures related to planning, managing and executing compliance activities; no end-to-end risk assessment process, register or plan for compliance activities during 2014–15; and no 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.

4.11.23 At the time of the 2015–16 final audit, Immigration had continued remediation action to address these weaknesses including:

- establishment of a Customs Compliance Branch with primary responsibility for assessing risks of non-compliance with the relevant Customs regulation and coordinating treatment and management plans within Immigration;
- development of key governance arrangements and plans, such as risk identification, treatment and management policies, including development of a risk register; and
- implementation of revised reporting structures for compliance outcomes, including formal reporting to key governance committees charged with the oversight of the compliance function.

4.11.24 The ANAO will assess the maturity of the revised processes implemented and other remediation actions as part of the interim phase of the 2016–17 audit.

Human resources management

4.11.25 During the interim phase of the 2015–16 audit, the ANAO identified weaknesses associated with the employee commencement and cessation processes, particularly relating to the timely finalisation of processes associated with these activities and the retention of documentation on employee files to support processing undertaken. The ANAO also identified

weaknesses in relation to the payment of allowances to eligible employees, including inadequate controls to identify and process changes in eligibility for receipt of these allowances.

4.11.26 Immigration commenced remediation activities to address these weaknesses including:

- identifying and documenting key controls and policies and procedures to support the human resources process; and
- developed an automated processes to support timely processing of employee cessations.

4.11.27 As the majority of this remediation action was being undertaken during the final audit phase, the ANAO revised its audit approach to obtain assurance over the related financial balances in the 2015–16 financial statements. The ANAO will review Immigration’s progress to address this finding in 2016–17.

4.12 Industry, Innovation and Science Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Industry, Innovation and Science	Yes	✓	6 Sept 16	7 Sept 16	◆
Australian Nuclear Science and Technology Organisation	Yes	✓	11 Aug 16	11 Aug 16	
Commonwealth Scientific and Industrial Research Organisation	Yes	✓	8 Sept 16	8 Sept 16	

✓: auditor's report not modified

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

Portfolio overview

4.12.1 The Industry, Innovation and Science portfolio is responsible for carrying out government policy and implementing programs to support innovation, productivity and growth within Australian industry.

4.12.2 The lead entity in the portfolio is the Department of Industry, Innovation and Science. The portfolio also includes entities with responsibilities in relation to marine, nuclear and geological science, Australia's intellectual property rights system, and offshore petroleum safety and environmental management.

4.12.3 The ANAO's financial statements audit approach identifies key areas of risk that have the potential to impact an entity's financial statements and develop audit procedures to address those risks. The results of recent performance audits form part of this risk identification process.

4.12.4 The following sections provide a summary of the 2015–16 financial statements audit results for the Department of Industry, Innovation and Science and other material entities in the portfolio. Where a performance audit was tabled during 2015–16 and relevant to the financial management or administration of an entity, the impact of those observations on the audit approach are also discussed.

4.12.5 The observations of performance audits tabled since 1 July 2016 and relevant to the financial management or administration of entities within the Industry, Innovation and Science Portfolio will inform the ANAO's 2016–17 financial statements audits risk identification processes.

Department of Industry, Innovation and Science

4.12.6 The Department of Industry, Innovation and Science (Industry) is responsible for supporting science and commercialisation; growing business investment and improving business capability; and streamlining regulation.

Summary of financial performance

4.12.7 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by the department, and include commentary regarding significant movements between years contributing to overall performance.

Table 4.12.1: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(451.8)	(511.1)
Revenue from government	400.2	471.1
Deficit attributable to the Australian Government	(51.6)	(40.0)
Total other comprehensive income	2.7	(1.3)
Total comprehensive loss attributable to the Australian Government	(48.8)	(41.3)
Total assets	440.7	419.9
Total liabilities	197.4	191.7
Total equity	243.2	228.2

Source: Industry's financial statements for the year ended 30 June 2016.

4.12.8 Industry's performance between 2014–15 and 2015–16 has improved with the net cost of services delivered by the department reducing from \$511 million to \$452 million. However, Industry's total comprehensive loss has increased due to a decline in revenue received from government compared to the previous year. This decline is largely attributable to the transfer of funding associated with vocational education functions transferred to the Department of Education and Training in 2014–15.

Table 4.12.2: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	1 739.4	3 082.9
Total income	1 073.0	1 477.8
Deficit	(666.4)	(1 605.1)
Total other comprehensive income	(38.2)	(70.0)
Total comprehensive loss	(704.5)	(1 675.1)
Total assets administered on behalf of Government	4 332.2	4 418.8
Total liabilities administered on behalf of Government	115.4	159.6
Net assets	4 216.8	4 259.2

Source: Industry's financial statements for the year ended 30 June 2016.

4.12.9 The significant decline in total administered expenses between 2014–15 and 2015–16, and the subsequent improvement in total comprehensive loss, is largely attributable to the transfer

of vocational education functions to the Department of Education and Training as outlined in paragraph 4.12.8. As a result Industry no longer had responsibility for the administration of payments associated with these programs, for which expenditure exceeded \$740 million in 2014–15.

4.12.10 The Australian Renewable Energy Agency investment (\$35 million) was also transferred to the Environment portfolio during 2015–16 as a result of Machinery of Government changes. This further reduced administered expenses in comparison to 2014–15 by \$230 million, and contributed to the decline in Industry’s administered net asset position.

4.12.11 In addition, offshore petroleum royalties yet to be received as at 30 June 2016 declined by \$20 million. This was offset by an improvement in liabilities, with a reduction in grants payable as at 30 June 2016 of \$34 million, reflective of the overall reduction in grants expenditure during 2015–16 of \$245 million.

Key areas of financial statements risk

4.12.12 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.12.3.

Table 4.12.3: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Investments \$540.0 million Other comprehensive income \$65.0 million	Valuation of Snowy Hydro Limited	Higher	<ul style="list-style-type: none"> subject to complex estimation and significant judgement relating to forecasts of future performance; and a unique asset that is not readily traded in an open market, increasing the risk of determining an accurate value. 	No significant or moderate audit findings identified.
Administered Royalties revenue \$979.1 million Accrued revenue \$73.3 million	Completeness and accuracy of royalties	Higher	<ul style="list-style-type: none"> reliance on external third party information, increasing the risk of recording incomplete or inaccurate revenue; and timing of receipts necessitates recording estimates of revenue prior to receipt, increasing the risk of misstatement. 	One moderate audit finding identified—refer to paragraphs 4.12.16 to 4.12.18 below.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Grants expense \$427.3 million Grants payable \$48.7 million	Grants management	Moderate	<ul style="list-style-type: none"> a significant number of individual grant programs which operate under separate grant agreements and are subject to different eligibility criteria; and susceptibility of grant funding to fraud. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and Industry's financial statements for the year ended 30 June 2016.

4.12.13 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of Industry's 2015–16 financial statements.

4.12.14 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. Audit Report No.25 2015–16 *Delivery and Evaluation of Grant Programmes* was a cross-entity audit tabled during 2015–16. The report focused on the selected entities' management of projects awarded grant funding under a particular grant program. While the report did not make specific recommendations regarding Industry's financial management of the grant program, grants management is a key area of financial statements risk and the factors contributing to this assessment are set out in Table 4.12.3.

Audit results

4.12.15 There were no significant or moderate audit findings arising from the 2014–15 financial statements audit. One moderate audit finding was identified during the 2015–16 financial statements audit and is detailed in the following section.

New moderate audit finding

Administration of North West Shelf royalties

4.12.16 The department is responsible for the collection of royalties levied on offshore petroleum operations from the North West Shelf. During 2015–16, the department recorded revenue associated with North West Shelf petroleum royalties of approximately \$900 million.

4.12.17 Day to day administration of the North West Shelf, including liaison with Joint Venture participants, royalty calculation and obtaining assurance of the accuracy of royalty payments, is undertaken by the Western Australian Department of Mines and Petroleum as set out in the *Offshore Petroleum and Greenhouse Gas Storage Act 2006* and *Offshore Petroleum (Royalty) Act 2006*.

4.12.18 The ANAO identified that the roles and responsibilities of Industry and the Western Australian Department of Mines and Petroleum have not been adequately documented, and that current administrative arrangements provide insufficient assurance that production and deductions are adequately assessed.

4.12.19 The ANAO will review the department's progress in formalising these arrangements and improving internal assurance processes during the 2016–17 financial statements audit.

Australian Nuclear Science and Technology Organisation

4.12.20 The Australian Nuclear Science and Technology Organisation (ANSTO) is Australia's national nuclear research and development organisation and is the custodian of Australia's nuclear capabilities and expertise. ANSTO operates Australia's only nuclear research reactor and contributes to radiopharmaceutical production and supply, research into areas of national priority, including human health, the environment and the nuclear fuel cycle, food security, national security and water resource management, and helping Australian industries solve complex problems in areas such as materials engineering.

Summary of financial performance

4.12.21 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by ANSTO, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.4: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(213.0)	(201.5)
Revenue from government	156.7	157.4
Income tax (expense)/benefit	0.3	(0.1)
Deficit attributable to the Australian Government	(56.0)	(44.2)
Total other comprehensive income	(3.6)	(1.8)
Total comprehensive loss attributable to the Australian Government	(59.7)	(46.0)
Total assets	1 376.6	1 394.2
Total liabilities	433.0	426.9
Total equity	943.5	967.3

Source: ANSTO's financial statements for the year ended 30 June 2016.

4.12.22 The increase in the net cost of services is largely attributable to an increase in contractor expenditure relating to two significant projects, and an increase in long service leave obligations as a result of an ageing workforce that is nearing eligibility for accessing this benefit.

Key areas of financial statements risk

4.12.23 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.12.4

Table 4.12.5: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Decommissioning provision \$311.6 million	Estimation of the nuclear reactor decommissioning provision, including radioactive waste	Higher	<ul style="list-style-type: none"> the valuation of the provision is complex and relies on significant judgement. 	No significant or moderate audit findings identified.
Property, plant and equipment \$1.1 billion Intangible assets \$89.7 million	Valuation of non-financial assets	Higher	<ul style="list-style-type: none"> the valuation of non-financial assets is subjective and requires significant judgement. 	No significant or moderate audit findings identified.
Property, plant and equipment additions \$4.2 million Assets under construction additions \$91.4 million	Classification of capital and operating expenditure	Higher	<ul style="list-style-type: none"> ANSTO's complex major projects, including the construction of new plants, have given rise to significant capital expenditure. The complexity of these projects increases the risk of incorrect financial reporting treatment. 	No significant or moderate audit findings identified.
Investments \$9.5 million	Investments in related entities, and the accounting treatment of new business ventures	Higher	<ul style="list-style-type: none"> inputs, assumptions and the sensitivity of forecasts and models used to determine the value are judgemental in nature; and the uniqueness of the investment negotiations and agreements give rise to complex structural, financial and taxation implications. 	No significant or moderate audit findings identified.
All financial statement line items	Funding arrangements and future structure for the subsidiary, Synchrotron Light Source Australia Pty Ltd (SLSA)	Higher	<ul style="list-style-type: none"> SLSA's ongoing funding arrangements were previously secured to 30 June 2016. On 9 March 2016, the Government announced that ownership of the Synchrotron asset would transfer to ANSTO. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
All financial statement line items	Accounting treatment of contracts and transactions between ANSTO and the subsidiary, ANSTO Nuclear Medicine Pty Ltd	Moderate	<ul style="list-style-type: none"> complexity of the recognition and measurement of related party transactions between ANSTO and ANSTO Nuclear Medicine Pty Ltd 	No significant or moderate audit findings identified.
Total own-source income \$118.0 million	Completeness, accuracy and recording of material streams of commercial revenue	Moderate	<ul style="list-style-type: none"> numerous streams of income from commercial and government sources; and complex funding arrangements. 	No significant or moderate audit findings identified.
All financial statement line items	Regulatory compliance	Moderate	<ul style="list-style-type: none"> ANSTO operates in a complex legal and regulatory environment which may affect a variety of financial statement items. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and ANSTO’s financial statements for the year ended 30 June 2016.

4.12.24 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of ANSTO’s 2015–16 financial statements.

4.12.25 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.12.26 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Commonwealth Scientific and Industrial Research Organisation

4.12.27 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.

Summary of financial performance

4.12.28 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by the CSIRO, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.6: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(818.4)	(779.8)
Revenue from government	750.3	745.3
Deficit attributable to the Australian Government ^(a)	(68.1)	(34.8)
Total other comprehensive income	(2.8)	39.8
Total comprehensive income/(loss) attributable to the Australian Government	(70.9)	5.0
Total assets	2 695.1	2 751.8
Total liabilities	506.3	513.9
Total equity	2 188.8	2 237.9

Note a: In 2014–15, the deficit attributable to the Australian Government included a share of a deficit from a joint venture of \$0.3 million.

Source: CSIRO's financial statements for the year ended 30 June 2016.

4.12.29 Overall CSIRO's key financial statement items remained relatively stable between 2014–15 and 2015–16. The 2015–16 surplus, total comprehensive loss and equity were all impacted by the recognition of the provision for the treatment of waste and remediation of a remote facility with an associated expense of \$29.7 million. An increase in provisions for employee redundancies of \$18.3 million has also impacted CSIRO's financial statements.

4.12.30 The acquisition of National ICT Australia Limited (NICTA) by CSIRO on 28 August 2015 and its subsequent consolidation into CSIRO's 2015–16 financial statements resulted in increases to CSIRO's revenues and expenses of \$67.3 million and \$60.8 million respectively. The decrease in CSIRO's equity resulting from a comprehensive loss of \$70.9 million in 2015–16 was partially offset by the consolidation of NICTA's assets and liabilities, which increased equity by \$29.4 million.

Key areas of financial statements risk

4.12.31 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.12.7.

Table 4.12.7: Key areas of financial statement risk and audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Sales of services revenue (project revenue) \$410.5 million Work-In-Progress (WIP) project revenue \$31.5 million Other payables (contract research revenue received in advance) \$99.6 million	Accounting for project revenue and associated measurements of WIP and unearned revenue	Moderate	<ul style="list-style-type: none"> new project time recording processes implemented in 2015–16; and management judgement involved with recording of time spent on projects. 	No significant or moderate audit findings identified.
Plant and equipment \$580.9 million Investment Properties \$50.2 million	Valuation of assets	Moderate	<ul style="list-style-type: none"> complex financial statement reporting and disclosure requirements; and non-routine process. 	No significant or moderate audit findings identified.
Assets under construction \$163.1 million	Accounting for capital expenditure	Moderate	<ul style="list-style-type: none"> capitalised cost amounts must be reviewed in the context of fair value accounting and this involves judgement. 	No significant or moderate audit findings identified.
All financial statement line items	Consolidation of NICTA	Moderate	<ul style="list-style-type: none"> accounting for opening balances from 28 August 2015 adds complexity; and alignment of accounting policies between CSIRO and NICTA. 	No significant or moderate audit findings identified.
Provision for remediation \$29.7 million	Valuation of the provision for remediation	Moderate	<ul style="list-style-type: none"> complex scope of works underpinning the estimate; and inherent uncertainty associated with remediation works to be undertaken on waste material at a remote location. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and CSIRO's financial statements for the year ended 30 June 2016.

4.12.32 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the CSIRO's 2015–16 financial statements.

4.12.33 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.12.34 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

4.13 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	✓	29 Aug 16	30 Aug 16	
Airservices Australia	Yes	✓	7 Sept 16	7 Sept 16	◆□
Australian Rail Track Corporation	Yes	✓	25 Aug 16	25 Aug 16	
Moorebank Intermodal Company Limited	Yes	✓	20 Sept 16	20 Sept 16	
National Capital Authority	Yes	✓	30 Aug 16	30 Aug 16	
Administration of Norfolk Island	No	⇒			▲◆□
– Norfolk Island Hospital Enterprise	No	⇒			▲

✓: auditor's report not modified

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

▲: 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 2015–16 interim audit phase, now reclassified or resolved

Portfolio overview

4.13.1 The Infrastructure and Regional Development portfolio covers a number of policy areas including: safety across civil aviation, maritime and transport sectors; air navigation services; developing and administering the national capital; and road, rail and freight transport systems.

4.13.2 The Department of Infrastructure and Regional Development is the lead entity in the portfolio. The portfolio has responsibility for: maritime, transport and civil aviation safety; infrastructure planning financing and delivery; and strategic planning for the national capital.

4.13.3 The ANAO's financial statements audit approach identifies key areas of risk that have the potential to impact an entity's financial statements and develops audit procedures to address those risks. The result of recent performance audits form part of this risk identification process.

4.13.4 The following sections provide a summary of the 2015–16 financial statements audit results for material entities in the Infrastructure and Regional Development portfolio, the Administration of Norfolk Island and Norfolk Island Hospital Enterprise. Where a performance audit was tabled during 2015–16 and is relevant to the financial management or administration of a portfolio entity, the impacts of those observations on the audit approach are also discussed.

4.13.5 The observations of performance audits tabled since 1 July 2016 and relevant to the financial management or administration of entities within the Infrastructure and Regional Development portfolio will inform the ANAO's 2016–17 financial statements audit risk identification processes.

Department of Infrastructure and Regional Development

4.13.6 The Department of Infrastructure and Regional Development (Infrastructure) is responsible for: improving infrastructure across Australia, through funding coordination of transport and other infrastructure; providing an efficient, sustainable, competitive, safe and secure transport system for all transport users; strengthening the sustainability, capacity and diversity of regional economies; and supporting governance arrangements in the Australian territories.

Summary of financial performance

4.13.7 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by the department, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.13.1: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(252.8)	(240.3)
Revenue from government	261.7	250.2
Surplus attributable to the Australian Government	8.9	9.9
Total other comprehensive income	15.4	–
Total comprehensive income attributable to the Australian Government	24.3	9.9
Total assets	176.9	166.7
Total liabilities	68.7	85.9
Total equity	108.2	80.8

Source: Infrastructure's financial statements for the year ended 30 June 2016.

4.13.8 Infrastructure received additional revenue from government during 2015–16 in connection with the Western Sydney Airport project.

4.13.9 In 2015–16, Infrastructure renegotiated and entered into a new lease contract for their Canberra accommodation. As a result of the new lease, the value of leasehold fitout assets increased, which is also reflected as an increase in total other comprehensive income and equity. In addition, liabilities reduced due to the decrease in the make good provision balance, because it is no longer a requirement of the lease.

Table 4.13.2: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	3 287.5	5 209.2
Total income	459.4	638.7
Deficit	(2 828.1)	(4 570.5)
Total other comprehensive income	(23 .5)	(156.8)
Total comprehensive loss	(2 851.6)	(4 727.3)
Total assets administered on behalf of Government	6 268.8	6 038.6
Total liabilities administered on behalf of Government	55.5	71.6
Net assets	6 213.3	5 967.0

Source: Infrastructure's financial statements for the year ended 30 June 2016.

4.13.10 The decrease in administered expenses was primarily the result of a reduction in grant payments. This reduction was due to Financial Assistance Grant payments which were brought forward in 2014–15 in accordance with a determination by the Treasurer.

4.13.11 The movement in administered other comprehensive income is the net impact of a revaluation increment for administered land, buildings and property, plant and equipment of \$242.9 million and revaluation decrement of \$266.4 million for administered investments.

Key areas of financial statements risk

4.13.12 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.13.3.

Table 4.13.3: Key areas of financial statements risk

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Investments \$4.3 billion	Valuation of the Australian Rail Track Corporation and Airservices Australia	Higher	<ul style="list-style-type: none"> valuations are subject to complex estimation and require significant judgement in the selection of certain assumptions and inputs. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Grants and subsidy expense \$2.8 billion	Management of grant and subsidy payments	Moderate	<ul style="list-style-type: none"> • complex and diverse range of programs that include a number of different arrangements; and • reliance on the Department of Human Services to provide accurate and timely information for subsidy payments from complex and ageing IT systems. 	No significant or moderate audit findings identified.
Administered Land and buildings \$389.6 million Property, plant and equipment and Heritage and cultural assets \$473.5 million	Valuation and useful life assessments of administered non-financial assets	Moderate	<ul style="list-style-type: none"> • complex judgements and assumptions are applied in assessing the value and useful lives of the assets. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and Infrastructure’s financial statements for the year ended 30 June 2016.

4.13.13 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of Infrastructure’s 2015–16 financial statements.

4.13.14 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. The following performance audit reports were tabled during 2015–16 relevant to the financial management or administration of Infrastructure:

- Audit Report No.17 2015–16 *Design and Implementation of the First Funding Round of the Bridges Renewal Programme*; and
- Audit Report No.25 2015–16 *Delivery and Evaluation of Grant Programs* (a cross-entity audit).

4.13.15 Audit Report No.17 focused on the first funding round of the Bridges Renewal Programme and Audit Report No.25 was a cross-entity audit that focused on the selected entities’ management of projects awarded grant funding under a particular grant program.

4.13.16 In both audit reports, there were no specific recommendations regarding Infrastructure’s financial management of the grant programs. However, grants management is a key area of financial statements risk and the factors contributing to this assessment are set out in Table 4.13.3.

Audit results

4.13.17 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Airservices Australia

4.13.18 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 major Australian airports. Airservices is supported by a national network of communications, surveillance and navigation facilities and infrastructure. The entity is funded through charges levied on its customers and borrowings from debt markets.

Summary of financial performance

4.13.19 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by Airservices, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.13.4: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total income	1 030.4	1 012.3
Total expenses	1 211.3	1 006.4
Income tax (expense)/benefit	(53.5)	1.4
Profit/(loss) after income tax	(127.3)	4.5
Total other comprehensive income	(26.9)	101.0
Total comprehensive income/(loss)	(154.3)	105.5
Total assets	1 978.3	1 646.5
Total liabilities	1 453.7	964.8
Total equity	524.6	681.7

Source: Airservices' financial statements for the year ended 30 June 2016.

4.13.20 The significant increase in total expenses and total liabilities mainly relates to Airservices' restructuring program, Accelerate. In 2015–16 Airservices recognised a redundancy provision of \$106 million and a provision for other costs associated with the restructure of \$15 million. The Accelerate program also resulted in an increase in supplier expenses associated with engaging consultants and an increase in asset write-offs as Airservices redirected efforts to capital projects that met the direction of the Accelerate program. Other increases in total expenses relate to an additional \$24 million provided for polyfluorinated chemical (PFC) related activity to support the ongoing scientific, risk-based approach to managing the response to PFCs at Airservices sites.

4.13.21 Total other comprehensive income represents the actuarial losses associated with the valuation of the defined benefit fund. The movement to a loss position in 2015–16 in comparison

to 2014–15 is the result of unfavourable movements in actuarial assumptions associated with underlying investment market performance.

4.13.22 The significant increase in total assets relates to an increase in cash holdings as at 30 June 2016. The increase in cash holdings is funded by an increase in borrowings which also contributes to the increase in total liabilities as at 30 June 2016.

Key areas of financial statements risk

4.13.23 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.13.5.

Table 4.13.5: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Assets under construction \$181.5 million	Valuation of assets under construction	Higher	<ul style="list-style-type: none"> significant monetary value of capital projects currently under construction; and complex nature of the projects currently under construction, including the use of judgement in determining the classification of expenses to be capitalised as assets. 	No significant or moderate audit findings identified.
Airways revenue \$1.0 billion	Completeness and accuracy of airways revenue	Higher	<ul style="list-style-type: none"> complexity of flight traffic data captured that is used as the basis for customer billings; and dependence on multiple integrated IT systems. 	No significant or moderate audit findings identified.
All financial statement line items	Reliance on IT for critical business systems	Higher	<ul style="list-style-type: none"> dependence on numerous IT systems and interfaces that underpin financial reporting. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Supplier expenses \$8.5 million Property, plant and equipment (OneSKY) \$39.0 million	Recognition and accuracy of OneSKY expenditure	Moderate	<ul style="list-style-type: none"> the complex nature of the project and associated transactions; and judgement required in determining the classification of expenses to be capitalised as assets. 	No significant or moderate audit findings identified.
Aviation Rescue and Fire Fighting (ARFF) decontamination provision \$26.2 million	Recognition and measurement of legal obligations and associated contingencies	Moderate	<ul style="list-style-type: none"> complexity of the underlying event that gave rise to the potential legal obligations associated with the ARFF decontamination; and judgement required in estimating the ARFF decontamination provision and contingent liability. 	No significant or moderate audit findings identified.
Financial assets \$507.1 million Financial liabilities \$994.8 million	Valuation and classification of financial instruments	Moderate	<ul style="list-style-type: none"> complex nature of financial instruments held by Airservices, including interest rate swaps and forward exchange contracts; and extensive and complex presentation and disclosure requirements, including foreign currency and interest rate exposures and the fair value of complex financial instruments. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Employee provisions \$391.9 million Borrowings \$899.0 million	Measurement, classification and presentation of financial liabilities	Moderate	<ul style="list-style-type: none"> accounting for the diverse nature of Airservices workforce, resulting in varying vesting periods for employees; significant monetary value of borrowings with a staged maturity profile; and the use of debt issuance to finance capital works programs. 	No significant or moderate audit findings identified.
Actuarial loss on defined benefit fund \$43.2 million Defined benefit fund asset \$124.0 million	Valuation of defined benefit superannuation obligations	Moderate	<ul style="list-style-type: none"> complexities associated with the valuation of the defined benefit asset, requiring the use of an actuary; and judgement required in estimating expected future liabilities. 	No significant or moderate audit findings identified.
Property, plant and equipment \$1.2 billion	Valuation of infrastructure assets	Moderate	<ul style="list-style-type: none"> property, plant and equipment holdings that are diverse in its nature and located across Australia; and expected impact of the Accelerate program, that is aimed at modernising infrastructure and facilities. 	No significant or moderate audit findings identified.
Employee expenses and provisions (Accelerate) \$106.0 million Supplier expenses and other provisions (Accelerate) \$15.0 million	Accuracy of expenses and valuation of provisions associated with the Accelerate program	Moderate	<ul style="list-style-type: none"> significant monetary value of the provision for redundancy, which includes judgement; and judgement required in determining the nature and subsequent classification of expenses associated with the Accelerate program. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
All financial statement line items	Presentation and disclosure of financial statements	Moderate	<ul style="list-style-type: none"> complex nature of Airservices business and underlying transactions and balances to be disclosed in the financial statements. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and Airservices' financial statements for the year ended 30 June 2016.

4.13.24 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of Airservices 2015–16 financial statements.

4.13.25 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit.

4.13.26 ANAO Report No.1 2016–17 *Procurement of the International Centre for Complex Project Management to Assist on the OneSKY Australia Program* was in progress during the 2015–16 audit and was subsequently tabled on 31 August 2016.

4.13.27 The audit objective was to examine whether Airservices had effective procurement arrangements in place, with a particular emphasis on whether consultancy contracts entered into with International Centre for Complex Project Management (ICCPM) in association with the OneSKY Australia project were effectively administered.

4.13.28 Given the nature of the audit objective the observations from the audit had a limited impact on the design of the audit approach for the financial statements audit. The second phase of the performance audit *Conduct of the OneSKY Tender* is currently in progress. Consideration will be given to observations from the audit when developing the 2016–17 audit approach.

Audit results

4.13.29 The ANAO did not identify any significant or moderate audit findings in 2014–15. One moderate audit finding was identified during the 2015–16 interim audit phase and reported to Parliament in ANAO Report No.7 2016–17 *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Entities for the year ending 30 June 2016*. This finding was reclassified to a minor audit finding during the final audit and is discussed below.

Resolved moderate audit finding

Dealing with fraud incidents

4.13.30 In September 2015, the Auditor-General commenced an examination of matters relating to the administration of corporate credit and travel cards within Airservices as part of the 2015–16 financial statements audit. Details of the scope and audit work performed were reported to Parliament in ANAO Report No.7 2016–17.

4.13.31 During the 2015–16 interim audit the ANAO identified a number of weaknesses including a lack of:

- documentation of key decisions made in relation to dealing with a fraud incident, particularly with reference to decisions of the use of civil, administrative or disciplinary procedures or to take no further action in relation to a suspected fraud incident;
- documentation to evidence that Airservices had taken all reasonable measures to recover financial losses caused by credit card fraud through appropriate channels such as proceeds of crime, civil recovery processes or administrative remedies; and
- evidence to demonstrate that key decisions were made by the appropriately authorised officer.

4.13.32 These weaknesses increased the risk that the handling of an investigation, or response to a suspected fraud incident, would be inconsistent with established legislation standards or management expectations, and may adversely impact the success of a fraud investigation and the ability of Airservices to recover monies. This issue was reported to Airservices as a moderate audit finding at the completion of the interim audit.

4.13.33 In response to the identified weaknesses, Airservices implemented an enterprise investigation model for dealing with fraud incidents. The new model included:

- the transfer of responsibility for the ethics and fraud, personal interest disclosure, and code of conduct frameworks to a central branch to improve consistency across all investigations and follow up activities;
- publication of revised procedural guidelines for dealing with fraud incidents to support the new model; and
- the development of an action plan to bring Airservices management and investigation of fraud incidents in line with the Australian Government Investigations Standards. At the time of the final audit phase Airservices was tracking well against the plan.

4.13.34 As a result of the actions taken by Airservices to address the weaknesses, the ANAO reclassified the moderate audit finding to a minor audit finding during the final audit. The ANAO will continue to review Airservices management of fraud incidents during 2016–17.

Australian Rail Track Corporation

4.13.35 The Australian Rail Track Corporation Ltd (the Corporation) is responsible for 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.

Summary of financial performance

4.13.36 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by the Corporation, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.13.6: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	737.7	723.5
Total income	855.3	858.1
Profit after income tax	117.6	134.6
Total other comprehensive income/(loss) after income tax	(25.2)	95.9
Total comprehensive income	92.4	230.5
Total assets	4 835.1	5 250.2
Total liabilities	1 344.7	1 643.3
Total equity	3 490.4	3 606.9

Source: The Corporation's financial statements for the year ended 30 June 2016.

4.13.37 The decrease in total comprehensive income and a decline in total assets are largely attributable to the decrease in the value of the Hunter Valley, offset by a minor increase in the Interstate Corridor assets for a net impact of \$138 million after tax, following a valuation exercise. The valuation decrease was primarily due to:

- a change in future forecast capital expenditure; and
- the impact of an extension of the life of the Hunter Valley coal mine.

4.13.38 Total liabilities in 2015–16 were lower as a result of a repayment of \$250 million against the Corporation's debt facility, which is also reflected in the reduction of total assets.

Key areas of financial statements risk

4.13.39 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.13.7.

Table 4.13.7: Key areas of financial statement risk and audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Property, plant and equipment \$4.4 billion	Fair value of infrastructure assets	Higher	<ul style="list-style-type: none"> • the determination of the fair value of infrastructure assets is subject to judgement and sensitive to changes in assumptions, including forecasts of business performance in future years. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Access revenue \$755.7 million	Revenue recognition	Higher	<ul style="list-style-type: none"> subject to management estimates and judgement to determine the amount of revenue charged; and recognition in future reporting periods under revised accounting standards. 	No significant or moderate audit findings identified.
Deferred tax assets \$178.7 million	Taxation related balances	Moderate	<ul style="list-style-type: none"> tax liabilities and deferred tax assets (DTAs) arise predominantly from asset revaluations, which are subject to judgement and uncertainty; there is significant judgement applied in recognising the amount of the DTAs that the Corporation will be able to utilise to offset future taxation expense; and due to the complexity and judgement associated with the calculation of tax expense and deferred tax the disclosure of tax balances may be incomplete or incorrect in the financial report. 	No significant or moderate audit findings identified.
Interest bearing liabilities \$644.1 million	Funding and debt management	Moderate	<ul style="list-style-type: none"> the operations of the Corporation are currently supported through a number of interest bearing liabilities, including short and long term bonds and a syndicated debt facility; and current liabilities exceed current assets. 	No significant or moderate audit findings identified.
Provisions \$52.4 million	Estimation of provisions	Moderate	<ul style="list-style-type: none"> significant judgement is required in determining the extent of provisioning for incident related claims. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Government grants \$69.5 million	Classification of grants in the income statement	Moderate	<ul style="list-style-type: none"> judgement is involved in determining the appropriate accounting treatment for grant contributions. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the Corporation’s financial statements for the year ended 30 June 2016.

4.13.40 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the Corporation’s 2015–16 financial statements.

4.13.41 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.13.42 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Moorebank Intermodal Company Limited

4.13.43 Moorebank Intermodal Company Limited (MIC) was established to oversee the development and future operation of the Moorebank Intermodal Terminal (the Moorebank terminal) in Sydney’s south-west. It is designed to enable more freight to be moved by rail both locally and nationally. The Moorebank terminal will have an import/export facility with a direct link to Port Botany and also an interstate/regional facility to connect to the national rail freight network. The terminal will be developed and operated by co-investor Sydney Intermodal Terminal Alliance (SIMTA).

4.13.44 In May 2015, MIC established two wholly owned subsidiaries: the Moorebank Intermodal Development Investment Trust (MIDIT) and the Moorebank intermodal Development Rail Trust (MIDRT). The trusts were established to facilitate the delivery of MIC’s obligations under its agreements with SIMTA and to allow for divestment by the Commonwealth of its financial interests in the terminal development. These entities are reported in the consolidated financial statements of MIC.

Summary of financial performance

4.13.45 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by the company, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.13.8: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Revenue	0.3	0.2
Expenses	4.4	6.5
Income tax benefit	1.1	1.9
Deficit attributable to the Australian Government	(3.0)	(4.4)
Total other comprehensive income	–	–
Total comprehensive loss attributable to the Australian Government	(3.0)	(4.4)
Total assets	54.3	35.9
Total liabilities	2.3	1.9
Total equity	52.0	34.0

Source: MIC's financial statements for the year ended 30 June 2016.

4.13.46 In June 2015, a key project milestone was reached and as a result expenditure incurred on advisors was eligible to be capitalised rather than charged as an expense. This resulted in a reduction in the deficit and contributed to the increase in total assets.

4.13.47 Assets are funded through equity injections and have primarily increased as a result of increased unspent cash holdings, new assets under construction and new non-current assets.

4.13.48 The new assets under construction relate to preliminary work on the rail access line which will connect the terminal to the Southern Sydney Freight Line.

4.13.49 The new non-current assets relate to:

- capitalised costs incurred by the company to prepare the Commonwealth land on which part of the precinct development will take place and the terminal will be built and
- costs associated with entering into the agreement with SIMTA.

Key areas of financial statements risk

4.13.50 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.13.9.

Table 4.13.9: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Investment in the Moorebank Intermodal Development Investment Trust and remediation obligation \$13.0 million	Completeness and capitalisation of expenses	Higher	<ul style="list-style-type: none"> technical accounting issues associated with the correct recognition, capitalisation and classification of initial transaction expenses; and increasing activity as the terminal development progresses. 	No significant or moderate audit findings identified.
Moorebank Intermodal Development Investment Trust and Moorebank intermodal Development Rail Trust Assets under construction \$8.6 million	Reporting framework used to capture and record transactions	Higher	<ul style="list-style-type: none"> first year of operation of the Trusts; technical accounting issues associated with certain transactions; and increasing activity. 	No significant or moderate audit findings identified.
Procurement controls including tenders/contracts and processes to manage conflicts of interest	Conflicts of interest segregation of duties	Moderate	<ul style="list-style-type: none"> complex agreements between the parties involving substantial monetary amounts and potentially creating long term obligations. 	No significant or moderate audit findings identified. The transfer of a parcel of land from the Commonwealth and subsequent issue of a head lease, is the pivotal transaction required for the terminal development to proceed. This transaction did not occur during 2015–16.

Source: ANAO 2015–16 audit results, and MIC's financial statements for the year ended 30 June 2016.

4.13.51 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of MIC's 2015–16 financial statements.

4.13.52 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.13.53 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

National Capital Authority

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

Summary of financial performance

4.13.55 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by the Authority, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.13.10: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(17.3)	(18.4)
Revenue from government	17.5	17.5
Surplus/(deficit) attributable to the Australian Government	0.2	(0.9)
Total other comprehensive income	0.3	0.2
Total comprehensive income/(loss) attributable to the Australian Government	0.5	(0.7)
Total assets	25.7	19.8
Total liabilities	9.2	4.6
Total equity	16.5	15.2

Source: The Authority's financial statements for the year ended 30 June 2016.

4.13.56 Overall, the Authority's financial performance was stable between 2014–15 and 2015–16.

4.13.57 The Authority receives funds for construction activities that it undertakes on behalf of other parties on national land, such as the construction of memorials. Liabilities increased mainly due to the timing of income received for construction projects. This also resulted in an increase in total assets as appropriations available to the Authority increased to fund the construction works.

Table 4.13.11: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	24.1	23.9
Total income	20.8	19.2
Deficit	(3.3)	(4.7)
Total other comprehensive income	17.9	8.0
Total comprehensive income	14.6	3.3
Total assets administered on behalf of Government	809.4	795.3
Total liabilities administered on behalf of Government	22.1	20.5
Net assets	787.3	774.8

Source: The Authority's financial statements for the year ended 30 June 2016.

4.13.58 Other comprehensive income and total assets administered on behalf of Government increased as a result of an independent valuation undertaken in 2015–16 in relation to land, buildings and property, plant and equipment, leading to an increase in the fair values as at 30 June 2016.

Key areas of financial statements risk

4.13.59 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.13.12.

Table 4.13.12: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered non-financial assets \$807.5 million	Valuation and accounting for land, buildings and infrastructure located within the National Capital Estate	Moderate	<ul style="list-style-type: none"> complexities in determining fair value given the unique nature of the assets. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Parking services revenue \$16.8 million	Completeness of revenue recognised	Moderate	<ul style="list-style-type: none"> collection of revenue and management of parking system contracted to a third party provider; and judgement involved in determining recoverability of outstanding fines. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the Authority's financial statements for the year ended 30 June 2016.

4.13.60 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the Authority's 2015–16 financial statements.

4.13.61 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.13.62 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Comments on non-material entities

Australian Territory of Norfolk Island

4.13.63 Norfolk Island has been a non-self-governing external territory with most of the powers of a national government, granted under the *Norfolk Island Act 1979(Cth)* (Norfolk Island Act). In accordance with this Act, the Auditor-General is the auditor of the Administration of Norfolk Island and the Consolidated Group's (the Administration) 2015–16 financial statements. Norfolk Island provides two sets of financial statements to the Auditor-General for audit. They are the Administration of Norfolk Island and the Norfolk Island Hospital Enterprise (Hospital). These auditing arrangements took effect from 1 July 2011.

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

4.13.65 On 17 June 2015, the Commonwealth amended the Norfolk Island Act 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. From that time, the assets and liabilities of the Administration transferred to the Regional Council, subject to the Commonwealth

Minister ruling that specific assets and liabilities were transferred to the Australian Government, to support the delivery of Commonwealth services.

4.13.66 With the transition to the Regional Council, the *Norfolk Island Legislation Amendment Act 2015* repealed key aspects of the Norfolk Island Act, effective 1 July 2016. Included in the repeal were financial reporting and Auditor-General audit requirements, as the Administration ceased from 30 June 2016. From 1 July 2016, the Regional Council will have financial reporting and audit obligations prescribed under the New South Wales local government legislation.

Audit results

4.13.67 The signed financial statements of the Administration and Hospital had not been presented for audit at the date of this report. The following table summarises the status of audit findings reported by the ANAO to management in 2014–15 and 2015–16 for the two reporting entities:

Table 4.13.13: Status of audit findings

Category	Closing position (2014–15)	New findings (2015–16)	Findings resolved (2015–16)	Closing position (2015–16)
A	1	2 ^(a)	(1) ^(b)	2
B	6	4	(3) ^(a)	7
Total	7	6	(4)	9

Note a: Two moderate audit findings reported to the Administration in 2014–15 were reclassified to significant findings during 2015–16.

Note b: The significant asset management finding for the Hospital has been reclassified to a moderate finding.

New significant audit findings

Corporate governance framework

4.13.68 Corporate governance and a robust financial reporting regime and internal controls, underpinned by appropriate policies and procedures, are important elements of an effective control environment that supports the achievement of an entity's financial management and legislative needs.

4.13.69 The ANAO identified during 2014–15 that the Administration had not implemented the key elements of an effective corporate governance framework and reported a moderate audit finding. At the conclusion of the 2015–16 audit, the finalisation of key governance processes and policies by the Administration remained outstanding. These included: strategic and operational plans for a number of the government business enterprises within the Administration; a risk management framework and an underlying risk monitoring process; and the implementation of an effective internal audit function. As a result, the ANAO has increased the classification of this finding to significant.

4.13.70 The absence of an adequate governance framework has contributed to a lack of strategic planning by the Administration, which reduces the ability to anticipate or address key risks. After the development of key policies, it is also important that there are regular and formal processes in place to monitor the implementation of and adherence to the policy requirements to

help confirm that areas of non-compliance are identified and addressed in order to mitigate potential financial statements and business risks.

4.13.71 The establishment of these processes is considered a key priority for the Norfolk Island Regional Council.

Asset management and capital budgeting

4.13.72 Strategic asset management and capital budgeting are important elements of good governance, financial management and planning. They also underpin both informative management and statutory reporting requirements by providing a framework for regular assessment of asset useful lives, indicators of impairment and replacement cost considerations.

4.13.73 The ANAO identified during 2014–15 that the Administration had not implemented a formal asset management plan and raised a moderate audit finding. At the conclusion of the 2015–16 audit, a formal capital management plan is still not in place for the Administration. The absence of a formal plan contributed to delays in the finalisation and valuation of asset transfer agreements between the Administration and the Commonwealth, which compromised the timeliness of management reports and the Administration's financial statements preparation process. As a result, the ANAO has increased the classification of this finding to significant.

4.13.74 The ANAO has recommended the Norfolk Island Regional Council develop a formal capital budget and asset management plan. A formal plan will assist with the management of resource, cost and risk prioritisations in regards to future capital expenditure.

New moderate audit findings

4.13.75 The ANAO reported the following moderate audit findings during 2015–16:

- weaknesses in the implementation of the Administration's procurement processes, particularly around budget approval, conflict of interest and value for money assessment management. Weaknesses in procurement processes increase the risk of not achieving value for money and inappropriate expenditure;
- the Administration had not implemented appropriate governance and compliance processes to underpin the activities of the Norfolk Island Gaming Authority, which increased the risk of legal and regulatory exposure, as well as gaming revenue not being collected and reported in records; and
- weaknesses in the Administration's stores inventory management processes, particularly around pricing, stocktake and procurement, increased the risk of inaccurate inventory balances and values within the financial records.

Unresolved moderate audit findings

4.13.76 The following findings in relation to the Administration's corporate governance framework, the maintenance of accounts and records, and the preparation of the financial statements remain unresolved from 2014–15:

- financial and management reporting processes within the Administration are unreliable and untimely. In particular improvements to the integrity of monthly management reports to allow informed monitoring of financial performance are needed;

- weaknesses in the Administration’s cash management controls resulted in errors in the recognition of cash and assets held in trust balances;
- the Hospital does not have key components of its legislative corporate governance framework including a strategic and operational plan, and a risk management framework; and
- the Hospital has no capital management plan for its building and property, plant and equipment assets. The absence of clear capital management and budgeting processes significantly compromises the Hospital’s budget allocation decisions and its estimates of the amounts of revenue it needs to raise.

4.13.77 These issues related to the Administration remain relevant for the new Regional Council management and the Regional Council audit committee in 2016–17. The Regional Council management agreed with the findings and addressing the recommendations will be a focus in 2016–17. Responsibility for the health and hospital services is with the Australian Government.

Resolved moderate audit finding

Contract Management

4.13.78 In 2014–15 the ANAO identified weaknesses in relation to the Administration’s contract management processes. During 2015–16 the Administration implemented actions to largely address this matter, including the development and maintenance of a central contract register. As a result, this finding was reclassified to a minor audit finding.

4.14 Parliamentary Departments

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Parliamentary Services	Yes	✓	5 Sept 16	6 Sept 16	<input type="checkbox"/>

✓: auditor's report not modified

: significant or moderate findings and/or legislative matters identified in previous periods, or the 2015–16 interim audit phase, now reclassified or resolved

Portfolio overview

4.14.1 The Parliamentary Departments portfolio supports the operation of the Parliament of Australia, its Committees and members. The portfolio comprises four entities: the Department of Parliamentary Services; the Department of the Senate; the Department of the House of Representatives; and the Parliamentary Budget Office.

4.14.2 The ANAO's financial statements audit approach identifies key areas of risk that have the potential to impact an entity's financial statements and develops audit procedures to address those risks. The result of recent performance audits form part of this risk identification process.

4.14.3 The following sections provide a summary of the 2015–16 financial statements audit results for the Department of Parliamentary Services. Where a performance audit was tabled during 2015–16 and relevant to the financial management or administration of a portfolio, the impact of those observations on the audit approach are also discussed.

4.14.4 The observations of performance audits tabled since 1 July 2016 and relevant to the financial management or administration of entities within the portfolio will inform the ANAO's 2016–17 financial statements audit risk identification processes.

Department of Parliamentary Services

4.14.5 The Department of Parliamentary Services is responsible for supporting the Parliament through a range of services including library, Hansard and broadcasting, communications and building security and maintenance.

Summary of financial performance

4.14.6 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by the department, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.14.1: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(138.7)	(132.2)
Revenue from government	119.0	120.5
Deficit attributable to the Australian Government	(19.7)	(11.7)
Total other comprehensive income	–	2.2
Total comprehensive loss attributable to the Australian Government	(19.7)	(9.5)
Total assets	128.8	124.5
Total liabilities	28.1	27.1
Total equity	100.7	97.4

Source: Department of Parliamentary Services' financial statements for the year ended 30 June 2016.

4.14.7 The department continued to support the work of Parliament, Parliamentarians and the maintaining Parliament House and its precincts with fluctuations in balances reflecting normal business activities.

4.14.8 The lower deficit in 2014–15 reflected the impact of the savings measures implemented in 2013–14. These measures included deferral of recruitment, maintenance activities and security upgrades to the Australian Parliament House, which were subsequently carried out in 2015–16.

Table 4.14.2: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	36.4	32.0
Total income	–	–
Deficit	(36.4)	(32.0)
Total other comprehensive income	15.7	13.7
Total comprehensive loss	(20.7)	(18.3)
Total assets administered on behalf of Government	2 224.1	2 220.7
Total liabilities administered on behalf of Government	0.6	0.7
Net assets	2 223.5	2 220.0

Source: Department of Parliamentary Services' financial statements for the year ended 30 June 2016.

4.14.9 The department's primary asset is Parliament House which the department manages on behalf of the Australian Government. Parliament House was independently valued at both reporting dates. No significant changes in the fair value of key infrastructure assets that form Parliament House were identified.

Key areas of financial statements risk

4.14.10 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.14.3.

Table 4.14.3: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Land and buildings and property plant and equipment \$2.2 billion Administered Depreciation and amortisation expense \$32.5 million Departmental Property, plant and equipment \$68.3 million Departmental Depreciation and amortisation expense \$19.1 million	Fair valuation measurement of non-financial assets	Significant	<ul style="list-style-type: none"> the unique nature of Parliament House, its contents and the purpose of the land, increases the complexity in establishing comparable fair values. 	No significant or moderate audit findings identified.
All financial statement line items	IT general controls and application controls	Moderate	<ul style="list-style-type: none"> weaknesses have been found in prior years that reduced the reliance that could be placed on these systems. 	Three moderate audit findings were resolved during 2015–16—refer to paragraphs 4.14.14 to 4.14.17. No new significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Employee provisions \$21.7 million Employee benefits expense \$82.6 million	Employee benefits and provisions	Moderate	<ul style="list-style-type: none"> the calculation of employee leave provisions are based on multiple assumptions involving judgement. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the Department of Parliamentary Services' financial statements for the year ended 30 June 2016.

4.14.11 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the Department of Parliamentary Services' 2015–16 financial statements.

4.14.12 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.14.13 The following table summarises the status of audit findings reported by the ANAO in 2014–15 and 2015–16.

Table 4.14.4: Status of audit findings

Category	Closing position (2014–15)	New findings (2015–16)	Findings resolved (2015–16)	Closing position (2015–16)
A	0	0	(0)	0
B	3	0	(3)	0
Total	3	0	(3)	0

Resolved moderate audit findings

Weaknesses in user access to key financial systems

4.14.14 At the conclusion of the 2014–15 audit, the ANAO reported three 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.

4.14.15 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.

4.14.16 The department addressed these issues during 2015–16 through:

- removing inappropriate access to the FMIS from 1 July 2015;
- implementing controls supporting the granting and monitoring of privileged user access;
- developing processes to assess whether a general user’s responsibilities required access to the FMIS and HRMIS prior to access approval being granted; and
- remediating weaknesses associated with user access of database administrators.

4.14.17 As a result of the actions undertaken by the department, these findings were resolved in the 2015–16 final audit.

4.15 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
Department of the Prime Minister and Cabinet	Yes	✓	1 Sept 16	6 Sept 16	□
Indigenous Business Australia	Yes	✓	9 Sept 16	12 Sept 16	
Indigenous Land Corporation	No ^(a)	✓	15 Sept 16	15 Sept 16	
– Voyages Indigenous Tourism Australia Pty Ltd	Yes	✓	29 Aug 16	29 Aug 16	
Northern Land Council	No	✓	30 Sept 16	30 Sept 16	▲□◆

✓: 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 2015–16 interim audit phase, now reclassified or resolved

Note a: Voyages Indigenous Tourism Australia Pty Ltd (Voyages) is a subsidiary of the 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

4.15.1 The Prime Minister and Cabinet Portfolio is responsible for providing policy advice and support to the Prime Minister, the Cabinet and Ministers on public and government administration matters, including policy development and whole-of-government coordination.

4.15.2 The Department of the Prime Minister and Cabinet is the lead department in the portfolio. The portfolio also includes entities responsible for policy development across government in economic, domestic and international affairs, Aboriginal and Torres Strait Islander advancement and public service stewardship. The portfolio entities cover a broad range of functions and policy areas.

4.15.3 The ANAO's financial statements audit approach identifies key areas of risk that have the potential to impact an entity's financial statements and develops audit procedures to address those risks. The result of recent performance audits form part of this risk identification process.

4.15.4 The following sections provide a summary of the 2015–16 financial statements audit results for the Department of Prime Minister and Cabinet, Indigenous Business Australia and the Northern Land Council. Where a performance audit was tabled during 2015–16 and relevant to the financial management or administration of a portfolio entity, the impact of those observations on the audit approach are also discussed.

4.15.5 The observations of performance audits tabled since 1 July 2016 and relevant to the financial management or administration of entities within the Prime Minister and Cabinet portfolio will inform the ANAO's 2016–17 financial statements audit risk identification processes.

Department of the Prime Minister and Cabinet

4.15.6 The Department of the Prime Minister and Cabinet (PM&C) is responsible for coordinating policy development across government in economic, domestic and international affairs, Aboriginal and Torres Strait Islander advancement and public service stewardship.

Summary of financial performance

4.15.7 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by the department, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.15.1: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(410.4)	(546.0)
Revenue from government	384.2	528.5
Deficit attributable to the Australian Government	(26.2)	(17.5)
Total other comprehensive income	(5.1)	3.8
Total comprehensive loss attributable to the Australian Government	(31.3)	(13.7)
Total assets	233.4	272.3
Total liabilities	(118.9)	(132.4)
Total equity	114.5	139.9

Source: PM&C's financial statements for the year ended 30 June 2016.

4.15.8 The decrease in net cost of services from 2014–15 is mainly attributable to the one-off nature of the expenditure in relation to the organisation of the G20 Summit in that year of \$125 million. Revenue from government also decreased, in line with the decreases in expenditure.

4.15.9 During 2015–16, PM&C began implementation of the department's Property Divestment Strategy, disposing of regional 'land and building' assets. There was also a net write-down in the value of the remaining land, building and leasehold assets following a valuation exercise, resulting in the decrease in total assets and equity.

Table 4.15.2: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	1 637.1	1 572.7
Total income	100.3	107.6
Deficit	(1 536.8)	(1 465.1)
Total other comprehensive income	108.7	59.7
Total comprehensive loss	(1 428.1)	(1 405.4)
Total assets administered on behalf of Government	4 566.1	4 352.7
Total liabilities administered on behalf of Government	57.6	48.3
Net assets	4 508.4	4 304.4

Source: PM&C's financial statements for the year ended 30 June 2016.

4.15.10 The increase in administered expenses reflects the service delivery costs of Indigenous programs, the majority of which consists of grant payments (\$1.2 billion), supplier payments (\$97 million), and other administrative expenditure (\$308 million).

4.15.11 The increase in assets is due to an increase in the investment valuations of portfolio entities, primarily attributable to Indigenous Business Australia (\$57 million) and the Indigenous Land Corporation (\$77 million). The current year surplus of \$65 million from the Aboriginals Benefit Account also contributes to the increase.

Key areas of financial statements risk

4.15.12 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.15.3.

Table 4.15.3: Key areas of financial statements risk and audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Grants expenses \$1.2 billion	Grants management	Higher	<ul style="list-style-type: none"> the magnitude and diversity of grant programs that are subject to a decentralised eligibility and assessment process; and moderate audit findings reported in 2014–15, relating to weaknesses in grants acquittal management and the Community Development Program's compliance framework. 	One moderate audit finding resolved—refer to paragraphs 4.15.16 to 4.15.18.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
All financial statement line items	Operation and management of shared services	Higher	<ul style="list-style-type: none"> interactions with a service provider can create complexities in the authorisation, recognition and allocation of transactions and balances; and changes to shared services arrangements or their implementation may have implications on the IT general control environment and key governance arrangements. 	No significant or moderate audit findings identified.
Departmental Non-financial assets \$112.7 million	Valuation of departmental non-financial assets	Moderate	<ul style="list-style-type: none"> subject to judgement and estimation; and the existence and ownership of assets, particularly those in remote locations, may be difficult to confirm. 	No significant or moderate audit findings identified.
Departmental Employee provisions \$76.2 million	Human resources Management	Moderate	<ul style="list-style-type: none"> the complexity of assumptions and calculations underlying the actuarial assessment of employee provisions. 	No significant or moderate audit findings identified.
Administered Financial assets \$4.5 billion	Valuation and consolidation of investments	Moderate	<ul style="list-style-type: none"> underlying assumptions, calculations and valuation techniques may not be reasonable and/or valid due to complexity and judgement involved; and complex requirements for the consolidation of the Aboriginals Benefit Account and the Aboriginal and Torres Strait Islander Land Account investment balances into the administered financial statements. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 financial statements audit results, and PM&C's financial statements for the year ended 30 June 2016.

4.15.13 The ANAO also completed appropriate audit procedures on the IT general and application controls for key systems, and all material financial statements items for PM&C's 2015–16 financial statements.

4.15.14 As mentioned above, the ANAO considers the results of recent performance audits in identifying risks and designing an audit approach for the financial statements audit. No performance audits were tabled in 2015–16 which directly impacted the financial statements audit approach.

Audit results

4.15.15 There were no significant or moderate audit findings arising from the 2015–16 financial statements audit. The following table summarises the status of audit findings reported by the ANAO in 2014–15 and 2015–16.

Table 4.15.4: Status of audit findings

Category	Closing position (2014–15)	New findings (2015–16)	Findings resolved (2015–16)	Closing position (2015–16)
A	0	0	(0)	0
B	2	0	(2) ^(a)	0
Total	2	0	(2)	0

Note a: A moderate audit finding was resolved during the 2015–16 interim audit phase. Details regarding grant acquittal management processes were reported to Parliament in ANAO Report No.7 2016–17 *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Entities for the year ending 30 June 2016*.

Resolved moderate audit finding

The Community Development Programme compliance processes

4.15.16 The Community Development Programme (CDP) provides jobs, participation and community-development services in 60 remote regions across Australia. The delivery of CDP is provided through contract service providers over a five year period, 2013 to 2018, at an estimated total program cost of \$1.1 billion.

4.15.17 At the conclusion of the 2014–15 audit, PM&C continued to experience delays in the implementation of a consolidated program compliance framework, including formalising management reporting and oversight responsibilities. The delay in the implementation of a compliance framework increases risks associated with providing financial accountability over program expenditure and assurance for the program’s management.

4.15.18 In response, PM&C have developed a CDP Performance Management Framework, which includes a stronger focus on review and monitoring of providers performance and expenditure. The new framework was endorsed by the PM&C executive and has been effectively implemented during 2015–16. This finding was reclassified to a minor audit finding during the 2015–16 audit, however the ongoing management of the performance framework will continue to be an area of focus for the 2016–17 audit.

Indigenous Business Australia

4.15.19 Under its enabling legislation, the *Aboriginal and Torres Strait Islander Act 2005*, Indigenous Business Australia’s (IBA) purpose is to:

- assist and enhance Aboriginal and Torres Strait Islander
- self-management and economic self-sufficiency; and
- advance the commercial and economic interests 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.

Summary of financial performance

4.15.20 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by IBA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.15.5: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(15.5)	(22.0)
Revenue from government	34.3	34.3
Surplus attributable to the Australian Government	18.5	12.1
Total other comprehensive income	(2.2)	(5.2)
Total comprehensive income attributable to the Australian Government ^(a)	16.3	6.9
Total assets	1 293.3	1 227.7
Total liabilities	50.9	42.3
Total equity	1 242.4	1 185.4

Note a: Includes non-controlling interests totalling \$4.9 million (2015: \$4.2 million).

Source: IBA's financial statements for the year ended 30 June 2016.

4.15.21 An increase in net cost of services and the surplus attributable to the Australian Government was mainly due to the higher level of goods and services income from IBA subsidiaries and valuation increases relating to investment properties as a result of market factors.

4.15.22 The increase in total assets and associated increases to equity were mainly due to increases in the activity relating to home and enterprise loans, and the acquisition of investment properties and other investments. This was partially offset by the IBA obtaining a loan facility to assist in the acquisition of an investment property during 2015–16.

Key areas of financial statements risk

4.15.23 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.15.5.

Table 4.15.6: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
<p>Loans – Home Ownership Program \$675.8 million</p> <p>Loans – Business Development and Assistance Program \$34.0 million</p>	Valuation of loan portfolio	Moderate	<ul style="list-style-type: none"> robust due diligence processes are required for loan applications to assess the ability of applicants to meet loan commitments; fair value calculations are based on a combination of variable market inputs and internally generated estimates and judgements; the fair value methodology is complex and requires regular review to ensure continued reliability; and timely monitoring controls are required to identify and remediate delinquent loans to avoid impairment. 	No significant or moderate audit findings identified.
<p>Investment property \$151.1 million</p> <p>Property, plant and equipment \$21.1 million</p>	Valuation of investments	Moderate	<ul style="list-style-type: none"> fair value calculation includes forecast earnings and capitalisation rates derived for regional areas; complex accounting requirements associated with investments in associate entities and assessment of impairment and gains on revaluation; unaudited management accounts are used for valuation of investments in associated entities; and public scrutiny of the governance and performance of its investment portfolio 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Own-source income \$173.3 million	Completeness and accuracy of revenue	Moderate	IBA has a number of streams of commercial income and associated accounting functions, some of which are geographically decentralised and remote.	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and IBA's financial statements for the year ended 30 June 2016.

4.15.24 The ANAO also completed appropriate audit procedures on the IT general and application controls for key systems, and all material financial statements items for IBA's 2015–16 financial statements.

4.15.25 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. ANAO Audit Report No.11 2015–16 *Indigenous Home Ownership Program* was tabled during 2015–16.

4.15.26 ANAO Report No.11 2015–16 included observations relevant to the Loans – Home Ownership Program outlined in Table 4.15.6. While the report did not include recommendations regarding IBA's financial administration of this program, the home ownership program remains a key area of financial statement risk.

Audit results

4.15.27 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Comments on non-material entities

Northern Land Council

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

4.15.29 The following table summarises the status of audit findings reported by the ANAO in 2014–15 and 2015–16.

Table 4.15.7: Status of audit findings

Category	Closing position (2014–15)	New findings (2015–16)	Findings resolved (2015–16)	Closing position (2015–16)
A	1	0	(1)	0
B	0	0	(0)	0
L1	1	1	(0)	2
Total	2	1	(1)	2

Resolved significant audit finding

Financial management and financial statement close processes

4.15.30 Weaknesses relating to the financial management and financial statement close processes of the Council were first reported as a moderate audit finding during 2011–12. As a result of further issues and ongoing delays in the preparation of the financial statements during 2013–14, the finding was reclassified to a significant audit finding. The ANAO noted during 2014–15 that the Council had made improvements however there were ongoing weaknesses in financial management and delays in the preparation of the financial statements.

4.15.31 During 2015–16 the ANAO observed significant improvements to the quality of reconciliation processes and reporting, and an improvement in the level of management review and accountability for key financial processes. Some weaknesses remain unresolved in financial processes relating to the management of royalties received.

4.15.32 As a result, this audit finding has been reclassified to a minor audit issue as a result of remediation action taken. The Council is continuing to improve the management of this process to completely resolve this finding. The ANAO will review this process as part of the 2016–17 audit.

Unresolved significant legislative breach

Royalty trust account

4.15.33 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.

4.15.34 During 2015–16, the ANAO identified that instances 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.

New significant legislative breach

Risk management framework

4.15.35 The PGPA Act requires the Accountable Authority of a Commonwealth entity to establish and maintain an appropriate system of risk oversight and management. This includes the development of a risk framework, typically including a risk plan and a risk register, and monitoring activities over the implementation of the control activities identified in the risk register.

4.15.36 The ANAO identified that the Council did not have an appropriate risk framework in place, including the development of a risk register. The Council has committed to developing an appropriate risk framework in 2016–17, including the development of a risk register, to assist in the management of risk and discharging the Accountable Authorities' responsibilities.

4.16 Social Services Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Social Services	Yes	✓	29 Aug 16	29 Aug 16	□
Australian Hearing	Yes	✓	1 Sept 16	1 Sept 16	
Department of Human Services	Yes	✓	31 Aug 16	31 Aug 16	□
National Disability Insurance Agency	Yes	✓	21 Sept 16	21 Sept 16	◆▲

✓: 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 2015–16 interim audit phase, now reclassified or resolved

Portfolio overview

4.16.1 The Social Services Portfolio is responsible for achieving the Australian Government's social policy outcomes and delivering social security priorities through policy advice, program administration, and research.

4.16.2 The Department of Social Services is the lead entity in the portfolio. The portfolio also includes the National Disability Insurance Agency and the Australian Institute of Family Studies. The Department of Human Services and Australian Hearing are also part of the broader Social Services Portfolio.

4.16.3 The ANAO's financial statements audit approach identifies key areas of risk that have the potential to impact an entity's financial statements and develops audit procedures to address those risks. The result of recent performance audits form part of this risk identification process.

4.16.4 The following sections provide a summary of the 2015–16 financial statements audit results for the Department of Social Services and material entities in the portfolio. Where a performance audit was tabled during 2015–16 and relevant to the financial management or administration of a portfolio entity, the impact of those observations on the audit approach are also discussed.

4.16.5 The observations of performance audits tabled since 1 July 2016 and relevant to the financial management or administration of entities within the Social Services portfolio will inform the ANAO's 2016–17 financial statements audit risk identification processes.

Department of Social Services

4.16.6 The Department of Social Services (Social Services) has four core areas of responsibility—social security, families and communities, disability and carers, and housing. Social Services works in partnership with other government and non-government organisations, particularly with the Department of Human Services, to develop, manage and deliver a range of policies, programs and services focused on improving the wellbeing of people and families in Australia.

Summary of financial performance

4.16.7 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by Social Services, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.16.1: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(530.6)	(660.9)
Revenue from government	475.3	598.5
Deficit attributable to the Australian Government	(55.3)	(62.4)
Total other comprehensive income	1.6	(1.4)
Total comprehensive loss attributable to the Australian Government	(53.7)	(63.8)
Total assets	336.9	361.0
Total liabilities	137.4	197.5
Total equity	199.5	163.5

Source: Social Service's financial statements for the year ended 30 June 2016.

4.16.8 The reduction in revenue from government, total assets and total liabilities is primarily a result of Machinery of Government changes. In September 2015, responsibility for child care related programs was transferred to the Department of Education and Training, and responsibility for Aged Care programs were transferred to the Department of Health.

Table 4.16.2: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	120 495.7	128 218.7
Total income	136.1	297.8
Deficit	(120 359.6)	(127 920.9)
Total other comprehensive income	16.8	(42.5)
Total comprehensive income/(loss)	(120 342.8)	(127 963.4)
Total assets administered on behalf of Government	3 955.8	4 559.5
Total liabilities administered on behalf of Government	7 518.2	9 895.4
Net liabilities	3 562.4	5 335.9

Source: Social Services' financial statements for the year ended 30 June 2016.

4.16.9 The Machinery of Government changes noted above have also resulted in the reduction of expenses, related to personal benefits and a reduction in the total assets and liabilities administered on behalf of government.

Key areas of financial statements risk

4.16.10 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.16.3.

Table 4.16.3: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Personal benefit expenses \$113.4 billion	Accuracy of personal benefits payments	Higher	<ul style="list-style-type: none"> dependence on the correct disclosure of personal circumstances by a large number of recipients across diverse social economic groups; and the complexity and high volume of various personal benefit payment programs processed by the Department of Human Services on ageing IT systems. 	No significant or moderate audit findings identified.
Administered Personal benefit provisions \$5.1 billion Administered Personal benefit receivables \$3.0 billion	Valuation and completeness of personal benefit estimates	Higher	<ul style="list-style-type: none"> accuracy and completeness of source data used by the Australian Government Actuary as it is critical in developing the estimation models; and the significant judgements and assumptions used in the estimation models are dependent on a number of factors including but not limited to the new budget measures affecting the benefit programs, timing of payments, personal circumstances of recipients and the economic environment. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Subsidy expenses \$3.0 billion	Accuracy of subsidy payments	Moderate	<ul style="list-style-type: none"> • payments are made based on the information provided by a large number of aged care providers; and • reliance on complex and ageing IT systems administered by the Department of Human Services and the Department of Health to support subsidy payments. 	No significant or moderate audit findings identified.
Administered Grants expenses \$2.0 billion	Grants management	Moderate	<ul style="list-style-type: none"> • large number and value of grants programs with different legislative and policy requirements; • reliance on different systems in obtaining complete and accurate data for financial reporting purposes; and • information technology challenges for expanding the existing grant management infrastructure to use as a shared service operation for other entities. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and Social Services' financial statements for the year ended 30 June 2016.

4.16.11 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of Social Services' 2015–16 financial statements.

4.16.12 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. The following performance audit reports were tabled during 2015–16 relevant to the financial management or administration of Social Services:

- Audit Report No.18 2015–16 *Qualifying for the Disability Support Pension* (a cross-entity audit); and
- Audit Report No.25 2015–16 *Delivery and Evaluation of Grant Programmes* (a cross-entity audit).

4.16.13 While the reports did not include observations relevant to the financial administration of these programs, personal benefits payments and grants management remain key areas of financial statements risk as outlined in Table 4.16.3.

Audit results

4.16.14 There were no significant or moderate audit findings arising from the 2015–16 financial statements audit.

4.16.15 The following table summarises the status of audit findings reported by the ANAO in 2014–15.

Table 4.16.4: Status of audit findings

Category	Closing position (2014–15)	New findings (2015–16)	Findings resolved (2015–16)	Closing position (2015–16)
A	1	0	(1) ^(a)	0
B	1	0	(1) ^(b)	0
Total	2	0	(2)	0

Note a: As a result of the Machinery of Government changes of September 2015, one significant audit finding, related to the child care compliance framework, was transferred from Social Services to the Department of Education and Training.

Note b: The finding relating to the Disability Employment Services Assurance and Compliance Framework has been reclassified to a minor finding. Details regarding this finding were reported to Parliament in ANAO Report No.7 2016–17 *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Entities for the year ending 30 June 2016*.

Australian Hearing

4.16.16 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.

Summary of financial performance

4.16.17 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by Australian Hearing, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.16.5: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net contribution by services	20.8	17.6
Revenue from government	–	–
Surplus attributable to the Australian Government	20.8	17.6
Total other comprehensive income	–	–
Total comprehensive income attributable to the Australian Government	20.8	17.6
Total assets	136.9	126.7
Total liabilities	79.0	77.3
Total equity	57.9	49.4

Source: Australian Hearing's financial statements for the year ended 30 June 2016.

4.16.18 The increase in the contribution by services and corresponding increase in the surplus were primarily due to an increase in the volume of sales and the number of fittings provided.

Key areas of financial statements risk

4.16.19 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.16.6.

Table 4.16.6: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Sales of goods and rendering of services \$240.8 million	Completeness and accuracy of revenue	Higher	<ul style="list-style-type: none"> Australian Hearing has a commercial focus and may be under pressure to meet revenue targets. 	No significant or moderate audit findings identified.
Non-current assets \$39.6 million	Accounting for property, plant and equipment and intangibles	Moderate	<ul style="list-style-type: none"> valuation of these balances is subject to estimation and judgement by management. 	No significant or moderate audit findings identified.
Liabilities \$79.0 million	Appropriateness of management estimates	Moderate	<ul style="list-style-type: none"> accounting estimates are subject to assumptions made by management. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and Australian Hearing's financial statements for the year ended 30 June 2016.

4.16.20 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of Australian Hearing's 2015–16 financial statements.

4.16.21 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.16.22 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Department of Human Services

4.16.23 The Department of Human Services (Human Services) is part of the wider Social Services Portfolio, and is responsible for delivering a range of payments and services to support individuals, families and communities, as well as providers and businesses. These include: income support payments and services; aged care payments; Medicare payments and services; and child support services.

4.16.24 Human Services delivers against one specific outcome, related to supporting individuals, families and communities to achieve greater self-sufficiency through the delivery of payments and quality and accessible services, as well as supporting providers and business through convenient and effective service delivery.

Summary of financial performance

4.16.25 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by Human Services. The departmental financial statements are relatively stable between the two years with modest movements in the key balances. These reflect normal business activities.

Table 4.16.7: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(4 476.2)	(4 230.6)
Revenue from government	4 223.5	4 068.7
Deficit attributable to the Australian Government	(252.7)	(161.9)
Total other comprehensive income	33.3	10.8
Total comprehensive income attributable to the Australian Government	(219.4)	(151.1)
Total assets	2 061.1	2 048.4
Total liabilities	1 363.1	1 377.0
Total equity	698.0	671.4

Source: Human Services' Financial Statements for the year ended 30 June 2016.

Table 4.16.8: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	1 540.2	1 513.2
Total income	1 576.4	1 539.1
Surplus	36.2	25.9
Total other comprehensive income	8.4	7.1
Total comprehensive income	44.6	33.0
Total assets administered on behalf of Government	843.2	824.1
Total liabilities administered on behalf of Government	816.0	808.2
Net assets	27.2	15.9

Source: Human Services' Financial Statements for the year ended 30 June 2016.

4.16.26 The key activity with Human Services' administered business relates to child support. The cash collected by Human Services from non-custodial parents in 2016 was \$1.386 billion with \$1.384 billion transferred to the custodial parents in that same year. The total overdue child support amount payable to Human Services to be transferred to custodial parents has built up over time to \$1.398 billion with an associated doubtful debts or impairment allowance estimated by an actuary to be \$625 million. This is an increase of \$82 million over the prior estimated amount and was driven by a combination of a fall in collection rates, an increase of a year in the mean term to recovery and the impact of a fall in the bond rate.

Key areas of financial statements risk

4.16.27 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.16.9.

Table 4.16.9: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Departmental Land and buildings \$325.0 million Plant and equipment \$152.1 million Software \$480.3 million	Departmental non-financial assets	Moderate	<ul style="list-style-type: none"> property, plant and equipment is geographically dispersed; valuation is subject to judgements and assumptions; and the complexities in capturing the actual costs involved in the development of various internally developed software and determining whether costs should be capitalised or expensed in compliance with the accounting standard. 	No significant or moderate audit findings identified.
Administered Child support receivables \$773.5 million	Management of child support scheme	Moderate	<ul style="list-style-type: none"> a large volume of child support financial transactions are processed under the complex <i>Child Support Act 1988</i>; and the assumptions applied in determining the value of child support receivables at year-end require involvement of an actuary. This increases the importance of data integrity in the information provided to the actuary and the appropriateness of assumptions used in the assessment process. The data is maintained in spreadsheets and requires manual processing. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and Human Services' Financial Statements for the year ended 30 June 2016.

4.16.28 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of Human Services' 2015–16 financial statements.

4.16.29 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. The following reports were tabled during 2015–16:

- Audit Report No.12 2015–16 *Administration of the Child Dental Benefits Schedule* (a cross-entity audit);
- Audit Report No.18 2015–16 *Qualifying for the Disability Support Pension* (a cross-entity audit); and
- Audit Report No.35 2015–16 *Administration of the Radiation Oncology Health Program Grants Scheme* (a cross-entity audit).

4.16.30 The observations of these reports were considered in identifying risks relevant to the financial statements audit approach.

Audit results

4.16.31 There were no significant or moderate audit findings arising from the 2015–16 financial statements audit. One moderate audit finding identified in 2014–15 has been reclassified to a minor audit finding and is detailed below.

Resolved moderate audit finding

Farm Household Allowance payments

4.16.32 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 totalling \$52 million in 2015–16 (2014–15: \$54 million) were made by Human Services on behalf of the Department of Agriculture and Water Resources. In 2014–15, the ANAO identified that payments were being made to recipients that failed to meet certain eligibility assessment criteria. In addition, the payment calculations were not indexed as required by the relevant legislation. The finding included four recommendations that were agreed by Human Services.

4.16.33 During the 2015–16 audit the ANAO reviewed the measures implemented by Human Services to address the recommendations and found three recommendations have been addressed and the fourth is being progressed. As a result, this finding has been reclassified to a minor audit finding.

National Disability Insurance Agency

4.16.34 The National Disability Insurance Scheme (the Scheme) was established under the *National Disability Insurance Scheme Act 2013* and commenced operations on 1 July 2013. The National Disability Insurance Agency (NDIA) is responsible for delivering the Scheme. The Scheme is designed to provide individual control and choice in the delivery of reasonable and necessary care and support, to improve the independence, social and economic participation of eligible people with a disability, their families and carers, and associated referral services and activities.

Summary of financial performance

4.16.35 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by the NDIA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.16.10: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(565.3)	(308.0)
Revenue from government	581.1	308.4
Surplus attributable to the Australian Government	15.8	0.4
Total other comprehensive income	1.9	–
Total comprehensive income attributable to the Australian Government	17.7	0.4
Total assets	396.3	256.0
Total liabilities	270.7	205.9
Total equity	125.6	50.1

Source: The NDIA's financial statements for the year ended 30 June 2016.

4.16.36 The increase in the net cost of services is associated with the increasing activities and higher numbers of eligible people as the NDIA prepared for the transition to the full Scheme commencing on 1 July 2016. Revenue relating to contributions from state and territory governments also increased as the Scheme moved to full Scheme transition.

4.16.37 Total assets increased primarily due to higher cash balances, resulting from lower than expected claims, as well as delays in the receipt of claims. This increase was partially offset due to the write-off of expected additional Scheme contributions from state and territory governments that were no longer required.

4.16.38 The increase in total liabilities is mainly due to the increase in the participant plan provision. The participant plan provision is an estimate calculated by the Scheme Actuary for the value of any services provided to participants that have not yet been claimed. The increase in the provision largely reflects the higher number of participants in the Scheme in 2015–16.

Key areas of financial statements risk

4.16.39 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.16.11.

Table 4.16.11: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Participant Plan Expenses \$722.7 million	Accuracy and validity of participant plan expenses	Higher	<ul style="list-style-type: none"> • the Scheme is growing in participant numbers, and needs to cater for a diverse group of participants with varying and changing needs; • reliance on third parties to provide information to support payments, making these payments more susceptible to fraud; and • significant work required to implement a successful compliance program. 	One significant and one moderate audit finding identified—refer to paragraphs 4.16.43 to 4.16.48 and 4.16.49 to 4.16.53 below.
Participant Plan Provision \$215.9 million	Valuation of the participant plan provision	Higher	<ul style="list-style-type: none"> • Scheme Actuary is required to make significant judgements and assumptions to determine the service delivery patterns for unclaimed services given the maturity of the Scheme; and • complexity of calculations due to the significant number of participant plans, the frequency of changes to approved plans and the diverse nature of goods and services provided. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Contributions in-kind from Commonwealth, state and territory governments \$215.9 million	Accuracy and completeness of contributions of in-kind services from Commonwealth and state and territory governments	Higher	<ul style="list-style-type: none"> lack of incentive for providers to acquit their services in a timely manner; and difficulties in allocating funding provided to some providers by state and territory governments to individual participants and their approved plans. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and NDIA's financial statements for the year ended 30 June 2016.

4.16.40 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the NDIA's 2015–16 financial statements.

4.16.41 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.16.42 The following table summarises the status of audit findings reported by the ANAO in 2014–15 and 2015–16.

Table 4.16.12: Status of audit findings

Category	Closing position (2014–15)	New findings (2015–16)	Findings resolved (2015–16)	Closing position (2015–16)
A	0	1	(0)	1
B	1	1	(0)	2
Total	1	2	(0)	3

New significant audit finding

Assurance framework – compliance program

4.16.43 Access to the Scheme is regulated via NDIA's assessment and approval of individual applicants against eligibility criteria. Once approved as eligible for the Scheme, a participant plan is formulated and approved that outlines the reasonable and necessary supports required by the participant.

4.16.44 Scheme participants can choose to self-manage their approved plan of supports or have their plan managed by the NDIA. Where plans are managed by the NDIA, payments are

made to the provider subject to claims lodged online. Self-managed participants also claim online but funds are paid directly to the individual participant. No supporting documentation is required as part of the claiming process. Providers are expected to maintain evidence supporting claims. Self-managed participants are required to keep copies of receipts for supports provided.

4.16.45 The ANAO reviewed the NDIA's progress towards implementing an assurance framework, including a compliance program, over the integrity of claims paid to both scheme participants and service providers.

4.16.46 The review noted that there are no documented compliance activities for payments made directly to self-managed participants and that the review program for payments made to providers is based on a non-statistical sample methodology. This methodology does not allow results to be extrapolated across the population to estimate the potential rate of non-compliance within the Scheme.

4.16.47 The ANAO also noted that there was insufficient documentary evidence to demonstrate quality assurance processes over the integrity of decisions made concerning provider registrations, participant identity or eligibility and participant plan approvals.

4.16.48 The NDIA have advised that there are plans for a comprehensive assurance framework that examines payment integrity, as well as eligibility and plan approvals, for both self-managed and agency managed plans. Following the completion of the 2015-16 audit, the NDIA Executive Management Group was appointed to oversee the implementation of a comprehensive Assurance Framework during 2016-17. The ANAO will review the progress made by the NDIA as part of the 2016-17 audit.

New moderate audit finding

Employee commencements

4.16.49 In 2015-16, the Department of Social Services (Social Services) performed the human resource (HR) transactional processing for NDIA under a Memorandum of Understanding. Social Services commenced new employees based on information provided by NDIA's HR area.

4.16.50 A sample of commencements tested by the ANAO identified overpayments of salary due to the employee's commencement date changing from that originally agreed and entered into the system. In all instances, the overpayment had been identified and recoveries initiated. However, the ANAO was unable to determine the means by which the overpayments were identified or identify a process for the capture and communication to Social Services of changes in commencement dates.

4.16.51 The ANAO acknowledges that the NDIA did undertake a high level check for outliers of the fortnightly payroll prior to the release of the payment file. However, the ANAO found no documentary evidence of any other assurance processes performed by the NDIA to verify the accuracy of fortnightly pay runs.

4.16.52 Without appropriate detective controls in place, the number and value of previous or future overpayments cannot be fully quantified by NDIA. The ANAO's analysis indicates that the potential error within the financial statements is unlikely to be significant.

4.16.53 The NDIA has advised the ANAO of new processes that were implemented from 1 July 2016, with the movement of HR processing from Social Services to Human Services. The ANAO will review these processes as part of the 2016–17 audit.

Unresolved moderate audit finding

Segregation of duties– Participant eligibility and participant plan approval

4.16.54 In 2014–15 the ANAO identified that the NDIA did not have adequate segregation of duties between the assessment and approval of scheme eligibility, and the approval of individual plans for support services. This increases the risk of ineligible or fraudulent claims being made under the Scheme. The NDIA 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 to address this risk.

4.16.55 The NDIA implemented interim measures to address this risk until the system implementation was complete. The ANAO will review the effectiveness of the NDIA's segregation of duties as part of the 2016–17 audit.

4.17 Treasury Portfolio

Reporting Entity	Material Entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of the Treasury	Yes	✓	27 Sept 16	27 Sept 16	
Australian Bureau of Statistics	Yes	✓	18 Aug 16	18 Aug 16	
Australian Office of Financial Management	Yes	✓	23 Aug 16	23 Aug 16	
Australian Prudential Regulation Authority	Yes	✓	30 Aug 16	31 Aug 16	
Australian Reinsurance Pool Corporation	Yes	✓	21 Sept 16	21 Sept 16	
Australian Securities and Investments Commission	Yes	✓	02 Sept 16	02 Sept 16	
Australian Taxation Office	Yes	✓	19 Sept 16	19 Sept 16	◆
Reserve Bank of Australia	Yes	✓	18 Aug 16	18 Aug 16	
Royal Australian Mint	No	✓	23 Sept 16	23 Sept 16	◆□

✓: 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 2015–16 interim audit phase, now reclassified or resolved

Portfolio overview

4.17.1 The Treasury Portfolio covers a range of activities aimed at achieving strong, sustainable economic growth and the improved wellbeing of Australians.

4.17.2 The Department of the Treasury is the lead entity within the portfolio with responsibility for the development, delivery and implementation of economic policy and advice. This includes advice on: taxation; the Budget and economy; financial, foreign investment, competition and broader structural policy; small business; and international economic policy. The entities within the portfolio have a broad range of responsibilities, including revenue collection, consumer protection, financial regulation and the provision of official statistics.

4.17.3 The ANAO's financial statements audit approach identifies key areas of risk that have the potential to impact an entity's financial statements and develops audit procedures to address those risks. The result of recent performance audits form part of this risk identification process.

4.17.4 The following sections provide a summary of the 2015–16 financial statements audit results for the Treasury and other material entities in the portfolio. Commentary has also been included regarding the moderate audit findings identified during the audit of the Royal Australian Mint.

4.17.5 Where a performance audit was tabled during 2015–16 and relevant to the financial management or administration of a portfolio, the impact of those observations on the audit approach are also discussed. The observations of performance audits tabled since 1 July 2016 and relevant to the financial management or administration of entities within the Treasury portfolio will inform the ANAO's 2016–17 financial statements audit risk identification processes.

Department of the Treasury

4.17.6 The Department of the Treasury (the Treasury) is responsible for the development, delivery and implementation of economic policy and advice. This includes advice on: taxation; the Budget and the economy; financial, foreign investment, competition and broader structural policy; small business; and international economic policy.

Summary of financial performance

4.17.7 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by the department, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.13: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(171.8)	(177.8)
Revenue from government	160.1	172.8
Deficit attributable to the Australian Government	(11.7)	(5.0)
Total other comprehensive income	6.0	1.0
Total comprehensive loss attributable to the Australian Government	(5.6)	(4.1)
Total assets	91.8	92.0
Total liabilities	56.1	57.3
Total equity	35.7	34.7

Source: The Treasury's financial statements for the year ended 30 June 2016.

4.17.8 The increase in the Treasury's deficit in 2015–16 is largely attributable the movement in the Government bond rate and the associated impact on employee expenses and costs related to the restructuring of Treasury operations. Although the deficit increased, the overall comprehensive loss between years has remained relatively stable as a result of an increase in other comprehensive income attributable to the revaluation of the Treasury's assets in 2015–16.

Table 4.17.14: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	88 037.7	83 777.9
Total income	4 334.6	3 855.2
Deficit	(83 703.1)	(79 922.7)
Total other comprehensive income	(305.2)	5 574.4
Total comprehensive loss	(84 008.3)	(74 348.3)
Total assets administered on behalf of Government	41 874.6	35 973.0
Total liabilities administered on behalf of Government	17 407.2	12 960.5
Net assets	24 467.3	23 012.5

Source: The Treasury's financial statements for the year ended 30 June 2016.

4.17.9 The increase in the Treasury's total expenses largely relates to an increase in GST assistance provided to the states and territories between years, and an increase in National Health Reform payments in 2015–16. Administered income also increased by \$480 million in 2015–16 due to an increase in the declared dividend from the Reserve Bank of Australia, which is also reflected in an increase to total assets.

4.17.10 The main driver of the increase to the Treasury's administered assets and liabilities however relates to an increase in the value of the Treasury's investment in the International Monetary Fund.

Key areas of financial statements risk

4.17.11 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.17.15.

Table 4.17.15: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Grant expenses \$88.0 billion Administered Grants payable \$187.0 million	Payment to States and Territories under the <i>Federal Financial Relations Act 2009</i>	Higher	<ul style="list-style-type: none"> reliance on a number of government entities which are responsible for administering the program, assessing eligibility and advising the Treasury of the amount to be paid. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Other provisions Administered Grant expenses and National Disaster Relief and Recovery Arrangements (NDRRA) provision \$5.8 billion	Valuation of the NDRRA provision	Higher	<ul style="list-style-type: none"> complexities in calculating the provision due to the developed nature and higher level of judgement relating to the estimation process and compliance requirement; and reliance on the estimates provided by States and Territory governments in determining the provision. 	No significant or moderate audit findings identified.
Administered Investments \$37.7 billion	Accounting for investments in international financial institutions, including the International Monetary Fund and Asian Development Bank	Moderate	<ul style="list-style-type: none"> complex nature of international investments including their valuation at fair value; and the volatility of the international economy, including the foreign exchange conversion rate and its combined effect on the impairment assessment performed by the international financial instructions. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the Treasury's financial statements for the year ended 30 June 2016.

4.17.12 The ANAO also completed appropriate audit procedures on all material financial statement items and the IT general and application controls for key systems that supported the preparation of the Treasury's 2015–16 financial statements.

4.17.13 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. Audit Report No.14 2015–16 *Approval and Administration of Commonwealth Funding for the East West Link Project* was tabled during 2015–16 and relevant to the financial management or administration of the Treasury.

4.17.14 The report assessed the approval and administration of funding provided to the Victorian government for the East West Link project, and recommended that the Treasury make a recommendation to the Treasurer that a determination be made requiring the return of this funding to the Commonwealth. This observation aligned to the key area of financial statements risk related to payments to states and territories and will continue to be considered in the design of the audit approach to address this risk in 2016–17.

Audit results

4.17.15 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Australian Bureau of Statistics

4.17.16 The Australian Bureau of Statistics (ABS) is Australia's national statistical agency, providing official statistics on a wide range of economic, social, population and environmental matters of importance to Australia.

Summary of financial performance

4.17.17 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by the ABS, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.16: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(444.1)	(350.7)
Revenue from government	407.5	321.5
Deficit attributable to the Australian Government	(36.6)	(29.2)
Total other comprehensive income	0.1	(0.2)
Total comprehensive loss attributable to the Australian Government	(36.5)	(29.4)
Total assets	206.4	170.9
Total liabilities	170.4	151.8
Total equity	36.0	19.1

Source: ABS' financial statements for the year ended 30 June 2016.

4.17.18 The deficit has increased mainly due to an increase in employee leave provisions (and expenses) of \$6.3 million due to a decrease in the Australian Government bond rate. The increase in assets is attributed to increased intangible assets as a result of the Census software upgrade, the Statistical Business Transformation program, and leasehold improvements at ABS interstate offices.

4.17.19 Administered revenue collected by the ABS in 2015–16 totalled \$3 000 (2015: Nil), mainly from fines associated with the collection of census information. The ABS had no administered expenses for the year and held no administered assets or liabilities at 30 June 2016 (2015: Nil).

Key areas of financial statements risk

4.17.20 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.17.17.

Table 4.17.17: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Intangible assets \$76.8 million	Valuation and impairment of non-financial assets	Moderate	<ul style="list-style-type: none"> • ABS has implemented significant technology upgrades as part of the transformation program; and • the potential misstatement associated with the high capitalisation threshold used for internally developed software. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the ABS' financial statements for the year ended 30 June 2016.

4.17.21 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the ABS' 2015–16 financial statements.

4.17.22 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.17.23 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Australian Office of Financial Management

4.17.24 The Australian Office of Financial Management (AOFM) is responsible for managing Australian Government debt and financial assets. AOFM is responsible for issuing treasury bonds, treasury indexed bonds and treasury notes, managing the Australian Government's cash balances, and investing in financial assets.

Summary of financial performance

4.17.25 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by AOFM, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.18: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(9.1)	(9.2)
Revenue from government	11.2	11.4
Surplus attributable to the Australian Government	2.0	2.2
Total other comprehensive income	–	–
Total comprehensive income attributable to the Australian Government	2.0	2.2
Total assets	33.2	30.7
Total liabilities	2.4	2.6
Total equity	30.7	28.0

Source: AOFM's financial statements for the year ended 30 June 2016.

4.17.26 The stability of the departmental balances is in line with normal business operations for AOFM. Total assets increased by \$2.5 million primarily due to a higher appropriation receivable balance in 2015–16 driven by cash surpluses and no annual appropriation acts being repealed during the period due to the Federal election.

Table 4.17.19: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	15 338.8	14 491.0
Total income	764.7	920.9
Deficit ^(a)	(32 509.2)	(21 116.0)
Total comprehensive loss	(32 509.2)	(21 116.0)
Total assets administered on behalf of Government	33 690.4	40 589.6
Total liabilities administered on behalf of Government	483 360.8	409 936.5
Net liabilities	(449 670.4)	(369 346.9)

Note a: This amount reflects estimated net re-measurements and gains/losses.

Source: AOFM's financial statements for the year ended 30 June 2016.

4.17.27 Total expenses increased due to the financing costs associated with increased Treasury Bonds on issue in 2015–16. This increase was partially offset by lower interest expenses for Treasury Indexed Bonds due to a reduction in the inflation factor and lower interest expenses for Treasury Notes due to lower balances in 2015–16.

4.17.28 The movement in total income is mainly due to a decrease in interest revenue as a result of lower levels of Residential Mortgage-Backed securities (RMBS) held and lower interest rates for term deposits held when compared to 2014–15.

4.17.29 Other comprehensive losses are a result of the impact of lower interest rates on the fair value of Treasury Indexed Bonds and Treasury Bonds during 2015–16.

4.17.30 Total assets decreased primarily due to a reduction in term deposits held, as maturities and sales exceeded acquisitions in 2015–16. There was also a reduction in RMBS due to principal repayments as well as reductions resulting from sales of RMBS in 2015–16.

4.17.31 Liabilities increased due to the issuance of new Treasury Bonds and Treasury Indexed Bonds.

Key areas of financial statements risk

4.17.32 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.17.20.

Table 4.17.20: Key areas of financial statement risk and audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Australian Government securities \$483.4 billion	Valuation and disclosure of Australian Government Securities	Higher	<ul style="list-style-type: none"> significant liability class for AOFM and CFS; significant increases in volume in prior and current period; fair value movements have a material impact on the financial statements and are impacted by external factors; and significant financial statement disclosure requirements. 	No significant or moderate audit findings identified.
Administered Implementation of the upgrade to the administered FMIS All financial line items	Risk to completeness and accuracy of data from upgrade to the administered FMIS	Moderate	<ul style="list-style-type: none"> administered general ledger records financial information from many significant asset and liability balances. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Residential Mortgage-Backed Securities \$2.8 billion	Valuation and disclosure of RMBS	Moderate	<ul style="list-style-type: none"> significant asset class; subjectivity and complexity involved in applying valuation methods, using external inputs that are subject to variation; potential large fair value impact on financial statements; and significant financial statement disclosure requirements. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and AOFM’s financial statements for the year ended 30 June 2016.

4.17.33 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of AOFM’s 2015–16 financial statements.

4.17.34 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.17.35 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Australian Prudential Regulation Authority

4.17.36 The Australian Prudential Regulation Authority (APRA) is the prudential regulator of the Australian financial services industry. APRA oversees banks, credit unions, building societies, general insurance and reinsurance companies, life insurance, private health insurance, friendly societies, and most of the superannuation industry. APRA is funded largely by the industries that it supervises.

Summary of financial performance

4.17.37 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by APRA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.21: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(130.7)	(112.5)
Revenue from government	126.5	120.5
Surplus/(deficit) attributable to the Australian Government	(4.3)	8.1
Total other comprehensive income	0.0	0.4
Total comprehensive income/(loss) attributable to the Australian Government	(4.3)	8.5
Total assets	117.4	92.4
Total liabilities	68.4	41.9
Total equity	49.0	50.5

Source: APRA's financial statements for the year ended 30 June 2016.

4.17.38 From 1 July 2015, the Private Health Insurance Administration Council (PHIAC) was fully absorbed by APRA resulting in additional supervisory responsibilities. In 2014–15, in preparation for the transfer, APRA developed its plan to integrate the prudential regulation of the health insurance industry within its operations. This resulted in an increase in employee expenses associated with staff redundancies in 2015–16.

4.17.39 In addition, APRA incurred additional costs associated with the relocation of APRA's main office to new premises in June 2016, including the replacement of expired leasehold assets.

Table 4.17.22: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	440.9	0.0
Total income	678.6	231.5
Surplus	237.7	231.5
Total other comprehensive income	–	–
Total comprehensive income	237.7	231.5
Total assets administered on behalf of Government	0.3	0.4
Total liabilities administered on behalf of Government	–	–
Net assets	0.3	0.4

Source: APRA's financial statements for the year ended 30 June 2016.

4.17.40 As referred to above, the increase in total expenses and income during 2015–16 are reflective of the merger of PHIAC operations with APRA from 1 July 2015.

Key areas of financial statements risk

4.17.41 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific

audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.17.23

Table 4.17.23: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
All financial statement lines	Transfer of prudential functions of the former PHIAC to APRA	Moderate	<ul style="list-style-type: none"> potential impact of inconsistent accounting policies between the two entities; and first year implementation of new functions by APRA increasing likelihood of errors. 	No significant or moderate audit findings identified.
Departmental Depreciation and amortisation \$6.8 million Property, plant and equipment \$22.0 million Provision for make good \$4.9 million	Accounting treatment of new and previous lease arrangements	Moderate	<ul style="list-style-type: none"> commencement and/or termination of a lease involves items subject to complex accounting and estimation, including the recognition criteria for assets and incentives received under the new lease, and liabilities or expenses associated with fulfilling or exiting the existing lease. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and APRA's financial statements for the year ended 30 June 2016.

4.17.42 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of APRA's 2015–16 financial statements.

4.17.43 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.17.44 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Australian Reinsurance Pool Corporation

4.17.45 The Australian Reinsurance Pool Corporation (ARPC) is a statutory authority, operating on a not-for-profit basis, established by the *Terrorism Insurance Act 2003*. The ARPC is responsible for administering the terrorism reinsurance scheme, providing primary insurers with reinsurance for commercial property and associated business interruption losses arising from a declared terrorist incident.

Summary of financial performance

4.17.46 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by the ARPC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.24: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(126.2)	(134.2)
Own-source income	149.7	156.4
Surplus attributable to the Australian Government	23.5	22.2
Total assets	604.6	634.8
Total liabilities	100.9	97.1
Total equity	503.7	537.7

Source: ARPC's financial statements for the year ended 30 June 2016.

4.17.47 Overall, ARPC's operations have remained stable between 2014–15 and 2015–16, which is reflected in the consistent surplus between years. The decrease in total equity compared to 2014–15 is the result of a \$57.5 million dividend made to the Commonwealth during 2015–16. This decrease was partially offset off by the current year surplus of \$23.5 million.

Key areas of financial statements risk

4.17.48 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.17.25.

Table 4.17.25: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Premium revenue \$126.1 million Unearned premium \$67.6 million	Insurance premium	Moderate	<ul style="list-style-type: none"> • inaccurate recognition of premium; • insurers may calculate and remit incorrect premium review; and • incorrect calculation of unearned premium. 	No significant or moderate audit findings identified.
Outward retrocession premium \$63.0 million	Retrocession Cost and Deferral	Moderate	<ul style="list-style-type: none"> • inaccurate calculations and payments of retrocession premium; and • deterioration in credit worthiness of reinsurance counterparties may affect the recoverability of reinsurance receivables. 	No significant or moderate audit findings identified.
Fees \$55.0 million Dividend \$57.5 million	Fees and Dividends	Moderate	<ul style="list-style-type: none"> • dividend focus by Federal government as part of budget setting; and • recognition, measurement and disclosure of dividends declared in previous years and for the current year. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Claims expense and liability	Occurrence of Detailed Terrorism Incident	Moderate	<ul style="list-style-type: none"> recognition of claims expense, claims payable and outstanding claims liability (including consideration of the liability adequacy test); and inappropriate approval of claim payment. 	No significant or moderate audit findings identified.
All financial statement items	Relocation of operations to Sydney	Moderate	<ul style="list-style-type: none"> ineffective operation of controls in the transition period to new staff, with a potential to impact the financial reporting process. 	Two moderate audit findings identified—refer to paragraphs 4.17.52 to 4.17.53 and 4.17.54 to 4.17.56 respectively.

Source: ANAO 2015–16 audit results, and ARPC's financial statements for the year ended 30 June 2016.

4.17.49 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the ARPC's 2015–16 financial statements.

4.17.50 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.17.51 No significant or moderate audit findings were identified during the 2014–15 audit. During the 2015–16 audit, the ANAO identified two moderate audit findings which were subsequently resolved by ARPC.

Resolved moderate audit findings

Monthly balance sheet reconciliations - preparation and review

4.17.52 During the interim audit, the ANAO noted that ARPC's monthly balance sheet reconciliation processes had not been finalised for the first six months of the financial year. This delay was due to resource availability with the transfer of their corporate functions from Canberra to Sydney.

4.17.53 In response, ARPC re-established effective preparation and review process across all monthly balance sheet reconciliations, for the final quarter of 2015–16. The ANAO verified the implementation of these processes and as a result this issue was resolved.

Weekly SAP to RISE reconciliations - preparation and review

4.17.54 RISE is ARPC's underwriting system used to collect insurance premium receipts. The financial data within RISE is then configured to feed directly into ARPC's financial management information system—SAP.

4.17.55 During the interim audit, the ANAO noted that ARPC's weekly RISE to SAP reconciliation processes had not been finalised for the first six months of the financial year. This delay was due to resource availability with the transfer of their corporate functions from Canberra to Sydney.

4.17.56 In response, ARPC re-established effective preparation and review process across their RISE to SAP reconciliations, for the final quarter of 2015–16. The ANAO verified the implementation of these processes and as a result this issue was resolved.

Australian Securities and Investments Commission

4.17.57 The Australian Securities and Investments Commission (ASIC) is a financial services and market regulator responsible for consumer protection and market integrity in areas such as: investment management (including superannuation); capital markets (including primary and secondary capital markets); corporations and their auditors and liquidators; and market operators (for example, the Australian Securities Exchange). Its outcome is to allow markets to allocate capital efficiently to fund the real economy by promoting investor and financial consumer trust and confidence, with the objective of facilitating fair, orderly and transparent markets and delivering efficient and accessible registration.

Summary of financial performance

4.17.58 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by ASIC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.26: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(366.0)	(349.4)
Revenue from government	311.4	322.5
Deficit attributable to the Australian Government	(54.6)	(27.0)
Total other comprehensive income	10.8	–
Total comprehensive loss attributable to the Australian Government	(43.8)	(27.0)
Total assets	282.7	320.9
Total liabilities	143.0	161.8
Total equity	139.7	159.1

Source: ASIC's financial statements for the year ended 30 June 2016.

4.17.59 The nature of ASIC's enforcement activities fluctuates year on year and in 2015–16 ASIC incurred significant expenditure related to investigations into the independence of the Australian

Bank Bill Swap Rate and Foreign Exchange benchmark and the Wealth Management Project—an investigation into charging of advice fees without providing advice.

4.17.60 Government funding for ASIC's enforcement activities is established on a multiyear basis and appropriated annually during those years. The difference in timing of when funding is provided to ASIC and when the associated activities are carried out is reflected in the movements of balances between years.

Table 4.17.27: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	153.5	190.9
Total income	922.2	1 033.0
Surplus	769.0	842.0
Total other comprehensive income after income tax	–	–
Total comprehensive income	769.0	842.0
Total assets administered on behalf of Government	132.9	126.1
Total liabilities administered on behalf of Government	417.0	437.6
Net liabilities	(284.1)	(311.5)

Source: ASIC's financial statements for the year ended 30 June 2016.

4.17.61 ASIC has responsibility for the administration of unclaimed monies received by banking, deposit taking institutions, life insurance and friendly societies and those monies collected under the *Corporations Act 2001*.

4.17.62 From December 2015, the relevant legislation setting out the time periods that monies are deemed as unclaimed reverted from three years to seven years. This has contributed to the reduction in monies that were decreed as unclaimed and claimed in 2015–16. This reduction has likely been contributed to by other factors including the reduced media coverage to that previously undertaken and restrictions placed on third parties to access ASIC's listings of unclaimed monies to address privacy concerns.

Key areas of financial statements risk

4.17.63 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.17.28.

Table 4.17.28: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Other provisions \$391.7 million	Valuation of the provisions for future claims of unclaimed monies	Significant	<ul style="list-style-type: none"> the actuarial model used to calculate the provision relies on a legislative framework that can be subject to change; and the calculation is sensitive to movements in general market conditions such as the growth rate and discount rate which are subject to management judgement. 	No significant or moderate audit findings identified.
Administered Taxation revenue \$876.2 million Non-taxation revenue \$45.9 million	Completeness and accuracy of revenue	Moderate	<ul style="list-style-type: none"> corporate fees and fines revenue is reliant on the completeness of data in subsidiary IT systems which is transferred to the FMIS; and complexities in the point at which unclaimed monies revenue is recognised in accordance with AASB 118 <i>Revenue</i> and the Financial Reporting Rule. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and ASIC’s financial statements for the year ended 30 June 2016.

4.17.64 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of ASIC’s 2015–16 financial statements.

4.17.65 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.17.66 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Australian Taxation Office

4.17.67 The Australian Taxation Office (ATO) is the Australian Government's principal revenue collection entity. Its role is to manage and shape tax, excise and superannuation systems that fund services for Australians. The ATO has a single outcome delivered through: five departmental programs, including the Tax Practitioners Board, the Australian Business Register and the Australian Charities and Not-for-profits Commission; and 19 administered programs.

Summary of financial performance

4.17.68 The following section provides a comparison of the 2014–15 and 2015–16 key departmental and administered financial statements items reported by the ATO, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.29: Departmental key financial statements items

Departmental key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Net cost of services	(3 351.4)	(3 299.6)
Revenue from government	3 189.7	3 215.2
Deficit attributable to the Australian Government	(161.7)	(84.4)
Total other comprehensive income	6.4	7.6
Total comprehensive loss attributable to the Australian Government	(155.3)	(76.8)
Total assets	1 386.1	1 322.8
Total liabilities	1 104.2	1 102.9
Total equity	281.9	219.9

Source: ATO's financial statements for the year ended 30 June 2016.

4.17.69 The ATO commenced a workforce restructure program in 2014–15 resulting in a transfer of staff positions from higher to lower classification levels. A delay in the recruitment of staff resulted in an increased use of contractor and consultants to assist in the delivery of critical ATO information technology projects in 2015–16. This is the main factor contributing to the increase in the deficit and total comprehensive loss.

4.17.70 The overall increase to total equity is the result of investment by the ATO in a number of major business processing systems and software, and the fitout of ATO buildings. This was offset by a reduction in depreciation and amortisation in comparison to the previous financial year.

Table 4.17.30: Administered key financial statements items

Administered key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	15 550.0	16 128.0
Total income	350 269.0	340 716.0
Surplus	334 719.0	324 588.0
Total other comprehensive income	–	–
Total comprehensive income	334 719.0	324 588.0
Total assets administered on behalf of Government	32 222.0	30 108.0
Total liabilities administered on behalf of Government	9 784.0	9 782.0
Net assets	22 438.0	20 326.0

Source: ATO's financial statements for the year ended 30 June 2016.

4.17.71 The movement in administered income and the associated administered assets reflect the result of increased income taxation revenue from moderate growth in the Australian labour market and growth in goods and services taxation revenue. The growth in goods and services taxation revenue is attributable to higher household consumption in comparison to the prior year, consistent with a decline in household savings and the strength in dwelling investment.

4.17.72 These movements were offset by a reduction in company taxation revenue from weaker profitability in non-finance industries and the impact of reduced excise duty collections reflecting the impact of continued offshoring of tobacco production.

Key areas of financial statements risk

4.17.73 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.17.31.

Table 4.17.31: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
All administered financial statement items	ATO compliance risk management	Higher	<ul style="list-style-type: none"> self-assessment and voluntary compliance regime; and the risk management approach to compliance activities. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Administered Revenue \$350.3 billion Impairment of taxation receivables \$3.4 billion Taxation receivables \$18.3 billion	Estimation and allocation processes associated with taxation revenue	Higher	<ul style="list-style-type: none"> • complex estimation processes, involving significant judgement and specialist knowledge; • completeness, relevance and accuracy of source data; and • volatility in economic conditions increases the uncertainty of factors underpinning the estimates. 	A moderate audit finding identified—refer to paragraphs 4.17.78 to 4.17.80 below.
Administered Taxation receivables \$18.3 billion Taxation refunds provided for \$2.3 billion	Estimation of allowance for credit amendments and impairment losses associated with taxation receivables	Higher	<ul style="list-style-type: none"> • complex estimation processes, involving significant judgement and specialist knowledge; • completeness, relevance and accuracy of source data; and • changes to the ATO's impairment estimate methodology in 2015–16. 	A moderate audit finding identified—refer to paragraphs 4.17.81 to 4.17.84 below.
All administered financial statement line items	Complex manual processes for financial data	Moderate	<ul style="list-style-type: none"> • manual calculation of complex information in spreadsheets increases the risk of miscalculation due to data linkages and human errors. 	A moderate audit finding identified—refer to paragraphs 4.17.85 to 4.17.87 below.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
All administered financial statement line items	IT business systems and associated processing of taxpayer returns and statements	Moderate	<ul style="list-style-type: none"> • large and complex IT environment with several hundred business applications processing a high volume of transactions; • many IT systems are bespoke or heavily customised to the ATO; and • reliance on specialised reports to prepare financial statements balances. 	A moderate audit finding identified—refer to paragraphs 4.17.85 to 4.17.87 below.

Source: ANAO 2015–16 audit results, and ATO's financial statements for the year ended 30 June 2016.

4.17.74 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the ATO's 2015–16 financial statements.

4.17.75 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. The following performance audit reports were tabled during 2015–16 relevant to the financial management or administration of the ATO:

- Audit Report No.27 2015–16 *Strategies and Activities to Address the Cash and Hidden Economy*;
- Audit Report No.31 2015–16 *Administration of Higher Education Loan Program Debt and Repayments* (cross-entity audit); and
- Audit Report No.34 2015–16 *Administration of Tobacco Excise Equivalent Goods* (a cross-entity audit).

4.17.76 These reports included observations supporting the ANAO's assessment of financial statements risk outlined in Table 4.17.31, in particular the ATO's compliance risk management, which is identified as a higher risk.

Audit results

4.17.77 The following table summarises the status of audit findings reported by the ANAO in 2014–15 and 2015–16.

Table 4.17.32: Status of audit findings

Category	Closing position (2014–15)	New findings (2015–16)	Findings resolved (2015–16)	Closing position (2015–16)
A	0	0	(0)	0
B	0	4 ^(a)	(0)	4
Total	0	4	(0)	4

Note a: A moderate audit finding was identified during the 2015–16 interim audit phase. Details regarding this finding were first reported to Parliament in ANAO Report No.7 2016–17 Interim Phase of the Audits of the Financial Statements of Major General Government Sector Entities for the year ending 30 June 2016.

New moderate audit findings

Estimation and allocation processes for revenue and expenses

4.17.78 The ATO's administered income and expense balances incorporate a number of significant estimates and allocation processes that involve high degrees of complexity and sensitivity. These estimates can also involve uncertainty as to future conditions and may have limited availability of information from which to base the estimate.

4.17.79 To manage this risk the ATO has instituted an estimation process. During the 2015–16 final audit the ANAO identified several weaknesses in the ATO's revenue and expenses estimation processes, including:

- the absence of testing of the validity of selected inputs, including externally provided information, and the reasonableness of methodologies and assumptions adopted over time;
- the need for greater consultation within the ATO of alternate assumptions, in particular to support the reasonableness of significant assumptions; and
- limited documentation to support consideration of the impact of changes to methodologies and data inputs on the ATO's financial statements.

4.17.80 These weaknesses increase the risk that taxation revenue and expense estimates may be unreliable or materially misstated in the ATO's financial statements. The ATO has advised it will review the methodologies and processes used in the calculation of revenue and expense estimates and the documentation of changes made to methodologies adopted. The ANAO will review the action taken by ATO during the 2016–17 interim audit.

Debt provision assessments

4.17.81 Taxpayers are entitled to dispute amounts assessed by the ATO. For financial reporting purposes, the ATO estimates the probable outcome from these disputes and this may result in a reduction in the amount of tax owed by a taxpayer. There are two mechanisms to recognise the reduction: an allowance for credit amendment if the disputed debt is unpaid; or a provision for refund if the disputed debt has been paid. In addition, the ATO makes an assessment of the collectability of administered receivables. These estimation processes are inherently complex and involve a significant degree of specialised knowledge and judgement.

4.17.82 During the 2015–16 final audit the ANAO examined the approach adopted by the ATO to determine the estimate and identified:

- instances of limited documentation to support key judgements made by ATO officers relating to large or complex cases, or revision made to assessments;
- the need for a more robust quality assurance process over the extraction of data used in the development of actuarial and other models; and
- an error in an estimate of interest charges applied.

4.17.83 These weaknesses increase the risk that key judgements may be inconsistently applied by ATO officers or not based on sufficient and appropriate evidence; data extracted from ATO's key business systems for the development of key estimates for financial reporting not complete or accurate; or reported balances may be misstated.

4.17.84 The ATO has agreed to undertake a review of its policies and procedures, training provided to staff and the documentation requirements supporting provision estimates. The ANAO will review the action taken by ATO during the 2016–17 financial statements audit.

Support and quality assurance over manual inputs to the financial statements

4.17.85 The ATO implemented a project plan in 2015–16 to assist in the timely preparation of its financial statements. While the financial statements were delivered on time, the ANAO identified a number of errors, including:

- a number of clerical and calculation errors in data used for financial reporting that resulted in adjustments that were material to the ATO's financial statements and a several errors in key financial statement disclosures;
- an inconsistency between estimated balances and underlying business system data; and
- an inconsistency between a documented procedure and established business practice.

4.17.86 These weaknesses highlighted the need for the ATO to develop more robust quality assurance and support processes to enhance the quality of its financial reporting. A lack of robust quality assurance and support processes increases the risk of error and the potential for material misstatement to the ATO's financial statements.

4.17.87 The ATO advised it will review its quality assurance practices and assurance processes of data used in the preparation of its financial statements. The ANAO will review the action taken by ATO during the 2016–17 financial statements audit.

Unresolved moderate audit finding

Administration of penalties and interest

4.17.88 The ATO applies interest to unpaid taxation liabilities and amended taxation liabilities where the amendment results in an additional amount of taxation payable to the ATO. Penalties may be imposed when a taxpayer has not taken reasonable care in meeting their tax obligations. In addition to the authority to impose interest and penalties, the ATO also has the authority to remit, partially or in full, any of these charges in certain circumstances.

4.17.89 During the 2015–16 interim audit phase, the ANAO reviewed the imposition and remission of interest and penalties and identified the following weaknesses:

- a number of instances where the officer approving the remission of a charge did not have the appropriate authority; and
- lack of documentation sufficiently detailing the decision process relating to the remission of charges.

4.17.90 These weaknesses increase the risk that the remission of taxation liability charges is incorrectly administered. Following the 2015–16 interim audit the ATO agreed to:

- review education, training and guidance to staff calculating and approving interest and penalty remissions;
- where necessary, make changes to improve staff awareness of relevant delegations and authorisations and documentation requirements; and
- review the quality control framework for the remission of penalties and interest.

4.17.91 During the 2015–16 final audit the ANAO continued to identify instances of a lack of documentation that sufficiently detailed the decision process relating to the remission of charges. The ANAO will review the ATO's progress in addressing this finding during the 2016–17 financial statements audit.

Reserve Bank of Australia

4.17.92 The objective of the Reserve Bank of Australia (RBA) is to conduct monetary policy, work to maintain a strong financial system and issue the nation's currency. As well as being a policy-making body, the RBA provides selected banking 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.

Summary of financial performance

4.17.93 The following section provides a comparison of the 2014–15 and 2015–16 key financial statements items reported by the RBA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.33: Key financial statements items

Key financial statements items	2015–16 (\$m)	2014–15 (\$m)
Total expenses	1 656.0	1 722.0
Total income	4 539.0	8 610.0
Net profit	2 883.0	6 888.0
Total other comprehensive income	382.0	555.0
Total comprehensive income	3 265.0	7 443.0
Total assets	167 489.0	156 913.0
Total liabilities	143 577.0	133 044.0
Net assets	23 912.0	23 869.0

Source: The RBA's financial statements for the year ended 30 June 2016.

4.17.94 The decline in net profit of the RBA between 2014–15 and 2015–16 is driven by reduced valuation gains on foreign exchange and securities. This decrease reflects a smaller depreciation of the Australian Dollar against major currencies than in the previous year.

4.17.95 The primary driver of the increase to total assets was an increase in banknotes on issue as at 30 June 2016 in comparison to the previous year, proceeds from which were invested in foreign assets.

Key areas of financial statements risk

4.17.96 The ANAO's 2015–16 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. Those areas highlighted for specific audit coverage, the financial statement items associated with those areas and the factors contributing to the risk assessment are provided in Table 4.17.34.

Table 4.17.34: Key areas of financial statements risk audit results

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Net gains on Foreign Exchange and Securities \$1.7 billion	Recognition of revenue and gains associated with foreign and domestic investments	Higher	<ul style="list-style-type: none"> complex portfolio across broad range of investments and currencies; and potential for significant impact by fluctuations in the value of the Australian dollar. 	No significant or moderate audit findings identified.

Relevant financial statement item & impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Investments \$161.4 billion	Valuation of foreign and domestic investments	Higher	<ul style="list-style-type: none"> • complex portfolio across broad range of investments and currencies; and • potential for significant impact by fluctuations in the value of the Australian dollar. 	No significant or moderate audit findings identified.
All financial statement line items	IT control environment	Higher	<ul style="list-style-type: none"> • reliant on multiple IT systems to support financial statements. 	No significant or moderate audit findings identified.

Source: ANAO 2015–16 audit results, and the RBA's financial statements for the year ended 30 June 2016.

4.17.97 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for key systems that supported the preparation of the RBA's 2015–16 financial statements.

4.17.98 As mentioned above, the ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits were tabled in 2015–16 which impacted the financial statements audit approach.

Audit results

4.17.99 There were no significant or moderate audit findings arising from the 2014–15 or 2015–16 financial statements audits.

Comments on non-material entities

Royal Australian Mint

4.17.100 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.

4.17.101 The Mint is primarily self-funded and in 2015–16 generated a surplus of \$2.9 million. The Mint paid \$83 million in seigniorage³⁸ to the Australian Government and sold 247.8 million coins with a face value of \$141 million to commercial banks in 2015–16.

38 Seigniorage represents the difference between the face value of coins sold to the Australian financial institutions and the cost of production to the Mint.

New moderate audit findings

Payment controls

4.17.102 In May 2016 four inappropriate payments totalling \$1.095 million were made from the Mint's bank account. These payments were identified through the Mint's internal processes and management commenced immediate recovery actions.

4.17.103 These payments were not initiated through the Mint's FMIS, rather they were made directly through the online banking portal. The online banking portal, although requiring two separate authorisations, was not configured with dollar limits on transactions or protocols for who is an appropriate independent second authoriser.

4.17.104 The Mint have advised that authorisation controls for all payments greater than \$10 000, made either directly through the online banking portal or through the Mint's FMIS, have been amended to ensure a senior officer external to the finance area must be the second authoriser. Recovery activities are ongoing and the Mint has advised that the total of unrecovered payments at the date of this report is \$915 000.

4.17.105 The ANAO will assess the effectiveness of the controls implemented by the Mint during the 2016–17 audit.

Access to payroll processing systems

4.17.106 During the 2015–16 audit, deficiencies were identified in the Mint's controls over access to data contained in the HRMIS. The activity of users with access to critical data in the HRMIS was not reviewed. In addition, ANAO observed the use of a generic account with access to critical data. Accounts should be uniquely owned, so that activities can be attributed to a specific person. Management has advised that access controls related to the HRMIS will be reviewed.

4.17.107 The ANAO will consider management's progress during the conduct of the 2016–17 audit.

Resolved moderate audit finding

Inventory costing model

4.17.108 During 2011–12, 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 continued to refine their process for allocating overhead costs, culminating in the implementation of a new costing model in December 2015. As a result of these changes, the audit finding has been reclassified to a minor audit finding.



Grant Hehir
Auditor-General

Canberra ACT
23 January 2017

Appendices

Appendix 1 Listing of entities by Portfolio

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Agriculture and Water Resources Portfolio					
Department of Agriculture and Water Resources ^(a)	Yes	✓	6 Sept 16	6 Sept 16	
Australian Fisheries Management Authority	No	✓	6 Sept 16	6 Sept 16	
Australian Grape and Wine Authority	No	✓	14 Sept 16	14 Sept 16	
Australian Pesticides and Veterinary Medicines Authority	No	✓	7 Sept 16	7 Sept 16	
Cotton Research and Development Corporation	No	✓	17 Aug 16	17 Aug 16	
Fisheries Research and Development Corporation	No	✓	25 Aug 16	25 Aug 16	
Grains Research and Development Corporation	Yes	✓	19 Aug 16	19 Aug 16	
- Grains and Cropping R&D Trust	No	✓	13 Oct 16	13 Oct 16	
Murray-Darling Basin Authority ^(b)	No	✓	27 Sept 16	27 Sept 16	
Rural Industries Research and Development Corporation	No	✓	14 Sept 16	14 Sept 16	
Attorney-General's Portfolio					
Attorney-General's Department	Yes	✓	12 Sept 16	12 Sept 16	▲□
Administrative Appeals Tribunal	No	✓	19 Sept 16	19 Sept 16	□
Australian Commission for Law Enforcement Integrity	No	✓	22 Sept 16	22 Sept 16	
Australian Crime Commission	No	✓	13 Sept 16	13 Sept 16	
Australian Federal Police	Yes	✓	8 Sept 16	8 Sept 16	
Australian Financial Security Authority	No	✓	22 Sept 16	22 Sept 16	
Australian Human Rights Commission	No	✓	9 Sept 16	9 Sept 16	
Australian Institute of Criminology	No	✓	13 Sept 16	14 Sept 16	
Australian Law Reform Commission	No	✓	16 Sept 16	16 Sept 16	
Australian Security Intelligence Organisation	Yes	✓	23 Aug 16	23 Aug 16	

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Australian Transaction Reports and Analysis Centre	No	✓	23 Sept 16	23 Sept 16	
CrimTrac Agency	No	✓	13 Sept 16	13 Sept 16	
Family Court and Federal Circuit Court	Yes	✓	2 Sept 16	2 Sept 16	
Federal Court of Australia	No	✓	1 Sept 16	1 Sept 16	
High Court of Australia	Yes	✓	16 Sept 16	16 Sept 16	
National Archives of Australia	Yes	✓	2 Sept 16	2 Sept 16	
Office of Parliamentary Counsel	No	✓	6 Oct 16	6 Oct 16	
Office of the Australian Information Commissioner	No	✓	9 Sept 16	9 Sept 16	
Office of the Commonwealth Director of Public Prosecutions	No	✓	23 Sept 16	23 Sept 16	
Communications and the Arts Portfolio					
Department of Communications and the Arts ^(c)	Yes	✓	19 Sept 16	20 Sept 16	
Australia Business Arts Foundation Limited ^(d)	No	✓	14 Sept 16	14 Sept 16	
Australian Broadcasting Corporation	Yes	✓	4 Aug 16	4 Aug 16	
Australia Council ^(d)	No	✓	29 Aug 16	29 Aug 16	
Australian Communications and Media Authority	Yes	✓	2 Sept 16	2 Sept 16	
Australian Film, Television and Radio School ^(d)	No	✓	2 Sept 16	2 Sept 16	◆
Australian National Maritime Museum ^(c)	No	✓	16 Sept 16	16 Sept 16	□
- Australian National Maritime Foundation ^(d)	No	✓	16 Sept 16	16 Sept 16	
Australian Postal Corporation	Yes	✓	25 Aug 16	25 Aug 16	
- DFE Pty Limited	No	✓	3 Oct 16	5 Oct 16	
- Australia Post Licensee Advisory Council Limited	No	✓	23 Aug 16	23 Aug 16	
- Australia Post Services Pty Ltd	No	✓	28 Sept 16	28 Sept 16	
- Australia Post Transaction Services Pty Ltd	No	✓	29 Sept 16	29 Sept 16	
- Our Neighbourhood Trust	No	✓	15 Aug 16	15 Aug 16	
Bundanon Trust ^(d)	No	✓	12 Sept 16	12 Sept 16	

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
NBN Co Limited	Yes	✓	10 Aug 16	10 Aug 16	
National Film and Sound Archive of Australia ^(d)	No	✓	22 Sept 16	22 Sept 16	
National Gallery of Australia ^(d)	Yes	✓	31 Aug 16	31 Aug 16	
- National Gallery of Australia Foundation ^(d)	No	✓	31 Aug 16	31 Aug 16	
National Library of Australia ^(d)	Yes	✓	5 Aug 16	5 Aug 16	
National Museum of Australia ^(d)	Yes	✓	9 Sept 16	9 Sept 16	
National Portrait Gallery of Australia ^(d)	No	✓	30 Sept 16	30 Sept 16	
Old Parliament House ^(d)	No	✓	30 Aug 16	30 Aug 16	
Screen Australia ^(d)	No	✓	5 Sept 16	5 Sept 16	
Special Broadcasting Service Corporation	Yes	✓	31 Aug 16	31 Aug 16	
- National DAB Licence Company Limited	No	✓	29 Aug 16	29 Aug 16	
Defence Portfolio					
Department of Defence	Yes	✓	19 Sept 16	19 Sept 16	□▲◆
AAF Company	No	✓	30 Sept 16	30 Sept 16	
Army and Air Force Canteen Service	No	✓	30 Aug 16	1 Sept 16	
Australian Military Forces Relief Trust Fund	No	✓	25 Aug 16	25 Aug 16	
Australian Strategic Policy Institute Ltd	No	✓	6 Oct 16	6 Oct 16	
Australian War Memorial	Yes	✓	1 Sept 16	1 Sept 16	
Defence Housing Australia	Yes	✓	17 Aug 16	17 Aug 16	◆
- Defence Housing Australia Investment Management Limited	No	✓	23 Sept 16	27 Sept 16	
Department of Veterans' Affairs	Yes	✓	15 Sept 16	15 Sept 16	
- Defence Service Homes Insurance Scheme	No	✓	15 Sept 16	15 Sept 16	
Military Superannuation and Benefits Scheme	No	✓	27 Sept 16	27 Sept 16	
RAAF Welfare Recreational Company	No	✓	29 Sept 16	29 Sept 16	
Royal Australian Air Force Veterans' Residences Trust Fund	No	✓	28 Sept 16	28 Sept 16	
Royal Australian Air Force Welfare Trust Fund	No	✓	29 Aug 16	29 Aug 16	

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Royal Australian Navy Central Canteens Board	No	✓	10 Oct 16	11 Oct 16	
Royal Australian Navy Relief Trust Fund	No	✓	24 Aug 16	25 Aug 16	
Education and Training Portfolio					
Department of Education and Training	Yes	✓	21 Sept 16	21 Sept 16	▲◆
Australian Curriculum, Assessment and Reporting Authority	No	✓	25 Aug 16	25 Aug 16	
Australian Institute for Teaching and School Leadership Limited	No	✓	2 Sept 16	2 Sept 16	
Australian Institute of Aboriginal and Torres Strait Islander Studies	No	✓	22 Sept 16	22 Sept 16	
- AIATSIS Foundation Incorporated	No	✓	22 Sept 16	22 Sept 16	
Australian National University	No	✓ [Ⓞ]	1 Apr 16	1 Apr 16	
- ANU Enterprise Pty Limited	No	✓ [Ⓞ]	21 Mar 16	21 Mar 16	
- Australian Scientific Instruments Pty Ltd	No	✓ [Ⓞ]	21 Mar 16	21 Mar 16	
- BRU Holdings Pty Limited	No	✓ [Ⓞ]	1 Apr 16	1 Apr 16	
- SA2 Holdings Pty Limited	No	✓ [Ⓞ]	1 Apr 16	1 Apr 16	
- Social Research Centre Pty Limited	No	✓ [Ⓞ]	21 Mar 16	21 Mar 16	
Australian Research Council	Yes	✓	7 Sept 16	7 Sept 16	
Australian Skills Quality Authority	No	✓	13 Sept 16	13 Sept 16	
Tertiary Education Quality and Standards Agency	No	✓	1 Sept 16	1 Sept 16	
Employment Portfolio					
Department of Employment	Yes	✓	9 Sept 16	9 Sept 16	◆
Asbestos Safety and Eradication Agency	No	✓	30 Sept 16	30 Sept 16	
Coal Mining Industry (Long Service Leave Funding) Corporation	Yes	✓	11 Oct 16	11 Oct 16	
Comcare	Yes	✓	22 Sept 16	22 Sept 16	□
Fair Work Commission	No	✓	7 Sept 16	7 Sept 16	◆
Office of the Fair Work Building Industry Inspectorate	No	✓	7 Sept 16	7 Sept 16	
Office of the Fair Work Ombudsman	No	✓	10 Oct 16	10 Oct 16	◆
Safe Work Australia	No	✓	23 Sept 16	23 Sept 16	

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Seacare Authority (Seafarers Safety, Rehabilitation and Compensation Authority)	No	✓	22 Sept 16	22 Sept 16	
Workplace Gender Equality Agency	No	✓	9 Sept 16	9 Sept 16	
Environment and Energy Portfolio					
Department of the Environment and Energy	Yes	✓	8 Sept 16	8 Sept 16	
- Natural Heritage Trust of Australia	No	✓	8 Sept 16	8 Sept 16	
Australian Renewable Energy Agency ^(e)	Yes	✓	5 Sept 16	5 Sept 16	
Bureau of Meteorology	Yes	✓	30 Aug 16	30 Aug 16	
Clean Energy Finance Corporation ^(e)	Yes	✓	23 Aug 16	23 Aug 16	
Clean Energy Regulator	Yes	✓	5 Sept 16	5 Sept 16	◆□
Climate Change Authority	No	✓	5 Aug 16	5 Aug 16	
Director of National Parks	No	✓	30 Sept 16	30 Sept 16	
Great Barrier Reef Marine Park Authority	No	✓	14 Sept 16	14 Sept 16	
Sydney Harbour Federation Trust	No	✓	15 Sept 16	16 Sept 16	
- Sydney Harbour Conservancy Limited	No	✓	16 Sept 16	19 Sept 16	
Finance Portfolio					
Department of Finance	Yes	✓	29 Aug 16	29 Aug 16	
ASC Pty Ltd	Yes	✓	8 Sept 16	8 Sept 16	
- ASC AWD Shipbuilder Pty Ltd	No	✓	8 Sept 16	8 Sept 16	
- ASC Engineering Pty Ltd	No	✓	8 Sept 16	8 Sept 16	
- ASC Ship Building Pty Ltd	No	✓	8 Sept 16	8 Sept 16	
Australian Electoral Commission	Yes	✓	15 Sept 16	15 Sept 16	□
Commonwealth Superannuation Corporation	No	✓	27 Sept 16	28 Sept 16	□
Commonwealth Superannuation Scheme	No	✓	27 Sept 16	27 Sept 16	
Future Fund Management Agency and the Board of Guardians	Yes	✓	27 Sept 16	27 Sept 16	
Public Sector Superannuation Accumulation Plan	No	✓	27 Sept 16	27 Sept 16	
Public Sector Superannuation Scheme	No	✓	27 Sept 16	27 Sept 16	

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Foreign Affairs and Trade Portfolio					
Department of Foreign Affairs and Trade	Yes	✓	14 Sept 16	14 Sept 16	
Australian Centre for International Agriculture Research	No	✓	12 Sept 16	12 Sept 16	
Australian Secret Intelligence Service	No	✓	17 Oct 16	17 Oct 16	
Australian Trade and Investment Commission	Yes	✓	1 Sept 16	1 Sept 16	
Export Finance and Insurance Corporation	Yes	✓	26 Aug 16	26 Aug 16	
Tourism Australia	No	✓	2 Sept 16	2 Sept 16	
Health Portfolio					
Department of Health	Yes	✓	31 Aug 16	31 Aug 16	◆
Australian Aged Care Quality Agency ^(f)	No	✓	21 Nov 16	21 Nov 16	
Australian Commission on Safety and Quality in Health Care	No	✓	14 Sept 16	14 Sept 16	
Australian Digital Health Agency	No	✓	13 Sept 16	13 Sept 16	
Australian Institute of Health and Welfare	No	✓	6 Oct 16	7 Oct 16	
Australian National Preventive Health Agency	No	✓	31 Aug 16	31 Aug 16	
Australian Organ and Tissue Donation and Transplantation Authority	No	✓	15 Sept 16	16 Sept 16	
Australian Radiation Protection and Nuclear Safety Agency	No	✓	16 Sept 16	16 Sept 16	
Australian Sports Anti-Doping Authority	No	✓	2 Sept 16	2 Sept 16	
Australian Sports Commission	Yes	✓	30 Aug 16	30 Aug 16	
Australian Sports Foundation Limited	No	✓	24 Aug 16	24 Aug 16	
Cancer Australia	No	✓	13 Sept 16	13 Sept 16	
Food Standards Australia New Zealand	No	✓	14 Sept 16	14 Sept 16	
Independent Hospital Pricing Authority	No	✓	14 Sept 16	14 Sept 16	
National Blood Authority	Yes	✓	16 Aug 16	16 Aug 16	
National Health and Medical Research Council	Yes	✓	12 Sept 16	13 Sept 16	
National Health Funding Body	No	✓	30 Sept 16	30 Sept 16	
National Health Performance Authority	No	⊖			

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
National Mental Health Commission	No	✓	22 Sept 16	22 Sept 16	
Professional Services Review Scheme	No	✓	30 Sept 16	30 Sept 16	
Immigration and Border Protection Portfolio					
Department of Immigration and Border Protection	Yes	✓	9 Sept 16	12 Sept 16	▲◆□
Industry, Innovation and Science Portfolio					
Department of Industry, Innovation and Science ⁽⁹⁾	Yes	✓	6 Sept 16	7 Sept 16	◆
Australian Institute of Marine Science	No	✓	12 Sept 16	12 Sept 16	
Australian Nuclear Science and Technology Organisation	Yes	✓	11 Aug 16	11 Aug 16	
- ANSTO Nuclear Medicine Pty Ltd	No	✓	11 Aug 16	11 Aug 16	
- Synchrotron Light Source Australia Pty Ltd	No	✓	11 Aug 16	11 Aug 16	
- PETNET Australia Pty Ltd	No	✓	11 Aug 16	11 Aug 16	
Commonwealth Scientific and Industrial Research Organisation	Yes	✓	8 Sept 16	8 Sept 16	
- National ICT Australia Limited (mid-year)	No	✓ [Ⓞ]	19 Apr 16	19 Apr 16	
- National ICT Australia Limited	No	✓	2 Dec 16	2 Dec 16	
- NICTA IPR Pty Limited (mid-year)	No	✓ [Ⓞ]	22 Apr 16	22 Apr 16	
- NICTA IPR Pty Limited	No	✓	2 Dec 16	2 Dec 16	
- Science and Industry Endowment Fund	No	✓	9 Aug 16	9 Aug 16	
- WLAN Services Pty Ltd	No	✓	8 Aug 16	8 Aug 16	
Geoscience Australia	No	✓	14 Sept 16	14 Sept 16	
IP Australia	No	✓	28 Sept 16	29 Sept 16	
National Offshore Petroleum Safety and Environmental Management Authority	No	✓	22 Sept 16	22 Sept 16	
Infrastructure and Regional Development Portfolio					
Department of Infrastructure and Regional Development	Yes	✓	29 Aug 16	30 Aug 16	
Airservices Australia	Yes	✓	7 Sept 16	7 Sept 16	◆□

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Australian Maritime Safety Authority	No	✓	20 Sept 16	20 Sept 16	
Australian Rail Track Corporation	Yes	✓	25 Aug 16	25 Aug 16	
Australian Transport Safety Bureau	No	✓	4 Oct 16	4 Oct 16	
Civil Aviation Safety Authority	No	✓	25 Aug 16	26 Aug 16	
Infrastructure Australia	No	✓	30 Sept 16	30 Sept 16	
Moorebank Intermodal Company Limited	Yes	✓	20 Sept 16	20 Sept 16	
- Moorebank Intermodal Development Investment Trust	No	✓	20 Sept 16	20 Sept 16	
- Moorebank Intermodal Development Rail Trust	No	✓	20 Sept 16	20 Sept 16	
National Capital Authority	Yes	✓	30 Aug 16	30 Aug 16	
National Transport Commission	No	✓	26 Aug 16	26 Aug 16	
Administration of Norfolk Island	No	⇒			▲◆□
- Norfolk Island Hospital Enterprise	No	⇒			▲
Parliamentary Departments					
Department of Parliamentary Services	Yes	✓	5 Sept 16	6 Sept 16	□
Department of the House of Representatives	No	✓	9 Sept 16	9 Sept 16	
Department of the Senate	No	✓	9 Sept 16	9 Sept 16	
Parliamentary Budget Office	No	✓	22 July 16	22 July 16	
Prime Minister and Cabinet Portfolio					
Department of the Prime Minister and Cabinet	Yes	✓	1 Sept 16	6 Sept 16	□
- Aboriginals Benefit Account	No	✓	1 Sept 16	2 Sept 16	
Aboriginal Hostels Limited	No	✓	23 Sept 16	23 Sept 16	
Anindilyakwa Land Council	No	✓	23 Sept 16	23 Sept 16	
Australian Public Service Commission	No	✓	21 Sept 16	21 Sept 16	
Central Land Council	No	✓	22 Aug 16	22 Aug 16	
Digital Transformation Office	No	✓	15 Sept 16	16 Sept 16	
Indigenous Business Australia	Yes	✓	9 Sept 16	12 Sept 16	
- Consolidated Manufacturing Enterprise Pty Ltd	No	✓	6 Oct 16	7 Oct 16	

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
- Gagudju Crocodile Hotel Trust	No	✓	24 Oct 16	24 Oct 16	
- Gagudju Lodge Cooinda Trust	No	✓	27 Oct 16	27 Oct 16	
- Hotel Enterprises Pty Ltd	No	✓	11 Nov 16	11 Nov 16	
- Hotel Holdings Trust	No	✓	20 Oct 16	24 Oct 16	
- IBA Retail Asset Management Pty Ltd	No	✓	21 Oct 16	21 Oct 16	
- IBA Retail Property Trust	No	✓	18 Aug 16	19 Aug 16	
- IBA Tourism Asset Management Pty Ltd	No	✓	31 Oct 16	31 Oct 16	
- Ikara Wilpena Enterprises Pty Ltd	No	✓	28 Oct 16	28 Oct 16	
- Ikara Wilpena Holdings Trust	No	✓	26 Oct 16	26 Oct 16	
- Indigenous Economic Development Trust	No	✓	20 Oct 16	24 Oct 16	
- Indigenous Prosperity Fund – Cash Fund	No	✓	13 Oct 16	13 Oct 16	
- Indigenous Prosperity Fund – Growth Fund	No	✓	13 Oct 16	13 Oct 16	
- Indigenous Prosperity Fund – Income Fund	No	✓	13 Oct 16	13 Oct 16	
- Indigenous Real Estate Investment Trust	No	✓	15 Sept 16	15 Sept 16	
- Kakadu Tourism (GCH) Pty Ltd	No	✓	18 Oct 16	18 Oct 16	
- Kakadu Tourism (GLC) Pty Ltd	No	✓	18 Oct 16	18 Oct 16	
- Larrakia Darwin Hotel Partnership	No	✓	24 Oct 16	25 Oct 16	
- Li Ar Yalug Land Holding Trust	No	✓	27 Oct 16	27 Oct 16	
- Minjerribah Camping Pty Limited	No	✓	21 Nov 16	25 Nov 16	
- South Hedland Indigenous Property Trust	No	✓	26 Oct 16	26 Oct 16	
- Swanbrook Road Holding Trust	No	✓	18 Aug 16	19 Aug 16	
- Tennant Creek Foodbarn Partnership	No	✓	4 Nov 16	8 Nov 16	
- Tennant Creek Land Holding Trust	No	✓	26 Oct 16	26 Oct 16	
- Tjapukai Aboriginal Cultural Park Partnership	No	✓	28 Oct 16	28 Oct 16	
- Wilpena Pound Aerodrome Services Pty Ltd	No	✓	28 Oct 16	28 Oct 16	
Indigenous Land Corporation	No	✓	15 Sept 16	15 Sept 16	
- National Centre of Indigenous Excellence Limited	No	✓	25 Aug 16	25 Aug 16	

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
- National Indigenous Pastoral Enterprises Pty Ltd	No	✓	6 Sept 16	6 Sept 16	
- The Owners - Strata Plan No. 86156	No	✓	5 Sept 16	5 Sept 16	
- Voyages Indigenous Tourism Australia Pty Ltd ^(h)	Yes	✓	29 Aug 16	29 Aug 16	
National Australia Day Council Limited	No	✓	18 Aug 16	18 Aug 16	
Northern Land Council	No	✓	30 Sept 16	30 Sept 16	□◆▲
Office of National Assessments	No	✓	31 Oct 16	31 Oct 16	
Office of the Commonwealth Ombudsman	No	✓	15 Sept 16	15 Sept 16	
Office of the Inspector-General of Intelligence and Security	No	✓	22 Sept 16	22 Sept 16	
Office of the Official Secretary to the Governor-General	No	✓	7 Oct 16	7 Oct 16	
Outback Stores Pty Ltd	No	✓	24 Aug 16	24 Aug 16	
Tiwi Land Council	No	✓	7 Sept 16	7 Sept 16	
Torres Strait Regional Authority	No	✓	2 Sept 16	2 Sept 16	
Wreck Bay Aboriginal Community Council	No	✓	21 Sept 16	21 Sept 16	
Social Services Portfolio					
Department of Social Services	Yes	✓	29 Aug 16	29 Aug 16	□
Australian Hearing	Yes	✓	1 Sept 16	1 Sept 16	
Australian Institute of Family Studies	No	✓	9 Sept 16	9 Sept 16	
Department of Human Services	Yes	✓	31 Aug 16	31 Aug 16	□
National Disability Insurance Agency	Yes	✓	21 Sept 16	21 Sept 16	◆▲
Treasury Portfolio					
Department of the Treasury	Yes	✓	27 Sept 16	27 Sept 16	
Australian Bureau of Statistics	Yes	✓	18 Aug 16	18 Aug 16	
Australian Competition and Consumer Commission	No	✓	25 Aug 16	25 Aug 16	
Australian Office of Financial Management	Yes	✓	23 Aug 16	23 Aug 16	
Australian Prudential Regulation Authority	Yes	✓	30 Aug 16	31 Aug 16	
Australian Reinsurance Pool Corporation	Yes	✓	21 Sept 16	21 Sept 16	

Reporting entity	Material entity	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Australian Securities and Investments Commission	Yes	✓	2 Sept 16	2 Sept 16	
Australian Taxation Office	Yes	✓	19 Sept 16	19 Sept 16	◆
Commonwealth Grants Commission	No	✓	28 Sept 16	28 Sept 16	
Corporations and Markets Advisory Committee	No	⇒			
Inspector-General of Taxation	No	✓	20 Sept 16	20 Sept 16	
National Competition Council	No	✓	25 Aug 16	25 Aug 16	
Office of the Auditing and Assurance Standards Board	No	✓	7 Oct 16	10 Oct 16	
Office of the Australian Accounting Standards Board	No	✓	7 Oct 16	10 Oct 16	
Productivity Commission	No	✓	25 Aug 16	25 Aug 16	
Reserve Bank of Australia	Yes	✓	18 Aug 16	18 Aug 16	
- Note Printing Australia Ltd	No	✓	20 July 16	20 July 16	
Royal Australian Mint	No	✓	23 Sept 16	23 Sept 16	◆□

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

▲: 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 2015–16 interim audit phase, now reclassified or resolved

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

☞: financial year end date other than 30 June 2016

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: 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 c: 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 d: 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 e: This entity was transferred to the Environment and Energy portfolio as a result of the Administrative Arrangements Order made on 30 September 2015.

Note f: The entity was transferred to the Health portfolio as a result of the Administrative Arrangements Order made on 30 September 2015.

Note g: 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 h: Voyages Indigenous Tourism Australia Pty Ltd (Voyages) is a subsidiary of the 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.

Appendix 2 Changes in audit responsibilities in 2015–16

The following is a listing of new entities in 2015–16 and entities that ceased to be audited by the Auditor-General in 2014–15.

New entities audited in 2015–16

Australian Digital Health Agency
DFE Pty Limited
Digital Transformation Office
Grains and Cropping R&D Trust
Indigenous Prosperity Fund – Cash Fund
Indigenous Prosperity Fund – Growth Fund
Indigenous Prosperity Fund – Income Fund
Moorebank Intermodal Development Investment Trust
Moorebank Intermodal Development Rail Trust
National ICT Australia Limited
NICTA IPR Pty Limited

Entities that ceased to be audited by the Auditor-General

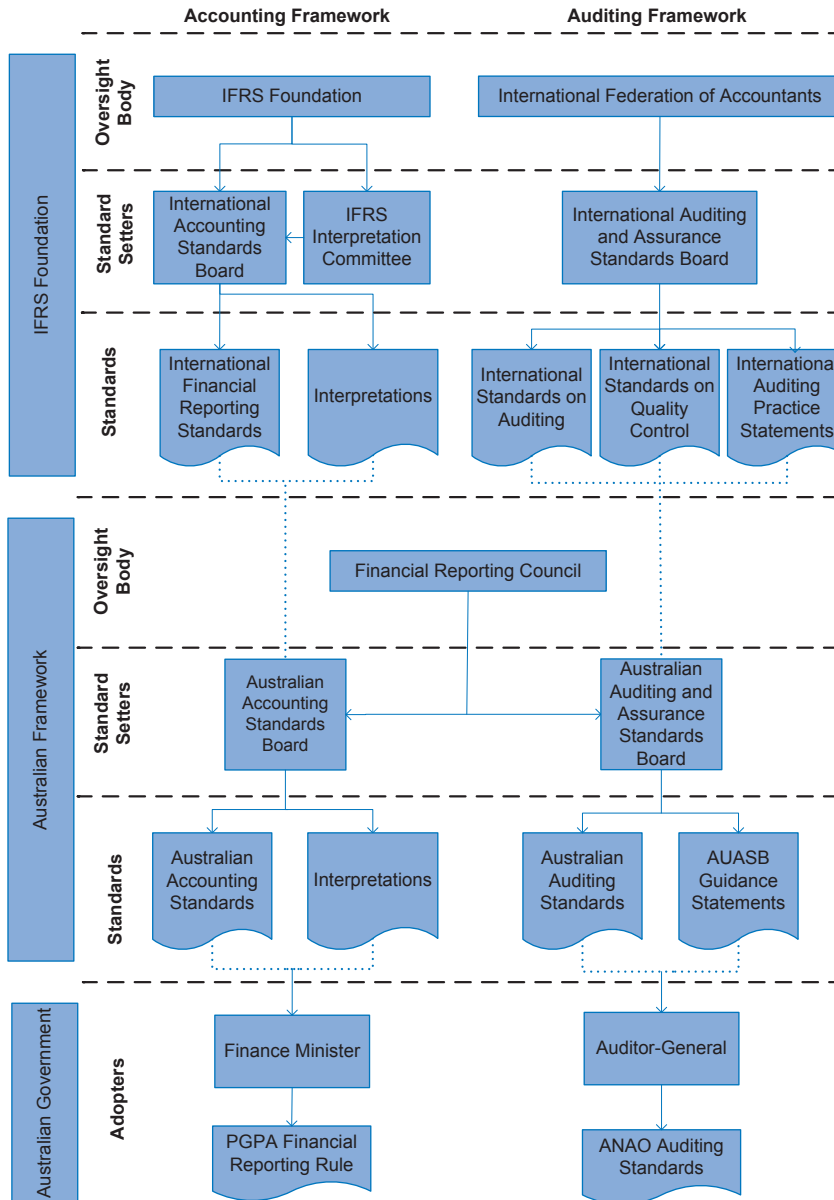
Albury-Wodonga Development Corporation
Asset Leasing Trust
Australian Customs and Border Protection Service
Australian Government Solicitor
Australian River Co Limited
Comsuper
Darwin Hotel Holdings Trust
Defence Materiel Organisation
General Practice Education and Training Limited
Health Workforce Australia
IIF Investments Pty Ltd
Leonora Investment Trust
Migration Review Tribunal and Refugee Review Tribunal
National Water Commission
Norfolk Island Government Tourist Bureau
North Stradbroke Enterprises Trust

Private Health Insurance Administration Council
Private Health Insurance Ombudsman
Telecommunications Universal Service Management Agency
Therapeutic Goods Administration

Appendix 3 The financial reporting and auditing standards frameworks for 2015–16

1. The figure below depicts the standard setting framework, for financial reporting and auditing, in the Australian Government context.

Figure A.1: Australian Government standard setting framework

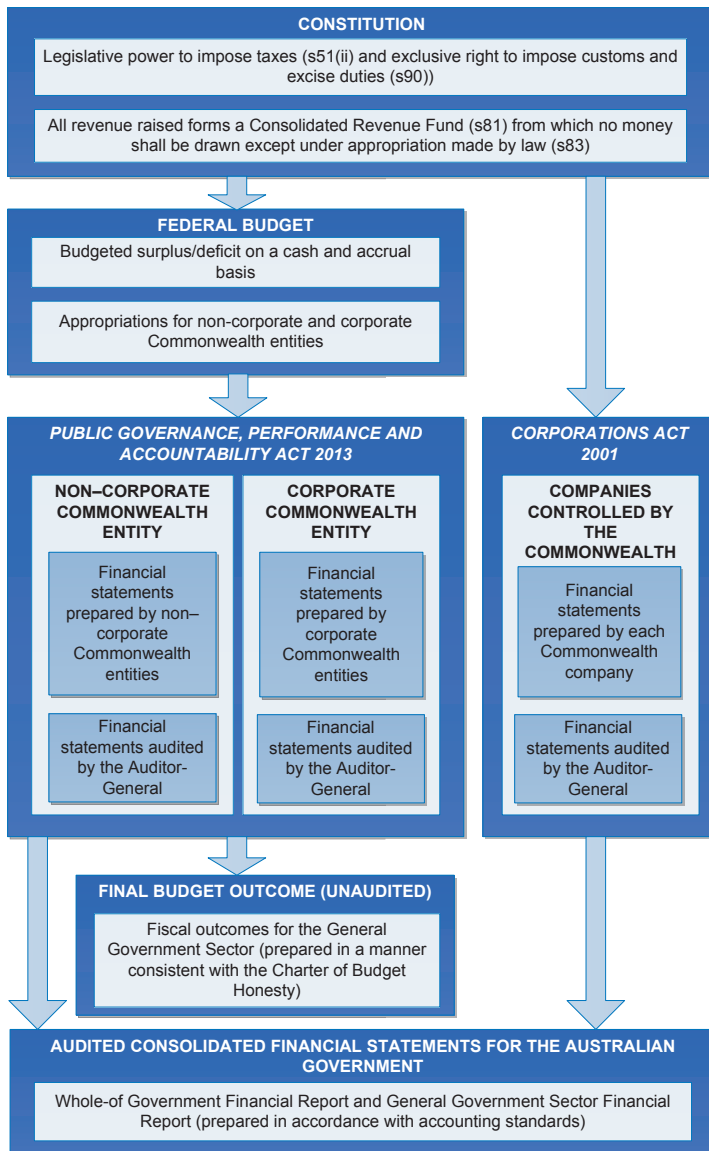


Source: ANAO compilation.

Appendix 4 The financial reporting and auditing framework for 2015–16 financial statements

1. Key elements of the Australian Government’s financial reporting framework are outlined in the diagram below. An overview of the financial reporting requirements for the various types of Australian Government entities covered by the framework and the audit approach for the financial statements of these entities is also described below.

Figure A.2: Australian Government financial reporting framework



Source: ANAO compilation.

ANAO Report No.33 2016–17
Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2016

Australian Government reporting entities

Commonwealth Government of Australia

2. 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 general purpose financial statements consolidating the financial activities and financial position of Commonwealth entities and other entities controlled by the Commonwealth Government.

3. The PGPA Act prescribes the Australian Accounting Standards, and any other requirements prescribed by the rules, as the applicable financial reporting framework for the consolidated financial statements.

Commonwealth entities

4. 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 corporate³⁹; and a corporate Commonwealth entity, which is a Commonwealth entity that is a body corporate and legally separate from the Commonwealth.

5. 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

6. Non-corporate Commonwealth entities, comprising departments of state, Parliamentary departments and listed entities, are subject to the provisions of the PGPA Act.

7. The PGPA Act prescribes the AASs and FRR as the applicable financial reporting framework for non-corporate Commonwealth entities.

Corporate Commonwealth entities and subsidiaries

8. Corporate Commonwealth entities are bodies corporate that hold money on their own account and have been created 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.

9. 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.

39 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.

Commonwealth companies and subsidiaries

10. 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.

11. The applicable financial reporting framework for Commonwealth companies is the Corporations Act, including the AASs and the Corporations Regulations.

12. The financial reporting framework applicable to subsidiaries of Commonwealth companies depends on the nature of the subsidiary.

Other bodies

13. 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

14. The Accountable Authority of a Commonwealth entity is responsible for the preparation and fair presentation of the financial statements and for maintaining records, internal controls, procedures and processes that support the preparation of those statements.

15. The Directors of a Commonwealth company, or a company that is a subsidiary of either a Commonwealth entity or a Commonwealth company, are responsible for the preparation of financial statements that give a true and fair view and for maintaining records, internal controls, procedures and processes that support the preparation of that report.

16. The ANAO's independent audits of financial statements are undertaken to form an opinion whether they are free from material misstatement and present fairly in accordance with applicable accounting standards and legislation. These audits are conducted in accordance with the ANAO Auditing Standards, which incorporate the Australian Auditing Standards and provide reasonable assurance.

17. Audit procedures include an 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.

18. The entity's internal control relevant to the entity's preparation and fair presentation of the financial statements or reports 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.

19. 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. The auditor is not responsible for the prevention of fraud and error.

The auditor's report on financial statements

20. 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.

21. If the auditor is not of that opinion, the auditor's opinion is modified, with the reasons being indicated.

22. The auditor's report on the financial statements may also include an 'emphasis of matter' or 'other matter' paragraph. A report on other legal and regulatory requirements may accompany the auditor's report on the financial statements.

Form of auditor's opinion

23. 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.

24. An auditor's opinion may be 'modified' in one of three ways.

- A 'qualified 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 'qualified 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

25. An 'emphasis of matter' paragraph is included in the auditor's report when the auditor considers it necessary to draw to users' attention a matter presented in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to the users' understanding of the financial statements. The auditor's opinion is not modified in respect of the matter emphasised. The circumstances in which an emphasis of matter is used include:

- when material uncertainty exists relating to an event or condition that may cast significant doubt on an entity's ability to continue as a going concern;
- when financial statements and the auditor's report have been issued and a fact is discovered that leads to revised financial statements and a new auditor's report being prepared; and

- when financial statements have been prepared in accordance with a special purpose framework, and as a result the financial statements may not be suitable for another purpose.

Other matter

26. The auditor's report on the financial statements may also include a reference to an 'other matter'. 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

27. 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.

28. 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.