

The Auditor-General
ANAO Report No.24 2017–18
Financial Statements Audit

**Audits of the Financial Statements of
Australian Government Entities for the
Period Ended 30 June 2017**

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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
20 December 2017

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken the audits of the 2016–17 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 2017*.

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

Yours sincerely

A handwritten signature in black ink, which appears to read 'Grant Hehir', is positioned below the text '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 statements 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

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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, the Parliament and the community. 'The objectives of a financial statements audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework. The audit mandate, or obligations for public sector entities, arising from legislation, regulation, ministerial directives, or government policy requirements may result in additional objectives'.¹
2. The ANAO applies these objectives in undertaking financial statements audits and considers areas that may give rise to risks of non-compliance with authorities or risks relating to effectiveness of internal control when planning and performing the audit.
3. 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.
4. This report provides a summary of the results of the final audits of the financial statements of Australian Government entities and the Consolidated Financial Statements as at 30 November 2017. These audit results have been reported to the responsible Minister(s) and those charged with governance of each entity.

Consolidated Financial Statements

5. The Consolidated Financial Statements present the consolidated whole of government financial results inclusive of all Australian Government controlled entities, as well as the General Government Sector financial report. The 2016–17 Consolidated Financial Statements were signed by the Minister for Finance on 27 November 2017 and an unmodified auditor's report was issued on the same day.

Financial audit results and other matters

Timeliness of Financial Reporting

6. The Auditor-General and senior staff under delegation also issued auditor's reports on 233 entities' 2016–17 financial statements up until 30 November 2017. All auditors' reports were unmodified. Ninety-one per cent of entities required to table an annual report in Parliament were provided with the auditor's report within three months of the financial year end. The average time taken for entities to table annual reports from the date the auditor's report was issued was 47 days.

1 ISSAI 1315 Practice Note 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*: P4.

Key Audit Matter Reporting

7. The ANAO Report No 60. *Interim Report on Key Financial Controls of Major Entities* noted that there would be a number of changes to the auditor's reports for 2016–17, including the application of a new auditing standard ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* (ASA 701). In 2016–17, the Auditor-General adopted Key Audit Matter (KAM) reporting for the 25 entities included in ANAO Report No. 60 and reported a total of 57 KAM across the 25 entities.

Financial sustainability

8. 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.² This would enable entities to assess their own financial sustainability against agreed parameters over time, and against like entities.

Summary of audit findings

9. A total of 222 findings were reported to entities as a result of the 2016–17 financial statements audits. These comprised two significant, 20 moderate and 200 minor findings. Six legislative breaches were also reported to entities during 2016–17.

10. Seventy-eight per cent of significant and moderate findings were in the areas of: management of IT controls, particularly the management of privileged users; compliance and quality assurance frameworks supporting program payments; revenue, receivables and cash management; and the management of non-financial assets.

Developments in financial reporting and auditing frameworks

Reduced disclosure regime

11. Efforts to reduce the volume and complexity of disclosures in financial statements continue. Australian Accounting Standards (AAS) include a Reduced Disclosure Regime (RDR) option that allows for some specified disclosures to be omitted from the general purpose financial statements of certain entities. The Department of Finance allowed Commonwealth entities to apply RDR for the first time in 2016–17.

12. Simplification and decluttering are important considerations in making financial statements more accessible and relevant to users. The ANAO supports these initiatives, to the extent that the needs of the Parliament are met.

2 The Joint Committee of Public Accounts and Audit Report 463: *Commonwealth Financial Statements – Inquiry based on Auditor-General's report 33 (2016–17)* paragraph 2.36 recommended that 'the Department of Finance, in consultation with the Australian National Audit Office, work to: develop appropriate and robust performance targets or benchmarks, which can be publicly reported, to enable Commonwealth entities to assess their own financial sustainability against agreed parameters over time and against like entities'.

Changes in Accounting Standards

13. Public sector entities will need to prepare for a number of new standards for 2018–19 and 2019–20. These new standards (AASB 9 *Financial Instruments*, AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases*) represent major revisions to existing standards for financial instruments, revenue and leases. These new standards will take effort and time to transition to with preparers required to develop business models, write new accounting policies, revise existing accounting policies, undertake a review of all the underlying contracts and in some instances consider amending contracts.

Executive remuneration reporting

14. The ANAO reported in ANAO Report No. 60 2016–17 *Interim Report on Key Financial Controls of Major Entities* that the Minister for Finance and the Secretary of the Department of the Prime Minister and Cabinet (PM&C) requested respectively government business enterprises (GBEs) and government entities to provide additional information relating to senior management personnel remuneration on their websites.

15. All GBEs complied with the request. The request from the Secretary of PM&C was made to 157 government entities. Of these entities 134 published the information and 68 published it in accordance with the requested timeframe.

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, which includes the Whole of Government and the General Government Sector financial statements for the year ended 30 June 2017, and the Australian Government's financial outcome for 2016–17.

Audit results

The 2016–17 CFS were signed by the Minister for Finance on 27 November 2017 and the Auditor-General's unmodified auditor's report was issued on the same day.

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 statements. The 2016–17 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).

1.3 AASB 1049 requires, with limited significant exceptions, the principles and rules in the Australian Bureau of Statistics' Government Finance Statistics (GFS) Manual to be applied where compliance with the GFS Manual would not conflict with Australian Accounting Standards.

Key areas of financial statements risk

1.4 The ANAO's 2016–17 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 of this report.

Table 1.1: Key areas of financial statements risk

Relevant financial statement item, impact & entity ^(a)	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
All financial statement line items	CFS assurance and consolidation process	Higher	<ul style="list-style-type: none"> Implementation of a new budget and appropriation system used to prepare the CFS; 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; and number of entities that adopt different accounting policies to CFS that require adjustment. 	No significant or moderate audit findings identified.
Taxation revenue \$389.1 billion <i>Australian Taxation Office</i>	Recognition of taxation revenue	Higher	<ul style="list-style-type: none"> Completeness, relevance and accuracy of source data; complex estimation processes, involving significant judgement and specialist knowledge; and volatility in economic conditions increases the uncertainty of factors used that underpin the calculation of the estimates. 	Refer to the Australian Taxation Office's detailed results in Chapter 4.
Superannuation liabilities ^(b) \$279.8 billion <i>Department of Defence</i> <i>Department of Finance</i>	Valuation of superannuation liabilities	Higher	<ul style="list-style-type: none"> Completeness and accuracy of data provided to the actuary; and complexity of the calculation and the nature of the economic and demographic assumptions used to calculate the liabilities. 	Refer to the Department of Defence and Department of Finance's detailed results in Chapter 4.
Land and buildings \$30.3 billion Property, plant and equipment \$42.4 billion <i>Numerous entities</i>	Measurement of 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 Australian Postal Corporation compared to those applied in the preparation of the CFS; and complex valuation process and judgement involved in valuing assets such as the nbn co limited network. 	No significant or moderate audit findings identified.

Relevant financial statement item, impact & entity ^(a)	Key area of risk	Audit risk rating	Factors contributing to risk assessment	Audit results
Specialist Military Equipment (SME) \$58.6 billion <i>Department of Defence</i>	Valuation of SME	Moderate	<ul style="list-style-type: none"> Complex valuation process and judgement involved in valuing at fair value; annual impairment and revision of useful lives are subject to a high degree of judgement and subjectivity; and management of assets under construction is dispersed across numerous projects that have complex multi-year contractual arrangements and project management requirements. 	Refer to the Department of Defence's detailed results in Chapter 4.
Grant payments (to the States and Territories) \$106.4 billion ^(c) <i>Department of the Treasury</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 the provision of accurate and complete data from 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 Department of the Treasury's detailed results in Chapter 4.
Investments, loans and placements \$320.8 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 level of judgement required for valuations and illiquid market conditions for certain investments; complex portfolio with a broad range of investments and different currencies; and potential for significant impact in value due to fluctuations in the Australian dollar against other currencies. 	Refer to the Future Fund Management Agency and Board of Guardians' and the Reserve Bank of Australia's detailed results in Chapter 4.

Note a: 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.

Note b: 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 c: 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 State and Territory governments as part of other programs and are disclosed as 'Grants to non-profit institutions' in the CFS.

Source: ANAO 2016–17 audit results, and the CFS for the year ended 30 June 2017.

Audit results

1.7 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits of the CFS.

CFS supplementary reporting pack

1.8 In 2015–16, Finance developed the Supplementary Reporting Pack (SRP) and required each 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 CFS specific disclosures required under AASB 1049.

1.9 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.

1.10 In 2016–17, the SRP was enhanced to support the CFS assurance and preparation processes and also assist in implementing a reduced disclosure reporting regime for Commonwealth entities' financial statements.

1.11 The enhancements have been effective. The ANAO will continue to work with Finance to support continuous improvement in the process, including addressing any future changes in the financial reporting framework.

Australian Government's financial outcome for 2016–17

Operating result

1.12 The following key financial measures were reported for 2016–17:

- net operating balance was a deficit of \$36.6 billion (2015–16: deficit of \$39.2 billion);
- net operating result attributable to the Australian Government was a deficit of \$25.3 billion (2015–16: deficit of \$60.8 billion); and
- comprehensive result (change in net worth) was a total increase in net worth of \$22.1 billion compared to a decrease of \$114.7 billion in 2015–16.

1.13 The deficit has decreased as a result of revenue growth exceeding the growth in expenses.

1.14 The change in the net operating result is largely due to a fair value gain attributable to the valuation of Government securities. The fair value gain is primarily due to a rise in the discount rate. Movements in the discount rate have a significant impact on the fair value of the securities.

1.15 The comprehensive result (change in net worth) was impacted by both the change in fair value of Government securities and the valuation adjustment on superannuation liabilities which decreased by \$45 billion compared to a \$57 billion increase in the liability in the prior year. The movement in the valuation of the superannuation liability is largely due to movements in discount rates and is further discussed at paragraphs 1.22 to 1.30.

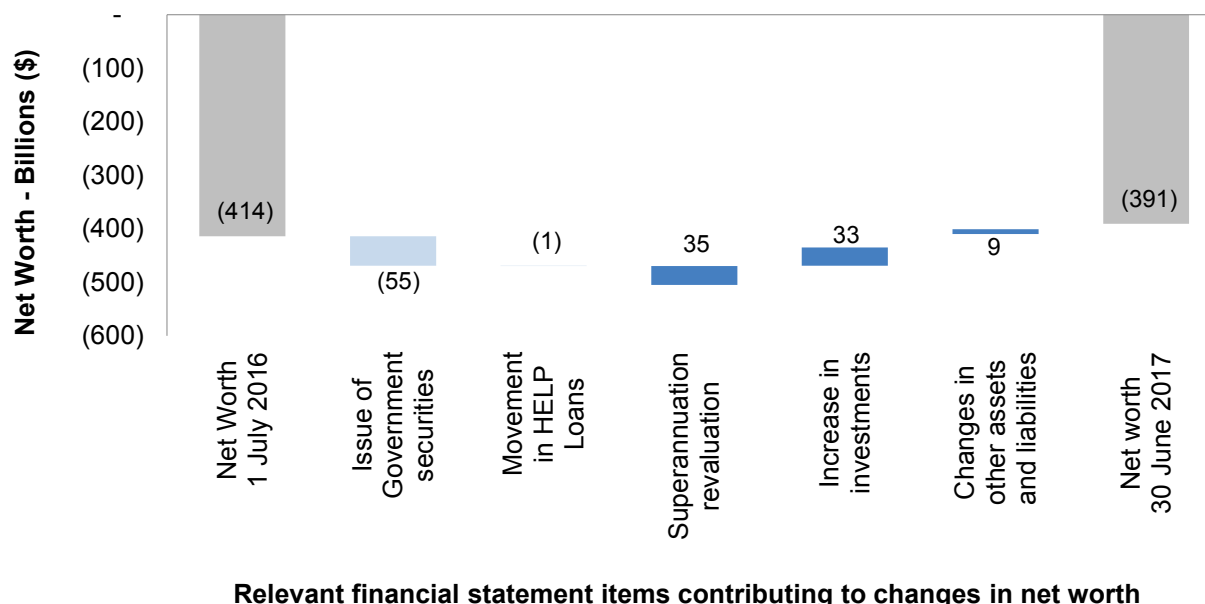
Net worth

1.16 The Australian Government's net worth has changed during the year from a net asset deficiency of \$414 billion in 2015–16 to \$391 billion in 2016–17. As discussed above, this is largely

due to the revaluations of Government securities and superannuation liabilities. Since 2011–12, total liabilities have exceeded total assets.

1.17 Figure 1.1 provides an analysis of the movement in net worth from 1 July 2016 to 30 June 2017.

Figure 1.1: Total changes in the Australian Government’s net worth in 2016–17



Source: ANAO analysis of 2016–17 CFS.

1.18 Table 1.2 provides commentary on the main contributors to the change in net worth of the Australian Government identified in Figure 1.1.

Table 1.2: Explanation of key movements in net worth

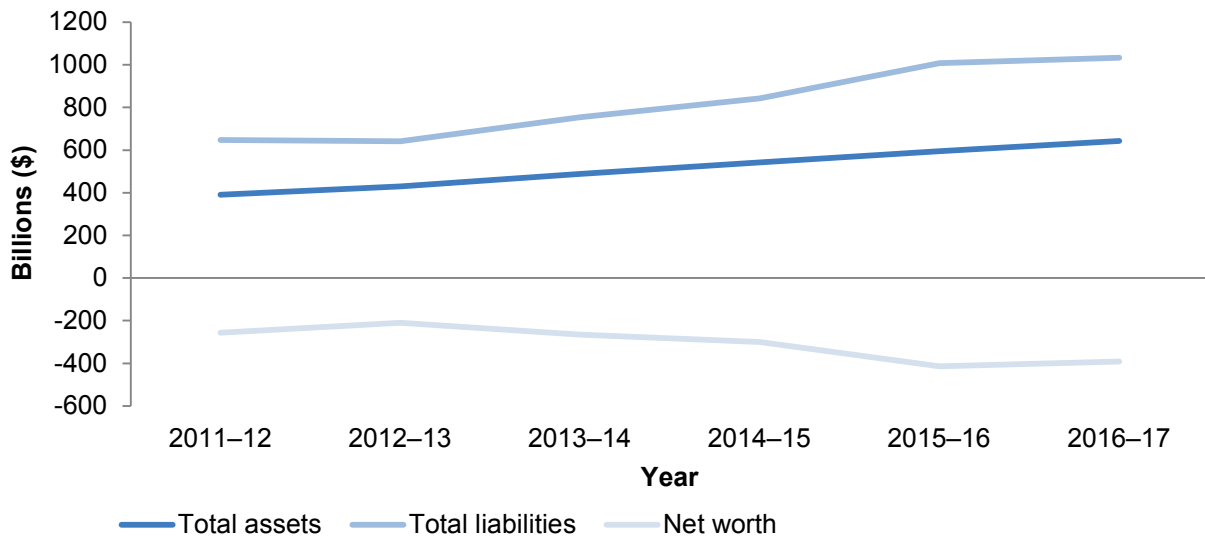
Relevant financial statement item	Primary reason for movement in net worth
Government securities	<p>The Australian Office of Financial Management (AOFM), on behalf of the Australian Government, undertakes debt management activities including the issuance of Government securities, such as, Treasury Bonds and Treasury Indexed Bonds.</p> <p>Government securities have increased by \$54.7 billion due to an increase in the securities issued of \$75.2 billion predominately offset by a reduction in the fair value of securities held of \$19.4 billion (2015–16: \$17.7 billion increase). The decrease in fair value is primarily due to the increase in the discount rates.</p> <p>The increasing interest rate trend has led to the application of a higher discount rate when valuing the future cash flows of securities. The nominal value of debt is \$626.7 billion against a fair value of \$535.4 billion.</p>

Relevant financial statement item	Primary reason for movement in net worth
HELP loans	<p>The Higher Education Loan Program (HELP) provides loans for student tuition that are repayable to the Commonwealth when the student reaches a prescribed level of personal income.</p> <p>There were \$7.2 billion in new loans provided in 2016–17. The overall decrease in loans receivable is due to the following items offsetting the new loans:</p> <ul style="list-style-type: none"> • \$2.7 billion in repayments of loans; • \$3.5 billion in fair value adjustments, largely relating to debts unlikely to be repaid; and • \$1.6 billion in discount rate adjustments.
Superannuation revaluation	<p>The actuarial revaluation of the Australian Government's defined benefit superannuation liabilities has decreased the superannuation liability by \$35.2 billion. This movement is due largely to the change in discount rate applied to determine the fair value of the liability. Refer to paragraphs 1.22 to 1.30 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 in the current year.</p>
Increase in investments	<p>The increase in investments included:</p> <ul style="list-style-type: none"> • \$12.2 billion increase in balances held by the RBA with other central banks; • \$7.0 billion increase in collective investments held chiefly by the Future Fund; and • \$14.3 billion increase in foreign government securities held.
Changes in other assets and liabilities	<p>Significant changes in assets and liabilities impacted on net worth, particularly:</p> <ul style="list-style-type: none"> • an increase of approximately \$12.9 billion in assets, predominantly comprising the purchase of, and increases in the fair value of, assets held by the Department of Defence (\$2.4 billion) and nbn co limited (\$6.0 billion); and • offset by an increase of \$3.4 billion in the liability for Australian currency on issue recognised by the RBA.

Source: ANAO analysis of 2016–17 CFS.

1.19 Total liabilities have increased during the year as a result of an increase in net debt. Figure 1.2 illustrates the total liabilities and assets of the Australian Government since 2011–12. Three significant components that impact the Australian Government's total liabilities and total assets are the issue of Government securities, the value of defined benefit superannuation liabilities and the issue of loans. These components are discussed in more detail below.

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

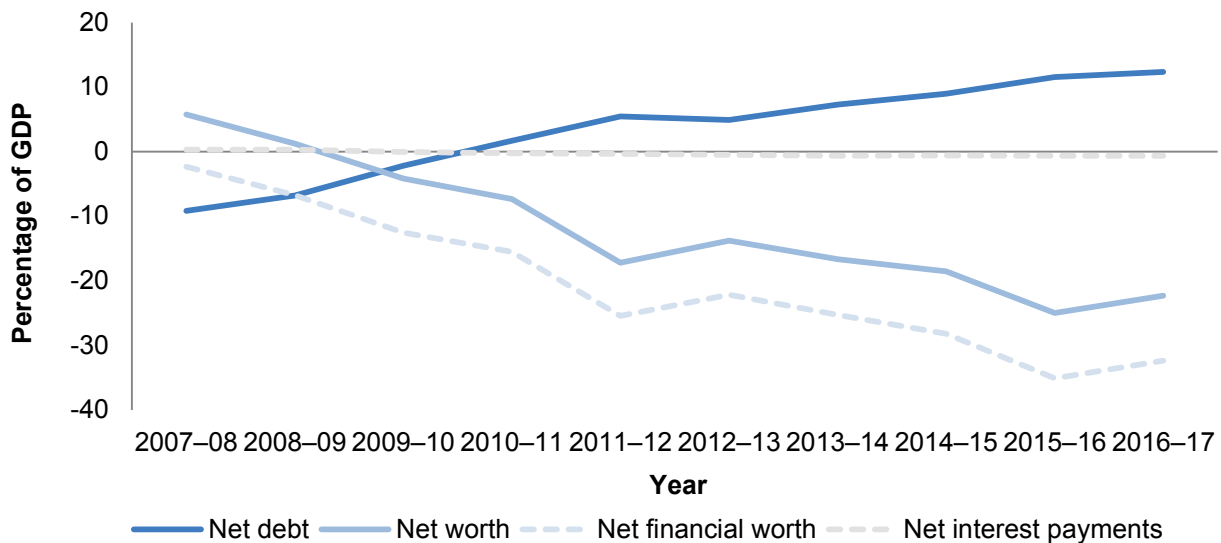


Source: ANAO analysis of CFS from 2011-12 to 2016-17.

Government securities

1.20 There has been a steady growth in net debt as a percentage of GDP. Figure 1.3 illustrates the change in the indicators of the net financial position of the Australian Government since 2007-08 as a per cent of GDP.

Figure 1.3: Australian Government net financial position (per cent of GDP)



Source: 2016-17 Consolidated Financial Statements – Commentary.

1.21 The level of net debt held in Government Securities has grown by \$54.7 billion during the year. The growth in net debt has led to increases in net interest payments. Net interest payments increased from \$10.8 billion in 2015-16 to \$11.4 billion in 2016-17. The low interest rate environment continues to keep the level of increases in net interest payments low as the level of net debt increases.

Superannuation liabilities

1.22 The Australian Government has partially unfunded superannuation liabilities arising from obligations to employees for defined benefit superannuation schemes. Note 9C of the CFS provides information on the nature of these schemes. The total superannuation liability for these schemes was \$279.8 billion as at 30 June 2017 (\$315.0 billion as at 30 June 2016). The significant balances of the reported liability relate to the following schemes that are closed to new members:

- Commonwealth Superannuation Scheme (\$82 billion);
- Public Sector Superannuation Scheme (\$87 billion);
- Military Superannuation Benefits Scheme (\$63 billion); and
- Defence Force Retirement and Death Benefits Scheme (\$43 billion).

1.23 The primary reason for the decrease in the liability is the increase in the discount rate between 30 June 2016 and 30 June 2017 from 2.7 per cent to 3.0–3.5 per cent. The long term nature of the superannuation liability means that small changes to the discount rate can have a large impact on the liability.

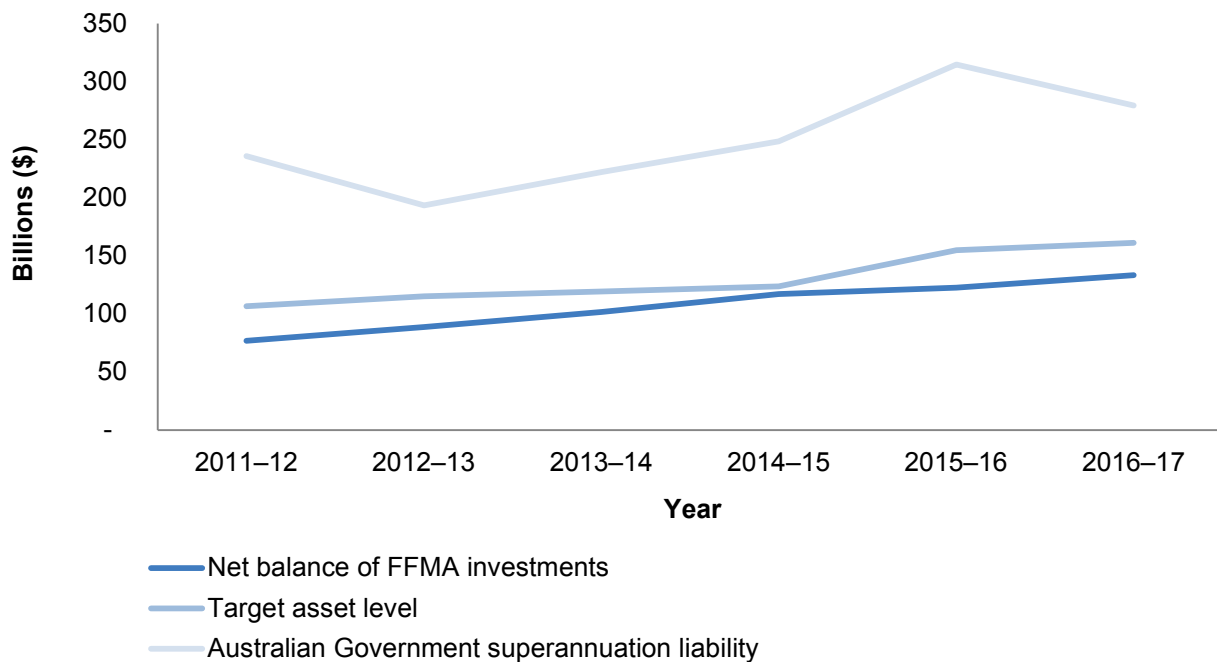
1.24 The Future Fund was established by the *Future Fund Act 2006* to strengthen the Australian Government's long-term financial position through the acquisition of financial assets and investments to assist in the discharge of the Australian Government's superannuation liabilities.

1.25 The Future Fund Board of Guardians (the Board) is responsible for deciding how to invest the assets of the Future Fund through balancing the risk aspects of each investment mandate to maximise returns.

1.26 As at 30 June 2017, the Board was required to make a benchmark rate of return on investments of the rate of the consumer price index (CPI) plus 4.5 to 5.5 per cent per annum over the long term. Over the last ten years the returns of the Future Fund have exceeded the benchmark return. Effective from 1 July 2017, a change was made to the Investment Mandate with the benchmark being amended to at least CPI plus 4.0 to 5.0 per cent.

1.27 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 (TAL) from 2011–12 to 2016–17.

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.

1.28 The TAL represents the best estimate of the Future Fund balance required to offset the present value of projected unfunded superannuation liabilities.

1.29 Figure 1.4 shows that the 2016–17 estimate of the TAL is \$161.1 billion³, which is above the current Future Fund asset balance of \$133.4 billion. The *Future Fund Act 2006* permits drawdowns, to fund superannuation payments, from 1 July 2020 or when the balance of the Future Fund equals or exceeds the TAL. In 2016–17, the Government announced it would not drawdown on the Future Fund in 2020–21 and plans to defer withdrawal from the Future Fund until at least 2026–27.⁴

1.30 The decrease in liabilities does not impact the TAL and the growth in assets held by the Future Fund exceeded the growth in the TAL by approximately \$5 billion in 2016–17.

Concessional loans

1.31 There has been a continual growth in loans provided by Government, with the 2016–17 budgeted loans estimated at more than \$50 billion (2017–18 Budget Paper No.1). A large proportion of these loans are concessional. Concessional loans are loans provided on favourable terms, for example, the interest rate may be below the current market rate for loans of similar risk.

1.32 The Higher Education Loan Program (HELP) is the largest Australian Government concessional loan program. HELP provides financial assistance to students to remove up-front cost

³ Mercer’s Actuary’s Report: Target Asset Level Declaration dated 14 September 2016.

⁴ Media Release 25 May 2017: The Hon Scott Morrison MP *Future fund investment mandate*.

barriers to tertiary education through income contingent loans. These loans are indexed to CPI and repayments are linked to the ability to pay based on income thresholds.

1.33 When HELP loans are issued, they are recorded as an asset for accounting purposes at the amount the Government expects to be repaid. The amount not expected to be repaid is classified under 'Other economic flows' in the Operating Statement. Other economic flows mainly include revaluations of asset and liabilities. Under AASB 1049, other economic flows are included in some, but not all, key fiscal aggregates reported in the CFS. For example, they are included in the 'total change in net worth' fiscal aggregate in the Operating Statement.

1.34 In the Australian Government's Final Budget Outcome⁵ the Government focuses on two key fiscal aggregates: net operating balance and cash surplus/deficit⁶. HELP loan amounts not expected to be repaid are not required by the Accounting Standards to be included in these two key fiscal aggregates.

1.35 The amounts not expected to be repaid on new loans each financial year since 2012–13 are provided in Table 1.3.

Table 1.3: Amounts not expected to be repaid on new HELP loans

	2012–13 (\$b)	2013–14 (\$b)	2014–15 (\$b)	2015–16 (\$b)	2016–17 (\$b)
Debts not to be repaid (new loans)	(0.9)	(1.0)	(1.4)	(2.0)	(1.9)

Source: Australian Government Actuary reports.

1.36 The policy of making HELP loans income contingent has a significant cost to the Australian Government. The fair value of HELP loans at 30 June 2017 was \$35.9 billion and the value of the loans made was \$55.4 billion. The main difference between the value of loans paid and the fair value was the \$17.3 billion impairment adjustment for new loans not expected to be repaid. The \$17.3 billion reflects the accumulated cost to the Government of the loans being income contingent.

Table 1.4: Definitions of terms used

Item	Definition
Net operating balance	This is calculated as income from transactions minus expenses from transactions. It is equivalent to the change in net worth arising from transactions.
Operating result	Income less expenses, excluding the components of other comprehensive income. Also known as 'profit and loss'.
Other economic flows	Changes in the volume or value of an asset or liability that do not result from transactions (e.g. revaluations).
Comprehensive result	Total change in net worth before transactions with owners in their capacity as owners. Also known as 'total change in net worth'

5 Page 1 Final Budget Outcome 2016–17. These are the aggregates used as key performance measures.

6 The Final Budget Outcome 2016–17 uses the term Underlying Cash Balance. This is the cash surplus/deficit less the net earnings of the Future Fund. The cash surplus/deficit term is used in the CFS, and hence is used in this Report.

Item	Definition
Fiscal balance	The financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. A positive result reflects a net lending position and a negative result reflects a net borrowing position. Also known as net lending/(borrowing).
Net worth	Assets less liabilities and shares/contributed capital.
Net debt	Net debt is equal to gross debt minus the stock position in financial assets corresponding to debt instruments.
Net financial worth	Net financial worth is equal to financial assets minus liabilities. It is a broader measure than net debt in that it incorporates provisions made (such as superannuation, but excluding depreciation and bad debts) as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities, only some of which are included in net debt.
Government securities	All securities issued by the Australian Government at tenders conducted by the AOFM. They comprise Treasury bonds, Treasury notes, Treasury indexed bonds and, previously, Treasury adjustable rate bonds.
Cash surplus/ deficit	Net cash flows from operating activities plus net cash flows from acquisition and disposal of non-financial assets less distributions paid less the value of assets acquired under finance leases and similar arrangements.
Underlying cash balance	Cash surplus/deficit less net earnings of the Future Fund.

Sources: Australian Bureau of Statistics (2005). *Australian System of Government Finance Statistics: Concepts, Sources and Methods*; AASB 101 *Preparation of Financial Statements*, paragraph 5; AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, Appendix A; and Reserve Bank of Australia (2017). *Glossary RBA*. [online] Available at: <<https://www.rba.gov.au/glossary/>> [Accessed 27 Nov. 2017].

2. Financial audit results and other matters

Chapter coverage

This Chapter provides:

- a summary of the 2016–17 auditors' reports issued by the ANAO;
- a summary of observations regarding entities' internal control environments;
- an analysis of the timeliness of entities' financial reporting;
- a summary of the reporting of Key Audit Matters;
- an analysis of the financial sustainability of material entities;
- an analysis of contractor and consultant expenses in 2016–17 for a selection of entities; and
- a summary of findings identified during the course of the 2016–17 financial statements audits of entities.

Conclusion

The ANAO issued 234 (including the CFS) unmodified auditors' reports as at 30 November 2017. Ninety-one per cent of entities required to table an annual report in Parliament were provided with the auditor's report within three months of the financial year end. The average time taken for entities to table annual reports from the date the auditor's report was provided was 47 days.

The ANAO Report No 60. *Interim Report on Key Financial Controls of Major Entities* noted that there would be a number of changes to the auditor's reports for 2016–17, including the application of a new auditing standard ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* (ASA 701). In 2016–17, the Auditor-General adopted Key Audit Matter (KAM) reporting for the 25 entities included in ANAO Report No. 60 and reported a total of 57 KAM across the 25 entities.

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.^(a) This would enable entities to assess their own financial sustainability against agreed parameters over time, and against like entities.

The ANAO reported two significant, 20 moderate and 200 minor audit findings at the completion of the final audits. The highest number of significant and moderate audit findings continue to be in the categories of:

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

Note a: The Joint Committee of Public Accounts and Audit Report 463: *Commonwealth Financial Statements – Inquiry based on Auditor-General's report 33 (2016–17)* paragraph 2.36 recommended that 'the Department of Finance, in consultation with the Australian National Audit Office, work to: develop appropriate and robust performance targets or benchmarks, which can be publicly reported, to enable Commonwealth entities to assess their own financial sustainability against agreed parameters over time and against like entities'.

Introduction

2.1 The ANAO publishes an Annual Audit Work Program (AAWP) which reflects the ANAO's audit strategy and deliverables for the forward year. The purpose of the AAWP is to inform the Parliament, the public and government sector entities of the planned audit coverage for the Australian Government sector by way of financial statements audits, performance audits and other assurance activities.

2.2 The financial statements audit coverage as outlined in the AAWP includes presenting two reports to the Parliament addressing the outcomes of the financial statements audits of Australian Government entities and the Consolidated Financial Statements of the Australian Government (CFS). These reports provide Parliament an independent examination of the financial accounting and reporting of public sector entities.

2.3 This report presents the final results of the 2016–17 audits of the Consolidated Financial Statements and 238 Australian Government entities. ANAO Report No.60 2016–17 *Interim Report on Key Financial Controls of Major Entities*, focused on the interim results of the audits of 25 entities. This included a review of the governance arrangements related to entities' financial reporting responsibilities and an examination of the relevant internal controls, including information technology system controls, that supported the preparation of financial statements that are free from material misstatement.

Summary of 2016–17 auditors' reports

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

2.5 Table 2.1 is a comparison of the number and type of auditors' reports issued by the Auditor-General and his delegates in 2015–16 and 2016–17 (as at 30 November 2017), including the CFS. Appendices 3 and 4 explain 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	2016–17	2015–16
Unmodified	234	247
Included an emphasis of matter	6	0
Included a Report on other legal and regulatory requirements	0	0
Modified	0	0
Auditors' reports issued	234	247
Not yet issued	5 ^(a)	5
Total number of financial statements audits	239	252

Note a: As at 30 November 2017 the following entities had not finalised the 2016–17 financial statements: AAF Company; Corporations and Markets Advisory Committee (for the years ended 30 June 2015, 30 June 2016 and 30 June 2017)⁷; IBA Tourism Asset Management Pty Ltd; Minjerribah Camping Partnership; and Royal Australian Air Force Welfare Recreational Company.

Source: 2015–16 and 2016–17 ANAO auditors' reports.

7 A significant legal breach has been reported to the Corporations and Markets Advisory Committee in relation to non-compliance with sections 42 and 46 of the *Public Governance, Performance and Accountability Act 2013*. This legislative breach is discussed further at paragraphs 4.17.108 to 4.17.112.

Internal control environment

2.6 The ANAO uses the framework in ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment* to consider the impact of elements of an entity's internal controls supporting the preparation of financial statements. This approach provides a basis for designing and implementing responses to the assessed risk of material misstatement. Figure 2.1 outlines these elements.

Figure 2.1: Elements of entity internal controls



Source: ASA 315 *Identifying and assessing the risk of material misstatement through understanding the entity and its environment*, paragraph A58.

2.7 In assessing an entity's control environment that supports the preparation of financial statements that are free from material misstatement, the ANAO examines aspects of entities' governance structures. The ANAO considers whether management has established frameworks and processes that promote positive attitudes, awareness and actions concerning the entity's internal controls and their importance to the entity. The main elements reviewed include; governance structures relevant to the preparation of the financial statements; audit committee and assurance arrangements; and systems of authorisation, recording and procedures.

2.8 At the completion of the final audits, the ANAO reported that, for the majority of entities, key elements of internal control were operating effectively to provide reasonable assurance that the entities were able to prepare financial statements that are free from material misstatement.

2.9 The ANAO reported to ten entities that, except for particular finding/s outlined in Chapter 4, key elements of internal control were operating effectively to provide reasonable assurance that the entities were able to prepare financial statements that are free from material misstatement.⁸ The ANAO identified a number of findings in relation to one entity, the National

8 Airservices Australia; Australian Digital Health Agency; Australian Federal Police; Australian Taxation Office; Australian Transaction Reports and Analysis Centre; Department of Defence; Department of Immigration and Border Protection; Department of the Prime Minister and Cabinet; Director of National Parks; and National Health and Medical Research Council.

Disability Insurance Agency, which reduced further the level of confidence that could be placed on key elements of internal control that supported the preparation of financial statements that were free from material misstatement.

2.10 As a result of the control weaknesses identified in these entities, the ANAO performed additional audit procedures to gain assurance that the 2016–17 financial statements were free from material misstatement.

Timeliness of financial reporting

2.11 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, the Parliament and the community. 'The objectives of a financial statements audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework. The audit mandate, or obligations for public sector entities, arising from legislation, regulation, ministerial directives, or government policy requirements may result in additional objectives'.⁹

2.12 The ANAO applies these objectives in undertaking financial statements audits and considers areas that may give rise to risks of non-compliance with authorities or risks relating to effectiveness of internal control when planning and performing the audit. Financial statements preparation is often a complex task, involving compliance with a large number of requirements reflected in Australian Accounting Standards¹⁰ and the Financial Reporting Rule.

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

2.14 Each year material entities are required to submit audit cleared financial information to the Department of Finance by 15 August.¹¹ For non-material entities, the date in 2016–17 was 31 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.

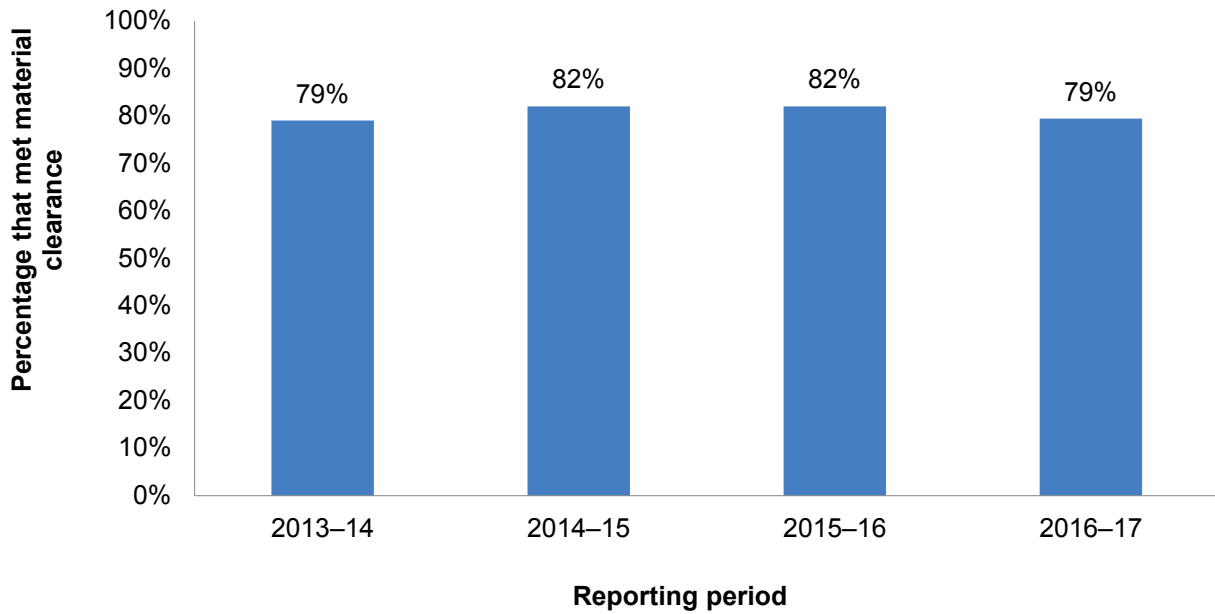
2.15 Figure 2.2 presents an analysis of the percentage of material entities, excluding subsidiaries consolidated into parent entities, that met the deadlines for submitting audit cleared financial statements to the Department of Finance over the past four financial years.

9 ISSAI 1315 Practice Note 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment: P4.

10 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.

11 The Department of Finance accepts material clearance for some entities on an individual basis and the analysis has been adjusted to reflect this.

Figure 2.2: Audit clearance of material entities



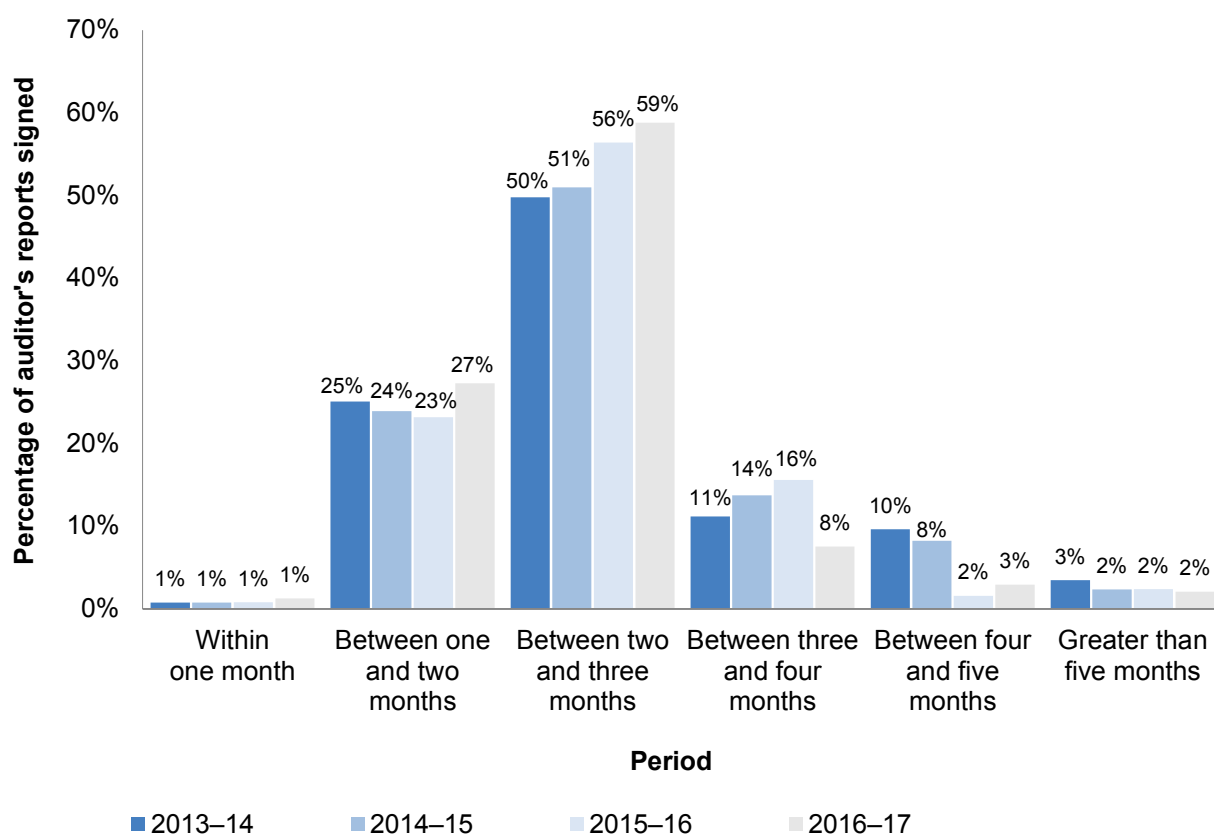
Source: ANAO analysis of audit clearance dates.

2.16 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 2016–17, sixty-seven per cent of non-material entities met the material clearance deadline of 31 August 2017. 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.

2.17 The ANAO works closely with entities to facilitate the timely finalisation of the financial statements. During 2016–17, 100 per cent of auditors’ reports were issued within two business days of the signed financial statements, which is an improvement on the prior year (2015–16: 99 per cent).

2.18 An analysis of the timeframes in which auditors’ reports were issued on the signed financial statements of entities is presented in Figure 2.3.

Figure 2.3: Timeframes for entity reporting from end of financial year reporting date



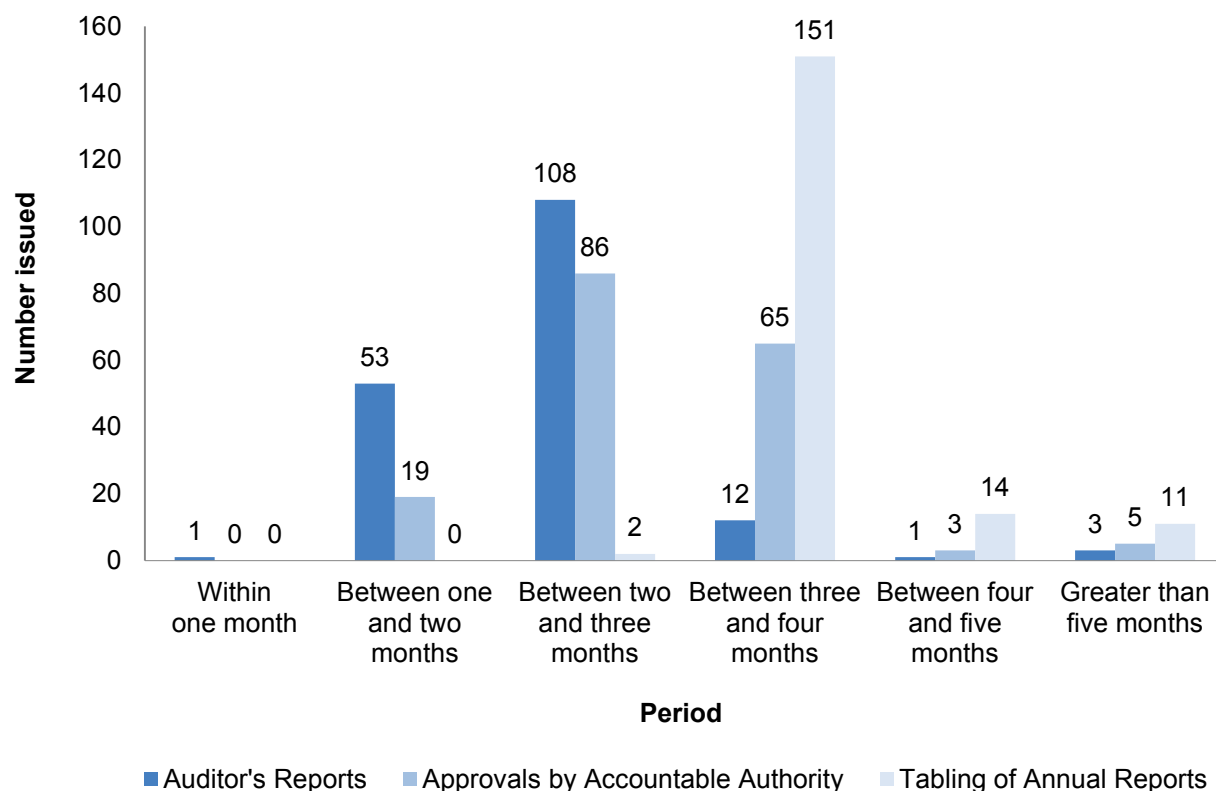
Source: ANAO analysis of issued auditors' reports.

2.19 In 2016-17, there has been an improvement in the signing of entities' financial statements and associated auditor's report within two months of financial reporting year end (2016-17: 28 per cent compared to 2015-16: 24 per cent). Entities that had signed financial statements and associated auditor's reports issued within three months also increased from 80 per cent to 87 per cent. Ninety-five per cent of entities had signed financial statements and the associated auditor's report issued within four months of year end (2015-16: 96 per cent).

2.20 Annual reports inform the Parliament, through the responsible Minister, other stakeholders and the community about the performance of entities. Of the 239 2016-17 ANAO financial statements mandated audits, 178 entities were required to present annual reports to the responsible Minister in accordance with relevant legislative requirements.

2.21 Figure 2.4 provides an analysis of the timeframes for: issued auditors' reports; approval of annual reports by the relevant Accountable Authority; and annual reports tabled in Parliament.¹²

¹² The analysis presented in Figure 2.4 was undertaken as at 30 November 2017.

Figure 2.4: Timeframes for 2016–17 issued auditors' reports and tabled annual reports

Source: ANAO analysis.

2.22 As presented in Figure 2.4, of the 178 entities required to table an annual report in 2016–17:

- 54 auditor's reports (30 per cent) were signed within two months; and
- 108 auditor's reports (61 per cent) were signed between two and three months.

2.23 In relation to the dates of annual reports being tabled in Parliament:

- two entities tabled the annual report within three months;
- 151 entities tabled the annual report between three and four months; and
- the remaining 25 entities tabled the annual report four months or more after the reporting date.

2.24 The length of time taken by entities to approve and table the annual report from the date the auditor's report was provided was:

- approve the annual report: from zero to 91 days with an average time of 17 days; and
- table the annual report: from 13 to 102 days with an average time of 47 days.

Key Audit Matters

2.25 The ANAO Report No 60 2016–17 *Interim Report on Key Financial Controls of Major Entities* noted that there would be a number of changes to the auditor's reports for 2016–17, including the application of a new auditing standard ASA 701 *Communicating Key Audit Matters in the*

Independent Auditor's Report (ASA 701). While ASA 701 only requires Key Audit Matters (KAM) reporting for listed entities, the Auditor-General considers KAM reporting to be better practice in the financial statements auditing profession and consistent with the ANAO's outcome of improving public sector performance and accountability through independent reporting on Australian Government administration to the Parliament, the Executive and the public. Consequently, the Auditor-General adopted KAM reporting in 2016–17 for the 25 entities included in ANAO Report No. 60.

2.26 These entities were the:

- Attorney-General's Department;
- Australian Office of Financial Management;
- Australian Postal Corporation;
- Australian Taxation Office;
- Departments of: Agriculture and Water Resources; Communications and the Arts; Defence; Education and Training; Employment; the Environment and Energy; Finance; Foreign Affairs and Trade; Health; Human Services; Immigration and Border Protection; Industry, Innovation and Science; Infrastructure and Regional Development; Parliamentary Services; Prime Minister and the Cabinet; Social Services; the Treasury; and Veterans' Affairs;
- Future Fund Management Agency and the Board of Guardians;
- nbn co limited; and
- Reserve Bank of Australia.

2.27 Further details regarding each of these entities' individual KAM are provided in Chapter 4 of this report.

2.28 The purpose of communicating KAM is to provide greater transparency about the audit that was performed. Communicating KAM helps users of financial statements better understand those matters that, in the auditor's professional judgement were of the most significance in the audit of the financial statements. The audit opinion is made in respect of the financial statements as a whole. Accordingly, the description of KAM does not provide a separate conclusion on the matter being described nor does it imply that the matter has been appropriately resolved in forming the overall opinion.

2.29 In 2016–17, the ANAO reported a total of 57 KAM across the 25 entities. The number of KAM per entity ranged from one to four. The majority of KAM reported in 2016–17 related to the valuation assertion in respect of assets and liabilities such as:

- loans and other receivables;
- property plant and equipment;
- investments;
- intangibles;
- provisions; and
- concessional loans.

2.30 Other KAM included completeness and accuracy of revenue and expenses for benefits and other payments.

Financial sustainability

2.31 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.

2.32 The ANAO developed parameters based on generally accepted concepts of financial sustainability and applied these to the operating results and balance sheets of 68 material entities.¹³ These parameters¹⁴ are described in Table 2.2 and Table 2.3 below.

Analysis of operating results

2.33 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.

2.34 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.

2.35 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.¹⁵ As a result, any entity in this category averaging a large deficit should be considered more closely.

2.36 Against this background, the ANAO analysed the operating results of all material entities over a five year period: 2012–13 to 2016–17. This analysis is based on reported surpluses or deficits after adjusting for unfunded expenses¹⁶, where relevant, highlighting the full cost of operations. Of the 68 entities considered in this analysis, 46 are not-for-profit and 22 are for-profit

13 Three subsidiary entities classified by the Department of Finance as material are not separately considered in this section as the entities results are included as part of the parent entity. These entities are: ANSTO Nuclear Medicine Pty Ltd (consolidated into Australian Nuclear Science and Technology Organisation); CSIRO General Partner Co Pty Ltd (consolidated into Commonwealth Scientific and Industrial Research Organisation); and Voyages Indigenous Tourism Australia (consolidated into Indigenous Land Corporation).

14 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.

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

16 The Government provides funding for non-operating costs (for example, replacement and capitalised maintenance of existing departmental assets) to non-corporate commonwealth entities via departmental capital budgets. Corporate Commonwealth entities continue to be funded for depreciation, amortisation and make-good expenses except for Designated Collecting Institutions which are not funded for depreciation on their heritage and cultural assets.

or not-for-profit entities which have quasi-commercial operations or departmental functions operating on a for-profit basis.

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

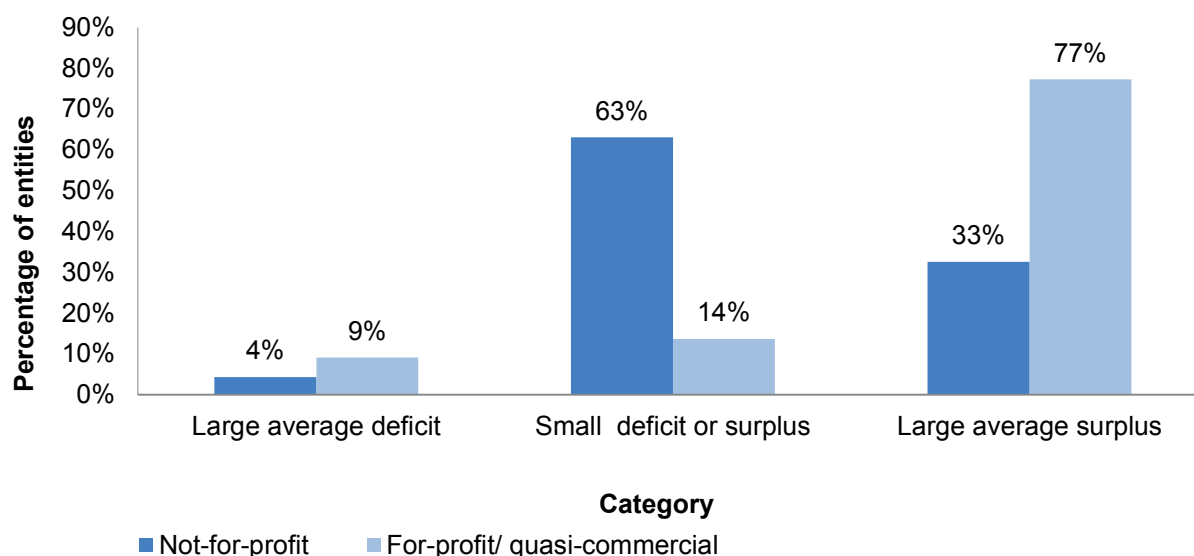
Table 2.2: Operating result categories

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

Source: ANAO developed parameters.

2.38 Figure 2.5 demonstrates 63 per cent of material not-for-profit entities were classified as achieving small deficits or surpluses and managing within existing resources. Seventy-seven per cent of for-profit/quasi-commercial entities recorded average large surpluses.

Figure 2.5: Operating results analysis



Source: ANAO analysis of material entities' operating results.

2.39 Nine per cent of for-profit and four per cent of not-for-profit entities have averaged large deficits and 33 per cent of not-for-profit entities have averaged large surpluses. The following discussion focuses on entities within these categories.

Large average deficits

2.40 For the period 2012–13 to 2016–17 the following for-profit entities recorded large deficits: Moorebank Intermodal Company Limited; and nbn co limited. 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.

2.41 Two not-for-profit entities averaged large deficits during this period: the Department of Health; and the High Court of Australia.

2.42 The Department of Health's (Health) large average deficit was a result of cost pressures arising from Machinery of Government changes in 2015–16 where costs were underestimated for the transition and subsequent structural changes within the Department. In addition, significant costs arose from the large volume of submissions to the Pharmaceutical Benefits Advisory Committee that were unanticipated. The Department advised that it undertook a voluntary redundancy program as part of its structural realignment which contributed to further cost pressures in 2016–17.

2.43 In 2013–14, the High Court's operating result was impacted by the accounting treatment to recognise significant write-offs of the library collection (\$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 this loss was significant and has contributed to an average loss greater than one per cent of expenses over the five year period, in 2016–17 the High Court recorded a significant surplus. This was due to the High Court receiving contributions from entities for: the development of a Constitutional Education Centre at the High Court Building; assets transferred at no cost; and the refurbishment of the Brisbane Court Chambers.

Large average surpluses

2.44 As outlined in Figure 2.5, 33 per cent of material not-for-profit entities¹⁷ 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 of the large average surpluses for these entities.

2.45 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 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.

2.46 Machinery of Government (MoG) changes can significantly impact the operating result of an entity in any year, including the periods immediately following the changes. Four entities were impacted by transfers of functions and associated funding due to MoG changes during the five year period. Those entities were: the Australian Trade and Investment Commission; the Departments of Employment, and Infrastructure and Regional Development; and the Federal Court of Australia. For these entities the transfer of funding associated with those functions was

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

recognised in the financial statements in a different period to when the associated expenditure was incurred.

2.47 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; Australian Research Council; and the National Blood Authority. These entities have recognised significant surpluses over the period due to the timing and recognition of funding where the expenditure is recorded in a subsequent period.

2.48 The Australian Prudential Regulation Authority's (APRA) significant surplus is a result of levies in excess of costs in 2014–15. The levies collected in any year are considered when determining the levies in subsequent years. In 2016–17, APRA's operating result was within one percent of total expenses. The Grains Research and Development Corporation (the Corporation) experienced large surpluses in 2016–17 following a rise in grains production and prices. This led to increases in the fees levied on producers. These surplus funds are used by the Corporation to fund expenditure on research and development in future periods.

2.49 The transition of the National Disability Insurance Scheme (NDIS) to the full scheme on 1 July 2016 has impacted the operating result of the National Disability Insurance Agency in 2016–17. There has been a slower phasing of participants than anticipated and lower utilisation of funds by participants resulting in less expenses being incurred in 2016–17 than was budgeted for. The funds will be expended in future periods as remaining participants transition from existing State and Territory programs to the NDIS. Commentary regarding movements in key financial statements items contributing to NDIS' overall performance is included at paragraphs 4.16.40 to 4.16.42.

Balance sheet analysis

2.50 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.

2.51 The ANAO analysed the balance sheet positions of material Australian Government entities as at 30 June 2017. 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.

2.52 The ANAO grouped material entities into the following categories:

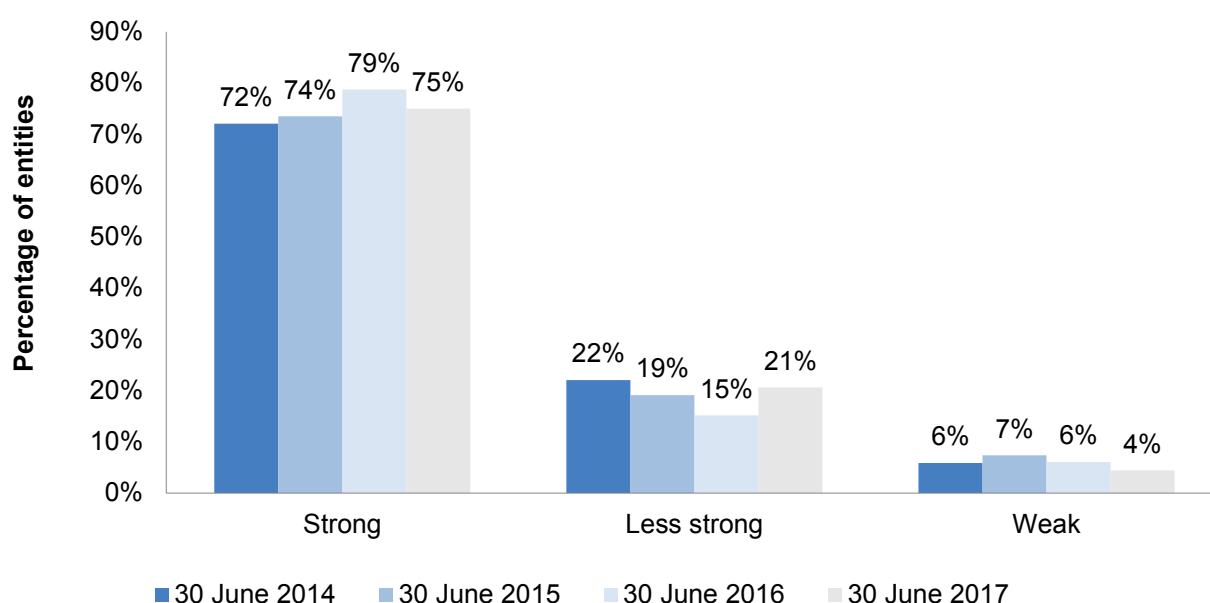
Table 2.3: Balance sheet categories

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.

2.53 Figure 2.6 presents the number of entities in each balance sheet category from 2013–14 to 2016–17.

Figure 2.6: Balance sheet analysis



Source: ANAO analysis of entity balance sheets.

2.54 Seventy-five per cent (2015–16: 79 per cent) of material entities had strong balance sheets in 2016–17. This indicates that the balance sheet positions of the large majority of material entities remain sound.

2.55 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. In 2016–17, the ANAO identified three entities in this category: the Australian Taxation Office; and the Departments of: the Environment and Energy; and Health. The Australian Taxation Office and the Department of the Environment and Energy have consistently appeared in this category for the past four years.

2.56 The Australian Taxation Office’s financial assets to total liabilities ratio has remained relatively stable, averaging 43 per cent, for the past four years. The total equity to total assets ratio has improved during that same period: rising from 14 per cent in 2013–14 to 20 per cent in 2016–17. The upwards trend in this ratio indicates the ATO has been actively managing and working to improve their gearing position.

2.57 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.

2.58 As discussed above in paragraph 2.42, the Department of Health experienced a significant loss in 2016–17. The loss was offset through existing reserves (prior year appropriation receivable) which resulted in the department moving to this category in 2016–17.

Audit findings

2.59 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.

2.60 A summary of findings identified for the period ended 30 June 2017 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 2015–16 and 2016–17.

Table 2.5: Audit findings by category for the period ended 30 June 2017

Category	Main areas of weakness			
	Significant	Moderate	Minor	
IT control environment	1	10	73	<ul style="list-style-type: none"> Security management, particularly, user access and monitoring of privileged users.
Compliance and quality assurance frameworks	1	5	37	<ul style="list-style-type: none"> Compliance frameworks for program payments; and Appropriate quality assurance frameworks supporting financial reporting.
Accounting and control of non-financial assets	0	3	20	<ul style="list-style-type: none"> Monitoring of assets under construction and capitalisation; and Processes supporting the valuation and assessment of impairment of assets.
Revenue, receivables and cash management	0	0	24	<ul style="list-style-type: none"> Recognition of revenue arising from multi-year contracts; and Timeliness and completion of reconciliations.
Human resources financial processes	0	1	21	<ul style="list-style-type: none"> Review processes supporting employee commencements and terminations.
Purchases and payables management	0	0	7	<ul style="list-style-type: none"> Authorisation of expenditure; and Maintenance of vendor data.
Other audit findings	0	1	18	<ul style="list-style-type: none"> Memoranda of understanding and service level agreements; Updating or maintaining key governance documents; and Presentation and disclosures in the financial statements.
Total	2	20	200	

Source: ANAO compilation of findings.

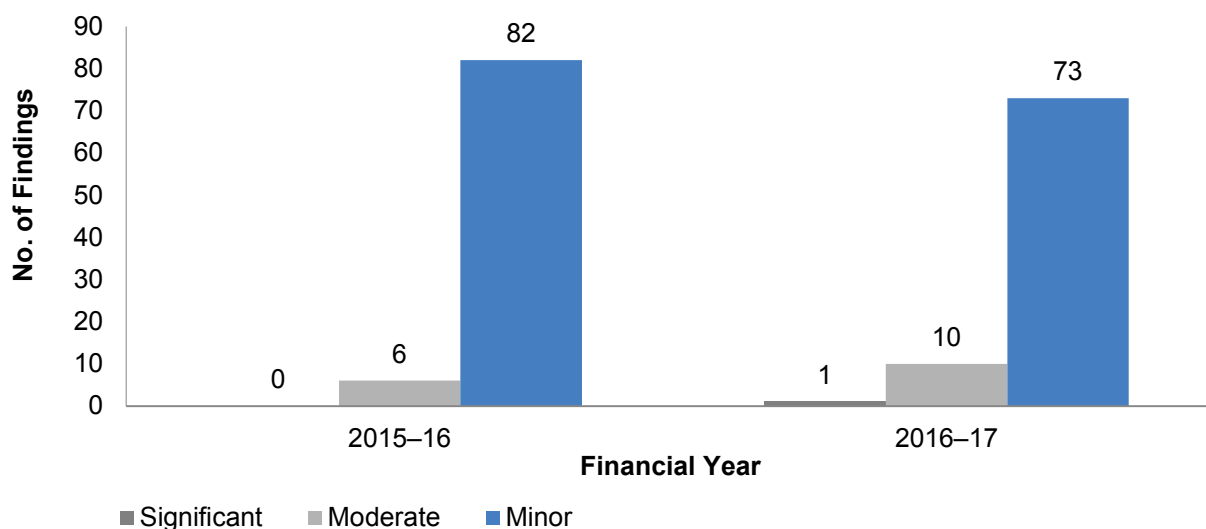
2.61 Six legislative breaches were reported during 2016–17. Of these, three were significant and three were non-significant.¹⁸ The significant legislative breaches reported to the Northern Land Council and the Corporations and Markets Advisory Committee are not included in the table above. Further detail regarding these breaches can be found in Chapter 4 paragraphs 4.15.38 to 4.15.44 and paragraphs 4.17.108 to 4.17.112, respectively.

18 A significant legislative breach 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 breach is reported where instances of non-compliance with other legislation, or sub-ordinate legislation, are identified.

Information Technology control environment

2.62 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 2.7 demonstrates the trend in audit findings related to entities' IT control environments from 2015–16 to 2016–17.

Figure 2.7: IT control environment audit findings



2.63 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.

2.64 A new significant auditing finding was identified in 2016–17 relating to the National Disability Insurance Agency and is discussed further at paragraphs 4.16.49 to 4.16.52. As illustrated by Figure 2.7, the number of moderate audit findings relating to entities' IT control environments has increased by four. The six moderate audit findings reported in 2015–16 were resolved during 2016–17.¹⁹ Details of the ten moderate audit findings first reported in 2016–17 can be found in the following entities' detailed results in Chapter 4:

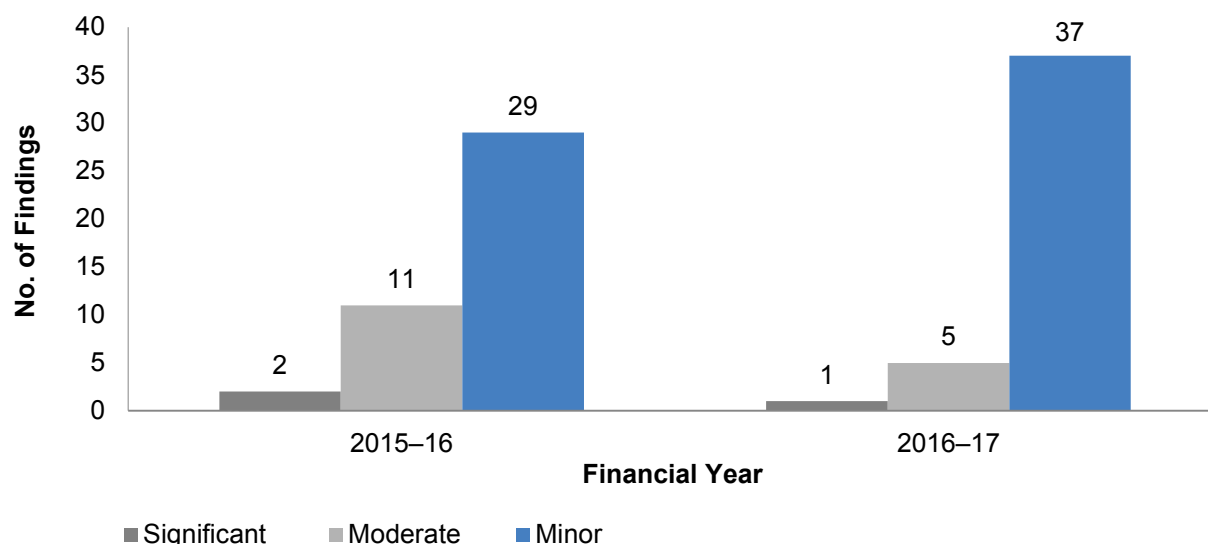
- Australian Federal Police, paragraphs 4.2.36 to 4.2.43;
- Department of Defence, paragraphs 4.4.31 to 4.4.32;
- National Health and Medical Research Council, paragraphs 4.10.44 to 4.10.46;
- Department of Immigration, paragraphs 4.11.30 to 4.11.33;
- Airservices Australia, paragraphs 4.13.31 to 4.13.34; and
- National Disability Insurance Agency, paragraphs 4.16.53 to 4.16.55; 4.16.56 to 4.16.58; and 4.16.67 to 4.16.70.

¹⁹ Refer to the following entities' detailed results in Chapter 4 for further detail: Australian Building and Construction Commission; Australian Film and Television Radio School; Fair Work Ombudsman and Registered Organisations Commission Entity; the Department of Education and Training; and the Royal Australian Mint.

Compliance and quality assurance frameworks

2.65 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 2.8 demonstrates the trend in audit findings related to entities' compliance and quality assurance frameworks from 2015–16 to 2016–17.

Figure 2.8: Compliance and quality assurance frameworks audit findings



2.66 As demonstrated by Figure 2.8, the number of significant audit findings relating to entities' compliance and quality assurance frameworks between 2015–16 and 2016–17 has decreased by one. The resolved significant audit finding related to the Department of Education and Training and was resolved during 2016–17. Further details of this finding are provided in paragraphs 4.5.20 to 4.5.23. The remaining significant audit finding related to the National Disability Insurance Agency and was first reported in 2015–16. This finding is outlined in detail at paragraphs 4.16.77 to 4.16.85.

2.67 All of the moderate audit findings reported in 2015–16 have been resolved or were reclassified to minor audit findings at the conclusion of the 2016–17 audits. These findings relate to: the Attorney-General's Department; the Australian Taxation Office; the Department of Defence; Defence Housing Australia; the Departments of: Education and Training; Employment; Finance; Immigration and Border Protection; and Industry, Innovation and Science.

2.68 The five moderate audit findings reported in 2016–17 relate to the: Director of National Parks (paragraphs 4.7.56 to 4.7.57); Australian Digital Health Agency (paragraphs 4.10.47 to 4.10.49); the National Disability Insurance Agency (paragraphs 4.16.59 to 4.16.62 and 4.16.63 to 4.16.66); and Australian Taxation Office (paragraphs 4.17.76 to 4.17.80). 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.

2.69 The number of minor audit findings have increased from 2015–16 by approximately 37 per cent. There remains a need for entities to focus greater attention on:

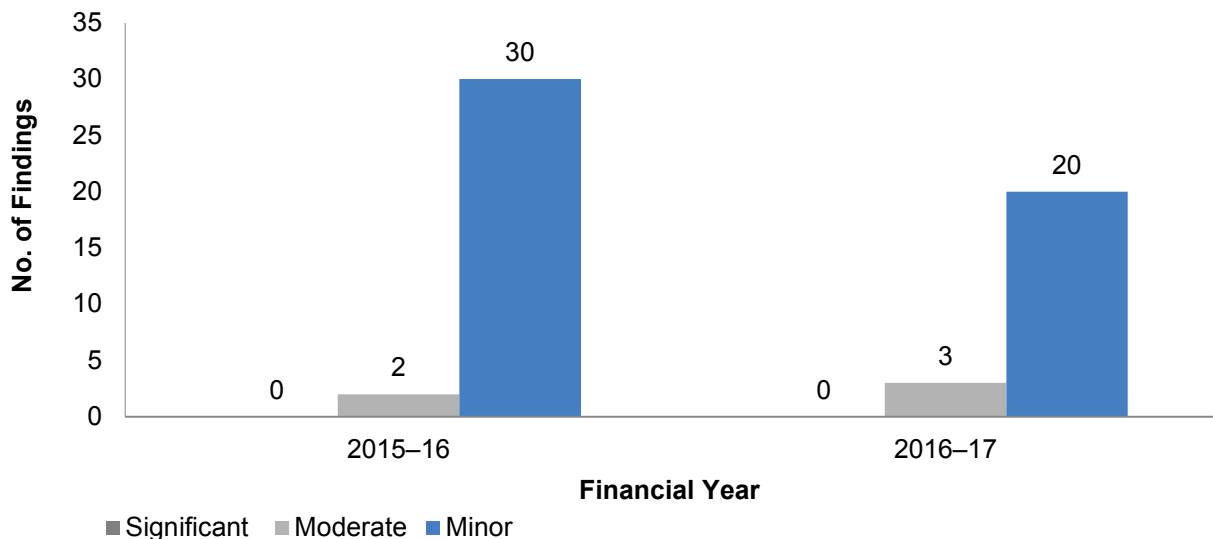
- maintaining effective governance arrangements over third party or joint service delivery arrangements;
- the risk management arrangements that support the effective engagement with risk in the delivery of programs; and
- implementing effective quality assurance processes over key financial statements inputs particularly those subject to professional judgement and uncertainty.

Accounting and control of non-financial assets

2.70 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.

2.71 The number of audit findings related to entities' management of non-financial assets between 2015–16 and 2016–17 is presented in Figure 2.9.

Figure 2.9: Accounting and control of non-financial assets audit findings



2.72 The two moderate audit findings reported in 2015–16 in relation to the Department of Defence have been reclassified to minor audit findings at the conclusion of the 2016–17 audit. Further detail regarding these findings can be found at paragraphs 4.4.25 to 4.4.26 and 4.4.29 to 4.4.30.

2.73 The three moderate audit findings reported in 2016–17 relate to the: Australian Transaction Reports and Analysis Centre (paragraphs 4.2.84 to 4.2.86); Department of Defence (paragraphs 4.4.18 to 4.4.20); and Director of National Parks (paragraphs 4.7.53 to 4.7.55).

2.74 The common weaknesses identified in this category related to entities' processes for:

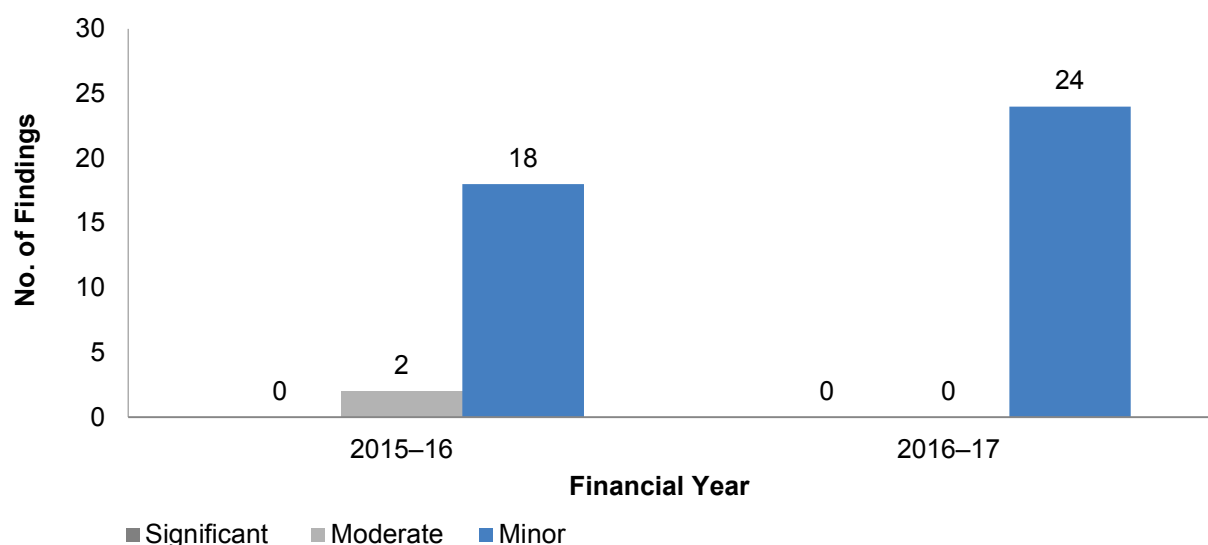
- monitoring assets under construction and capitalisation of project costs;
- valuation adjustments and assessments for impairment of assets and restoration obligations;
- inventory management; and
- stocktake procedures.

Revenue, receivables and cash management

2.75 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.

2.76 Figure 2.10 outlines trends in findings related to revenue, receivables and cash management identified between 2015–16 and 2016–17.

Figure 2.10: Revenue, receivables and cash management audit findings



2.77 No moderate audit findings were reported in 2016–17, compared to two in 2015–16. One finding relating to the Royal Australian Mint was resolved (paragraphs 4.17.117 to 4.17.119); and one moderate audit finding relating to the Department of Health (paragraphs 4.10.18 to 4.10.19) was reclassified to a minor audit finding in 2016–17.

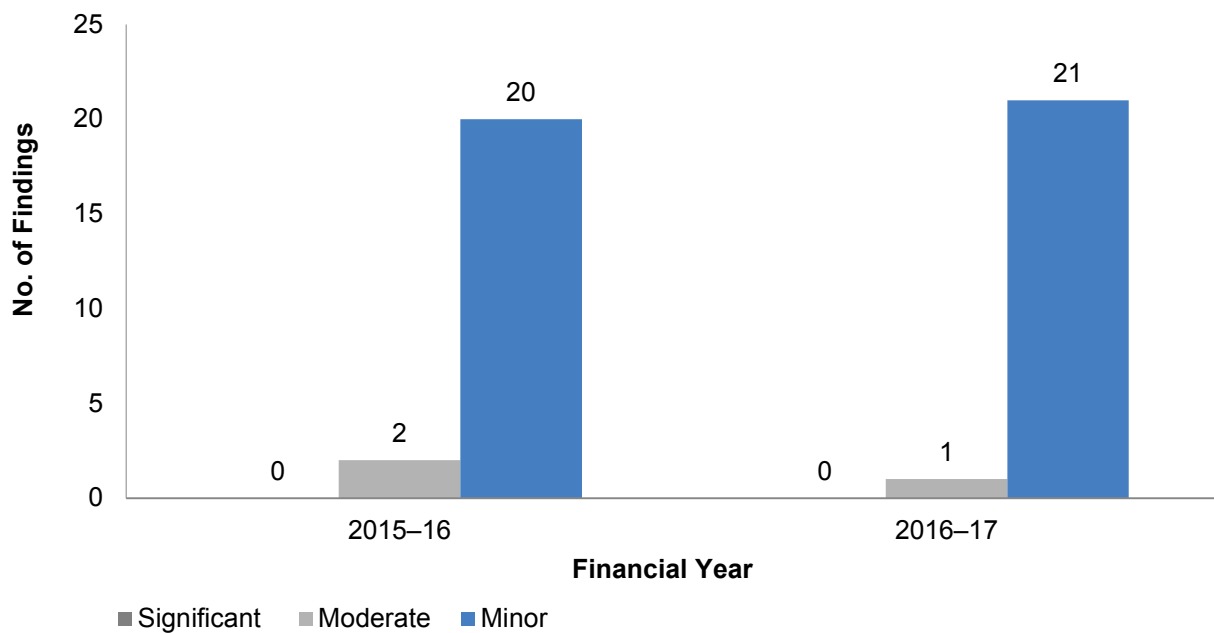
2.78 The increase in minor audit findings of approximately 33 per cent indicates there remains a need for entities to focus greater attention on controls in relation to revenue and cash management processes. Common areas for entities to continue to improve include:

- 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

2.79 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. Employee entitlement liabilities are typically a significant estimate and involve judgement.

Figure 2.11: Human resources financial processes audit findings



2.80 The two moderate audit findings identified during 2015-16 were resolved. These findings related to: the Department of Immigration and Border Protection (paragraphs 4.11.24 to 4.11.26); and the National Disability Insurance Agency (paragraphs 4.16.71 to 4.16.74).

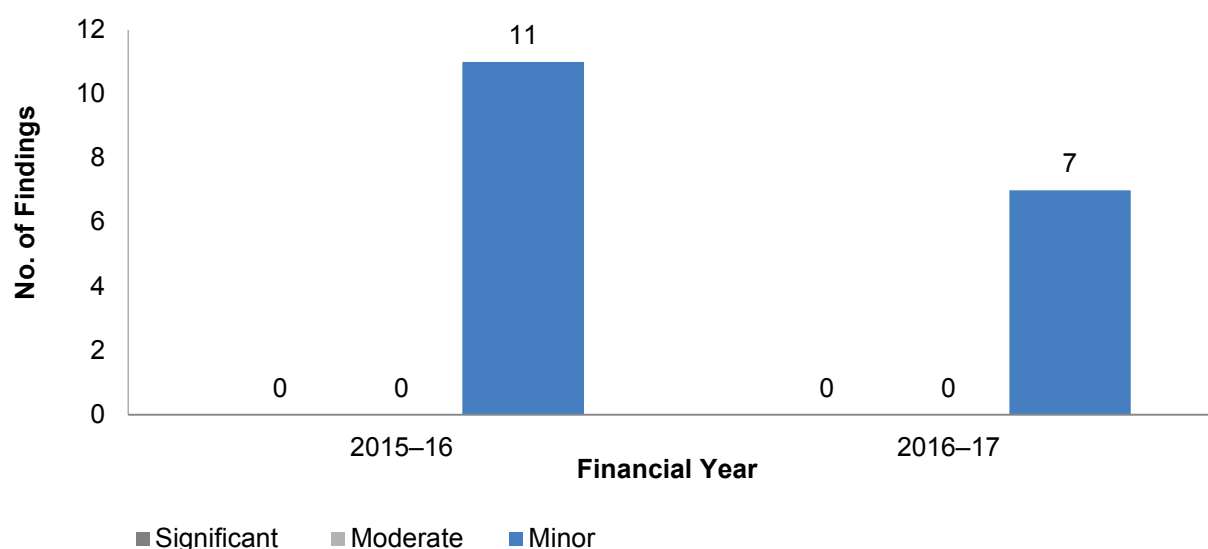
2.81 The moderate audit finding reported in 2016-17 related to the Department of the Prime Minister and Cabinet (paragraphs 4.15.17 to 4.15.18).

2.82 Weaknesses reported in this category related to:

- the valuation and management of employee entitlements; and
- quality review processes supporting employee commencements and terminations.

Purchases and payables management

2.83 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 2015-16 and 2016-17 is outlined in Figure 2.12.

Figure 2.12: Purchases and payables management audit findings

2.84 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 11 to seven between 2015-16 and 2016-17. Of those minor findings, the most common areas for improvement by entities were:

- procurement and contract management;
- processes supporting the authorisation of expenditure, including maintaining proper segregation of duties; and
- maintenance of vendor records.

Contractor and consultant expenses

2.85 The Joint Committee of Public Accounts and Audit (JCPAA) recommended that the Department of Finance note the Committee proposes as part of the independent review of the PGPA Act that the reporting on contracts, contractors and consultancies under the annual report provisions of the *Public Governance, Performance and Accountability Rule 2014* (the PGPA Act) and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (the FRR) be considered.²⁰

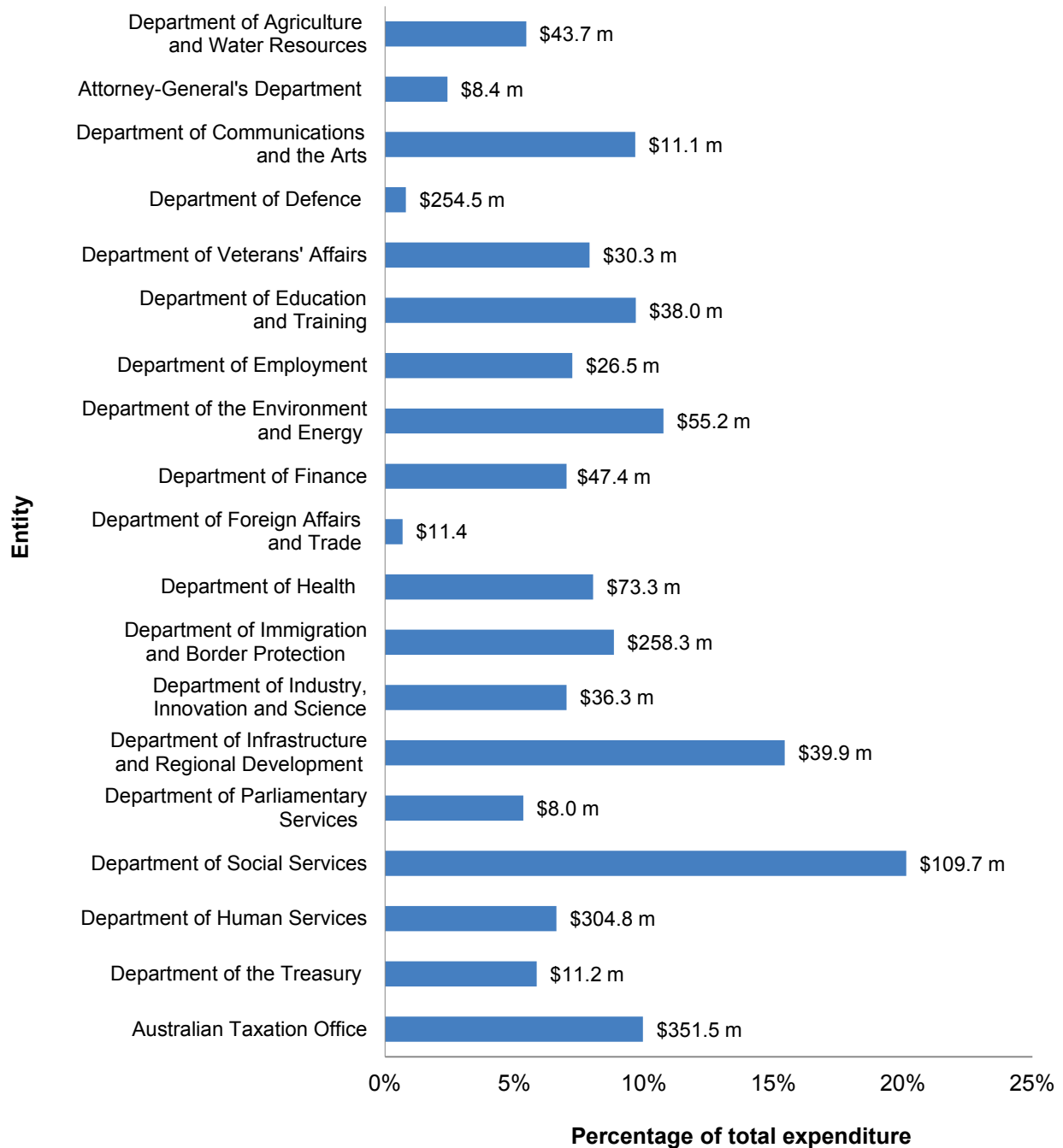
2.86 The ANAO considered the financial statements of the 25 entities included in ANAO Audit Report No 60 *Interim Report on Key Financial Controls of Major Entities*. The FRR does not specify the level of disaggregation in the financial statements note disclosure relating to supplier expenses. The 2016-17 financial statements of six of these entities²¹ did not disaggregate contractor expenses and have been excluded from the analysis.

20 Joint Committee of Public Accounts and Audit (JCPAA) Report 463: Commonwealth Financial Statements *Inquiry based on Auditor-General's report 33 (2016-17)* Recommendation 6.

21 Australian Office of Financial Management; Australian Postal Corporation; Future Fund Management Agency and the Board of Guardians; nbn co limited; the Department of the Prime Minister and Cabinet; and the Reserve Bank of Australia.

2.87 The ANAO examined the note disclosures in the 2016–17 financial statements of these entities and extracted information relating to departmental contractors²² and total expenses. Figure 2.13 provides a summary of the 2016–17 contractor expenses against total expenses.

Figure 2.13: Entities' expenses on contractors



Source: Entities 2016–17 audited financial statements.

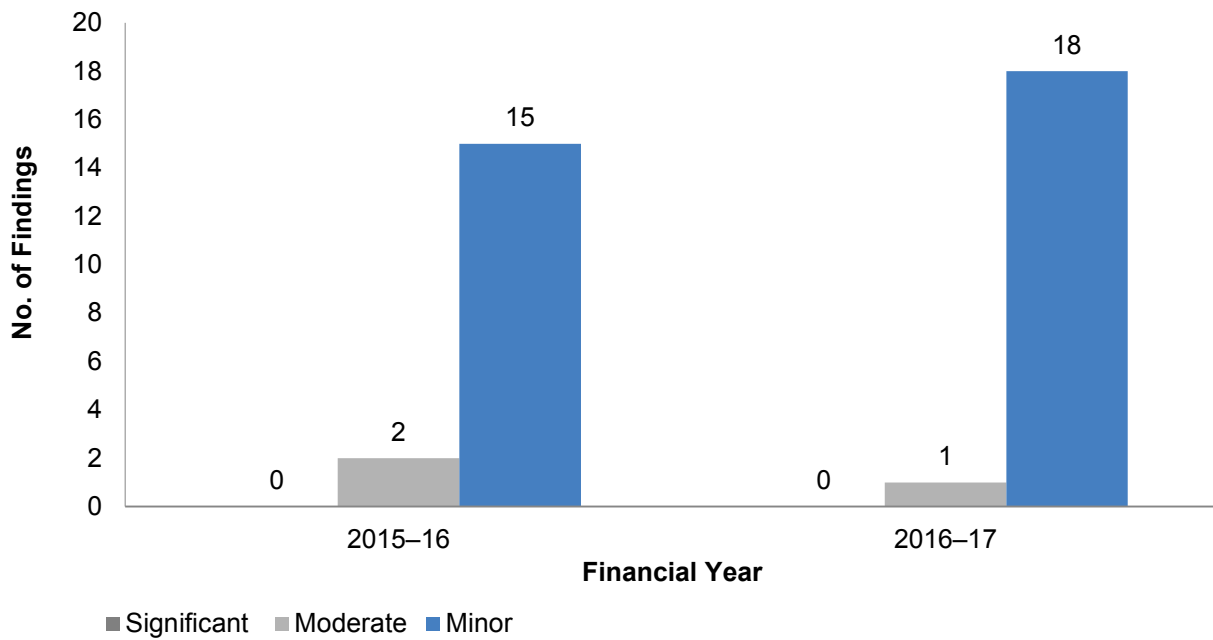
22 References to contractors include consultants.

2.88 In 2016–17 entities incurred contractor expenses ranging from \$8.0 million to \$406.5 million. Contractor expenses ranged from 0.7 per cent to 20.1 per cent of total expenses.

Other audit findings

2.89 Other audit findings typically include items regarding the: management and implementation of service level agreements or memoranda of understanding, particularly those related to external service providers; updating or maintaining key governance documentation; and findings related to presentation and disclosure in the financial statements. Figure 2.14 demonstrates the trend in this finding category between 2015–16 and 2016–17.

Figure 2.14: Other audit findings



2.90 The moderate audit findings reported in 2015–16 related to the Australian Taxation Office and the Department of Immigration and Border Protection have now been resolved.

2.91 The 2016–17 moderate audit finding relates to the Department of Immigration and Border Protection, refer to paragraphs 4.11.18 to 4.11.19.

3. Reporting and auditing frameworks

Chapter coverage

This Chapter outlines recent and future changes to the public sector reporting framework.

Summary of developments

The adoption of AASB 1053 *Application of Tiers of Accounting Standards* by the Commonwealth has been instrumental in supporting Commonwealth entities' efforts to remove unnecessary disclosures and clutter from financial statements to make financial statements more accessible and relevant to users.

There are no significant accounting standards changes for the Commonwealth public sector for 2017–18. Major changes in accounting standards will be applicable in 2018–19 and 2019–20 with the implementation of revised standards for financial instruments, revenue and leases. Early engagement in planning for these standards will provide entities with more options for transitioning, time to review and potentially renegotiate underlying contracts and agreements and time to organise and implement necessary FMIS changes.

In May 2017, the Secretary of the Department of the Prime Minister and Cabinet wrote to portfolio secretaries inviting them to publish on their websites relevant information relating to the entity's remuneration of all executives and other highly paid staff each financial year starting from the 2016–17 reporting period. The Secretary also requested the assistance of portfolio secretaries in requesting the same reporting by all other entities and companies within their portfolios and that efforts be made to publish the information for 2016–17 by 31 July 2017. The request was made to 157 entities. Of these entities, 134 published the information and 68 published it in accordance with the requested timeframe.

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. As 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).

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

(AUASB). 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 2016–17 are illustrated in Appendices 3 and 4 of this report.

Current and proposed changes to the Australian public sector reporting framework

Reduced disclosure regime

3.6 Efforts to reduce the volume and complexity of disclosures in financial statements continue. Australian Accounting Standards (AAS) include a Reduced Disclosure Regime (RDR) option that allows for some specified disclosures to be omitted from the general purpose financial statements of certain entities. The Department of Finance allowed Commonwealth entities to apply RDR for the first time in 2016–17. In adopting RDR the Department of Finance directed that:

- The following entities were not permitted to apply RDR – these entities must comply with all AAS disclosure requirements in the preparation of their financial statements:
 - Australian National University;
 - Australian Office of Financial Management;
 - Australian Postal Corporation;
 - Comcare;
 - Commonwealth Superannuation Corporation;
 - Defence Housing Australia;
 - Export Finance and Insurance Corporation;
 - Future Fund Management Agency and the Board of Guardians; and
 - Reserve Bank of Australia.
- The following entities were permitted to apply RDR except for certain balances and transactions such as financial instruments and fair value measurement:
 - Airservices Australia;
 - Clean Energy Finance Corporation;
 - Department of Defence;
 - Department of Education and Training;
 - Department of Finance;
 - Department of Foreign Affairs and Trade;
 - Department of Industry, Innovation and Science; and
 - Department of the Treasury.

3.7 Simplification and decluttering are important considerations in making financial statements more accessible and relevant to users. The ANAO supports these initiatives, to the extent that the needs of the Parliament are met.

Future changes to accounting standards

3.8 Public sector entities will need to prepare for a number of new standards for 2018–19 and 2019–20. These new standards represent major revisions to existing standards for financial instruments, revenue and leases. The effort and time required to transition to these new standards should not be underestimated with preparers required to develop business models, write new accounting policies, revise existing accounting policies, undertake a review of all the underlying contracts and in some instances consider amending contracts.

Financial instruments

3.9 The new financial instruments standard (AASB 9) is effective for financial years commencing on or after 1 January 2018, meaning it will impact most entities in 2018–19. AASB 9 moves away from recognition and disclosure primarily determined by the type of instrument to recognition and disclosure determined in large part by an entity's purpose for acquiring and holding the instrument. As a consequence entities holding financial instruments with a business objective linked to government policy will need to document and disclose the government policy.

3.10 AASB 9 amends the existing historical approach to assessing collectability to require entities to consider the financial capacity of the counter party to settle the obligation in the future. That is the focus moves from an incurred loss model of impairment to an expected loss model. This change will impact on arrangements where the risk of non-repayment has previously been managed via arrangements which operate to defer collection.

3.11 AASB 9 requires entities to choose between options when restating prior year comparatives upon initial adoption. Entities applying full retrospective application will need to establish accounting policies and valuations consistent with AASB 9 for balances at 1 July 2017 to enable comparative information to be disclosed. Alternatively, using one of the modified transition approaches will require entities to apply both the old and new accounting standards in the year of adoption, a requirement likely to have a significant impact on an entity's FMIS.

Revenue

3.12 The new revenue standard AASB 15 is effective for financial years commencing on or after 1 January 2019 for not-for-profit entities, meaning it will impact most Commonwealth entities in 2019–20. For-profit entities will apply the requirements from 1 January 2017. AASB 15 applies to all exchange transactions and provides a consistent approach to revenue recognition. The principle underpinning AASB 15 is that revenue is earned when the customer receives the goods or services that have been promised under the contract. AASB 15 will impact on entities where:

- An entity is given funding to provide goods or services to a third party - the entity will recognise revenue when the goods or services are provided to the third party. Prior to this revenue was recognised when the money was received from the funding provider.
- Entities with funding agreements that specify how the money is to be spent, not what goods or services are to be delivered, will either recognise revenue up front or have the revenue (and related expense) deferred until the contract is completed.
- As both revenue and the related expense are deferred until the goods or services are delivered entities with significant non-appropriation revenue are likely to see an impact on their balance sheet and operating result, particularly for long term projects with a significant delay between establishment and initial delivery.

Leases

3.13 The revised leasing standard AASB 16 is effective for financial years commencing on or after 1 January 2019, meaning it will impact most entities in 2019-20. AASB 16 will significantly increase the recognition and disclosure of leases by lessees with the majority of leases currently treated as operating leases brought onto the balance sheet. This balance sheet impact will be limited to the extent that the lessee recognises a right-of-use asset along with the contractual liability to make payments which are largely offsetting.

3.14 Transitioning to AASB 16 will be a time consuming task for those entities with significant numbers of operating leases as entities will need to review all lease agreements to identify the right-of-use asset, unbundle any service arrangements and identify where the lease payments are significantly below market value. Lessees should also consider that AASB 16 requires entities to include contingent rents on initial measurement of the asset and liability and subsequently remeasure the lease asset and liability as the contingent rent varies.

Other reporting matters

3.15 The ANAO reported in ANAO Report No. 60 2016–17 *Interim Report on Key Financial Controls of Major Entities* that the Minister for Finance and the Secretary of the Department of the Prime Minister and Cabinet requested respectively government business enterprises (GBEs) and government entities to provide additional information relating to senior management personnel remuneration on their websites.

3.16 In February 2017, the Minister for Finance wrote to the boards of GBEs and the Future Fund Management Agency and the Board of Guardians (FFMA) requesting the entities to make public remuneration packages of individuals who constitute the executive management for the 2015–16 reporting period. These entities were requested to continue this reporting in the 2016–17 annual report. All entities complied with these requests.

3.17 In May 2017, the Secretary of the Department of the Prime Minister and Cabinet wrote to portfolio secretaries inviting them to publish on their website relevant information relating to the entity's remuneration of all executives and other highly paid staff each financial year starting from the 2016–17 reporting period. The Secretary also requested the assistance of portfolio secretaries in requesting the same reporting by all other entities and companies within their portfolio and that efforts be made to publish the information for 2016–17 by 31 July 2017.

3.18 The ANAO examined²³ the executive remuneration reporting of 157 entities²⁴ in light of these requests. The ANAO considered whether the entity had published the requested information and when it was published.²⁵ Table 3.1 provides a summary of the results.

23 The ANAO examination did not constitute audit procedures over the information published.

24 The following entities were not required to publish this information: Australian National University; Australian Secret Intelligence Service; the Departments of: Parliamentary Services; House of Representatives; and Senate; High Court of Australia; the Parliamentary Budget Office; and subsidiary entities.

25 The ANAO considered information published by entities up to 31 October 2017.

Table 3.1: ANAO analysis of entities' 2016–17 executive remuneration reporting

	Total number of entities	Entities that did not publish requested information	Entities that did not publish by 31 July
Material entities	58	3	30
Non-Material entities	99	20	36
Total	157	23	66

Source: Entities' annual reports, websites and/or as advised by the entity.

3.19 Table 3.1 shows that three material and 20 non-material entities did not publish executive remuneration information.²⁶ These entities advised the ANAO that this was due to:

- two entities were not aware of the request;²⁷
- privacy considerations;²⁸
- the current reporting in the financial statements, separately provided on the website, was considered adequate (Fisheries Research and Development Corporation);
- the current reporting in the financial statements was considered adequate (National Competition Council and Productivity Commission);
- the reporting did not add additional information as all executives were appointed under the remuneration tribunal;²⁹ and
- the decision to publish the requested information in the annual report (Cotton Research and Development Corporation) or on the website at the time of tabling the annual report (the Australian Grape and Wine Authority).

3.20 Of the 134 entities that published the information, the ANAO observed that 68 entities (approximately 50 per cent) published the information by 31 July with a further 36 (approximately 27 per cent) published in August. Figure 3.1 provides a summary of the entity reporting timeframes.³⁰

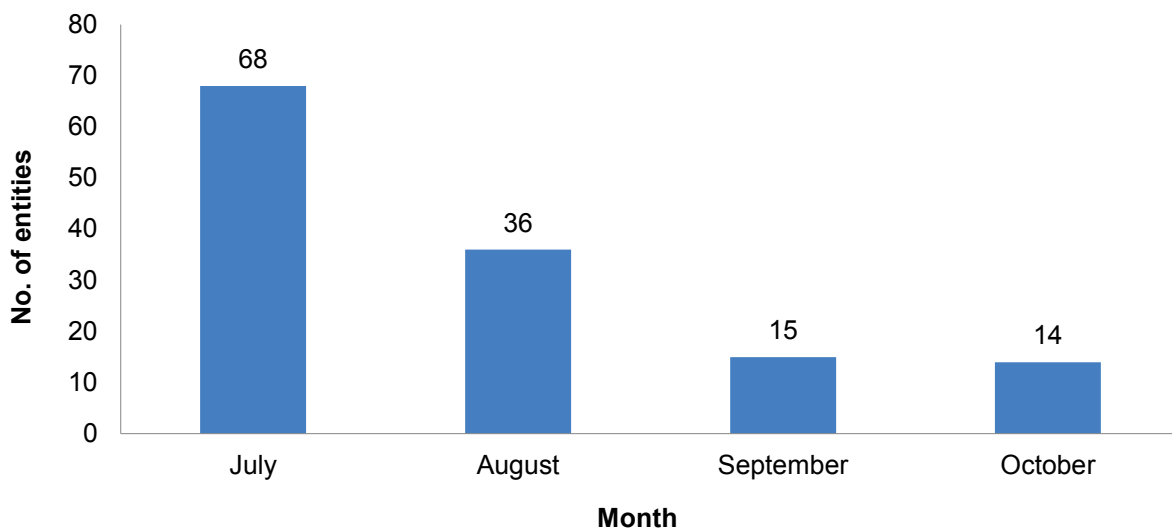
26 Op cit (refer footnote 23 on pg. 49).

27 Australian Strategic Policy Institute Ltd and National Capital Authority.

28 Australian Competition and Consumer Commission; Australian Human Rights Commission; Australian Office of Financial Management; Australian Pesticides and Veterinary Medicines Authority; Australian Skills Quality Authority; Australian Sports Foundation Limited; Australian Transport Safety Bureau; Australian War Memorial; Central Land Council; Old Parliament House; Outback Stores Pty Ltd; Royal Australian Mint; Rural Industries Research and Development Corporation; and Wreck Bay Community Council.

29 Northern Land Council and Tiwi Land Council.

30 Coal Mining Industry (Long Service Leave Funding) Corporation published this information on 3 November 2017.

Figure 3.1: Timeliness of executive remuneration reporting by entities

Source: ANAO analysis of entity website and information provided by entities.

3.21 The Secretary's letter requested the information to be disclosed permanently on the websites of entities using a standardised reporting format. The guidance suggested disclosure of remuneration at an aggregate level within dollar ranges (or bands) providing the number of employees within each band. The guidance noted that the format may need to be adjusted to take into consideration privacy matters. The format requested the average, by band, for the following components: reportable salary; contributed superannuation; allowances; bonuses paid; and the total remuneration. The ANAO noted that four entities did not provide a breakdown of the components within the remuneration package.³¹

3.22 Remuneration disclosures on entities' websites do not form part of the financial statements. The disclosures provide additional information on matters not required in financial statements, where an independent audit is mandatory.

31 The Australian Aged Care Quality Agency; Australian Institute of Health and Welfare; Australian Organ and Tissue Donation and Transplantation Authority; and the Australian Research Council.

4. Results of financial statements audits by portfolio

Chapter coverage

This Chapter outlines the results of the audits of the 2016–17 financial statements of individual entities by portfolio based on arrangements existing at 30 June 2017.

The Chapter also details:

- An overview of the portfolio and each material entity's primary role;
- for each material entity^(a) in the portfolio:
 - a summary of financial performance that provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statement items and commentary regarding significant movements; and
 - key areas of financial statements risk and the factors contributing to those risks for all material entities (this includes identification of Key Audit Matters for relevant entities); and
- the status of significant and moderate audit findings reported during 2016–17 and previous years for all entities.

Audit results

Twenty-two significant and moderate audit findings were reported in 2016–17 (2015–16: 27)^(b), and three significant legislative breaches (2015–16: two).

Note a: Three subsidiary entities classified by the Department of Finance as material are not separately detailed in this Chapter as the entities results are reflected in the commentary relating to the parent entity. These entities are: ANSTO Nuclear Medicine Pty Ltd (consolidated into Australian Nuclear Science and Technology Organisation); CSIRO General Partner Co Pty Ltd (consolidated into Commonwealth Scientific and Industrial Research Organisation); and Voyages Indigenous Tourism Australia (consolidated into Indigenous Land Corporation).

Note b: The 36 audit findings reported in Audit Report No. 33 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2016* included two significant audit findings and five moderate audit findings related to the Administration of Norfolk Island and two moderate audit findings related to Norfolk Island Hospital Enterprise. These entities were not subject to ANAO mandated financial statements audit in 2016–17 and the 2015–16 findings have been adjusted to remove these findings.

Results of financial statements audits

4.0.1 A central element of the ANAO's financial statements audit methodology, and the focus of the planning phase of the ANAO audits, is a sound understanding of an entity's environment and internal controls relevant to assessing the risk of material misstatement in the financial statements. This understanding informs the ANAO's audit approach, including the reliance that may be placed on entity systems to produce financial statements that are free from material misstatement. The interim phase of the audit assesses the operating effectiveness of controls. In the final audit phase the ANAO completes its assessment of the effectiveness of controls for the full year, substantively tests material balances and disclosures in the financial statements, and finalises its audit opinion on the entity's financial statements.

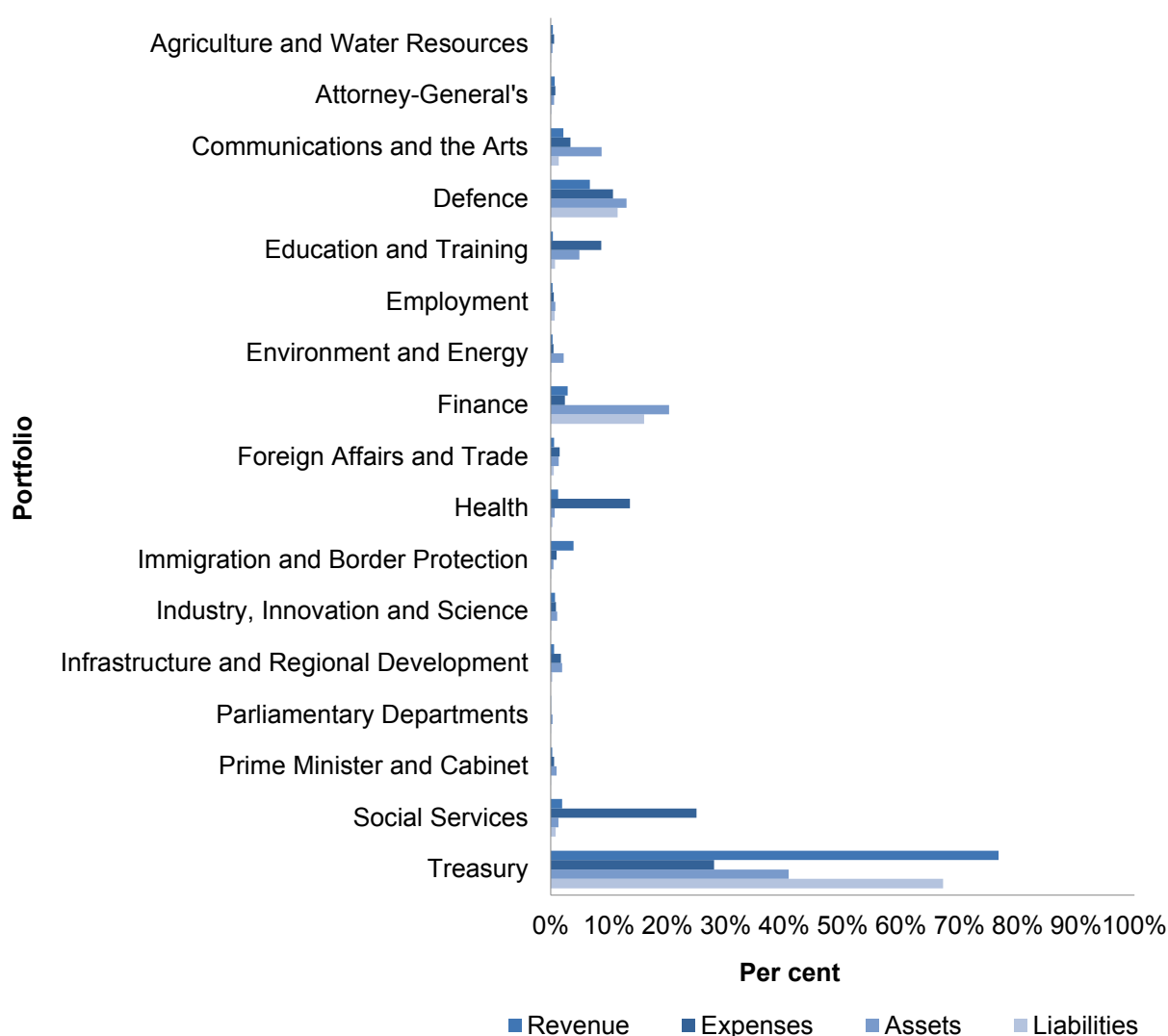
4.0.2 In accordance with generally accepted auditing practice, the ANAO accepts a low level of risk that the audit procedures will fail to detect that the financial statements are materially

misstated. This low level of risk is accepted because it is too costly to perform an audit that is predicated on no level of risk. Specific audit procedures are performed to ensure that the risk accepted is low. These procedures include: obtaining knowledge of the entity and its environment, reviewing the operation of internal controls, undertaking analytical reviews, testing a sample of transactions and account balances, and confirming significant year end balances with third parties.

4.0.3 The observations of performance audits tabled since 1 July 2017 and relevant to the financial management or administration of entities will inform the ANAO's 2017–18 financial statements audits risk identification process.

4.0.4 Figure 4.0.1 provides each portfolio's contribution, as a per cent, to the Australian Government's 2016–17 Consolidated Financial Statements.

Figure 4.0.1: Portfolio's contribution as a per cent of the Australian Government's 2016–17 Consolidated Financial Statements³²



Source: ANAO analysis of CFS and Portfolio's financial statements for the year ended 30 June 2017.

³² Portfolio's contributions have not been adjusted to eliminate inter-governmental transactions.

4.0.5 This Chapter reflects portfolio arrangements at 30 June 2017 as established by the September 2016 Administrative Arrangements Order³³ and outlines the following information:

- the portfolio overview;
- for each material entity within the portfolio:
 - the primary role of the entity;
 - a summary of financial performance that provides a comparison of the 2015–16 and 2016–17 key financial statement items³⁴ and commentary regarding significant movements;
 - key areas of financial statements risk; and
- the status of significant and moderate audit findings during 2016–17 and previous years for all entities.

4.0.6 Table 4.0.1 presents a summary of significant and moderate findings reported at 30 June 2017 and 30 June 2016 by portfolio and entity, including the number carried forward as unresolved from the previous year. Table 4.0.1 does not include significant legislative breaches. Two significant legislative breaches were reported in relation to the Northern Land Council (paragraphs 4.15.38 to 4.15.44) and one significant legislative breach in relation to the Corporations and Markets Advisory Committee (paragraph 4.17.108 to 4.17.112).

33 A full listing of entities is presented at Appendix 1.

34 These tables may contain rounding differences as a result of rounding of individual financial statement balances.

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

Portfolio	Entity	30 June 2017		30 June 2016 ^(a)	
		Findings ^(b)	Repeat/ unresolved findings ^(c)	Findings ^(b)	Repeat/ unresolved findings ^(c)
Attorney-General's	Attorney-General's Department	–	–	1	1
	Australian Federal Police	3	–	–	–
	Australian Transaction Reports and Analysis Centre	1	–	–	–
Communications and the Arts	Australian Film, Television and Radio School	–	–	1	–
Defence	Department of Defence	2	–	4	2
	Defence Housing Australia	–	–	1	–
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 and Registered Organisations	–	–	1	–
Environment and Energy	Director of National Parks	2	–	–	–
Health	Department of Health	–	–	1	–
	Australian Digital Health Agency	1	–	–	–
	National Health and Medical Research Council	1	–	–	–
Immigration and Border Protection	Department of Immigration and Border Protection	2	–	3	2
Industry, Innovation and Science	Department of Industry, Innovation and Science	–	–	1	–

Portfolio	Entity	30 June 2017		30 June 2016 ^(a)	
Infrastructure and Regional Development	Airservices Australia	1	–	–	–
Prime Minister and Cabinet	Department of the Prime Minister and Cabinet	1	–	–	–
Social Services	National Disability Insurance Agency	7	1	3	1
Treasury	Australian Taxation Office	1	–	4	–
	Royal Australian Mint	–	–	2	–
Total		22	1	27	7

Note a: The summary of significant and moderate audit findings at 30 June 2016 has been adjusted to remove findings relating to the Administration of Norfolk Island and Norfolk Island Hospital Enterprise which were not ANAO mandated financial statements audits in 2016–17.

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

Note c: 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.

Source: 2016–17 and 2015–16 ANAO correspondence.

4.1 Agriculture and Water Resources Portfolio

Reporting Entity	Material Entity	Risk of material misstatement	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Agriculture and Water Resources	Yes	Moderate	✓	31 Aug 17	1 Sept 17	Nil
Grains Research and Development Corporation	Yes	Low	✓	14 Aug 17	15 Aug 17	Nil

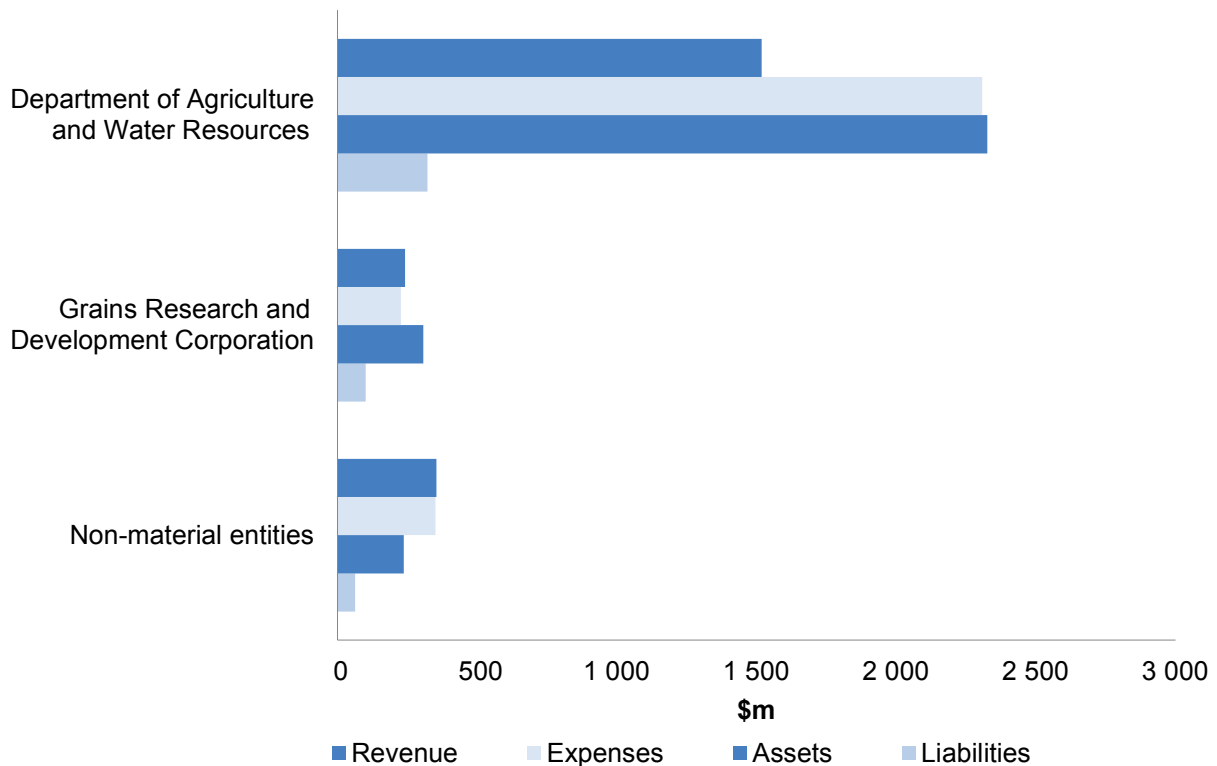
✓: auditor's report not modified

Portfolio overview

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

4.1.2 Figure 4.1.1 shows the Agriculture and Water Resources Portfolio's revenue, expenses, assets and liabilities.

Figure 4.1.1: Agriculture and Water Resources Portfolio’s revenue, expenses, assets and liabilities³⁵



Source: 2016–17 CFS.

4.1.3 The following sections provide a summary of the 2016–17 financial statements audit results for the Department of Agriculture and Water Resources (Agriculture) and the other material entity in the portfolio, Grains Research and Development Corporation. No performance audit reports were tabled during 2016–17 that impacted the financial statements audit approach for these entities.

Department of Agriculture and Water Resources

4.1.4 The department’s core areas of responsibility are 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.

Summary of financial performance

4.1.5 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by Agriculture, and includes commentary regarding significant movements between years contributing to overall performance.

³⁵ Figure 4.1.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

Table 4.1.1: Departmental key financial statements items

Departmental key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	379.7	358.1
Revenue from Government	375.7	338.5
Deficit attributable to the Government	4.1	19.6
Total other comprehensive income/(loss)	1.6	(2.0)
Total comprehensive loss attributable to the Australian Government	2.4	21.6
Total assets	316.5	304.3
Total liabilities	218.7	228.5
Total equity	97.8	75.8

Source: Agriculture's financial statements for the year ended 30 June 2017.

4.1.6 The net cost of services increased as a result of increases in employee expenses and supplier expenses. The employee expenses primarily increased due to the full year impact of staff transferred under the September 2015 Machinery of Government changes. The increase in Agriculture's supplier expenses was primarily due to additional spending on contractors and consultants for new projects, including the Biosecurity Advanced Analytics initiative undertaken in 2016–17.

4.1.7 Revenue from Government increased due to the appropriations increase following the September 2015 Machinery of Government changes.

4.1.8 Total equity increased primarily due to capital injections received in 2016–17 for improved integration, automation and efficiency of systems supporting biosecurity and Australia's access to international agriculture markets. Total assets increased due to unspent appropriations relating to these systems and are expected to be utilised in 2017–18.

Table 4.1.2: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	1 505.6	1 180.3
Total income	721.0	654.4
Deficit	784.6	525.9
Total other comprehensive income	35.9	20.7
Total comprehensive loss	748.8	505.1
Total assets administered on behalf of Government	2 010.4	1 732.7
Total liabilities administered on behalf of Government	103.8	138.9
Net assets	1 906.5	1 593.8

Source: Agriculture's financial statements for the year ended 30 June 2017.

4.1.9 Agriculture’s administered expenses increased primarily due to an increase in expenditure under existing grant programs, increase in payments to corporate Commonwealth entities and higher levy disbursements in the wheat, grains and oil seed commodity sectors.

4.1.10 Total administered income increased primarily due to gains recognised on the acquisition of water entitlements and increased levies revenue as a result of higher production levels due to favourable seasonal conditions from the wheat, grain and oil seed commodity sectors.

4.1.11 Total administered assets increased due to additional lending to farmers associated with drought relief programs and increases in cash held in the Water for the Environment Special Account.

Key areas of financial statements risk

4.1.12 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of Agriculture’s financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.1.3, including which areas were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.1.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Departmental Sale of goods and rendering of services revenue \$389.2 million	Accuracy and completeness of export and quarantine revenue KAM	Higher	<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 is performed 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.
Administered levies fees and charges ^a \$555.4 million	Accuracy and completeness of primary industry levies, fees and charges revenue KAM	Moderate	<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.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered levy disbursements and Commonwealth contributions ^a \$826.0 million	Accuracy and completeness of levy disbursements and Commonwealth contributions KAM	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.
Administered drought and farm finance assistance loans \$696.5 million	Valuation of loans KAM	Moderate	<ul style="list-style-type: none"> • 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 with farm businesses is undertaken by state jurisdictions, who are responsible for the approval of recipients, and the ongoing monitoring and maintenance of the loans.
Administered assets recognised under jointly controlled arrangements \$657.2 million ^b	Valuation of jointly controlled assets KAM	Moderate	<ul style="list-style-type: none"> • Jointly controlled assets are managed by a third party with limited oversight from joint venturers; and • the complexities involved in valuing the unique assets managed under the arrangement.
Administered personal benefit payments \$60.8 million	Eligibility of recipients for personal benefits payments	Moderate	<ul style="list-style-type: none"> • Susceptibility to fraudulent benefit claims; and • eligibility for personal benefits paid by a third party under the farm household allowance scheme is subject to the applicants meeting a number of complex legislative requirements.
Administered grant expenses \$304.0 million	Accuracy and occurrence of grants and funding assistance payments	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; • payment functions for most grants is undertaken by Agriculture using third party systems; and • complexities arising from the valuation and accounting for water entitlement assets that are acquired under water infrastructure grant programs.

Note a: Administered taxation revenue and administered levy disbursements and Commonwealth contributions were presented as a single Key Audit Matter in the 2016–17 ANAO auditor's report.

Note b: This risk was identified following the completion of the interim audit phase.

Source: ANAO 2016–17 audit results, and Agriculture’s financial statements for the year ended 30 June 2017.

4.1.13 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 Agriculture’s 2016–17 financial statements.

Audit results

4.1.14 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Grains Research and Development Corporation

4.1.15 The Grains Research and Development Corporation (GRDC) is a not-for-profit entity established to enhance the productivity, competitiveness and environmental sustainability of Australian grain growers and benefit the industry and wider community, through planning, managing and implementing investments in grains research and development.

Summary of financial performance

4.1.16 The following section provides a comparison of the 2015–16 and 2016–17 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	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	58.5	84.3
Revenue from Government	73.3	70.2
Surplus/(deficit) attributable to the Government	14.7	(14.1)
Total other comprehensive loss	0.5	0.2
Total comprehensive income/(loss) attributable to the Australian Government	14.3	(14.3)
Total assets	307.2	271.9
Total liabilities	101.4	84.4
Total equity	205.8	187.5

Source: GRDC’s financial statements for the year ended 30 June 2017.

4.1.17 The net cost of services decreased as a result of increases in industry contributions and royalties. This was also the reason for the improved surplus position at 30 June 2017. The industry contributions increased mainly due to high levels of grains production in 2016–17. The royalties increased mainly due to the increase in recognition of wheat royalties owing from other companies in 2016–17 as a result of high production levels.

4.1.18 The assets increased mainly due to an increase in investments in managed funds as a result of more cash receipts from industry contributions.

4.1.19 The liabilities increased primarily due to an increase in research and development liabilities as a result of higher accrued liabilities for a number of high value infrastructure related projects at 30 June 2017.

Key areas of financial statements risk

4.1.20 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of GRDC's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.1.5. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.1.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
All financial statement line items	Accuracy of financial information following implementation of a new financial management information system	Moderate	<ul style="list-style-type: none"> The migration of data from the old system to the new system is a complex process.
Research and development expenses \$198.1 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.
Investments in managed funds \$225.2 million	Valuation of investments	Moderate	<ul style="list-style-type: none"> The value of investments is influenced by external factors such as volatility in financial markets; and the process for valuing investments involves judgment and estimation.
Loss on deconsolidation \$4.1 million	De-consolidation of the Grains and Cropping R&D Trust (the Trust)	Moderate	<ul style="list-style-type: none"> Complex accounting for derecognition of the Trust; and additional financial statements disclosure required in relation to the derecognition of the Trust.

Source: ANAO 2016–17 audit results, and the GRDC's financial statements for the year ended 30 June 2017.

4.1.21 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 GRDC's 2016–17 financial statements.

Audit results

4.1.22 There were no significant or moderate audit findings arising from the 2015–16 and 2016–17 financial statements audit.

4.2 Attorney-General's Portfolio

Reporting Entity	Material Entity	Risk of material misstatement	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Attorney-General's Department	Yes	Moderate	✓	25 Aug 17	28 Aug 17	Nil
Australian Federal Police	Yes	Low	✓	7 Sept 17	7 Sept 17	◆
Australian Financial Security Authority	No	Moderate	✓	22 Sept 17	22 Sept 17	□
Australian Security Intelligence Organisation	Yes	Moderate	✓	24 Aug 17	24 Aug 17	Nil
Australian Transaction Reports and Analysis Centre	No	Low	✓	15 Sept 17	15 Sept 17	◆
Federal Court of Australia	Yes	Low	✓	1 Sept 17	1 Sept 17	Nil
High Court of Australia	Yes	Low	✓	31 Aug 17	31 Aug 17	Nil
National Archives of Australia	Yes	Low	✓	1 Sept 17	1 Sept 17	Nil
Office of the Director of Public Prosecutions	No	Low	✓	22 Sept 17	22 Sept 17	□

✓: 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 2016–17 interim audit phase, now reclassified or resolved

Portfolio overview

4.2.1 The Attorney-General's Department (AGD) is the lead entity in the portfolio and 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.

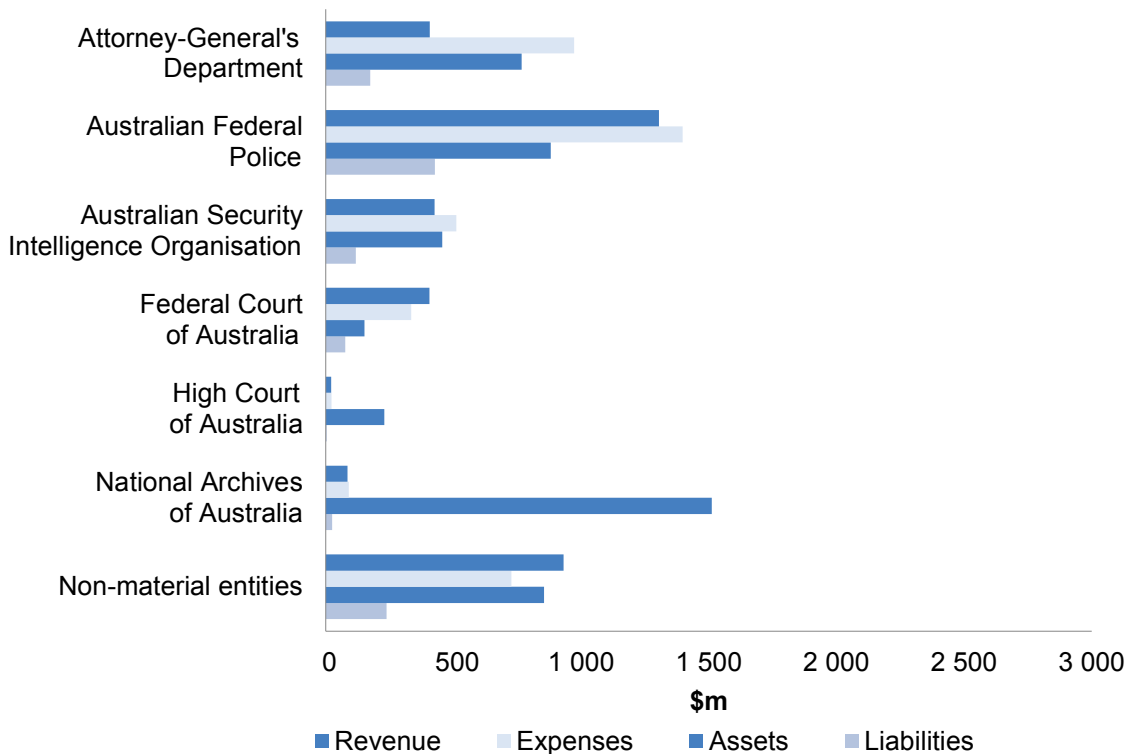
4.2.2 In addition to the department, 16 entities within the portfolio deliver programs and initiatives across a number of outcomes that reflect the government's priorities in relation to law and justice, emergency management, national security and criminal threats. The Attorney-General's portfolio has also recently implemented several significant amalgamations, including the:

- integration of the Australian Crime Commission and the CrimTrac Agency to form the Australian Criminal Intelligence Commission from 1 July 2016; and

- amalgamation of the corporate services of the Family Court and Federal Circuit Court with the Federal Court of Australia into a single administrative body, also with effect from 1 July 2016. The consolidation of these courts' corporate services follows the amalgamation of the Administrative Appeals Tribunal with the Migration Review Tribunal, the Refugee Review Tribunal and the Social Security Appeals Tribunal on 1 July 2015.

4.2.3 Figure 4.2.1 shows the Attorney-Generals' Portfolio's revenue, expenses, assets and liabilities.

Figure 4.2.1: Attorney-General's revenue, expenses, assets and liabilities³⁶



Source: 2016–17 CFS.

4.2.4 The following sections provide a summary of the 2016–17 financial statements audit results for the Attorney-General's Department, other material entities in the portfolio and audit findings relating to non-material entities. Where a performance audit was tabled during 2016–17 that was relevant to the financial management or administration of an entity, the impact of those observations on the audit approach are also discussed.

Attorney-General's Department

4.2.5 AGD's core areas of responsibility are provision of advice and services on a range of issues, including law and justice, national security, emergency management and disaster recovery,

³⁶ Figure 4.2.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

in addition to the management of State and Territory claims for payment under the Natural Disaster Relief and Recovery Arrangements.

Summary of financial performance

4.2.6 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by the Attorney-General's 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	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	192.2	206.6
Revenue from Government	199.9	194.0
Surplus/(deficit) attributable to the Government	7.7	(12.6)
Total other comprehensive loss	0.1	1.7
Total comprehensive income/(loss) attributable to the Australian Government	7.6	(14.3)
Total assets	274.7	235.3
Total liabilities	140.6	129.3
Total equity	134.1	106.0

Source: Attorney-General's Department's financial statements for the year ended 30 June 2017.

4.2.7 The decrease in the net cost of services is mainly due to a reduction in staff that resulted in a decrease in employee benefit expenses of \$24 million. This was partially offset by a write-down of assets of \$10.8 million that related to the transfer of AGD's leases in Barton, including the associated fitout assets to other Commonwealth entities.

4.2.8 The increase in revenue from government is due to new measures in the 2017 budget of 'Managing National Security Risks in Critical Infrastructure' and the 'Royal Commission into the Protection and Detention of Children in the NT'.

4.2.9 The increase in total assets largely reflects the increase in the available appropriations balance for anticipated payments required for projects and the higher cash balances held by AGD compared to the prior year.

4.2.10 The increase in total liabilities is largely due to higher level of activities and lease incentives received by AGD for entering new lease agreements for premises in Adelaide and Melbourne. These items have been partially offset by a reduction in the rent payables due to the transfer of the Barton leases mentioned above, the conclusion of the onerous lease provision relating to the Barton leases and reductions in income received in advance that principally relates to the provision of legal services.

Table 4.2.2: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	622.1	854.7
Total income	49.0	36.9
Deficit	573.2	817.8
Total other comprehensive income	5.9	21.6
Total comprehensive loss	567.3	796.2
Total assets administered on behalf of Government	492.0	461.4
Total liabilities administered on behalf of Government	33.3	28.3
Net assets	458.7	433.1

Source: Attorney-General's Department's financial statements for the year ended 30 June 2017.

4.2.11 The reduction in expenses is largely due to AGD's transfer of responsibility to the Department of Communications and the Arts for the Cultural agencies under the September 2015 Administered Arrangements Order. As a result, no payments to these corporate Commonwealth entities were made by AGD during 2016–17 compared to \$265.7 million in prior year. The decrease was partially offset by an increase in grants expense due to the commencement in 2016–17 of the Data Retention Programme.

4.2.12 The increase in income largely relates to the Northern Territory Government's contribution to the Royal Commission into the Protection and Detention of Children in the NT. This increase was partly offset by a reduction in the *Proceeds of Crime Act 2002* revenue in 2016–17.

4.2.13 Total assets increased principally due to the accrued receivable for the Northern Territory Government's contribution to the Royal Commission into the Protection and Detention of Children in the NT.

Key areas of financial statements risk

4.2.14 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the Attorney-General's Department's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.2.3, including which areas were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.2.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Grant expenses \$437.1 million Personal benefits payments \$28.2 million	Accuracy and occurrence of grants management and personal benefits payments KAM	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.
Departmental Sale of goods and rendering of services \$157.6 million	Revenue recognition and classification	Moderate	<ul style="list-style-type: none"> Australian Government Solicitor (AGS) revenue is derived from time recorded on matters and as a result revenue recognition and recovery is subject to management judgement.
All financial statement line items	Financial statements preparation, quality assurance and support processes	Moderate	<ul style="list-style-type: none"> Financial statements information for AGS is sourced from a separate information system.

Source: ANAO 2016–17 audit results, and the Attorney-General's Department's financial statements for the year ended 30 June 2017.

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 Attorney-General's Department's 2016–17 financial statements.

4.2.16 The following performance audit report was tabled during 2016–17 relevant to the financial management or administration of the Attorney-General's Department:

- ANAO Report No.12 2016–17 *The Design of, and Award of Funding Under, the Living Safe Together Grants Program*.

4.2.17 ANAO Report No. 12 2016–17 included observations relevant to the grant management risk outlined in Table 4.2.3. This report assessed the effectiveness of the design, and awarding of funding under, the Living Safe Together grants program.

Audit results

4.2.18 There were no significant or moderate audit findings arising from the 2016–17 financial statements audit.

4.2.19 The following table summarises the status of audit findings reported by the ANAO in 2016–17.

Table 4.2.4: Status of audit findings

Category	Closing Position (2015–16)	New Findings (2016–17)	Findings Resolved (2016–17)	Closing position (2016–17)
Significant (A)	0	0	0	0
Moderate (B)	1	0	1	0
Total	1	0	1	0

Source: ANAO 2016–17 audit results.

Resolved moderate audit finding

Management controls over the 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 AGD 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 \$704.9 million for future payments as at 30 June 2017.

4.2.22 The ANAO has noted that AGD has addressed the following key initiatives and has resolved this matter that was initially raised in 2014–15:

- implemented enhanced certification signoffs from the states and territories, to be accompanied by more comprehensive variance analysis;
- documented the State/Territory processes for collating and evaluating the NDRRA estimate; and
- undertaken collaborative audits with the States/Territories, designed to strengthen the validation of information used to support the NDRRA claims and estimates.

4.2.23 AGD has advised that it has designed the Disaster Recovery Funding Assurance Framework (the Framework) to support the assurance program for NDRRA financial claims by taking a risk based approach to the level of assurance activity required prior to acquitting State and Territory NDRRA financial claims. The Framework was endorsed by the AGD Executive Board in November 2017 and is being used to assess the 2015–16 and 2016–17 NDRRA financial claims from State and Territories.

Australian Federal Police

4.2.24 The core areas of responsibility of the Australian Federal Police (AFP) are to: enforce Commonwealth law; contribute to combatting complex, transnational, serious and organised crime; countering the threat of terrorism; and to protect Commonwealth interests in Australia and overseas. The AFP also has responsibility for providing policing services to the Australian Capital Territory and Australia’s territories.

Summary of financial performance

4.2.25 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by the Australian Federal Police, 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	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	1 103.3	1 129.6
Revenue from Government	1 021.3	1 006.0
Deficit attributable to the Australian Government	82.0	123.6
Total other comprehensive income	30.8	–
Total comprehensive loss attributable to the Australian Government	51.2	123.6
Total assets	880.8	791.7
Total liabilities	426.4	389.8
Total equity	454.4	401.9

Source: Australian Federal Police's financial statements for the year ended 30 June 2017.

4.2.26 The decrease in net cost of services is largely a result of reduction in employee expenses of \$52 million due to a decrease in employee numbers, the bond rate adjustment to employee provisions and a reduction in redundancies compared to 2015–16. This was slightly offset by higher supplier expenses. Additional revenue was received during the period for new operational requirements.

4.2.27 Total other comprehensive income for 2016–17 relates to the increase in the value of land and buildings and property, plant and equipment following a revaluation.

4.2.28 The increase in total assets relates primarily to the revaluation of \$38 million and an increase in receivables of \$45 million. The movement in receivables is a result of an increase in unspent appropriations of \$28 million relating to capital funding and an increase in other receivables of \$9 million, relating to compensation and reimbursements for injured AFP members.

4.2.29 The increase in total liabilities relates to an increase in the leased properties restoration obligations of \$9 million following the revaluation. An increase in supplier and other payables of \$21 million due to an increase in year-end activity across various business areas and projects.

Table 4.2.6: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	11.7	14.2
Total income	0.6	1.4
Deficit	11.2	12.8
Total other comprehensive income	-	-
Total comprehensive loss	11.2	12.8
Total assets administered on behalf of Government	0.1	0.1
Total liabilities administered on behalf of Government	1.1	1.2
Net liabilities	1.0	1.1

Source: Australian Federal Police's financial statements for the year ended 30 June 2017.

4.2.30 The decrease in total expenses is as a result of the wind down of the operations within the Regional Assistance Mission in the Solomon Islands during 2016–17.

Key areas of financial statements risk

4.2.31 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of Australian Federal Police's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2016–17 is provided in Table 4.2.7. No significant or moderate audit findings were identified relating to the key area of risk.

Table 4.2.7: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Departmental Employee benefits \$848.6 million	Recognition and measurement of payroll expenses.	Moderate	<ul style="list-style-type: none"> Size and complex remuneration structure.

Source: ANAO 2016–17 audit results, and the Australian Federal Police's financial statements for the year ended 30 June 2017.

4.2.32 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 Australian Federal Police's 2016–17 financial statements.

4.2.33 The following performance audit reports were tabled during 2016–17 relevant to the financial management or administration of the Australian Federal Police:

- ANAO Report No.58 2016–17 *Implementation of Annual Performance Statements Requirements 2015–16*; and
- ANAO Report No.43 2016–17 *Proceeds of Crime*.

ANAO Report No.24 2017–18

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4.2.34 The observations of these reports were considered in designing audit procedures to address areas considered to pose a lower risk of material misstatement. These reports did not impact on the audit approach to the financial statements.

Audit results

4.2.35 The following table summarises the status of audit findings reported by the ANAO in 2016–17.

Table 4.2.8: Status of audit findings

Category	Closing Position (2015–16)	New Findings (2016–17)	Findings Resolved (2016–17)	Closing position (2016–17)
Significant (A)	0	0	0	0
Moderate (B)	0	3	0	3
Total	0	3	0	3

Source: ANAO 2016–17 audit results.

New moderate audit findings

FMIS privileged user access management

4.2.36 During the 2016–17 interim audit phase the ANAO identified weaknesses in the management of the AFP's privileged user access to the financial management information system (FMIS) including:

- lack of formal approval processes to determine the appropriateness of granting privileged user access;
- inadequate processes to ensure the timely removal of access when no longer required; and
- incomplete monitoring of user access to determine that user activities were performed as agreed.

4.2.37 Inappropriate levels of access and inadequate monitoring of system access, particularly for privileged users, increases the risk of not preventing or identifying inappropriate activity.

User access to FMIS generic accounts

4.2.38 The ANAO identified that key users of the FMIS have access to various generic user accounts. These generic user accounts were not assigned to specific individuals and can be logged into by individuals with knowledge of the password.

4.2.39 Access to these accounts provides higher level privileges and access to sensitive IT transactions codes. Activity initiated with these accounts cannot be appropriately monitored and this results in an increased risk of inappropriate transactional activity in the AFP financial system.

FMIS user access provisioning and termination

4.2.40 The AFP uses two methods to provide FMIS access to users, either position based access where the level of access is determined by the role of the individual, or direct access, where the level of access is provided directly to an individual and is not determined by their

position. Position based access should be updated as an individual's role changes and direct access would normally only be given for a limited period of time.

4.2.41 The ANAO identified:

- the configuration of the position based access provided an excessive number of users with access to sensitive transactions codes;
- a significant delay between secondee termination and removal of read-only access on two occasions; and
- modifications to access were made without documentation supporting the approval.

4.2.42 Where there is an inappropriate level of access to systems or terminated employees retain access to the FMIS, there is an increased risk of inappropriate transactions being processed.

4.2.43 The ANAO undertook additional audit procedures during the final audit phase to compensate for the risks associated with these issues. AFP advised that it was implementing processes to address the issues in 2017–18. The ANAO will continue to monitor the action taken by AFP during the 2017–18 audit.

Australian Security Intelligence Organisation

4.2.44 The core areas of responsibility of the Australian Security Intelligence Organisation (ASIO) are protecting Australia, its people and its interests from threats to security through intelligence collection, assessment and advice to the Government.

Summary of financial performance

4.2.45 The following section provides a comparison of the 2015–16 and 2016–17 key departmental financial statements items reported by ASIO, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.2.9: Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	488.8	462.5
Revenue from Government	403.0	381.1
Deficit attributable to the Government	85.8	81.4
Total other comprehensive income	-	15.1
Total comprehensive loss attributable to the Australian Government	85.8	66.3
Total assets	456.5	491.7
Total liabilities	118.0	109.5
Total equity	338.5	382.2

Source: ASIO's financial statements for the year ended 30 June 2017.

4.2.46 The increase in the net cost of services and revenue from Government is related to additional funding provided to ASIO as part of the *National Security – additional counter-terrorism funding* measure in 2016–17.

4.2.47 A revaluation of all non-financial assets was undertaken in 2015–16 in accordance with ASIO's accounting policy. There was no revaluation in 2016–17 which caused the reduction in other comprehensive income.

Key areas of financial statements risk

4.2.48 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of ASIO's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2016–17 is provided in Table 4.2.10. No significant or moderate audit findings were identified relating to this key area of risk.

Table 4.2.10: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Departmental Employee benefits expenditure \$239.9 million	The accuracy and completeness of employee benefits	Moderate	<ul style="list-style-type: none"> • Limitations in the payroll system mean that some entitlements require manual calculation.
Employee leave provisions \$75.3 million			

Source: ANAO 2016–17 audit results, and ASIO's financial statements for the year ended 30 June 2017.

4.2.49 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 ASIO's 2016–17 financial statements. No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.2.50 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Federal Court of Australia

4.2.51 The Federal Court of Australia is a superior court of record and a court of law and equity. The Federal Court of Australia's jurisdiction covers almost all civil matters arising under Australian federal law and some summary and indictable criminal matters. The Federal Court of Australia hears appeals from decisions of single judges of the court, decisions of the Federal Circuit Court in non-family matters, decisions of the Supreme Court of Norfolk Island and certain decisions of State and Territory supreme courts exercising federal jurisdiction.

4.2.52 The corporate services of the Family Court and Federal Circuit Court were amalgamated with the Federal Court of Australia, bringing the three Courts into a single administrative body with a single appropriation. The *Courts Administration Legislation Amendment Act 2016* established the amalgamated body, known as the Federal Court of Australia, from 1 July 2016.

4.2.53 The Family Court, through its specialist judges and staff, helps Australians to resolve their complex family disputes. The Federal Circuit Court also provides an alternative to litigation in the Family Court and the Federal Court of Australia.

Summary of financial performance

4.2.54 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by the Federal Court of Australia, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.2.11: Departmental key financial statements items

Departmental key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	250.9	98.2
Revenue from Government	245.3	94.2
Deficit attributable to the Government	5.6	4.0
Total other comprehensive income	1.8	0
Total comprehensive loss attributable to the Australian Government	3.8	4.0
Total assets	147.4	80.3
Total liabilities	75.5	27.5
Total equity	71.9	52.8

Source: Federal Court of Australia's financial statements for the year ended 30 June 2017.

4.2.55 The significant increase in revenue, net cost of services, assets, liabilities and equity balances is primarily related to the amalgamation of the Courts effective from 1 July 2016. The 2015–16 balances reflect only the activity of the Federal Court of Australia, whereas the balances in 2016–17 relate to the combined activity of the Federal Court of Australia and the Family Court and Federal Circuit Court. On 1 July 2016, \$56.5 million of assets and \$46.8 million of liabilities were transferred from the Family Court and Federal Circuit Court of Australia to the Federal Court of Australia.

Table 4.2.12: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	4.2	1.0
Total income	81.2	17.4
Total comprehensive income	77.0	16.4
Total assets administered on behalf of Government	4.0	2.6
Total liabilities administered on behalf of Government	0.6	6.4
Net assets/(liabilities)	3.4	(3.8)

Source: Federal Court of Australia's financial statements for the year ended 30 June 2017.

4.2.56 As referred to in paragraph 4.2.55 the reported amounts in 2015–16 reflect the activity of the Federal Court of Australia only, whereas the combined activity of the Federal Court of Australia and the Family Court and Federal Circuit Court is reported in 2016–17. On 1 July 2016, \$7.2 million of assets and \$0.5 million of liabilities were transferred from the Family Court and Federal Circuit Court of Australia to the Federal Court of Australia.

4.2.57 The reduction in the liabilities is due to an arrangement in 2015–16 where the Federal Court of Australia was billed by the Family Court and Federal Circuit Court creating a liability in the accounts of the Federal Court of Australia. Following the amalgamation, this no longer occurs.

Key areas of financial statements risk

4.2.58 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the Federal Court of Australia's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.2.13. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.2.13: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Various	Financial reporting disclosures following the amalgamation of the corporate services of the Family Court and Federal Circuit Court with the Federal Court of Australia into a single administrative body	Moderate	<ul style="list-style-type: none"> The amalgamation required specific disclosures within the financial statements and consideration of particular valuation impacts.
Employee expenses \$114.2 million Employee provisions – leave \$26.4 million	Valuation and reporting of employee benefits	Moderate	<ul style="list-style-type: none"> Application of two enterprise agreements until a new agreement is finalised.
Various	Operation of two separate IT systems and processes to support financial reporting	Moderate	<ul style="list-style-type: none"> The merger of the IT systems of the Federal Court of Australia and the Family Court and Federal Circuit Court has yet to occur. As a result, the Federal Court of Australia is operating two separate systems that are essential for the input of information into the accounting system.
Administered income \$81.2 million	Recognition of administered fee income	Moderate	<ul style="list-style-type: none"> Different case management systems continue to be used to collect and record fee income despite the amalgamation of 1 July 2016.
Departmental non-financial assets \$73.1 million	Valuation of non-financial assets including land and buildings, property, plant and equipment	Moderate	<ul style="list-style-type: none"> Complex accounting judgements and estimates are required.

Source: ANAO 2016–17 audit results, and the Federal Court of Australia’s financial statements for the year ended 30 June 2017.

4.2.59 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 Federal Court of Australia’s 2016–17 financial statements.

4.2.60 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.2.61 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

High Court of Australia

4.2.62 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

4.2.63 The following section provides a comparison of the 2015–16 and 2016–17 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 4.2.14: Departmental key financial statements items

Departmental key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	17.3	19.6
Revenue from Government	13.3	13.3
Deficit attributable to the Australian Government	4.0	6.3
Total other comprehensive income	7.5	4.5
Total comprehensive surplus/(loss) attributable to the Australian Government	3.6	(1.8)
Total assets	229.2	221.5
Total liabilities	3.2	3.0
Total equity	226.0	218.5

Source: The High Court's financial statements for the year ended 30 June 2017.

4.2.64 The movement in net cost of services is primarily due to the transfer of assets from the Sydney Law Court building that occurred on 1 July 2016. In addition the court agreed to the establishment of the Australian Constitution Centre, in conjunction with the Constitution Education Fund of Australia. A contribution from Government of \$650,000 has been made available towards the establishment of the Australian Constitution Centre. The High Court received a \$375,000 contribution from AGD for the refurbishment works in the High Court's Brisbane premises.

4.2.65 All other movements are not significant and are a result of business as usual activities.

Table 4.2.15: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	–	–
Total income	2.0	1.9
Surplus	2.0	1.9
Total other comprehensive income	–	–
Total comprehensive income	2.0	1.9
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 2017.

4.2.66 The High Court's administered income relates to the Court's hearing and filing fees. The hearing fees collected remained relatively stable between 2015–16 and 2016–17, as demonstrated above.

Key areas of financial statements risk

4.2.67 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the High Court's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2016–17 is provided in Table 4.2.16. No significant or moderate audit findings were identified relating to this key area of risk.

Table 4.2.16: Key area of financial statements risk audit results

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
Land & buildings \$199.0 million Property, plant & equipment \$17.1 million	Valuation and disclosure of land & buildings and property, plant & 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.

Source: The High Court's financial statements for the year ended 30 June 2017.

4.2.68 The ANAO also completed appropriate substantive audit procedures on all material financial statements items that supported the preparation of the High Court's 2016–17 financial statements.

4.2.69 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.2.70 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

National Archives of Australia

4.2.71 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

4.2.72 The following section provides a comparison of the 2015–16 and 2016–17 key financial statements items reported by the Archives, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.2.17: Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	75.4	63.2
Revenue from Government	71.1	58.3
Deficit attributable to the Australian Government	4.4	4.9
Total other comprehensive income	8.2	4.1
Total comprehensive loss attributable to the Australian Government	12.6	9.0
Total assets	1 511.9	1 519.8
Total liabilities	24.2	24.3
Total equity	1 487.8	1 495.5

Source: The Archives' financial statements for the year ended 30 June 2017.

4.2.73 The increase in the net cost of services reflects additional expenditure related to the Archives' move to its new repository in Mitchell. Revenue from Government increased to support this project.

4.2.74 Amounts recognised as other comprehensive income reflect the reduction in value of some heritage and cultural assets in 2016–17.

Key areas of financial statements risk

4.2.75 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the Archives' financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit

coverage in 2016–17 are provided in Table 4.2.18. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.2.18: Key areas of financial statements risk audit results

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
Property, plant and equipment \$1 470.3 million	Valuation of the archival collection	Moderate	<ul style="list-style-type: none"> The complex and unique nature of the archival collection.
Intangibles \$16.3 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.

Source: ANAO 2016–17 audit results, and the Archives' financial statements for the year ended 30 June 2017.

4.2.76 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 Archives' 2016–17 financial statements.

4.2.77 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.2.78 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Comments on non-material entities

Australian Financial Security Authority

4.2.79 The Australian Financial Security Authority (AFSA) is responsible for maintaining confidence in Australia's personal insolvency and personal property securities systems through delivering trustee and registry services, and risk-based regulation.

Resolved moderate audit finding

Shared account usage may not be able to be directly attributed to a user for each authentication

4.2.80 During the 2016–17 interim audit, the ANAO identified weaknesses in how AFSA's shared passwords were stored and accessed. The weaknesses included:

- lack of logging when a shared password was revealed;
- shared passwords were not changed once revealed; and
- there was no policy to update shared passwords on a regular basis.

4.2.81 The weaknesses identified increased the risk that administrators may be able to perform highly privileged actions on shared accounts that are unable to be attributed to an individual.

4.2.82 During the 2016–17 final audit, AFSA undertook appropriate remediation action to address the weaknesses identified. Remediation action included establishing physical controls,

backup processes and authentication processes to restrict access and identify appropriate users and monitor user access. As a result of these actions the audit finding is resolved.

Australian Transaction Reports and Analysis Centre

4.2.83 Australian Transaction Reports and Analysis Centre (AUSTRAC) is Australia's financial intelligence unit with regulatory responsibility for anti-money laundering and counter-terrorism financing. AUSTRAC collects and transforms financial information into actionable intelligence that is used to assist in the disruption, investigation and prosecution of serious criminal activity including money laundering, terrorism financing, organised crime and tax evasion.

New moderate audit finding

Processes and policies for accounting for assets under construction

4.2.84 AUSTRAC has developed an accounting policy which specifies the measurement and recognition criteria for recording capital charges as assets under construction (AUC), primarily relating to the development of software. This policy specifies the nature, timing and type of costs that may be recorded in the balance of AUC, aligning primarily with the requirements of *AASB 138 Intangible Assets*. These charges can include the cost of employee labour used in development of assets, measured through the use of timesheets.

4.2.85 The ANAO performed testing over capital charges recorded in the balance of AUC. These test procedures identified that there was no documented evidence of the review and approval of the timesheets that supported charges recorded as assets arising from employee labour by project managers. Instances were identified where charges were recorded in AUC that may not have complied with the requirements of AUSTRAC's policy. There was limited supporting documentation available to support this treatment. These issues increase the risk that these charges may not be recognised in accordance with AUSTRAC's accounting policy.

4.2.86 AUSTRAC has advised that it will implement procedures to confirm that charges taken to AUC are valid and that the timesheets are subject to an appropriate level of review by project managers. The ANAO will review the effectiveness of these revised processes during the 2017–18 audit.

Office of the Commonwealth Director of Public Prosecutions

4.2.87 The Office of the Commonwealth Director of Public Prosecutions (CDPP) is an independent prosecution service established by Parliament to prosecute alleged offences against Commonwealth law. The CDPP aims to provide an effective, ethical, high quality and independent criminal prosecution service for Australia in accordance with the Prosecution Policy of the Commonwealth.

Resolved moderate audit finding

User access to the human resource management information system

4.2.88 During the 2016–17 interim audit, the ANAO identified weaknesses in the access controls for the CDPP's Human Resource Management Information System (HRMIS), including one of the privileged users also holding responsibility for processing and reporting of payroll transactions. The ANAO also identified that the CDPP did not have in place processes for the

logging and monitoring of privileged user activity. These weaknesses increased the risk of unauthorised or inappropriate transactions occurring.

4.2.89 The CDPP have undertaken a review of privileged users' activity, confirmed that access has only been provided to those users with appropriate authority, and implemented a fortnightly monitoring process. As a result of these actions the finding has now been closed.

4.3 Communications and the Arts Portfolio

Reporting Entity	Material Entity	Risk of material misstatement	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Communications and the Arts	Yes	Moderate	✓	22 Sept 17	22 Sept 17	Nil
Australian Broadcasting Corporation	Yes	Moderate	✓	10 Aug 17	10 Aug 17	Nil
Australian Communications and Media Authority	Yes	Low	✓	29 Aug 17	29 Aug 17	Nil
Australian Film, Television and Radio School	No	Low	✓	8 Sept 17	8 Sept 17	□
Australian Postal Corporation	Yes	Moderate	✓	24 Aug 17	24 Aug 17	Nil
National Gallery of Australia	Yes	Low	✓	31 Aug 17	1 Sept 17	Nil
National Library of Australia	Yes	Low	✓	4 Aug 17	4 Aug 17	Nil
National Museum of Australia	Yes	Low	✓	17 Aug 17	17 Aug 17	Nil
nbn co limited	Yes	High	✓	10 Aug 17	10 Aug 17	Nil
Special Broadcasting Service Corporation	Yes	Low	✓	30 Aug 17	30 Aug 17	Nil

✓: auditor's report not modified

□: significant or moderate findings and/or legislative

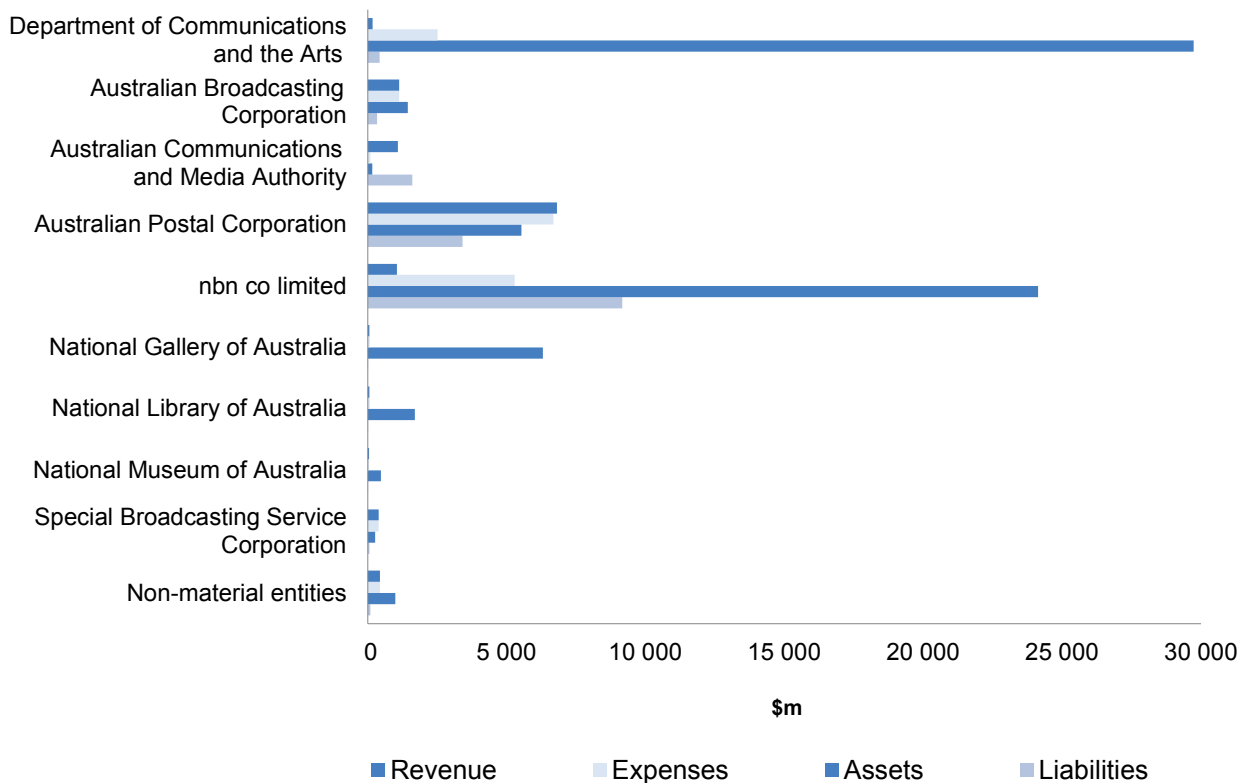
Portfolio overview

4.3.1 The Department of Communications and the Arts is the lead entity in the portfolio, with responsibilities including 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 also includes support for participation in, and access to, Australia's arts and culture through developing and supporting cultural expression.

4.3.2 In addition to the department, 17 entities within the portfolio, excluding subsidiaries, deliver programs, including postal services, public broadcasting, national broadband infrastructure, and cultural activities.

4.3.3 Figure 4.3.1 shows the Communications and Arts' Portfolio's revenue, expenses, assets and liabilities.

Figure 4.3.1: Communications and the Arts' Portfolio's revenue, expenses, assets and liabilities³⁷



Source: 2016–17 CFS.

4.3.4 The following sections provide a summary of the 2016–17 financial statements audit results for the Department of Communications and the Arts, other material entities in the portfolio and audit findings relating to non-material entities. Where a performance audit was tabled during 2016–17 that was relevant to the financial management or administration of an entity, the impact of those observations on the audit approach are also discussed.

Department of Communications and the Arts

4.3.5 The core areas of responsibility of the Department of Communications and the Arts (the Department) are promotion of an innovative and competitive communication sector through policy development, advice and program delivery in order to achieve the full potential of digital technologies and communications services. The Department's role also includes support for participation in, and access to, Australia's art and culture through developing and supporting cultural expression.

³⁷ Figure 4.3.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

Summary of financial performance

4.3.6 The following section provides a comparison of the 2015–16 and 2016–17 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	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	109.1	104.8
Revenue from Government	108.9	99.9
Deficit attributable to the Government	0.3	4.9
Total other comprehensive loss	0.0	(0.8)
Total comprehensive loss attributable to the Australian Government	0.3	5.6
Total assets	79.9	82.0
Total liabilities	32.7	38.3
Total equity	47.1	43.7

Source: Department of Communications and the Arts' financial statements for the year ended 30 June 2017.

4.3.7 The department's departmental operations has focused on stability following the Machinery of Government (MoG) changes in September 2015 which transferred responsibility of the Arts functions to the department.

4.3.8 A proactive administration of payments across the department prior to 30 June 2017 gave rise to a reduction in outstanding payments due at that date.

4.3.9 Fluctuations in other balances reflect normal business activities.

Table 4.3.2: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	2 402.9	2 026.5
Total income	67.7	10.0
Deficit	2 335.2	2 016.5
Total other comprehensive loss	3 995.0	1 948.6
Total comprehensive loss	6 330.2	3 965.1
Total assets administered on behalf of Government	29 642.8	26 340.6
Total liabilities administered on behalf of Government	396.2	367.2
Net assets	29 246.7	25 973.3

Source: Department of Communications and the Arts' financial statements for the year ended 30 June 2017.

4.3.10 The increase in administered expenses reflects amounts paid to corporate Commonwealth entities, with full year payments made to entities that were transferred into the Portfolio in the September 2015 MoG.

4.3.11 The directors of Australia Post declared payment of a \$50m dividend to the Commonwealth as shareholder in 2016–17, whereas no dividend was paid in the prior year.

4.3.12 Following valuation assessments in 2016–17, the value of the Government’s investment in nbn co limited and the Australian Postal Corporation increased by \$2 956 million and \$134 million respectively.

4.3.13 The increase in liabilities is primarily represented by grants for the Mobile Black Spot and Viewer Access Satellite Television programs.

Key areas of financial statements risk

4.3.14 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the entity’s financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.3.3, including which areas were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.3.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Other investments \$29 293.2 million	Valuation of the Australian Government’s investment in the nbn co limited and Australian Postal Corporation KAM	Higher	<ul style="list-style-type: none"> Complexity of the valuation process in light of estimates and judgements required.
Administered Property, plant and equipment Regional Backbone Blackspots Program (RBBP) assets \$156.1 million	Valuation of network infrastructure - RBBP	Moderate	<ul style="list-style-type: none"> Comprised of complex infrastructure assets requiring significant judgement.

Source: ANAO 2016–17 audit results, and the Department of Communications and the Arts’ financial statements for the year ended 30 June 2017.

4.3.15 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 Department of Communications and the Arts’ 2016–17 financial statements.

4.3.16 The following performance audit report was tabled during 2016–17 relevant to the financial management or administration of the Department of Communications and the Arts:

- ANAO Report No.10 2016–17 *Award of Funding under the Mobile Black Spot Programme*.

4.3.17 The observations of this report were considered in designing audit procedures to address areas considered to pose a lower risk of material misstatement. The observations have been used to inform the assessment of controls related to the grants management processes.

Audit results

4.3.18 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Australian Broadcasting Corporation

4.3.19 The core areas of responsibility of the Australian Broadcasting Corporation (ABC) are to inform, 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

4.3.20 The following section provides a comparison of the 2015–16 and 2016–17 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	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	1 036.1	1 050.6
Revenue from Government	1 036.1	1 064.4
Surplus attributable to the Government	0	13.9
Total other comprehensive income	65.4	18.2
Total comprehensive income attributable to the Australian Government	65.4	32.0
Total assets	1 441.4	1 409.1
Total liabilities	336.8	355.9
Total equity	1 104.6	1 053.2

Source: ABC's financial statements for the year ended 30 June 2017.

4.3.21 The ABC's net cost of services did not change significantly from 2015–16 to 2016–17. The closure of the ABC's retail arm in 2015–16 contributed to reduced revenue (\$44 million) and supplier expenses (\$29 million) being reported in 2016–17 compared to 2015–16. The gain of \$33 million due to the sale of an ABC property during the financial year also contributed to the net cost of services in 2016–17. Total other comprehensive income increased in 2016–17 as a result of an independent revaluation of the ABC's portfolio of properties.

4.3.22 Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.3.23 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation

of the ABC's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.3.5. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.3.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Total Assets \$789.3 million	Valuation and disclosure of net value of land and buildings	Moderate	<ul style="list-style-type: none"> Valuations are sensitive to changes in the assumptions used and contain highly specialised components.
Total Assets \$107.9 million	Valuation of program inventory and related amortisation policy	Moderate	<ul style="list-style-type: none"> Complexities can arise from capturing the actual costs of various internally developed programs; and assessment of whether program inventories are impaired is subject to judgement.
Net Cost of Services \$516.8 million	Valuation of employee provisions	Moderate	<ul style="list-style-type: none"> Complex calculations involving a variety of allowances and entitlements for employees based both within and outside of Australia; and methodology is subject to judgement.
Total Liabilities \$144 million			

Source: ANAO 2016–17 audit results, and the ABC's financial statements for the year ended 30 June 2017.

4.3.24 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 ABC's 2016–17 financial statements.

4.3.25 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.3.26 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Australian Communications and Media Authority

4.3.27 The core areas of responsibility of the Australian Communications and Media Authority (ACMA) are regulation of broadcasting, radio communications (spectrum management), telecommunications and online content.

Summary of financial performance

4.3.28 The following section provides a comparison of the 2015–16 and 2016–17 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	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	92.6	92.7
Revenue from Government	81.8	82.9
Deficit attributable to the Government	10.8	9.8
Total other comprehensive loss	0.1	1.4
Total comprehensive loss attributable to the Australian Government	10.9	8.4
Total assets	78.8	82.4
Total liabilities	28.6	28.8
Total equity	50.2	53.6

Source: ACMA's financial statements for the year ended 30 June 2017.

4.3.29 Total other comprehensive income has decreased as there were minimal changes in the asset revaluation surplus following the valuation of non-financial assets. Total assets mainly decreased due to the amortisation of intangible assets during 2016–17.

4.3.30 Fluctuations in other balances reflect normal business activities.

Table 4.3.7: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	2.2	2.0
Total income	1 008.2	835.3
Surplus	1 006.0	833.3
Total other comprehensive income	-	-
Total comprehensive income	1 006.0	833.3
Total assets administered on behalf of Government	84.6	214.4
Total liabilities administered on behalf of Government	1 580.8	96.6
Net assets (liabilities)	(1 496.2)	117.8

Source: ACMA's financial statements for the year ended 30 June 2017.

4.3.31 The increase in total expenses was primarily the result of an increase in the activities of the Office of the eSafety Commissioner which was established in 2015–16. The increase was partially offset by a decrease in the write-down of aged radio communication tax receivables.

4.3.32 The increase in total income mainly relates to the revenue recognised for the sale of radio communication multi-year licences in 2016–17. The increase was partially offset by a reduction in broadcasting license fees.

4.3.33 The decrease in total assets mainly relates to a decrease in taxation receivables is primarily attributed to a rebate on broadcasting licence fees under the *Television Licence Fees Amendment Regulations 2017*.

4.3.34 Total liabilities mainly increased due to higher unearned revenue at year end relating to radio communication multi-year licences.

Key areas of financial statements risk

4.3.35 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of ACMA's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2016–17 is provided in Table 4.3.8. No significant or moderate audit findings were identified relating to this key area of risk.

Table 4.3.8: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Income \$1 008.2 million Receivables \$84.1 million Other payables – unearned income \$1 579.9 million	Recognition and measurement of administered income, receivables and unearned income	Higher	<ul style="list-style-type: none"> Application of professional judgement is required in determining when to recognise revenue, as spectrum management is technically complex and involves licensing, auctions and trading.

Source: ANAO 2016–17 audit results, and ACMA's financial statements for the year ended 30 June 2017.

4.3.36 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 ACMA's 2016–17 financial statements.

4.3.37 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.3.38 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Australian Postal Corporation

4.3.39 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

4.3.40 In 2016–17, Australia Post and its controlled entities (the Group) reported income of \$6.8 billion and expenses of \$6.7 billion. In addition, the Group's assets were valued at \$5.5 billion.

4.3.41 The following section provides a comparison of the 2015–16 and 2016–17 key financial statements items reported by Australia Post, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.9 Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total revenue and income	6 807.2	6 562.2
Total expenses	6 681.1	6 521.2
Profit before income tax	126.1	41.0
Income tax expenses	30.7	4.6
Net profit for the year	95.4	36.4
Total other comprehensive income/(loss)	232.1	(111.1)
Total comprehensive profit/(loss) for the year	327.5	(74.7)
Total assets	5 537.3	5 043.2
Total liabilities	3 419.4	3 204.3
Total equity	2 117.9	1 838.9

Source: Australia Post and its controlled entities' financial statements for the year ended 30 June 2017.

4.3.42 Australia Post reported a net profit during 2016–17, continuing the net profit trend of 2015–16. Australia Post reported a return to total profit during 2016–17, in comparison to a total loss in the previous year. The return to total profit reflects the continued increase in goods and services income and increases in other comprehensive income.

4.3.43 The increase in goods and services income is a result of increased parcel volumes (2016–17: \$127.0 million) together with the full year benefit of a price increase to the Basic Postal Rate from 70 cents to \$1 of \$41.8 million. The increase took effect in January 2016. These increases have been partially offset by increases to supplier expenses, which are driven by the parcel volumes, leading to increased contractor delivery costs and an increase in premium parcel products.

4.3.44 The gains recorded in other comprehensive income are due to an increase in the net superannuation asset.

4.3.45 Australia Post's assets increased in 2016–17 primarily as a result of returns earned on the superannuation fund assets and recognition of 30 June carrying values of Australia Post's investments and subsequent carrying value adjustments of its equity accounted investees.

4.3.46 The increase in liabilities is attributed to the increase in deferred tax liability (DTL). The increase in the DTL is the result of an increase in the net superannuation asset and increased accrued revenue balances. Australia Post also refinances a portion of its interest bearing liabilities in February 2017 which are now due to mature in 2021 and 2026.

4.3.47 The fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.3.48 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of Australia Post's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.3.10, including which areas were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.3.10: Key areas of financial statements risk

Relevant financial statement line item	Key area	Audit risk rating	Factors contributing to risk assessment
Investments in associates \$247.9 million Share of net profits of equity accounted investees and joint ventures \$6.5 million	Accounting and reporting of complex business combinations KAM (valuation of investment in associates)	Higher	<ul style="list-style-type: none"> Judgement is required in the selection and application of accounting policies to the measurements of fair value and assignment of purchase considerations; and significant and material external investment.
Goods and services revenue \$6 616.9 million	Recognition of revenue KAM	Higher	<ul style="list-style-type: none"> Judgement is required in the selection and application of accounting policies for new and diverse revenue streams; and the complexity of contracts and arrangements entered into, where they include multiple performance obligations and volume targets which affects the contracted price.
Net superannuation asset \$700.4 million	Valuation of the Australia Post Superannuation Scheme KAM	Moderate	<ul style="list-style-type: none"> Complexity of the valuation including the sensitivity of the economic and demographic assumptions supporting the calculation.
Property, plant and equipment \$1 559.8 million Intangibles \$859.0 million Investment property \$169.0 million	Valuation of non-current assets. KAM (valuation of goodwill and indefinite life intangible assets)	Moderate	<ul style="list-style-type: none"> Significant judgement is required in the selection of assumptions for the valuation of non-current assets.

Source: ANAO 2016–17 audit results and the Australia Post's Financial Statements for the year ended 30 June 2017.

4.3.49 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

National Gallery of Australia

4.3.50 The core areas of responsibility of the National Gallery of Australia (the Gallery) are developing and maintaining a national collection of works of art to exhibit or to make available for others to exhibit; and making the most advantageous use of the national collection in the national interest.

Summary of financial performance

4.3.51 The following section provides a comparison of the 2015–16 and 2016–17 key financial statements items reported by the Gallery, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.11: Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	50.0	45.9
Revenue from Government	31.3	32.6
Deficit attributable to the Government	18.7	13.3
Total other comprehensive income	47.0	423.8
Total comprehensive income attributable to the Australian Government	28.3	410.5
Total assets	6 308.4	6 264.6
Total liabilities	9.2	10.5
Total equity	6 299.2	6 254.1

Source: The Gallery's financial statements for the year ended 30 June 2017.

4.3.52 The increase in the deficit attributable to the Government and net cost of services is attributed to the significant increase in the value of the collection in 2015–16, which led to a higher depreciation expense in 2016–17.

4.3.53 Total other comprehensive income relates to movements in the Gallery's heritage and cultural assets collection. In 2015–16 these assets were subject to a full valuation which resulted in a significant increase in the value of the collection, due to an overall improvement in the market popularity and importance of individual works of art. A partial valuation was undertaken in 2016–17, which led to a small increase in the overall valuation of the collection.

4.3.54 Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.3.55 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the Gallery's financial statements. The ANAO focuses audit effort on those areas that are

assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2016–17 is provided in Table 4.3.12. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.3.12: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Total administered assets \$6 308.4 million	Valuation of items in the Heritage and Cultural collection	Higher	<ul style="list-style-type: none"> Judgement required in selecting the assumptions used in determining the fair value.

Source: ANAO 2016–17 audit results, and the Gallery’s financial statements for the year ended 30 June 2017.

4.3.56 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 Gallery’s 2016–17 financial statements.

4.3.57 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.3.58 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

National Library of Australia

4.3.59 The core responsibilities of the National Library of Australia (the Library) are developing and maintaining a national collection of library material, including a comprehensive collection of material relating to Australia and the Australian people, and to make this material available to the public.

Summary of financial performance

4.3.60 The following section provides a comparison of the 2015–16 and 2016–17 key departmental financial statements items reported by the Library, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.13: Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	55.8	57.7
Revenue from Government	50.0	48.7
Deficit attributable to the Government	5.8	9.0
Total other comprehensive income	2.3	6.0
Total comprehensive loss attributable to the Australian Government	3.5	3.0
Total assets	1 702.9	1 697.1
Total liabilities	16.0	16.4
Total equity	1 686.9	1 680.7

Source: The Library's financial statements for the year ended 30 June 2017.

4.3.61 The significant movement between years in other comprehensive income is mainly due to the decrease in the fair value of the national collection offset by the increase in the valuations of land, building and plant and equipment. The variation in the fair value between years is due to the fluctuations in comparable assets prices.

4.3.62 Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.3.63 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the Library's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.3.14. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.3.14: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Heritage and cultural assets \$1.3 billion	Fair value measurement of the national collection	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.
Own-source revenue \$16.1 million	Completeness and accuracy of revenue	Moderate	<ul style="list-style-type: none"> Multiple revenue streams, with different recognition criteria.

Source: ANAO 2016–17 audit results, and the Library's financial statements for the year ended 30 June 2017.

4.3.64 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 the Library's 2016–17 financial statements.

4.3.65 ANAO Report No. 54 2016–17 *Corporate Planning in the Australian Public Sector* relevant to the financial management or administration of the Library, was tabled during 2016–17. The observations of this report will be considered in designing audit procedures to address areas considered to pose a lower risk of material misstatement in the 2017–18 audit plan.

Audit results

4.3.66 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

National Museum of Australia

4.3.67 The National Museum of Australia (the Museum) develops and maintains the National Historical Collection, the core collection of Australian history, which is held in trust for the nation. The functions of the Museum include creation of exhibitions and other public programs using the National Historical Collection and other historical material on Australia’s past, present and future, contribution to research on Australian history and undertaking commercial activities in support of these functions.

Summary of financial performance

4.3.68 The following section provides a comparison of the 2015–16 and 2016–17 key departmental financial statements items reported by the Museum, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.15: Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	39.8	42.1
Revenue from Government	39.4	40.8
Deficit attributable to the Government	0.4	1.3
Total other comprehensive income	1.3	3.4
Total comprehensive income attributable to the Australian Government	0.9	2.1
Total assets	482.6	478.8
Total liabilities	9.2	8.2
Total equity	473.5	470.6

Source: The Museum’s financial statements for the year ended 30 June 2017.

4.3.69 The reduction in net cost of services is mainly attributable to the significant increase in sales revenue which is partially offset by the increase in supplier expenses. The increases in sales revenue and supplier expenses were driven by the higher than expected visitation numbers for the *A History of the World in 100 Objects* exhibition held during 2016–17.

4.3.70 The movement in other comprehensive income is mainly due to the movement between years in the value of the Museum’s collection and its land and buildings. In 2016–17, a full revaluation of land and buildings was performed. This has resulted in a significant decrease in

the fair value which was partially offset by the increase in the heritage and cultural asset valuation. These changes are mainly attributable to the general market movements between years.

4.3.71 The increase in total liabilities is due to the higher level of supplier payables accrued at year end. This was in line with the increase in supplier expenses.

Key areas of financial statements risk

4.3.72 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the Museum’s financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.3.16. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.3.16: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Heritage and cultural assets \$276.8 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.
Land and buildings \$103.5 million	Valuation of land and buildings	Moderate	<ul style="list-style-type: none"> Judgements and assumptions used in the valuation process due to the specialised and restricted use of the Museum’s land and buildings.
Heritage and cultural assets, \$0.3 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.

Source: ANAO 2016–17 audit results, and the Museum’s financial statements for the year ended 30 June 2017.

4.3.73 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 2016–17 financial statements.

4.3.74 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.3.75 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

nbn co limited

4.3.76 The provision of wholesale services to internet service providers is nbn co limited’s(nbn) core area of responsibility. The nbn is a government business enterprise incorporated under the *Corporations Act 2001*.

Summary of financial performance

4.3.77 The following section provides a comparison of the 2015–16 and 2016–17 key financial statements items reported by nbn, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.17 Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total revenue and income	1 051.0	460.0
Total expenses	5 290.0	3 199.0
Loss before income tax	4 239.0	2 739.0
Income tax expense	5.0	11.0
Net loss for the year	4 244.0	2 750.0
Total other comprehensive loss	10.0	25.0
Total comprehensive loss for the year	4 254.0	2 775.0
Total assets	24 127.0	18 552.0
Total liabilities	9 168.0	6 529.0
Total equity	14 959.0	12 023.0

Source: nbn's financial statements for the year ended 30 June 2017.

4.3.78 In 2016–17, nbn generated revenue and income of \$1.1 billion and reported a net loss of \$4.2 billion, after taxation. Revenue increased as the network continues to roll out with 1.3 million premises activated during the year. A corresponding increase was observed in payments to Telstra and Optus for customer disconnection and migration activity.

4.3.79 As at 30 June 2017, nbn reported total assets of \$24.1 billion, an increase of \$5.5 billion compared with 2015–16, primarily due to an increase of \$5.7 billion in property, plant and equipment and intangibles as a result of capital expenditure, and offset by a \$0.3 billion decrease in held to maturity investments. 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.

4.3.80 During the year, nbn received Government equity injections of \$7.2 billion, which were primarily used in acquiring property, plant and equipment (including network assets), and intangible assets supporting operational requirements. As at 30 June 2017, the contributed equity of \$27.5 billion has been offset by accumulated losses of \$12.5 billion.

Key areas of financial statements risk

4.3.81 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of nbn's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.3.18, including which areas were considered Key Audit Matters

(KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.3.18 Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Property, plant and equipment \$20.5 billion Intangibles \$1.8 billion	Valuation of network assets KAM (impairment) KAM (measurement of depreciation and amortisation)	Higher	<ul style="list-style-type: none"> Accounting for the valuation of network assets is subject to a high degree of judgement and complexities arising in estimating the significant costs on network construction and software development.
Construction liabilities \$1.2 billion	Valuation of construction liabilities KAM	Higher	<ul style="list-style-type: none"> Involvement of multiple delivery partners and the capitalisation of associated network assets based on their respective stage of completion at reporting date.
Subscriber costs \$1.6 billion Network assets \$20.2 billion Other financial liabilities \$5.9 billion	Accounting for significant agreements with Telstra and Optus KAM	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.
Telecommunications Revenue \$0.9 billion	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.

Source: ANAO 2016–17 audit results, and the nbn’s financial statements for the year ended 30 June 2017.

4.3.82 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 2016–17 financial statements.

4.3.83 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.3.84 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Special Broadcasting Service Corporation

4.3.85 The core responsibility of the Special Broadcasting Service Corporation (SBS) is contributing to a more cohesive, equitable and harmonious Australia through its television, radio and digital media services.

Summary of financial performance

4.3.86 The following section provides a comparison of the 2015–16 and 2016–17 key financial statements items reported by 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	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	283.6	287.0
Revenue from Government	281.6	287.4
Surplus/(deficit) attributable to the Government	(2.0)	0.3
Total other comprehensive income	10.1	–
Total comprehensive income attributable to the Australian Government	8.1	0.3
Total assets	272.0	258.8
Total liabilities	64.6	59.4
Total equity	207.4	199.4

Source: SBS's financial statements for the year ended 30 June 2017.

4.3.87 SBS's net cost of services and revenue from government did not change significantly from 2015–16 to 2016–17. Increased staffing levels and the implementation of the new Enterprise Agreement contributed to higher employee benefit expenses of \$12 million. Supplier expenses also increased by \$7 million as a result of increased content related investment and a full year of expenses associated with the Food Network Channel. This increase in total expenses was matched by a similar increase of \$18 million in goods and services revenue generated by a full year of income of the Food Network Channel and an overall increase advertising revenue. An independent valuation of land and buildings resulted in an increase to the asset revaluation reserve of \$10 million, which has driven the increase in other comprehensive income.

4.3.88 SBS's total assets and liabilities did not change significantly from 2015–16 to 2016–17.

Key areas of financial statements risk

4.3.89 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of SBS's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.3.20. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.3.20: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Total assets \$ 77.9 million	Valuation of land and buildings	Moderate	<ul style="list-style-type: none"> Valuations are sensitive to changes in the assumptions used and contain highly specialised components.
Total assets \$74.5 million	Valuation of program inventory and related amortisation policy	Moderate	<ul style="list-style-type: none"> Complexities can arise from capturing the actual costs of various internally developed programs; and assessment of whether program inventories are impaired is subject to judgement
Total liabilities \$24.7 million	Valuation of employee provisions	Moderate	<ul style="list-style-type: none"> Complex calculations involving a variety of allowances and entitlements for employees based both within and outside of Australia; and methodology is subject to judgement
Total assets \$22.3 million	Valuation of intangibles and goodwill	Moderate	<ul style="list-style-type: none"> Complexities can arise from capturing the actual costs of various internally developed software; and valuations are sensitive to changes in the assumptions used

Source: ANAO 2016–17 audit results, and SBS's financial statements for the year ended 30 June 2017.

4.3.90 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 SBS's 2016–17 financial statements.

4.3.91 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.3.92 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Comments on non-material entities

Australian Film, Television and Radio School

4.3.93 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.

Resolved moderate audit finding

Audit logging and monitoring of privileged user profiles

4.3.94 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. At the conclusion of the 2015–16 audit, AFTRS advised that it had implemented controls to address this finding.

4.3.95 The ANAO confirmed during the 2016–17 audit phase that the implemented controls in relation to user access and monitoring to IT networks were assessed as effective. As a result, this moderate audit finding has been resolved.

4.4 Defence Portfolio

Reporting Entity	Material Entity	Risk of material misstatement	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Defence	Yes	High	✓	27 Sept 17	27 Sept 17	◆▲□
Australian War Memorial	Yes	Low	✓	31 Aug 17	1 Sept 17	Nil
Defence Housing Australia	Yes	Moderate	✓	17 Aug 17	17 Aug 17	□
Department of Veterans' Affairs	Yes	Moderate	✓	7 Sept 17	7 Sept 17	Nil

✓: 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 2016–17 interim audit phase, now reclassified or resolved

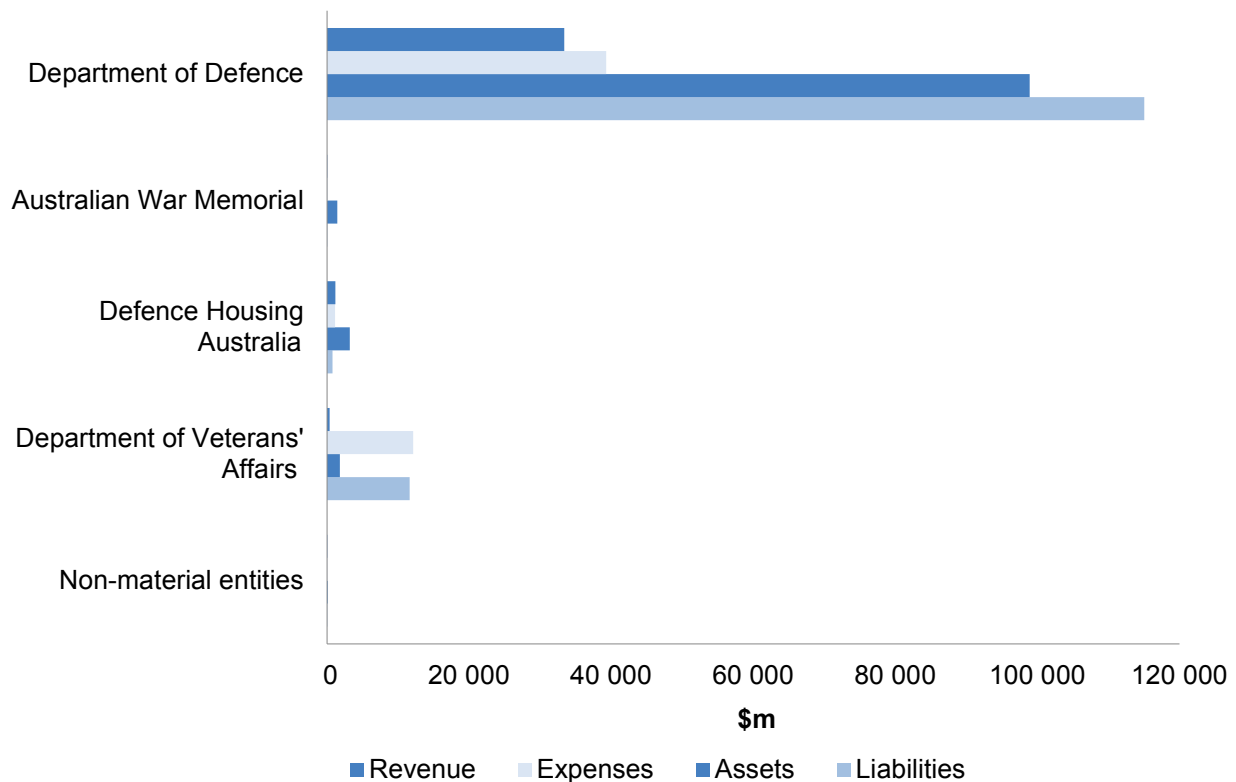
▲: significant or moderate issues and/or legislative matters reported previously not yet resolved

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. The Department of Defence is the lead entity in the portfolio. The Department of Veterans' Affairs, Australian War Memorial and Defence Housing Australia are also part of the broader Defence portfolio.

4.4.2 Figure 4.4.1 shows the Defence Portfolio's revenue, expenses, assets and liabilities.

Figure 4.4.1: Defence Portfolio’s revenue, expenses, assets and liabilities³⁸



Source: 2016–17 CFS.

4.4.3 The following sections provide a summary of the 2016–17 financial statements audit results for the Department of Defence, Defence Housing Australia, the Department of Veterans’ Affairs and the Australian War Memorial. Where a performance audit was tabled during 2016–17 that was relevant to the financial management or administration of an entity, the impact of those observations on the audit approach was considered.

Department of Defence

4.4.4 The Department of Defence is a department of state, headed by the Secretary of the Department of Defence with the Australian Defence Force commanded by the Chief of the Defence Force. The Australian Defence Force consists of the three Services - the Royal Australian Navy, the Australian Army and the Royal Australian Air Force. These Services are commanded by Service Chiefs.

4.4.5 The Department of Defence (Defence) is collectively responsible for protecting and advancing Australia’s strategic interests through the provision of regionally superior Australian Defence Force with highest levels of military capability and scientific and technological sophistication. Defence prepares for and conducts military operations and other tasks as directed by the Australian Government.

38 Figure 4.4.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

Summary of financial performance

4.4.6 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by the Department of 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	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	30 700.4	28 706.8
Revenue from Government	30 914.2	28 900.4
Surplus attributable to the Australian Government	213.8	193.6
Total other comprehensive income	492.7	9 775.7
Total comprehensive income attributable to the Australian Government	706.5	9 969.3
Total assets	95 424.7	94 140.3
Total liabilities	8 046.8	8 347.7
Total equity	87 377.9	85 792.6

Source: Defence's financial statements for the year ended 30 June 2017.

4.4.7 The net cost of services increased mainly due to the increase in supplier and depreciation expenses. The supplier expense increase was driven by planned repairs and overhaul costs, Specialist Military Equipment acquisition expenses and increases in expenses for communication and information related activities. The significant revaluation uplift as a result of the initial measurement of Defence Weapons Platforms at fair value during 2015–16 resulted in increased depreciation expenses in 2016–17.

4.4.8 Revenue from Government mainly increased due to additional funding provided for the implementation of Defence White Paper recommendations, ongoing military operations and funding for additional depreciation expenses.

4.4.9 During 2015–16 Defence adopted the fair value method of accounting for Defence Weapons Platforms for the first time, resulting in a significant increase in the 2015–16 surplus. In 2016–17 the revaluation resulted in a significantly lower increase in asset values.

Table 4.4.2: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	7 968.6	6 855.1
Total income	1 593.1	1 673.9
Deficit	6 375.6	5 181.2
Total other comprehensive income/(loss)	23 270.2	(25 922.3)
Total comprehensive income/(loss)	16 894.7	(31 103.5)
Total assets administered on behalf of Government	3 475.5	3 355.3
Total liabilities administered on behalf of Government	106 978.7	124 736.0
Net liabilities	103 503.2	121 380.7

Source: Defence's financial statements for the year ended 30 June 2017.

4.4.10 Total expenses increased due to the higher cost of accruing benefits for the Military Superannuation and Benefits Scheme and the Defence Force Retirement and Death Benefits Scheme. This increase was primarily driven by a decrease in the opening discount rate of the liability from 3.7 per cent in 2015–16 to 2.7 per cent in 2016–17.

4.4.11 The reduction in total liabilities was primarily due to a reduction in the year-end balances of the Military Superannuation and Benefits Scheme and the Defence Force Retirement and Death Benefits Scheme provisions as at 30 June 2017. This decrease was mainly caused by an increase in the closing discount rate from 2.7 per cent in 2015–16 to 3.5 per cent in 2016–17.

Key areas of financial statements risk

4.4.12 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of Defence's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.4.3, including which areas were considered Key Audit Matters (KAM) by the ANAO.

Table 4.4.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Departmental Inventory Explosive Ordnance (EO) Fuel General Stores Inventory (GSI) \$6.8 billion	Accuracy and completeness of inventory balances KAM	Higher	<ul style="list-style-type: none"> Decentralised stock holdings managed by multiple parties; and complexities associated with the identification of, and accounting for, obsolete stock. 	No significant or moderate audit findings identified.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Departmental Specialist Military Equipment (SME) \$58.6 billion	Existence, valuation and completeness of the SME balance which includes Defence Weapons Platforms (DWPs), Military Support Items (MSI) and Assets under Construction (AUC) and associated prepayments KAM	Higher	<ul style="list-style-type: none"> Complexity in measuring assets at fair value, which was a new requirement for Defence in 2015–16. These processes were being embedded in 2016–17; the 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. 	One moderate audit finding identified — refer to paragraphs 4.4.18 to 4.4.20 below.
Departmental general assets \$27.0 billion	Valuation and completeness of general and intangible assets KAM	Moderate	<ul style="list-style-type: none"> Complexities of the valuation methodologies used and the judgemental nature of selecting and applying assumptions; and incorrect capitalisation of expenses into general assets under construction. 	No significant or moderate audit findings identified.
Litigation and compensation schemes (Unquantifiable Contingent liability)	Emerging threats of class action for environmental contamination and other potential legal exposures	Moderate	<ul style="list-style-type: none"> Complexity involved in assessing and reporting financial impacts relating to actual and potential legal actions with regards to environmental contamination issues; and the variety of Defence's activities exposes it to potential litigation for past actions. 	No significant or moderate audit findings identified.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Administered Military superannuation liabilities \$107.0 billion	Valuation of military superannuation liabilities KAM	Higher	<ul style="list-style-type: none"> Complexity of the calculation and the significant judgements involved in the determination of the economic and demographic assumptions. 	No significant or moderate audit findings identified.

Source: ANAO 2016–17 audit results, and the Department of Defence’s financial statements for the year ended 30 June 2017.

4.4.13 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 Defence’s 2016–17 financial statements.

4.4.14 The following performance audit reports were tabled during 2016–17 relevant to the financial management or administration of the Department of Defence:

- ANAO Report No. 11 2016–17 *Tiger-Army’s Armed Reconnaissance Helicopter*;
- ANAO Report No. 21 2016–17 *Reforming the Disposal of Specialist Military Equipment*;
- ANAO Report No. 29 2016–17 *Design and Implementation of Defence’s Base Services Contracts*;
- ANAO Report No. 48 2016–17 *Future Submarine-Competitive Evaluation Process*; and
- ANAO Report No. 44 2016–17 *Army’s Workforce Management*.

4.4.15 These reports included observations relevant to 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 2017–18 financial statements audit approach.

4.4.16 The observations included in ANAO Report No. 40 2016–17 *2015–16 Major Projects Report* were considered in designing the 2016–17 audit procedures.

Audit results

4.4.17 The following table summarises the status of audit findings reported by the ANAO in 2015–16 and 2016–17.

Table 4.4.4: Status of audit findings

Category	Closing Position (2015–16)	New Findings (2016–17)	Findings Resolved (2016–17)	Closing position (2016–17)
Significant (A)	0	0	0	0
Moderate (B)	4	3 ^(a)	(5) ^(b)	2
Total	4	3	(5)	2

Note a: Two moderate audit findings were identified during the 2016–17 interim audit phase. Details regarding these findings were reported to Parliament in ANAO Report No.60 of 2016–17 *Interim Report on Key Financial Controls of Major Entities*. One new moderate finding was identified during the 2016–17 final phase of the audit.

Note b: Four moderate audit findings relating to data integrity of SME, estimation of defence weapons platform impairments, MSI impairment and general asset revaluation have been downgraded to minor audit findings. One moderate audit finding relating to accounting for explosive ordnance, identified during the 2016–17 interim audit phase was resolved during the final phase of the audit.

Source: ANAO 2016–17 audit results.

New moderate audit finding

Completeness and accuracy of Specialist Military Equipment data to support the fixed asset register

4.4.18 Specialist Military Equipment (SME) is dispersed across Defence bases with the acquisition, custodian and sustainment responsibility residing with Systems Program Offices, Project Offices and Service Groups. These business units annually advise the centralised asset accounting team of impairment indicators, asset componentisation, inspection costs, present decommissioning costs and changes to asset useful lives, by completing a questionnaire and updating the Key Defence Asset Register (KDAR).

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

- information provided by the business units did not always reflect the current circumstances of the SME project;
- incomplete information was provided by the business units in relation to the impairment assurance process; and
- the KDAR could not be relied on to identify changes to useful lives due to a lack of detailed and approved information contained in the register.

4.4.20 These weaknesses increased the risk of misstatement of the SME balance and the depreciation expense. The ANAO undertook additional audit procedures to gain assurance that the 2016–17 financial statements were not materially misstated. Defence has advised that they are implementing procedures to address these weaknesses. The ANAO will review these processes during the 2017–18 audit.

Resolved moderate audit findings

Accounting for Explosive Ordnance at repair and maintenance facilities

4.4.21 During the 2016–17 interim audit, the ANAO conducted a stocktake at a repair and maintenance facility where issues were noted in the process of recording the disassembly of complex explosive ordnance (EO) items. During the disassembly process these items were not

accurately reflected in the logistics management system. In addition, the ANAO observed that there were insufficient numbers of key disassembled components to reflect the number of assembled EO items recorded as stock on hand.

4.4.22 Defence has undertaken a full stocktake of these EO items and has made changes in the logistics management process to appropriately reflect the status of all EO items undergoing repair and maintenance. In addition, the logistics management system has been accurately adjusted to reflect the actual holdings at the facility. During the final audit, the ANAO observed the updated processes and confirmed that the correct functions in the logistics management system were being used. As a result, this finding has been resolved.

Estimation of Defence Weapons Platforms (DWPs) (including assets under construction) impairment

4.4.23 The ANAO raised a moderate audit finding in 2014–15 regarding the estimation of impairment for DWPs, including:

- instances where early indicators of impairment were not considered in the final impairment assessment;
- insufficient evidence documented in the assessments to support conclusions that identified indicators did not result in an impairment;
- inconsistent responses between Systems Program Offices and Project Offices for assets under construction and DWP impairment indicators;
- lack of documentation evidencing a budget versus actual comparison of Rate of Effort (RoE) of all DWPs across the three service groups;
- lack of consideration of limitations to capability or deficiencies in systems, sub-systems and other components of a platform; and
- inconsistencies in RoE percentage applied to impairment calculations.

4.4.24 In 2016–17, the ANAO undertook a detailed review of both the impairment process and the validation of each estimate. There were significant improvements in the quality assurance undertaken by the asset accounting team in the impairment review process. However, there were still a number of platforms where the ANAO required additional information as the outcomes of the impairment process were not always robust or clear. As a result this finding has been downgraded to a minor finding.

Data integrity of the Specialist Military Equipment Fixed Asset Register

4.4.25 The ANAO raised a moderate audit finding in 2015–16 regarding the data integrity of the SME fixed asset register, including:

- the incorrect application of Defence's componentisation policy when assets were brought into service;
- the carrying cost of inspections not being derecognised when subsequent inspections were performed;
- insufficient or inaccurate data provided to support the nominal decommissioning costs; and
- instances where useful lives applied had not been updated to align with the KDAR.

4.4.26 Defence has implemented a more robust and systematic approach to validating information supporting the fixed asset register provided by the Systems Program Offices, Project Offices and Service Groups. The fixed asset register has also been updated to more accurately and clearly reflect component assets. Despite these improvements, a number of data integrity issues continued to be noted in the 2016–17 audit. As a result this finding has been downgraded to a minor finding.

Estimation of Military Support Items impairment

4.4.27 In 2014–15, Defence in consultation with an independent statistician, implemented an annual assurance process to calculate an adjustment to MSI impairment through statistical sampling of these assets. ANAO's review of the assurance process in 2015–16 identified a number of exceptions where the evidence was not provided or received in a timely manner. This delay limited the opportunity to remediate any issues and limited the level of confidence of the MSI impairment adjustment.

4.4.28 In 2016–17, the ANAO observed improvements in the process. MSI impairment assessments are now carried out in conjunction with the National Asset and Inventory Sample (NAIS) process, ensuring all assessments occur in a timely manner. The limitation of relying only on sites attended for NAIS, and inadequate training for a number of staff members undertaking the process, requires further refinement to the process. Defence is working with independent statisticians to improve the process to increase the level of confidence that can be placed in the process. Based on the improvements noted the finding has been downgraded to a minor finding.

Revaluation and Impairment of general assets

4.4.29 The ANAO raised a moderate audit finding in 2015–16 regarding a number of issues identified in relation to the valuation and impairment of general assets, including:

- limitations in the scope of work performed by the independent valuation specialists due to access or availability issues;
- instances where assets capitalised during the year had been in use in prior years. These assets were excluded from the asset revaluation process which resulted in the fair value of these asset not being reflected in the financial statements;
- heritage and cultural assets had not been revalued as per the Defence's asset management policy; and
- the accounting treatment for partial impairments was inconsistent with the Australian Accounting Standards.

4.4.30 In 2016–17, Defence implemented most of the ANAO's recommendations. Despite these improvements, some exceptions were noted in relation to the timeliness of assets capitalised in 2016–17, resulting in the finding being downgraded to a minor finding.

Unresolved moderate audit findings

Monitoring of Privileged activities performed by Service providers

4.4.31 During the 2016–17 interim audit, the ANAO identified lack of monitoring of privileged user access to key Defence systems, and recommended Defence implement a risk based governance process and control framework to detect control weaknesses in a timely manner. This

included processes to be undertaken by service providers, so that Defence has an appropriate oversight of services provided by the external organisation to the agreed service level standards.

4.4.32 During the final phase of the audit the ANAO noted that Defence had not fully implemented the ANAO recommendations. Progress in addressing this issue will be reviewed during the 2017–18 audit.

Australian War Memorial

4.4.33 The core responsibilities of the Australian War Memorial (AWM) are maintaining and developing the national memorial to Australians who have lost their lives in wars or warlike operations, developing, maintaining and exhibiting a national collection of historical material, and conducting and fostering research into the Australian military.

Summary of financial performance

4.4.34 The following section provides a comparison of the 2015–16 and 2016–17 key financial statements items reported by the Australian War Memorial, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.4.5: Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	53.5	39.9
Revenue from Government	42.7	42.5
Surplus/(deficit) attributable to the Government	(10.8)	2.6
Total other comprehensive income	114.9	33.7
Total comprehensive income attributable to the Australian Government	104.1	36.3
Total assets	1 440.6	1 328.5
Total liabilities	10.4	9.6
Total equity	1 430.2	1 318.9

Source: Australian War Memorial's financial statements for the year ended 30 June 2017.

4.4.35 The increase in net cost of services is largely due to increases in exhibition expenses relating to the Spirit of ANZAC Centenary Experience touring exhibitions. Other contributors to the increase included higher employee expenses associated with a nine per cent increase in full time employee numbers and a reduction in revenues from donations and sponsorships. Larger donations were made in the prior year which was the year of the 100 year anniversary of the ANZAC landing.

4.4.36 The increase in the total other comprehensive, total assets and total equity were largely the result of upward revaluations undertaken during the year.

Key areas of financial statements risk

4.4.37 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the Australian War Memorial's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.4.6. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.4.6: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Heritage and cultural assets \$1 175.0 million	Valuation of the collection	Moderate	<ul style="list-style-type: none"> Valuation is subject to judgement and assumptions, including assessments for impairment; and judgement is involved in determining what costs should be capitalised and the appropriate depreciation of the collection.
Land and building assets \$139.5 million	Valuation of land and buildings	Moderate	<ul style="list-style-type: none"> Valuation is subject to judgement and assumptions, including assessments for impairment.

Source: ANAO 2016–17 audit results, and the Australian War Memorial's financial statements for the year ended 30 June 2017.

4.4.38 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 2016–17 financial statements.

4.4.39 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.4.40 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

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 Defence's operational requirements. 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 2015–16 and 2016–17 key departmental and administered financial statements items reported by DHA and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.4.7: Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total revenue, income and share of joint venture profits	1 218.9	1 370.4
Total expenses	1 133.6	1 230.4
Profit before tax	85.3	140.0
Income tax expense	19.3	35.5
Net profit after income tax	66.0	104.5
Other comprehensive income	–	–
Total comprehensive income	66.0	104.5
Total assets	2 299.3	2 346.3
Total liabilities	765.8	839.2
Total equity	1 533.5	1 507.1

Source: DHA's financial statements for the year ended 30 June 2017.

4.4.43 The decrease in revenue is attributable to a reduction in the sale of sale and leaseback properties which is one of the main sources of DHA's funding. The decrease is primarily due to DHA responding to Defence's provisioning requirements and timing of the recognition and settlement of property sales. The decrease in expenses relates specifically to the reduction in cost of inventories sold which correlates to the decrease in sales. This has been partially offset by an increase in recoverable expenses for project management services and an increase in the write down of inventories reflective of the deterioration of market conditions.

4.4.44 The decrease in assets relates to the significantly lower cash receipts from sales of inventory. This has been partially offset by increases in receivables due to timing issues for settlement and the recognition in the current year of finance lease receivables, where DHA finances on-base housing constructions and certain off-base properties for Defence. The decrease in liabilities is due to the decrease in dividend payable, reduction in outstanding tax liabilities due to a lower surplus being generated and a general reduction of trade payables due to timing difference of settlement.

Key areas of financial statements risk

4.4.45 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the entity's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit

coverage in 2016–17 are provided in Table 4.4.8. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.4.8: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Inventory \$1.0 billion	Valuation of inventory	Higher	<ul style="list-style-type: none"> • The high volume of 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.
Investment properties \$876.4 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 noncurrent assets.
Revenue \$1.2 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; and • the number of revenue streams and volume and complexity of transactions.

Source: ANAO 2016–17 audit results, and the DHA's financial statements for the year ended 30 June 2017.

4.4.46 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 DHA's 2016–17 financial statements.

4.4.47 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.4.48 There were no significant or moderate audit findings arising from the 2016–17 financial statements audit.

4.4.49 The following table summarises the status of audit findings reported by the ANAO in 2016–17.

Table 4.4.9: Status of audit findings

Category	Closing Position (2015–16)	New Findings (2016–17)	Findings Resolved (2016–17)	Closing position (2016–17)
Significant (A)	-	-	-	-
Moderate (B)	1	-	(1)	-
Total	1	-	(1)	-

Source: ANAO 2016–17 audit results.

Resolved moderate audit finding

Financial Statement Preparation Process

4.4.50 In 2015–16, a moderate risk finding was raised in relation to the DHA’s financial statements preparation process. DHA has implemented processes in the current year to strengthen its financial statements preparation process and the finding was resolved at 30 June 2017.

Department of Veterans’ Affairs

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

Summary of financial performance

4.4.52 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by DVA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.4.10: Departmental key financial statements items

Departmental key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	330.9	309.5
Revenue from Government	306.5	303.1
Deficit attributable to the Australian Government	24.4	6.4
Total other comprehensive income	2.0	3.0
Total comprehensive income loss attributable to the Australian Government	22.4	3.4
Total assets	223.9	202.4
Total liabilities	146.7	135.6
Total equity	77.2	66.8

Source: Department of Veterans' Affairs' financial statements for the year ended 30 June 2017.

4.4.53 The increase in net cost of services and total comprehensive loss reflects an increase in activity within DVA during 2016–17, involving additional costs to establish taskforces to implement business transformation programs linked with the Veterans' Centric Reform.

4.4.54 Fluctuations in other balances reflect normal business activities.

Table 4.4.11: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	11 748	13 497
Total income	20	30
Deficit after income tax	11 728	13 467
Total other comprehensive income after income tax	104	36
Total comprehensive loss	11 624	13 431
Total assets administered on behalf of Government	1 591	1 482
Total liabilities administered on behalf of Government	11 460	10 418
Net liabilities	9 869	8 936

Source: Department of Veterans' Affairs' financial statements for the year ended 30 June 2017.

4.4.55 The increase in administered liabilities is due to a significant increase in the provision for military compensation. This is driven by changes in actuarial assumptions to reflect recent claims experience, particularly for incapacity, permanent impairment and healthcare costs. Offsetting the increase in actuarial assumptions was a \$983 million decrease related to the long term discount rate used to calculate the present value of the liability. In the prior year, a decrease in the long term discount rate further increased the present value of the liability by \$1 401 million, which was the primary driver for higher administered expenses in 2015–16, when compared to the current year.

4.4.56 The increase in administered assets reflects the increase in the valuation of the Australian War Memorial due to an increase in the value of its collection assets.

4.4.57 Fluctuations in other balances reflect normal business activities

Key areas of financial statements risk

4.4.58 The ANAO's 2016–17 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 value of expenditure, income, assets or liabilities associated with those areas and a summary of work carried out during the course of the audit are provided in Table 4.4.12, including which areas were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.4.12: 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
Administered personal benefit and healthcare provisions – \$10,954 million	Valuation of military compensation provision KAM	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 as an unfunded liability; and availability, quality and completeness of data used to derive the valuation.
Administered personal benefit and healthcare expenses – \$11,642 million	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.
Departmental intangible assets – \$93 million	Attribution of capital costs for internally developed software and assets under construction	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.
All expense items	Legislative compliance on claims processing, assessment and payment arrangements.	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.
All 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.

Source: ANAO 2016–17 audit results, and the Department of Veterans' Affairs' financial statements for the year ended 30 June 2017.

4.4.59 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. There were no performance audit reports tabled during 2016–17 relevant to the financial management or administration of the Department of Veterans' Affairs.

4.4.60 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 Department of Veterans' Affairs' 2016–17 financial statements.

Audit results

4.4.61 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

4.5 Education and Training Portfolio

Reporting Entity	Material Entity	Risk of material misstatement	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Education and Training	Yes	Moderate	✓	12 Sept 17	12 Sept 17	☐
AIATSIS Foundation Incorporated	No	Low	✓E	22 Sept 17	22 Sept 17	Nil
Australian Research Council	Yes	Low	✓	5 Sept 17	6 Sept 17	Nil

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

☐: significant or moderate findings and/or legislative matters identified in previous periods, or the 2016–17 interim audit phase, now reclassified or resolved

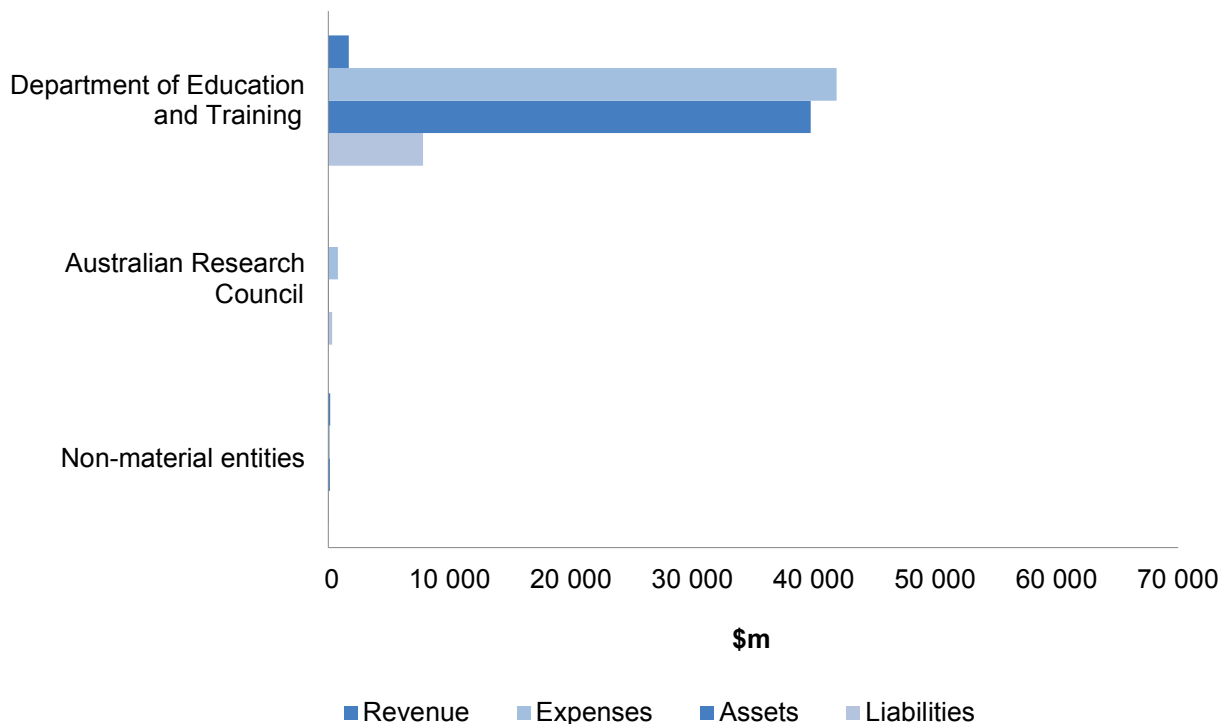
Portfolio overview

4.5.1 The Department of Education and Training is the lead entity in the portfolio. The department has responsibility for working with State and Territory governments, other government entities and a range of service providers to deliver education and training-related policy, advice and services.

4.5.2 In addition to the department, the portfolio includes seven entities, excluding subsidiaries, with responsibility for improving the quality and consistency of education and research within Australia's schools, vocational institutions and universities.

4.5.3 Figure 4.5.1 shows the Education and Training Portfolio's revenue, expenses, assets and liabilities.

Figure 4.5.1: Education and Training Portfolio's revenue, expenses, assets and liabilities³⁹



Source: 2016–17 CFS.

4.5.4 The following sections provide a summary of the 2016–17 financial statements audit results for the Department of Education and Training, other material entities in the portfolio and commentary relating to the AIATSIS Foundation Incorporated. Where a performance audit was tabled during 2016–17 that was relevant to the financial management or administration of an entity, the impact of those observations on the audit approach are also discussed.

Department of Education and Training

4.5.5 The Department of Education and Training (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.

4.5.6 As a result of the 1 December 2016 Machinery of Government changes, the Shared Services Centre (SSC) which previously operated jointly with the Department of Employment, transferred to the Service Delivery Office (SDO) administered by the Department of Finance. The SDO has taken responsibility for the processing of transactions for Education's accounts payable, accounts receivable, credit card management, travel and human resources.

³⁹ Figure 4.5.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

Summary of financial performance

4.5.7 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by the Department of Education and Training, 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	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	360.8	337.3
Revenue from Government	339.8	313.1
Deficit attributable to the Government	21.0	24.2
Total other comprehensive income	–	0.1
Total comprehensive loss attributable to the Australian Government	21.0	23.4
Total assets	176.5	227.7
Total liabilities	115.0	126.9
Total equity	61.5	100.8

Source: Education's financial statements for the year ended 30 June 2017.

4.5.8 The increased net cost of services was largely due to increased expenditure relating to the establishment of Education's new Vocational Education and Training (VET) Student Loan Scheme that came into effect on 1 January 2016.

4.5.9 The reduction in total assets and liabilities is a result of the assets transferred to Employment as part of the transition of the SSC to the Department of Finance as at 1 December 2016. This transition also resulted in a decrease in supplier payables which has resulted in a decrease in total liabilities.

Table 4.5.2: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	41 484.3	33 472.4
Total income	1 315.3	1 352.6
Deficit	40 169.0	32 119.8
Total other comprehensive income	220.0	31.6
Total comprehensive loss	39 949.0	32 151.4
Total assets administered on behalf of Government	39 546.6	40 061.1
Total liabilities administered on behalf of Government	7 688.3	8 079.1
Net assets	31 858.3	31 982.0

Source: Education's financial statements for the year ended 30 June 2017.

4.5.10 Total administered expenses increased as a result of a \$6 billion fair value loss resulting from the current year actuarial assessment of the Higher Education Loan Program (HELP) loans. In addition, the increase was also driven by the \$2 billion of child care personal benefit payments reported in Education's financial statements for the first time in 2016–17. This was due to the expenses being reported partially in the Department of Social Services financial statements in 2015–16 prior to the Machinery of Government changes in that year.

4.5.11 Total administered assets decreased as a result of the current year actuarial assessment of the HELP loans. Total administered liabilities also decreased due to a reduction in the estimated Higher Education Superannuation (HESP) provision, mainly due to changes in interest rates.

Key areas of financial statements risk

4.5.12 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of Education's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.5.3, including which areas were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk (a significant prior year finding relating to the child care program has been resolved, refer to paragraphs 4.5.20 to 4.5.23).

Table 4.5.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Personal benefits expenses \$7.3 billion Personal benefits provision \$979.0 million	The valuation of the child care accrual and the receivable balance and accuracy of payments processed in accordance with the child care program. KAM	Higher	<ul style="list-style-type: none"> • The complex legislation and administration of child care benefits; • payments are reliant on self-assessed information provided by child care service providers and claimants; and • the IT environment is highly dependent on external information systems which are administered by the Department of Social Services and the Department of Human Services.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Receivables \$37.1 billion Fair value losses \$6.1 billion	The valuation of the outstanding loan receivable under the Higher Education Loan Program (HELP) KAM	Higher	<ul style="list-style-type: none"> The balances of outstanding loans and impairment are derived from complex actuarial estimates and the estimate contains a degree of estimation uncertainty; the estimates also involve significant management judgements and assumptions; payment data is reliant on sources external to Education such as: the Australian Taxation Office; universities; and other third parties; and a number of audit findings were raised in 2015–16 concerning the administration of the student loans scheme which forms part of HELP.
Administered HESP provision \$6.5 billion Other receivables \$372.0 million	The valuation of the Higher Education Superannuation Program (HESP receivable and provision) KAM	Higher	<ul style="list-style-type: none"> The valuation of the HESP liability is subject to an actuarial estimation process and is highly sensitive to movements in discount factors and bond rates; and the valuation is complex and depends on accurate source data which is provided by third parties external to Education.
Administered Supplier expenses \$562.1 million	Implementation of a new vocational education training (VET) student loans scheme	Higher	<ul style="list-style-type: none"> Changes to the key IT systems to support the implementation of the new scheme; and the new scheme has a range of new features including the eligibility of providers and students.
Departmental Multiple financial statement line items	Transition of the key business responsibilities performed by the Shared Services Centre, primarily to the Department of Finance ^a	Higher	<ul style="list-style-type: none"> Complexities involved in managing a shared services arrangement; and issues noted in the prior year relating to the control environment and governance arrangements over the Shared Service Centre.
Administered Grants payments \$26.9 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 input of information from third parties; and the payments process relies on third party assessment of eligibility to receive a nominated grant.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
All financial statement line items	Financial statements preparation process	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 a moderate audit finding was reported in 2015–16 concerning weaknesses in Education’s financial statements preparation process.

Note a: As part of Machinery of Government changes which took effect from December 2016, core transactional services provided by the SSC moved to the Department of Finance from Education and the Department of Employment.

Source: ANAO 2016–17 audit results, and Education’s financial statements for the year ended 30 June 2017.

4.5.13 The following performance audit reports were tabled during 2016–17 relevant to the financial management or administration of Education:

- ANAO Report No.25 2016–17 *The Shared Services Centre*;
- ANAO Report No.31 2016–17 *Administration of the VET FEE-HELP Scheme*; and
- ANAO Report No. 49 2016–17 *Apprenticeship Training – alternative delivery pilots*.

4.5.14 Report No. 25 2016–17, included observations relevant to the Shared Service Centre transition to the Department of Finance outlined in Table 4.5.3. The Report identified that the SSC formalised agreements with clients through a memorandum of understanding (MoU) and these agreements did not contain sufficient detail of the responsibilities between the SSC and its clients.

4.5.15 This is relevant to the financial statements audit as the audit approach includes a detailed review of the governance and control framework over transactions processed for all users of the shared services.

4.5.16 Report No.31 2016–17 identified that there were weaknesses in Education’s administration of the program. These included issues relating to approvals of providers, compliance activities and the management of payments and information.

4.5.17 The financial statements audit approach has been designed to obtain appropriate and sufficient assurance over the approvals and payments relating to the VET FEE-HELP scheme and the new VET student loans program which commenced on 1 January 2017.

Audit results

4.5.18 There were no significant or moderate audit findings arising from the 2016–17 financial statements audit.

4.5.19 The following table summarises the status of audit findings reported by the ANAO in 2016–17.

Table 4.5.4: Status of audit findings

Category	Closing Position (2015–16)	New Findings (2016–17)	Findings Resolved (2016–17)	Closing position (2016–17)
Significant (A)	1	0	(1)	0
Moderate (B)	2	0	(2) ^(a)	0
Total	3	0	(3)	0

Note a: One moderate audit finding *Assurance arrangements for shared services* was downgraded to a minor audit finding during the 2016–17 interim audit phase. Details regarding this finding were reported in ANAO Report No.60 2016–17 *Interim Report on Key Financial Controls of Major Entities*.

Source: ANAO 2016–17 audit results.

Resolved significant audit finding

Child Care Compliance – estimated incorrect payments

4.5.20 In prior year audits, the ANAO identified significant weaknesses in Education’s child care compliance program including significant incorrect payments being made to child care service providers.

4.5.21 As part of Education’s strategy to address the identified weaknesses, the department implemented a number of improvements to the child care compliance framework. These include: establishing a taskforce focused on serious non-compliance matters; increasing the level of monitoring activities, including risk based data interrogation and analysis; and targeting higher risk areas as part of the increased monitoring.

4.5.22 The value of estimated incorrect child care payments has also reduced below the materiality levels the department has set for the administered financial statements.

4.5.23 Based on the work performed by the department, and the testing and review undertaken by the ANAO during the current year, the ANAO has agreed that the recommendations relating to the significant audit finding on child care compliance have been addressed and the finding is resolved.

Resolved moderate audit finding

Financial Statements Preparation

4.5.24 As part of the 2015–16 audit, the ANAO identified weaknesses in Education's financial statements preparation processes, including the absence of adequate financial statement preparation and quality review processes.

4.5.25 These weaknesses highlighted the need for Education to improve the underlying business processes required for financial statements preparation and quality review, including the development of a detailed risk based financial statements preparation plan that includes appropriate detail and analysis relating to key balances.

4.5.26 During the 2016–17 year, Education implemented a detailed plan to improve the financial statements preparation processes. As a result of the actions undertaken by Education the ANAO considers this finding resolved.

Australian Research Council

4.5.27 The core responsibility of the Australian Research Council (ARC) is the delivery of policy and programs that advance Australian research and innovation globally to benefit the community. The ARC achieves this by providing strategic policy advice to government, managing the National Competitive Grants program and measuring research excellence at Australia's universities by conducting research evaluations.

Summary of financial performance

4.5.28 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by the ARC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.5.5: Departmental key financial statements items

Departmental key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	22.1	26.1
Revenue from Government	21.8	21.0
Deficit attributable to the Government	0.3	5.1
Total other comprehensive income	–	–
Total comprehensive loss attributable to the Australian Government	0.3	5.1
Total assets	33.9	29.6
Total liabilities	7.6	7.8
Total equity	26.3	21.8

Source: Australian Research Council's financial statements for the year ended 30 June 2017.

4.5.29 A reduction in the net cost of services is mainly due to the significant decrease in depreciation expenses from 2015–16. The higher depreciation expense in 2015–16 reflects the decommissioning of the grants management system.

4.5.30 Assets and total equity have increased due to a greater amount of unspent appropriations when compared with 2015–16.

4.5.31 Fluctuations in other balances reflect normal business activities.

Table 4.5.6: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	759.6	770.6
Total income	10.2	6.5
Deficit	749.4	764.1
Total other comprehensive income	–	–
Total comprehensive loss	749.4	764.1
Total assets administered on behalf of Government	0.1	0.5
Total liabilities administered on behalf of Government	310.0	297.0
Net liabilities	309.9	296.5

Source: Australian Research Council's financial statements for the year ended 30 June 2017.

4.5.32 The increase in total income and subsequent reduction in the deficit is due to the recovery of unspent grant payments arising from a large number of projects reaching the end of their cycle.

4.5.33 Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.5.34 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the ARC's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.5.7. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.5.7: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Grants expense \$746.4 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 during 2015–16.
Departmental Intangibles \$10.9 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 asset.

Source: ANAO 2016–17 audit results, and the Australian Research Council's financial statements for the year ended 30 June 2017.

4.5.35 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 the ARC's 2016–17 financial statements.

4.5.36 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.5.37 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Comments on non-material entities

AIATSIS Foundation Incorporated

4.5.38 The AIATSIS Foundation Incorporated (the Foundation) was a not-for-profit organisation registered under the *Associations Incorporation Act 1991* (the Act) and was controlled by the Australian Institute of Aboriginal and Torres Strait Islander Studies (AIATSIS) until the Foundation was wound up on 14 August 2017. The Foundation raised funds for AIATSIS and assisted AIATSIS to promote the history and cultural heritage of Indigenous Australians.

Emphasis of matter

4.5.39 The auditor's report for the Foundation's financial statements included an emphasis of matter paragraph to draw attention to the notes to the financial statements which disclosed that these were the final financial statements for AIATSIS Foundation Incorporated and that the financial statements had been prepared on a non-going concern basis because the incorporation of the Foundation was cancelled by public notice N12017 on 14 August 2017. All of the Foundation's remaining account balances had been transferred to the parent entity, the Australian Institute of Aboriginal and Torres Strait Islander Studies.

4.6 Employment Portfolio

Reporting Entity	Material Entity	Risk of material misstatement	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Employment	Yes	Moderate	✓	5 Sept 17	5 Sept 17	☐
Coal Mining Industry (Long Service Leave Funding) Corporation	Yes	Moderate	✓	10 Oct 17	10 Oct 17	Nil
Comcare	Yes	Moderate	✓	27 Sept 17	27 Sept 17	Nil
Fair Work Commission	No	Low	✓	5 Sept 17	5 Sept 17	☐
Fair Work Ombudsman and Registered Organisation Commission Entity	No	Low	✓	19 Sept 17	19 Sept 17	☐

✓: auditor's report not modified

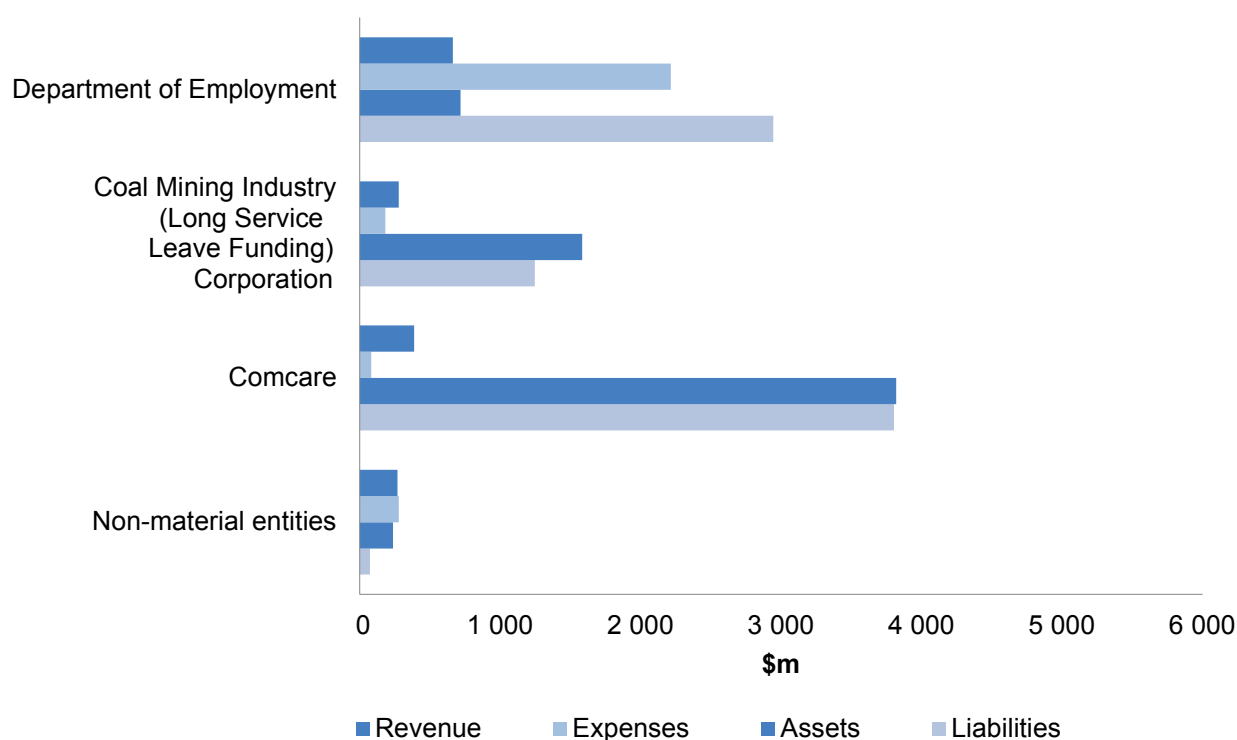
☐: significant or moderate findings and/or legislative matters identified in previous periods, or the 2016–17 interim audit phase, now reclassified or resolved

Portfolio overview

4.6.1 The Department of Employment (Employment) is the lead entity in the portfolio and is responsible for fostering a productive and competitive labour market through employment policies and programs that increase workforce participation and facilitate jobs growth.

4.6.2 In addition to the department, there are nine entities within the portfolio that provide workplace and 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 Figure 4.6.1 shows the Employment Portfolio's revenue, expenses, assets and liabilities.

Figure 4.6.1: Employment Portfolio's revenue, expenses, assets and liabilities⁴⁰

Source: 2016–17 CFS.

4.6.4 The following sections provide a summary of the 2016–17 financial statements audit results for Employment, other material entities in the portfolio and findings relating to non-material entities. Where a performance audit was tabled during 2016–17 that was relevant to the financial management or administration of an entity, the impact of those observations on the audit approach are also discussed.

Department of Employment

4.6.5 Employment's core area of responsibility is fostering a productive and competitive labour market through employment policies and programs that increase workforce participation and facilitate jobs growth.

4.6.6 As a result of the 1 December 2016 Machinery of Government changes, elements of the Shared Services Centre (SSC) previously operated jointly with the Department of Education and Training, transferred to the Service Delivery Office (SDO) administered by the Department of Finance. The SDO has taken responsibility for the processing of transactions for Employment's accounts payable, accounts receivable, credit card management, travel and payroll. Many of the remaining functions of the former SSC transferred to Employment, including IT services.

⁴⁰ Figure 4.6.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

Summary of financial performance

4.6.7 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by Employment, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.6.1: Departmental key financial statements items

Departmental key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	319.4	300.2
Revenue from Government	286.4	280.3
Deficit attributable to the Government	33.0	19.9
Total other comprehensive income	0	(6.9)
Total comprehensive loss attributable to the Australian Government	33.0	13.0
Total assets	326.7	267.6
Total liabilities	144.5	120.6
Total equity	182.2	147.0

Source: Employment's financial statements for the year ended 30 June 2017.

4.6.8 The increase in revenue and net cost of services is primarily the result of Employment becoming responsible for the majority of the IT service functions previously provided by the former SSC.

4.6.9 The increase in total assets is due to the assets transferred to Employment as part of the SSC MoG changes of 1 December 2016. This transition also resulted in an increase in supplier payables which has resulted in an increase in total liabilities.

Table 4.6.2: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	1 849.2	1 608.0
Total income	330.4	240.7
Deficit	1 518.8	1 367.3
Total other comprehensive income	96.9	16.2
Total comprehensive loss	1 421.9	1 351.1
Total assets administered on behalf of Government	381.7	288.6
Total liabilities administered on behalf of Government	2 800.1	2 900.3
Net liabilities	2 418.5	2 611.7

Source: Employment's financial statements for the year ended 30 June 2017.

4.6.10 Total administered expenses increased as a result of a \$255 million increase in expenditure for assistance to jobseekers and industry through the jobactive program. The increase in total income is driven by the fair value gains as a result of the actuarial assessment of the Comcare liability reported in Employment's financial statements.

4.6.11 The increase in other comprehensive income is due to the increase in the net assets of Coal Mining Industry (Long Service Leave Funding) Corporation (Coal LSL) which is an administered investment of Employment.

4.6.12 Total administered assets also increased as a result of the increase in net assets of Coal LSL. Total administered liabilities decreased as a result of the actuarial assessment of the Comcare liability. This was partially offset due to increased accrued expenditure through the jobactive program

Key areas of financial statements risk

4.6.13 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of Employment's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.6.3, including which areas were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk (a moderate prior year finding relating to the governance and control arrangements for the SSC has now been resolved, refer to paragraphs 4.6.19 to 4.6.22).

Table 4.6.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Departmental Multiple financial statement line items	Transition of the key business responsibilities performed by the SSC, primarily to the Department of Finance	Higher	<ul style="list-style-type: none"> Complexities involved in managing a shared services arrangement; transitional and other restructure arrangements required; and issues noted in the prior year relating to the control environment and governance arrangements over the SSC.
Administered Suppliers \$1.2 billion Subsidies \$229.0 million Personal benefits \$254.7 million	The effectiveness of the design and implementation of the jobactive compliance program KAM (accuracy and completeness)	Moderate	<ul style="list-style-type: none"> Payments are reliant on assessments made by third party service providers; and the success of the department's compliance activities are also crucial to the integrity of the jobactive program.

Source: ANAO 2016–17 audit results, and Employment’s financial statements for the year ended 30 June 2017.

4.6.14 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 Employment’s 2016–17 financial statements.

4.6.15 ANAO Report No.25 *The Shared Services Centre* was tabled during 2016–17 relevant to the financial management or administration of Employment. This Report included observations primarily relevant to business responsibilities performed by the SSC, that transferred to the Department of Finance. The Report assessed the effectiveness of Employment’s and the Department of Education and Training’s (Education) administration of the Shared Services Centre (SSC) to achieve efficiencies and to deliver value to its customers.

4.6.16 The observations in this report are consistent with the finding raised in the 2015–16 financial statements audit of Employment.

Audit results

4.6.17 There were no significant or moderate audit findings arising from the 2016–17 financial statements audit.

4.6.18 The following table summarises the status of audit findings reported by the ANAO in 2016–17.

Table 4.6.4: Status of audit findings

Category	Closing Position (2015–16)	New Findings (2016–17)	Findings Resolved (2016–17)	Closing position (2016–17)
Significant (A)	0	0	0	0
Moderate (B)	1	0	(1)	0
Total	1	0	(1)	0

Source: ANAO 2016–17 audit results.

Resolved moderate audit finding

Governance and control arrangements for shared services

4.6.19 As part of the Australian Government's shared and common services strategy, Employment and Education were jointly responsible for the effective operation of the SSC. The SSC delivered a variety of services such as payroll and financial processing, banking, and information technology support to the users of the shared services (clients).

4.6.20 In 2015–16 the ANAO identified weaknesses in the design and operational effectiveness of key controls related to the financial management information system. In addition, issues were also identified with the Shared Service Centre Memorandum of Understanding (MoU), system access to payment files and failure of verification processes to identify non-monetary changes to payment files.

4.6.21 From 1 December 2016, core transactional services such as accounts payable, accounts receivable, credit card management, and some elements of travel management and payroll, transferred from the SSC to the Department of Finance (Finance) Service Delivery Office (SDO).

4.6.22 As a result of the work performed by Employment, in conjunction with the implementation by Finance of a new governance framework over the SDO's operations, this moderate risk finding has been resolved.

Coal Mining Industry (Long Service Leave Funding) Corporation

4.6.23 The Coal Mining Industry (Long Service Leave Funding) Corporation (Coal LSL) 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 Coal LSL in accordance with legislative arrangements.

Summary of financial performance

4.6.24 The following section provides a comparison of the 2015–16 and 2016–17 key financial statements items reported by Coal LSL, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.6.5: Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	48.1	130.7
Revenue from Government	145.0	146.9
Surplus attributable to the Government	96.9	16.2
Total other comprehensive income	–	–
Total comprehensive income attributable to the Australian Government	96.9	16.2
Total assets	1 583.0	1 468.8
Total liabilities	1 245.2	1 227.9
Total equity	337.8	240.9

Source: Coal LSL's financial statements for the year ended 30 June 2017.

4.6.25 The net cost of services decreased primarily due to an increase in Coal LSL's investment revenue resulting from fluctuations in the equity market over the reporting period. The improved result is also attributable to an increase in unrealised gains on investments held at reporting date in addition to increased distributions from unit trust holdings.

4.6.26 Total assets increased due to a significant increase in the value of unit trust investments held by Coal LSL at 30 June 2017 as a result of an increase in unrealised gains on the investments and the reinvestment of unit trust distributions.

4.6.27 Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.6.28 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the entity's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.6.6. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.6.6: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Unit trusts \$1.5 billion	Valuation of investments	Higher	<ul style="list-style-type: none"> Coal LSL is continuing to increase its holdings of unlisted assets; and complexity surrounding the valuation of unlisted unit trusts.
Provisions \$1.2 billion	Valuation of provision for reimbursements	Higher	<ul style="list-style-type: none"> Coal LSL makes a provision for the expected reimbursement of employer's long service leave obligations, based on a complex methodology and estimation process.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Unit trusts \$1.5 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; and organisational change in preparing to bring the outsourced functions back in-house from 1 July 2017.

Source: ANAO 2016–17 audit results, and Coal LSL's financial statements for the year ended 30 June 2017.

4.6.29 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 Coal LSL's 2016–17 financial statements.

4.6.30 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.6.31 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Comcare

4.6.32 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

4.6.33 The following section provides a comparison of the 2015–16 and 2016–17 key financial statements items reported by the Comcare, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.6.7: Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net Contribution by Services	533.5	166.5
Revenue from Government	61.0	66.2
Surplus attributable to the Government ^(a)	467.4	253.0
Total other comprehensive income	0.0	4.3
Total comprehensive income attributable to the Australian Government	467.4	257.3
Total assets	3 821.3	3,813.3
Total liabilities	3 806.0	4,265.4
Total equity	15.3	(452.1)

Note a: The surplus attributable to Government includes an adjustment for available funding from the movement in claims provision of (\$127.2 million) in 2016–17 (2015–16: \$20.4 million).

Source: Comcare's financial statements for the year ended 30 June 2017.

4.6.34 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 claim provisions resulting from an independent valuation obtained during 2016–17. The provisions decreased in comparison to 2015–16 due to a number of movements in the parameters used to determine the provisions, including the results of actual claims data during 2016–17, and forecast data relating to future claims. The movement in the provisions also resulted in a decrease in the associated expenses.

4.6.35 Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.6.36 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of Comcare's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.6.8. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.6.8: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Workers' compensation claims provision \$2.8 billion Common law asbestos related disease claims provision \$970.0 million Workers' compensation claims expense \$246.0 million Common law asbestos related disease claims expense. \$18.7 million	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 data; and the inherent difficulties in reflecting macro-economic trends in the valuation model.
Workers' compensation premiums \$382.5 million Fees and fines \$16.2 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.

Source: ANAO 2016–17 audit results, and the Comcare's financial statements for the year ended 30 June 2017.

4.6.37 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 Comcare's 2016–17 financial statements.

4.6.38 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.6.39 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Comments on non-material entities

Fair Work Commission

4.6.40 The Fair Work Commission (the Commission) is the independent national workplace relations tribunal responsible for administering provisions of the *Fair Work Act 2009*. In 2016–17 the Commission was responsible for one outcome: simple, fair and flexible workplaces relations

for employees and employers through the exercise of powers to set and vary minimum wages and modern awards, facilitate collective bargaining, approve agreements and deal with disputes.

Resolved moderate audit finding

Access to online payment system and security measures

4.6.41 During the 2015–16 audit the ANAO identified weaknesses in the 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 uploaded payment files within RBAnet was not enabled. These weaknesses increased the risk of unauthorised and/or inappropriate payments.

4.6.42 In 2016–17 the ANAO confirmed that the Commission has addressed these weaknesses by: ensuring dual signatories to approve payments within RBAnet; reviewing user profiles, access rights and segregation of duties in the RBAnet system; and implementing a tracking functionality to identify access and changes to the import files. As a result of these actions the finding has now been resolved.

Fair Work Ombudsman and Registered Organisations Commission Entity

4.6.43 The Fair Work Ombudsman and Registered Organisations Commission Entity (FWOROCE) is an independent government agency responsible for ensuring compliance with the *Fair Work Act 2009* through advice, education and, where necessary, enforcement.

Resolved moderate audit finding

Access to the FMIS and online payment system

4.6.44 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 increased the risk of unauthorised and/or inappropriate payments.

4.6.45 In 2016–17 the ANAO confirmed that the FWOROCE has addressed these weaknesses by: ensuring dual signatories to approve payments within RBAnet; reviewing user profiles, access rights and segregation of duties in the RBAnet system; and implementing a tracking functionality to identify access and changes to the import files. As a result of these actions the finding has now been resolved.

4.7 Environment and Energy Portfolio

Reporting Entity	Material Entity	Risk of material misstatement	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of the Environment and Energy	Yes	Moderate	✓	28 Aug 17	29 Aug 17	Nil
Australian Renewable Energy Agency	Yes	Moderate	✓	14 Sept 17	14 Sept 17	Nil
Bureau of Meteorology	Yes	Low	✓	7 Sept 17	7 Sept 17	Nil
Clean Energy Finance Corporation	Yes	Moderate	✓	25 Aug 17	25 Aug 17	Nil
Clean Energy Regulator	Yes	Moderate	✓	20 Sept 17	22 Sept 17	Nil
Director of National Parks	No	Low	✓	13 Nov 17	13 Nov 17	◆

✓: auditor's report not modified

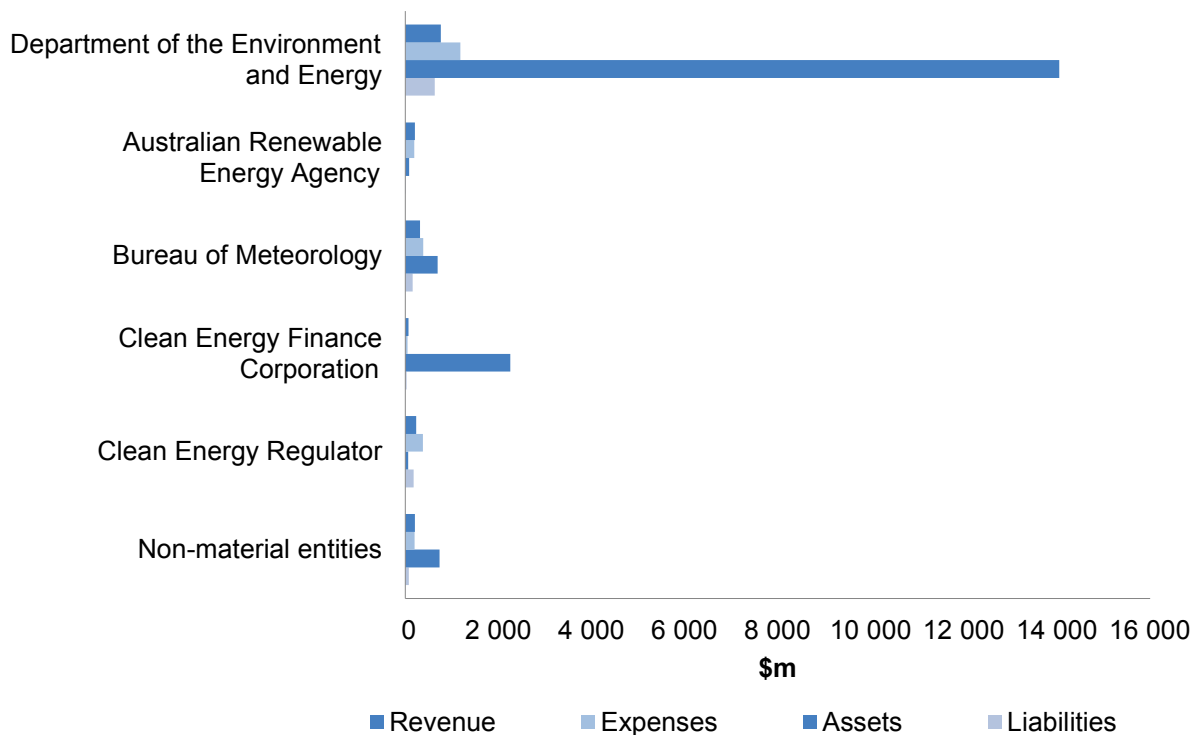
◆: new significant or moderate findings and/or legislative matters noted

Portfolio overview

4.7.1 The Department of the Environment and Energy is the lead entity in the portfolio. The department is responsible for advising on, and implementing, environmental and energy policy to support the Government in achieving a healthy environment, strong economy and thriving community now and into the future. The department is also responsible for managing the conservation, protection and sustainability of Australia's natural resources, biodiversity, ecosystems, environment and heritage requirements, and contributions to the national response to climate change. Additional areas of departmental responsibility include advancing Australia's interests in the Antarctic, managing environmental water use and supporting the reliable, sustainable and secure operation of energy markets. In addition to the department, there are eight entities, excluding a subsidiary, within the portfolio that are responsible for related functions, including renewable energy regulation, weather forecast services, financing the clean energy sector, advice on climate change mitigation and conservation of national reserves and the Great Barrier Reef.

4.7.2 Figure 4.7.1 shows the Environment and Energy Portfolio's revenue, expenses, assets and liabilities.

Figure 4.7.1: Environment and Energy Portfolio’s revenue, expenses, assets and liabilities⁴¹



Source: 2016–17 CFS.

4.7.3 The following sections provide a summary of the 2016–17 financial statements audit results for the Department of the Environment and Energy, other material entities in the portfolio and findings related to non-material entities. No performance audit reports were tabled during 2016–17 that impacted the financial statement audit approach for these entities.

The Department of the Environment and Energy

4.7.4 The core areas of responsibility of the Department of the Environment and Energy (Environment) are advising the Government on environmental and energy policy; managing the conservation, protection and sustainability of Australia’s natural resources, biodiversity, ecosystems, environment and heritage; and contributing to the national response to climate change.

4.7.5 As a result of the Administrative Arrangements Order of July 2016, Environment assumed responsibility for the energy function from the Department of Industry, Innovation and Science.

41 Figure 4.7.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

Summary of financial performance

4.7.6 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by Environment, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.7.1: Departmental key financial statements items

Departmental key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	455.6	481.8
Revenue from Government	410.4	398.9
Deficit attributable to the Government	45.2	82.9
Total other comprehensive income/(loss)	27.0	(37.7)
Total comprehensive loss attributable to the Australian Government	18.2	120.6
Total assets	688.5	544.1
Total liabilities	623.8	644.8
Total equity	64.7	(100.7)

Source: Environment's financial statements for the year ended 30 June 2017.

4.7.7 The decrease in total liabilities and expenses (including net cost of services) and corresponding increase in other comprehensive income is attributable to decreases in the provisions associated with the restoration and clean-up of Australia's bases in Antarctica. Fluctuations are attributable to changes in the key assumptions used to calculate the provisions, which can result in a gain or loss at year end.

4.7.8 The increase in total assets and total equity is due to progress payments made by Environment for the construction of the new Antarctic Icebreaker and the increase in appropriation receivable for the year ended 30 June 2017.

Table 4.7.2: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	663.4	618.9
Total income	290.8	521.3
Deficit	372.6	97.6
Total other comprehensive income	294.4	51.5
Total comprehensive loss	78.2	46.1
Total assets administered on behalf of Government	13 361.7	10 304.3
Total liabilities administered on behalf of Government	7.6	13.4
Net assets	13 354.1	10 290.9

Source: Environment's financial statements for the year ended 30 June 2017.

4.7.9 The increase in total expenses is due to an increase in payments to corporate Commonwealth entities partially offset by a decrease in supplier and grant related expenses as a result of the termination of the Green Army program and delays in the 20 Million Trees program.

4.7.10 The decrease in total income is primarily attributable to a decrease in gains associated with the revaluation of water entitlements. This was partially offset by the recognition of dividend income associated with Snowy Hydro Limited for the first time in 2016–17.

4.7.11 The increase in assets is primarily due to the transfer of the Government's investment in Snowy Hydro Limited to Environment referred to in paragraph 4.7.5 and an increase in the valuation of the investment in the Clean Energy Finance Corporation as a result of additional Government funding of \$1 billion. Total assets and total comprehensive income also increased due to revaluation increments relating to administered investments held by Environment at 30 June 2017.

Key areas of financial statements risk

4.7.12 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of Environment's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.7.3, including which areas were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.7.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered investments \$800 million	Valuation of Snowy Hydro Ltd KAM	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 associated with determining an accurate value.
Administered water entitlements \$3.1 billion	Valuation of water 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.
Departmental other provisions \$534 million	Valuation of provision for restoration obligations in the Antarctic KAM	Moderate	<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.
Administered grants \$315 million	Management of grants	Moderate	<ul style="list-style-type: none"> • Environment administers a wide variety of grant programs which constitute a significant expense reported in the department's financial statements.

Source: ANAO 2016–17 audit results, and the Department of the Environment and Energy's financial statements for the year ended 30 June 2017.

4.7.13 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 Environment's 2016–17 financial statements.

Audit results

4.7.14 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Australian Renewable Energy Agency

4.7.15 The core areas of responsibility of the Australian Renewable Energy Agency (ARENA) are improving the competitiveness of renewable energy technologies and increasing the supply of renewable energy in Australia.

Summary of financial performance

4.7.16 The following section provides a comparison of the 2015–16 and 2016–17 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	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	177.4	78.5
Revenue from Government	192.1	114.6
Surplus attributable to the Government	14.7	36.1
Total other comprehensive loss	4.1	2.2
Total comprehensive income attributable to the Australian Government	10.6	33.9
Total assets	83.1	74.0
Total liabilities	3.9	5.3
Total equity	79.2	68.7

Source: ARENA's financial statements for the year ended 30 June 2017.

4.7.17 ARENA's financial results for 2016–17 were primarily impacted by additional grant payments made in the current year as well as delays in some grant recipients meeting project milestones in the prior year. ARENA is appropriated through its enabling legislation totalling \$1.937 billion up to 2021–22, which includes appropriation for advisory work in relation to the Clean Energy Innovation Fund managed by the Clean Energy Finance Corporation. The funds are held by the Department of the Environment and Energy. Revenue from Government is recognised when ARENA receives cash to make its payments.

Key areas of financial statements risk

4.7.18 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the entity's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2016–17 is provided in Table 4.7.5. No significant or moderate audit findings were identified relating to this key area of risk.

Table 4.7.5: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Grants \$160.7 million	Management of, and accounting for, grants.	Moderate	<ul style="list-style-type: none"> Complex funding arrangements for a number of grant recipients; and size of grants and the impact on the financial statements.

Source: ANAO 2016–17 audit results, and ARENA's financial statements for the year ended 30 June 2017.

4.7.19 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 2016–17 financial statements.

Audit results

4.7.20 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Bureau of Meteorology

4.7.21 The Bureau of Meteorology's core areas of responsibility are gathering weather, water and atmospheric observations in order to provide forecasts, warnings and long-term weather and climatic outlook.

Summary of financial performance

4.7.22 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by the Bureau of Meteorology, 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	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	300.6	289.9
Revenue from Government	228.4	214.0
Deficit attributable to the Government	72.2	76.0
Total other comprehensive income	31.7	–
Total comprehensive loss attributable to the Australian Government	40.5	76.0
Total assets	692.9	676.2
Total liabilities	156.3	169.8
Total equity	536.6	506.4

Source: Bureau of Meteorology's financial statements for the year ended 30 June 2017.

4.7.23 The increase in net cost of services was mainly due to higher expenses relating to new projects that commenced in 2016–17 and the disposal of obsolete IT equipment during the year.

4.7.24 The increase in total assets was a result of the revaluation of non-financial assets and the recognition in 2016–17 of internally developed software.

4.7.25 Fluctuations in other balances reflect normal business activities.

Table 4.7.7: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	–	–
Total income	4.3	2.2
Surplus	4.3	2.2
Total other comprehensive income	–	–
Total comprehensive income	4.3	2.2
Total assets administered on behalf of Government	0.3	0.1
Total liabilities administered on behalf of Government	0.0	0.0
Net assets	0.3	0.1

Source: Bureau of Meteorology's financial statements for the year ended 30 June 2017.

4.7.26 Total administered income relates to income generated from the sale of third-party advertising on the Bureau of Meteorology's website. During 2016–17, the Bureau of Meteorology entered into a new advertising contract that reduced third party fees.

4.7.27 Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.7.28 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the Bureau of Meteorology's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.7.8. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.7.8: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Total assets \$692.9 million	Valuation of specialised weather equipment	Moderate	<ul style="list-style-type: none"> Involves complex valuation processes that involve significant judgement and estimation by valuation experts; and includes diverse types of assets such as radar, weather stations and super computers located across Australia.
	Valuation of computer software	Moderate	<ul style="list-style-type: none"> High level of complexity involved in capturing costs and ensuring these are capitalised in accordance with Australian accounting standards; and significant reliance on management's judgements in relation to useful lives and impairment of these assets.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Net cost of services \$300.6 million	Completeness and accuracy of own-sourced income	Moderate	<ul style="list-style-type: none"> • Own-sourced income makes up almost 30 per cent of overall revenue; • various revenue streams are generated through multiple channels; and • requires compliance with recognition and measurements requirements of relevant Australian accounting standards.

Source: ANAO 2016–17 audit results and the Bureau of Meteorology's financial statements for the year ended 30 June 2017.

4.7.29 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 Bureau of Meteorology's 2016–17 financial statements.

Audit results

4.7.30 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Clean Energy Finance Corporation

4.7.31 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.

4.7.32 Effective from 10 January 2017, CEFC was issued with the Clean Energy Finance Corporation Investment Mandate Direction 2016 (No.2) which among other things, required the Corporation to make available up to:

- \$1 billion of investment finance over 10 years for a Sustainable Cities Investment Program;
- \$1 billion of investment finance over 10 years for a Reef Funding Program; and
- \$200 million for debt and equity investment through the Clean Energy Innovation Fund.

Summary of financial performance

4.7.33 The following section provides a comparison of the 2015–16 and 2016–17 key financial statements items reported by 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	2016–17 (\$m)	2015–16 (\$m)
Net contribution by services	21.7	21.1
Revenue from Government	–	–
Surplus attributable to the Government	21.7	21.1
Total other comprehensive income	7.6	5.9
Total comprehensive income attributable to the Australian Government	29.3	27.0
Total assets	2 273.3	1 225.2
Total liabilities	44.9	26.1
Total equity	2 228.4	1 199.1

Source: CEFC's financial statements for the year ended 30 June 2017.

4.7.34 The increase in other comprehensive income was associated with gains in the market value of available for sale financial assets.

4.7.35 Total assets increased mainly as a result of CEFC's utilisation of an additional \$1 billion from the CEFC special account, recognised in the Department of the Environment and Energy's financial statements, to fund the Corporation's pipeline of contracted loans and investments.

4.7.36 Total liabilities increased due to provisions for increased concessional loans where the Corporation continues to identify opportunities to invest in clean energy technologies, projects and businesses, and additional unearned income on new investment arrangements entered into as at 30 June 2017.

4.7.37 Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.7.38 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the entity's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.7.10. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.7.10: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Revenue from interest and loan fees and distributions from trusts and equity investments \$64.6 million	Revenue recognition	Higher	<ul style="list-style-type: none"> Interest and fee income derived from the CEFC's loan portfolio and distributions received from trusts and equity investments are the material components of the CEFC's total revenue. Amounts received for establishment and other fees may be in the form of cash or other assets (e.g. shares).
Loans and advances \$771.2 million Available for sale financial assets \$802.9 million Other financial assets \$278.4 million Provision for concessional loans \$19.5 million	Accounting for complex finance agreements including the adequacy of impairment provisions and concessional loan adjustments	Higher	<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; 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.
Key management personnel remuneration \$4.0 million	Disclosure of key management personnel remuneration	Moderate	<ul style="list-style-type: none"> Payments relating to the variable compensation or retention plans may be inconsistent with the parameters set out in those plans; and accruals relating to any such payments may not be appropriately accounted for.

Source: ANAO 2016–17 audit results, and CEFC's financial statements for the year ended 30 June 2017.

4.7.39 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 CEFC's 2016–17 financial statements.

Audit results

4.7.40 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Clean Energy Regulator

4.7.41 The core areas of responsibility of the Clean Energy Regulator (CER) are administering schemes legislated by the Australian Government that are designed to work together to provide economic incentives, backed up by robust data, to reduce greenhouse gas emissions and increase the use of renewable energy to achieve the acceleration of carbon abatement for Australia.

Summary of financial performance

4.7.42 The following section provides a comparison of the 2015–16 and 2016–17 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	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	81.1	85.2
Revenue from Government	71.0	73.0
Deficit attributable to the Government	10.1	12.2
Total other comprehensive income	5.6	–
Total comprehensive loss attributable to the Australian Government	4.5	12.2
Total assets	43.8	51.5
Total liabilities	15.1	18.6
Total equity	28.7	32.9

Source: CER's financial statements for the year ended 30 June 2017.

4.7.43 The decrease in net cost of services is attributable to a small decrease in overall operating expenses and the recognition of a gain on the removal of the makegood provision associated with the previous lease agreement. The removal of the makegood provision also impacted on the variance associated with the deficit attributable to Government and total liabilities.

4.7.44 The increase in total other comprehensive income and decrease in loss attributable to the Australian Government is primarily attributable to a revaluation increase of \$5.6 million recognised in relation to non-financial assets of which \$5.5 million relates to leasehold improvements as at 30 June 2017.

4.7.45 The decrease in total assets is attributable to depreciation and amortisation expense for the year and decrease in appropriation receivable partially offset by the revaluation increment recognised at 30 June 2017.

Table 4.7.12: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	309.2	144.8
Total income	161.6	16.3
Deficit	147.6	128.5
Total other comprehensive income	–	–
Total comprehensive loss	147.6	128.5
Total assets administered on behalf of Government	12.7	93.4
Total liabilities administered on behalf of Government	173.3	114.5
Net liabilities	160.6	21.1

Source: CER's financial statements for the year ended 30 June 2017.

4.7.46 The Renewable Energy Target (RET) shortfall is a large-scale generation shortfall charge paid by entities to meet their RET target obligations rather than surrendering renewable energy certificates. Entities can receive a refund of shortfall payments if certain requirements under legislation are met within the 'allowable refund period'. This is the first year that CER has recognised a provision for the refund of RET shortfall payments for entities that demonstrated a commitment to become compliant and as a result may be entitled to a refund. The increase in total expenses, total liabilities and net liabilities is primarily attributable to the first time recognition of the provision for refund of the renewable energy target shortfall charges and an increase in purchase of carbon credit units for the year ended 30 June 2017. This provision, and an increase in the purchase of carbon credit units resulted in an increase in total expenses, total liabilities and net liabilities for the year ended 30 June 2017. The increase in total and net liabilities is partially offset by the unearned revenue reported in the prior year in relation to the small scale technology certificate (STC) scheme.

4.7.47 During 2016–17, a number of entities paid the RET shortfall charge rather than surrendering renewable energy certificates. This resulted in an increase in total income.

4.7.48 CER operates the STC clearing house to facilitate the purchase and sale of certificates. The closing balance of the STC clearing house is reported as cash held in the Renewable Energy Special Account and represents receipts from liable entities held in the clearing house for payment in 2016–17. The decrease in total assets is attributable to the decrease in cash held in the Renewable Energy Special Accounts as a result of the reduction in receipts from liable entities held in the STC clearing house at 30 June 2017.

Key areas of financial statements risk

4.7.49 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of CER's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.7.13. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.7.13: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Purchase of carbon credit units \$160.8 million	Occurrence and valuation of Emissions Reduction Fund expenditure and liabilities	Moderate	<ul style="list-style-type: none"> • Complex legislative framework for assessment of compliance; • variety, scale and complexity of projects increase risk of incorrect assessment of eligibility and issue of Australian Carbon Credit Units; and • expenditure is material to the CER's financial statements and is increasing.
Shortfall charges revenue \$149.5 million	Recognition of shortfall charges under the <i>Renewable Energy (Electricity) Act 2000</i>	Moderate	<ul style="list-style-type: none"> • Complex legislative framework for assessment of liability; and • revenue is material to the CER's financial statements and is increasing exponentially.

Source: ANAO 2016–17 audit results, and the CER's financial statements for the year ended 30 June 2017.

4.7.50 The ANAO also completed appropriate audit procedures on all material financial statements line items and the IT general and application controls for key systems that supported the preparation of the CER's 2016–17 financial statements.

Audit results

4.7.51 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Comments on non-material entities

Director of National Parks

4.7.52 The Director of National Parks (DNP) is responsible for the sustainable management of the Commonwealth's protected areas through conservation and appreciation of Commonwealth reserves. The DNP achieves its objectives through the provision of safe visitor access, the control of invasive species, and working with stakeholders and neighbours.

New moderate audit findings

Identification, valuation and classification of assets

4.7.53 During the interim phase of the 2016–17 audit, while undertaking site visits to the Kakadu and Booderee National Parks, the ANAO conducted physical inspections of a sample of assets and found assets not correctly identified, valued or classified. The ANAO also identified that the Kakadu National Park does not have an approved and implemented capital maintenance plan for the upkeep of its roads.

4.7.54 In response to the identified issues, during the final audit phase the ANAO performed detailed analytical procedures over road valuations and an analysis of key movements in the asset

register. In addition, the ANAO evaluated key assumptions used in the asset valuations such as asset useful lives and condition assessments.

4.7.55 DNP advised that the asset management process continues to be identified as a priority in the Corporate Plan and the ANAO will test progress against implementation of the recommendations in 2017–18.

Financial statement quality control and preparation process

4.7.56 During the final phase of the 2016–17 audit, the ANAO identified that DNP did not have adequate processes in place to ensure the timely and accurate preparation of their 2016–17 financial statements. The ANAO identified weaknesses in DNP's quality assurance review processes, a lack of adherence to financial statement preparation timetables, and deficiencies in the preparation of work papers to support the financial statements and associated notes. In addition, there were significant delays in the completion of the financial statements, resulting in the Department of Finance's material clearance timetable not being met.

4.7.57 DNP advised that it is implementing procedures to address this issue in 2017–18. The ANAO will review the progress made by DNP to improve its financial statements preparation process as part of the 2017–18 audit.

4.8 Finance Portfolio

Reporting Entity	Material Entity	Risk of material misstatement	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Finance	Yes	Moderate	✓	5 Sept 17	5 Sept 17	☐
ASC Pty Ltd	Yes	Moderate	✓	7 Sept 17	7 Sept 17	Nil
Australian Electoral Commission	Yes	Low	✓	12 Sept 17	12 Sept 17	Nil
Australian Naval Infrastructure Pty Ltd	Yes	Moderate	✓	26 Sept 17	26 Sept 17	Nil
Commonwealth Superannuation Corporation	No	Moderate	✓	26 Sept 17	26 Sept 17	☐
Future Fund Management Agency and the Board of Guardians	Yes	Moderate	✓	26 Sept 17	26 Sept 17	Nil

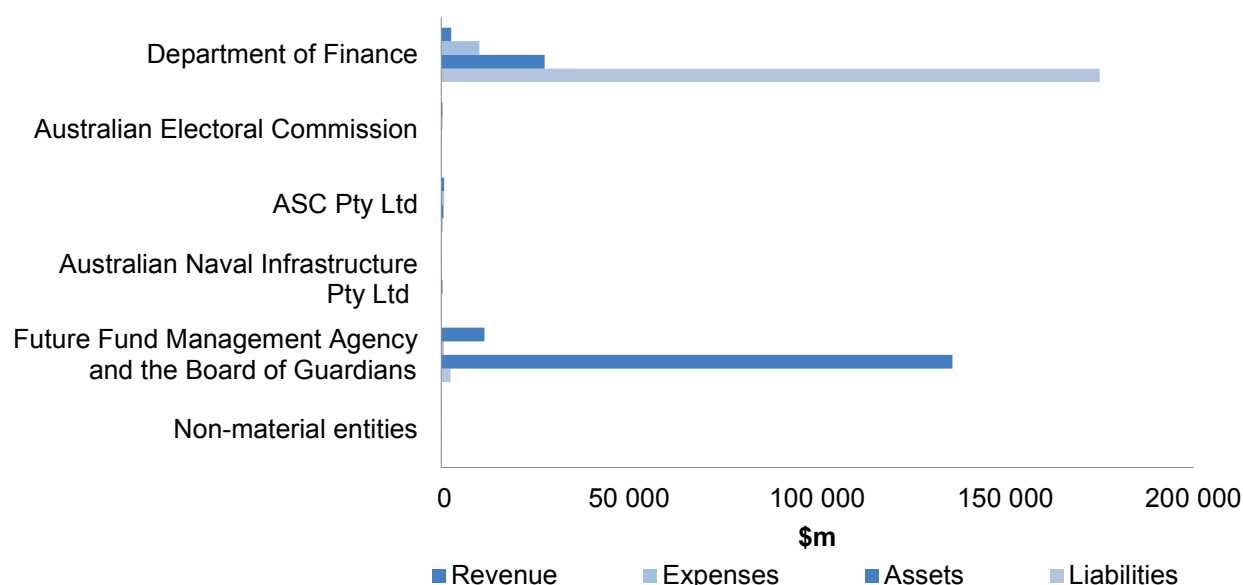
✓: auditor's report not modified

☐: significant or moderate findings and/or legislative matters identified in previous periods, or the 2016–17 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 (CFS) of the Australian Government and a range of finance-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 Figure 4.8.1 shows the Finance Portfolio's revenue, expenses, assets and liabilities.

Figure 4.8.1: Finance Portfolio's revenue, expenses, assets and liabilities⁴²

Source: 2016–17 CFS.

4.8.3 The following sections provide a summary of the 2016–17 financial statements audit results for the Department of Finance (Finance) and material entities in the portfolio. Where a performance audit was tabled during 2016–17 that was relevant to the financial management or administration of an entity, the impact of those observations on the audit approach are also discussed.

Department of Finance

4.8.4 Finance is the lead entity in the portfolio and is responsible for supporting the Government's Budget process and oversight of public sector resource management, governance and accountability frameworks. In addition, the department is responsible for the preparation of the annual CFS, which includes the whole-of-government and the general government sector financial statements and the Australian Government's financial outcome.

4.8.5 Finance has been impacted by three Machinery of Government (MoG) changes during the year. As part of the MoG changes, Finance transferred responsibility for the functions associated with:

- the Whole of Government Information and Communications Technology policy, procurement and strategy related functions to the Digital Transformation Agency. The transfer included the majority of IT procurement functions relating to the Centralised Procurement Contracting Special Account (CPCSA) from 2017–18; and
- auditing, reporting, providing advice and processing claims relating to travel expenses and allowances of Parliamentarians and their staff to the Independent Parliamentary Expenses Authority on 3 April 2017.

⁴² Figure 4.8.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

4.8.6 From 1 December 2016, responsibility for the shared services function was transferred from the Department of Education and Training (Education) and Department of Employment (Employment) to Finance.

4.8.7 While the changes did not have a significant financial statement impact, the function has taken some significant management effort to integrate the operations and address the issues raised by the ANAO in the 2015–16 audit.

Summary of financial performance

4.8.8 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by Finance, 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	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	222.9	154.0
Revenue from Government	278.4	271.3
Surplus attributable to the Government	55.4	113.5
Total other comprehensive income	21.9	25.1
Total comprehensive income attributable to the Australian Government	77.3	138.6
Total assets	3 057.4	2 845.8
Total liabilities	811.7	697.7
Total equity	2 245.7	2 148.1

Source: Finance's financial statements for the year ended 30 June 2017.

4.8.9 The increase in net costs of services and lower comprehensive income is largely due to the provisioning of an insurance claim for the Manus Island class action.

4.8.10 The increase in total assets is largely due to additional cash reserves in the special account with billing for 2017–18 costs brought forward to assist with the impending transfer of the CPCSA, the increase in land and buildings from the construction of properties such as the Post Entry Quarantine Facility and increases in the valuations of the properties held.

4.8.11 Fluctuations in other balances reflect normal business activities.

Table 4.8.2: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	9 480.2	9 509.5
Total income	1 895.1	1 906.6
Deficit	7 585.1	7 603.0
Total other comprehensive income/(loss)	21 816.5	(30 835.3)
Total comprehensive income/(loss)	14 231.4	(38 438.3)
Total assets administered on behalf of Government	24 465.6	18 474.9
Total liabilities administered on behalf of Government	174 222.2	191 333.2
Net liabilities	149 756.6	172 858.3

Source: Finance's financial statements for the year ended 30 June 2017.

4.8.12 Total other comprehensive income has increased by \$50 billion largely due to the rise in the discount rate used for the superannuation liabilities valuation from 2.7 per cent to between 3.0 and 3.5 per cent. The higher discount rate has led to a smaller provision required.

4.8.13 Total assets increased due to additional contributions received from the Consolidated Revenue Fund and invested in the DisabilityCare Australia Fund and the Medical Research Future Fund managed by Finance, which has increased funds held by \$5.4 billion.

4.8.14 Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.8.15 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the entity's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.8.3, including which areas were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk (a moderate prior year finding relating to the governance and control arrangements for the SSC has been resolved, refer to paragraphs 4.8.20 to 4.8.26).

Table 4.8.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Superannuation provision \$172 352.3 million	Valuation of unfunded public sector superannuation KAM	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.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Outstanding insurance claims \$438.7 million	Valuation of the outstanding claims liability under the Australian Government's self-managed general insurance fund KAM	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.
Land and Buildings, Investment Properties \$1 824.4 million	Valuation of the Government's non-defence domestic property portfolio KAM	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.
Various	Transition of the key business responsibilities performed by the Shared Services Centre (SSC) to the Department of Finance and transfer of responsibilities to Independent Parliamentary Expenses Authority and Digital Transformation Agency	Moderate	<ul style="list-style-type: none"> • Complexities involved in managing a shared services arrangement; • transitional and other restructure arrangements required; and • issues noted in the prior year relating to the control environment and governance arrangements over the SSC.

Source: ANAO 2016–17 audit results and Finance's financial statements for the year ended 30 June 2017.

4.8.16 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 Finance's 2016–17 financial statements.

4.8.17 No performance audit reports were tabled during 2016–17 that were relevant to the financial management or administration of Finance.

Audit results

4.8.18 There were no significant or moderate audit findings arising from the 2016–17 financial statements audit.

4.8.19 The following table summarises the status of audit findings reported by the ANAO in 2016–17.

Table 4.8.4: Status of audit findings

Category	Closing Position (2015–16)	New Findings (2016–17)	Findings Resolved (2016–17)	Closing position (2016–17)
Significant (A)	-	-	-	-
Moderate (B)	1 ^(a)	-	(1)	-
Total	1	-	(1)	-

Note a: A moderate audit finding was transferred to Finance as a result of the machinery of government transfer of shared services. The issue has been resolved during the 2016–17 audit.

Source: ANAO 2016–17 audit results.

Resolved moderate audit finding

Governance and control arrangements for shared services

4.8.20 As part of the Australian Government's shared and common services strategy, Employment and Education were jointly responsible for the effective operation of a service organisation known as the SSC. The SSC delivered a variety of services such as payroll and financial processing, banking, and information technology support to the users of the shared services (clients).

4.8.21 During the 2015–16 final audit, the ANAO identified weaknesses in the design and operational effectiveness of the SSC's controls related to the financial management information system. These key issues included:

- insufficient documentation in the Memoranda of Understanding (MoU) 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 with access to payment files prior to processing by the Reserve Bank of Australia (RBA). This level of access allowed 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 did not effectively detect any inappropriate changes made to financial information arising from these identified weaknesses.

4.8.22 At the conclusion of the 2015–16 audit, Employment agreed to implement controls to secure the payment file and activate appropriate security features over financial information and agreed to implement a quality control program over shared services.

4.8.23 From 1 December 2016, core transactional services such as payroll, accounts payable, accounts receivable, credit card management, and some elements of travel management, transferred from the SSC to Finance. The remaining shared services were retained by Employment.

4.8.24 Employment has actioned the items for payment files and security features by reducing the number of users with access to payment files in July 2016 and has advised that enhanced security features for banking and payment processes were implemented in early February 2017. The ANAO reviewed the implementation of these features during the interim audit phase and

agreed that the enhancements improved controls over payments from the time of implementation.

4.8.25 Finance has provided a MoU to its client agencies that demarcates and allocates roles and responsibilities for both Finance, and its clients under the service arrangement including for the purpose of financial reporting, governance and accountability.

4.8.26 At the completion of the audit, Finance advised that not all of the agreements have been signed, entities have received the new MoU and a service catalogue and Finance is providing the services in accordance with the service catalogue. As a result, this finding has been resolved.

Australian Electoral Commission

4.8.27 The core areas of responsibility of the Australian Electoral Commission (AEC) are conducting federal elections and referendums, maintaining the Commonwealth electoral roll, administering political funding, and disclosure and provision of a range of electoral information and education programs, both in Australia and internationally.

Summary of financial performance

4.8.28 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by the AEC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.8.5: Departmental key financial statements items

Departmental key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	281.2	257.8
Revenue from Government	317.2	232.8
Surplus/(deficit) attributable to the Government	36.0	(25.0)
Total other comprehensive income/(loss)	(0.3)	1.9
Total comprehensive income/(loss) attributable to the Australian Government	35.7	(23.1)
Total assets	122.8	154.8
Total liabilities	36.2	110.0
Total equity	86.6	44.8

Source: Australian Electoral Commission's financial statements for the years ended 30 June 2017.

4.8.29 The significant movement in departmental key financial statements items is largely due to the Federal election held on 2 July 2016. Employee expenses increased due to casual and temporary employees engaged to perform polling duties and counting of votes. This was offset by a decrease in supplier expenses as costs associated with the Federal election were largely incurred at the end of the 2015–16 financial year in preparation for the election. In addition, the AEC received additional appropriation funding in 2016–17 largely to support the July election. These movements resulted in a surplus at 30 June 2017 and an improved equity position.

4.8.30 The timing of the election also resulted in decreases in:

- asset balances, most significantly inventory that was held at 30 June 2016 and used during the election and the cash at bank balance which was higher at 30 June 2016 to facilitate payments required on 1 July 2016 (combined decrease of approximately \$24.4 million); and
- liabilities – suppliers and other payables were approximately \$74.4 million less at 30 June 2017 compared to 30 June 2016 as the AEC had incurred significant expenditure at 30 June 2016 in preparation for the election that had not yet been paid.

Table 4.8.6: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	62.9	0.4
Total income	3.7	0.4
Deficit	59.2	0.0
Total other comprehensive income	0.0	0.0
Total comprehensive loss	59.2	0.0
Total assets administered on behalf of Government	3.6	2.3
Total liabilities administered on behalf of Government	0.0	0.0
Net assets	3.6	2.3

Source: Australian Electoral Commission's financial statements for the years ended 30 June 2017.

4.8.31 Administered expenses relate to funding payments to political parties and administered income relates to fines and penalties collected from non-voters. As the Federal election was held on 2 July 2016, these items increased in 2016–17.

Key areas of financial statements risk

4.8.32 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the Australian Electoral Commission's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2016–17 is provided in Table 4.8.7. No significant or moderate audit findings were identified relating to this key area of risk.

Table 4.8.7: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Departmental net cost of services \$281.2 million	Recognition and measurement of employee benefits expense (\$152.6 million)	Moderate	<ul style="list-style-type: none"> • Significant balance; and • additional employee expenditure in 2016–17 as a result of the July Federal election and the associated increase in casual and temporary employees due to polling duties and counting of votes.

Source: ANAO 2016–17 audit results, and the Australian Electoral Commission’s financial statements for the year ended 30 June 2017.

4.8.33 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 Australian Electoral Commission’s 2016–17 financial statements.

4.8.34 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.8.35 There were no significant or moderate audit findings reported at the completion of the 2015–16 financial statements audit or arising from the 2016–17 financial statements audit.

ASC Pty Ltd

4.8.36 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 responsible for the ongoing design enhancements, maintenance and support of the Collins Class submarines through the in-service support contract.

4.8.37 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 the largest provider of external technical expertise to the Commonwealth in support of the Australian future submarine enterprise.

4.8.38 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.

4.8.39 On 8 March 2017, the Minister for Finance approved the restructure of the ASC Group into two separate Government owned entities, ASC Pty Ltd and Australian Naval Infrastructure Pty Ltd (formerly known as ASC Engineering Pty Ltd, a subsidiary of ASC Pty Ltd). The Board of ASC approved the restructure on 22 March 2017, with the effective date of separation being 26 March 2017. The separation involved the transfer of all critical infrastructure assets to Australian Naval Infrastructure Pty Ltd, with non-critical assets staying with ASC.

Summary of financial performance

4.8.40 The following section provides a comparison of the 2015–16 and 2016–17 key financial statements items reported by ASC and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.8.8: Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	769.3	762.9
Total income	811.2	800.9
Income tax expense	12.6	11.4
Profit after income tax	29.2	26.6
Total other comprehensive income after income tax	1.6	4.2
Total comprehensive income after income tax	30.8	30.8
Total assets	578.4	702.6
Total liabilities	464.6	422.5
Net assets	113.8	280.1

Source: ASC's financial statements for the year ended 30 June 2017.

4.8.41 The decrease in assets is mainly due to the transfer of critical infrastructure to Australian Naval Infrastructure Pty Ltd as part of its separation from ASC.

4.8.42 The increase in liabilities is primarily due to the timing of payments and an advance payment for revenue not yet earned under the in-service support contract.

4.8.43 Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.8.44 The ANAO's 2016–17 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 value of expenditure, income, assets or liabilities associated with those areas and a summary of work carried out during the course of the audit are provided in Table 4.8.9. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.8.9: Key areas of financial statements risk audit results

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Revenue from continuing operations \$811.2 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.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Total assets \$578.4 million	Impact of the separation of ASC and Australian Naval Infrastructure Pty Ltd	Higher	<ul style="list-style-type: none"> The accounting entries recognised on the date of separation are complex and have a significant impact on ASC's financial statements.

Source: ANAO 2016–17 audit results, and the ASC's financial statements for the year ended 30 June 2017.

4.8.45 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 ASC's 2016–17 financial statements. No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.8.46 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Australian Naval Infrastructure Pty Ltd

4.8.47 On 8 March 2017, the Minister for Finance approved the restructure of the ASC Group (ASC) into two separate Government owned entities, ASC Pty Ltd and Australian Naval Infrastructure Pty Ltd (ANI) (formerly known as ASC Engineering Pty Ltd, a subsidiary of ASC Pty Ltd). The Board of ASC approved the restructure on 22 March 2017, with the effective date of separation being 26 March 2017.

4.8.48 ANI was established to hold and invest in infrastructure for the domestic manufacture of naval vessels. The infrastructure held by ANI is used by the Air Warfare Destroyer (AWD) program operator, the AWD Alliance (ASC Pty Ltd, Raytheon Australia and the Commonwealth) in its manufacture of vessels and by ASC Pty Ltd for the maintenance of the Collins Class submarines under the contract arrangements with the Royal Australian Navy. The separation involved the transfer of all critical infrastructure assets to ANI, with non-critical assets staying with ASC.

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

Summary of financial performance

4.8.50 The following section provides a comparison of the 2015–16 and 2016–17 key financial statements items reported by ANI and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.8.10: Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	15.0	21.1
Total income	15.4	15.2
Income tax benefit/(expense)	(0.1)	1.8
Profit/(loss) after income tax	0.3	(4.2)
Total other comprehensive income/(loss) after income tax	2.2	(1.3)
Total comprehensive income/(loss) after income tax	2.5	(5.5)
Total assets	323.6	141.5
Total liabilities	52.4	149.5
Net assets	271.2	(8.0)

Source: ANI's financial statements for the year ended 30 June 2017.

4.8.51 The decrease in expenses is mainly due to a reduction in the finance costs associated with the de-recognition of a loan between the former ASC Engineering Pty Ltd and ASC as part of ANI's separation from ASC.

4.8.52 The increase in assets is mainly due to the transfer of critical infrastructure to ANI as part of its separation from ASC.

4.8.53 Total liabilities decreased as a loan between the former ASC Engineering Pty Ltd and ASC was converted to share capital when ANI separated from ASC on 26 March 2017.

Key areas of financial statements risk

4.8.54 The ANAO's 2016–17 audit approach identified key areas of financial statements risk that had the potential to impact the financial statements. The area highlighted for specific audit coverage and a summary of work carried out during the course of the audit is provided in Table 4.8.11. No significant or moderate audit findings were identified relating to this key area of risk.

Table 4.8.11: Key area of financial statements risk audit results

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
All items	Impact of the separation of ASC and ANI	Higher	<ul style="list-style-type: none"> The accounting entries recognised on the date of separation are complex and have a significant impact on ANI's financial statements.

Source: ANAO 2016–17 audit results, and the ANI's financial statements for the year ended 30 June 2017.

4.8.55 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 ANI's 2016–17 financial statements. No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.8.56 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Future Fund Management Agency and the Board of Guardians

4.8.57 The Future Fund Board of Guardians supported by the Future Fund Management Agency (together the Future Fund) is responsible for investing 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

4.8.58 The following section provides a comparison of the 2015–16 and 2016–17 key financial statements items reported by the Future Fund, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.8.12: Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	313.7	288.2
Total income	11 059.7	5 940.0
Income tax expense	69.4	61.9
Surplus	10 676.6	5 589.9
Total other comprehensive income	-	-
Total comprehensive income	10 676.6	5 589.9
Total assets	134 997.1	124 292.4
Total liabilities	1 584.9	1 556.7
Total equity	133 412.2	122 735.7

Source: Future Fund's financial statements for the year ended 30 June 2017.

4.8.59 The investment earnings for the Future Fund during 2016–17 were above the prior year and the return of 8.7 per cent is above its target return of 6.4 per cent (CPI plus 4.5 per cent). The increase in return has led to the growth in the fund size at year end as all returns are re-invested.

Key areas of financial statements risk

4.8.60 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the entity's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2016–17 is provided in Table 4.8.13, including which areas were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to this key area of risk.

Table 4.8.13: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Investments \$131 266.2 million	Valuation of private market investments KAM	Higher	<ul style="list-style-type: none"> • Complex nature of the investment strategy, including the effective management of investments and liquidity requirements, and the valuation and reporting of different types of investments in national and global markets; and • effectiveness of its governance processes over investments, including monitoring external service providers and the custodian.

Source: ANAO 2016–17 audit results, and the Future Fund’s financial statements for the year ended 30 June 2017.

4.8.61 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 Future Fund’s 2016–17 financial statements.

4.8.62 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.8.63 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Comments on non-material entities

Commonwealth Superannuation Corporation

4.8.64 The Commonwealth Superannuation Corporation (CSC) 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.

Resolved moderate audit finding

Access privileges to payment files

4.8.65 During the 2016–17 interim audit, the ANAO identified that a number of users had access privileges to banking payment files without an apparent business requirement.

4.8.66 CSC undertook a review for instances of exploitation of these access privileges. No instances of exploitation were identified. CSC also removed user and administrator access that was no longer required.

4.8.67 The ANAO has confirmed the implementation of these remediation processes by management, and as a result this finding was downgraded to a minor audit finding at the conclusion of the final audit phase.

4.9 Foreign Affairs and Trade Portfolio

Reporting Entity	Material Entity	Risk of material misstatement	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Foreign Affairs and Trade	Yes	Moderate	✓	12 Sept 17	12 Sept 17	Nil
Australian Trade and Investment Commission	Yes	Low	✓	31 Aug 17	31 Aug 17	Nil
Export Finance and Insurance Corporation	Yes	Moderate	✓	24 Aug 17	25 Aug 17	Nil

✓: auditor's report not modified

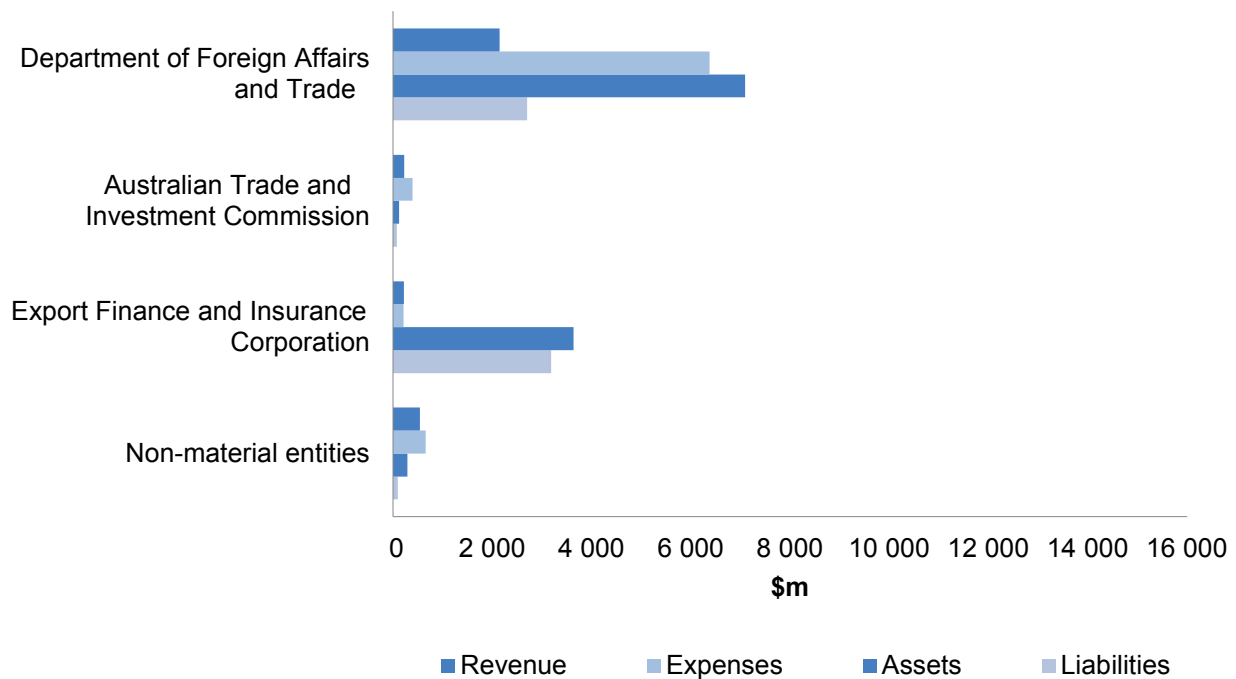
Portfolio overview

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 (DFAT) is the lead entity in the portfolio and 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.

4.9.3 Figure 4.9.1 shows the Foreign Affairs and Trade Portfolio's revenue, expenses, assets and liabilities as a percentage of the CFS.

Figure 4.9.1: Foreign Affairs and Trade Portfolio’s revenue, expenses, assets and liabilities⁴³



Source: 2016–17 CFS.

4.9.4 The following sections provide a summary of the 2016–17 financial statements audit results for the DFAT and material entities in the portfolio. Where a performance audit was tabled during 2016–17 that was relevant to the financial management or administration of an entity, the impact of those observations on the audit approach are also discussed.

Department of Foreign Affairs and Trade

4.9.5 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

4.9.6 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by the DFAT, and includes commentary regarding significant movements between years contributing to overall performance.

⁴³ Figure 4.9.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

Table 4.9.1: Departmental key financial statements items

Departmental key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	1 519.7	1 510.1
Revenue from Government	1 382.9	1 381.7
Deficit attributable to the Government	136.8	128.3
Total other comprehensive income	32.0	241.9
Total comprehensive income/(loss) attributable to the Australian Government	(104.8)	113.6
Total assets	4 522.8	4 515.8
Total liabilities	419.0	425.0
Total equity	4 103.8	4 090.8

Source: DFAT's financial statements for the year ended 30 June 2017.

4.9.7 The movement in net costs of services is primarily due to increases in depreciation and amortisation expense offset by an increase in revenue.

4.9.8 Other comprehensive income is due to the revaluation of DFAT's overseas property portfolio in 2015–16 and 2016–17. The increase in 2016–17 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.

4.9.9 Fluctuations in other balances reflect normal business activities.

Table 4.9.2: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	4 703.0	3 827.7
Total income	612.1	611.1
Deficit	4 090.9	3 216.6
Total other comprehensive income	10.1	1.1
Total comprehensive loss	4 080.8	3 217.7
Total assets administered on behalf of Government	2 568.6	2 667.5
Total liabilities administered on behalf of Government	2 280.4	1 544.6
Net assets	288.2	1 122.8

Source: DFAT's financial statements for the year ended 30 June 2017.

4.9.10 The increase in DFAT's administered expenditure and liabilities was driven by the government's contribution to international organisations.

4.9.11 Fluctuations in other balances reflect normal business movements.

Key areas of financial statements risk

4.9.12 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of DFAT's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.9.3, including which areas were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.9.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Fees and charges \$505.3 million	Completeness and accuracy of 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.
Departmental Sale of goods and rendering of services \$135.1 million	Accuracy of 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.
Departmental Land and buildings \$3.1 billion	Valuation of the department's overseas property portfolio KAM	Moderate	<ul style="list-style-type: none"> Subject to complex estimation and judgement; and the management of overseas property is undertaken by a third party through contract arrangements.
Administered IDA and ADF assets \$1.9 billion IDA and ADF liabilities \$1.9 billion	Valuation of IDA and ADF investments and associated liabilities KAM	Moderate	<ul style="list-style-type: none"> Subject to estimation and judgement; and complex measurement, classification and disclosure requirements.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered IDA expenses \$2.9 billion Aid program liabilities \$233.8 million	Accuracy and completeness of the administered aid program payments KAM	Moderate	<ul style="list-style-type: none"> There is significant geographical spread of aid programs recipients and a diverse range of aid program payments.

Source: ANAO 2016–17 audit results, and the DFAT's financial statements for the year ended 30 June 2017.

4.9.13 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 DFAT's 2016–17 financial statements.

4.9.14 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.9.15 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Australian Trade and Investment Commission

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

Summary of financial performance

4.9.17 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by the Austrade, 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	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	211.0	232.9
Revenue from Government	194.8	215.3
Deficit attributable to the Government	16.2	17.6
Total other comprehensive income/(loss)	(0.1)	4.6
Total comprehensive loss attributable to the Australian Government	16.3	13.0
Total assets	119.6	119.5
Total liabilities	52.6	52.3
Total equity	67.0	67.2

Source: Austrade's financial statements for the year ended 30 June 2017.

4.9.18 The decrease in net cost of services is primarily attributable to a reduction in cost and activity relating to free trade agreements which were wound down in 2016–17.

4.9.19 Revenue from Government has decreased due to decreased funding from the Australian Government for the Commission's operations. This includes reduced funding to support Austrade in providing services relating to the Free Trade Agreements which were wound down in 2016–17.

4.9.20 The other comprehensive income decreased due to the revaluation of assets being undertaken in 2015–16.

4.9.21 Fluctuations in other balances reflect normal business activities.

Table 4.9.5: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	148.3	142.5
Total income	0.1	0.2
Deficit	148.2	142.3
Total other comprehensive income	-	-
Total comprehensive loss	148.2	142.3
Total assets administered on behalf of Government	0.3	0.2
Total liabilities administered on behalf of Government	20.3	11.4
Net liabilities	20.0	11.2

Source: Austrade's financial statements for the year ended 30 June 2017.

4.9.22 The increase in total liabilities is primarily due to the increases in the number of unprocessed grants (grants lodged and payable under the EMDG Scheme but not yet determined) and appeals (grant appeals lodged under the EDMG Scheme but not yet finalised) in 2016–17.

4.9.23 Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.9.24 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of Austrade’s financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.9.6. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.9.6: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Grant expenditure \$141.7	Compliance with the requirements of the 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.
Departmental Revenue from rendering of services \$27.8	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.

Source: ANAO 2016–17 audit results, and Austrade’s financial statements for the year ended 30 June 2017

4.9.25 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 Austrade’s 2016–17 financial statements.

4.9.26 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.9.27 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Export Finance and Insurance Corporation

4.9.28 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

4.9.29 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.

4.9.30 The following section provides a comparison of the 2015–16 and 2016–17 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	2016–17 (\$m)	2015–16 (\$m)
Total expenses	151.2	146.7
Total income	167.8	163.2
Net profit before tax benefit	16.6	16.5
Surplus attributable to the Government	11.6	11.5
Total other comprehensive income	0.7	10.1
Total comprehensive income attributable to the Australian Government	12.3	21.6
Total assets	3,106.3	3 405.9
Total liabilities	2,655.0	2 961.1
Total equity	451.3	444.8

Source: The Corporation's financial statements for the year ended 30 June 2017.

4.9.31 The minor fluctuations in income and expenses between years are reflective of normal business activities. The decrease in other comprehensive income was due to the revaluation of land and buildings in 2015–16.

4.9.32 The decrease in total assets is primarily due to loan repayments exceeding loan disbursements. A corresponding decrease is reflected in total liabilities.

Table 4.9.8: National Interest Account key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	25.5	39.8
Total income	51.2	54.0
National Interest Account attributable to the Australian Government	25.7	14.2
Total assets administered on behalf of Government	532.2	608.5
Total liabilities administered on behalf of Government	532.2	608.5
Net assets	–	–

Source: The Corporation's financial statements for the year ended 30 June 2017.

4.9.33 The decrease in total expenses is primarily due to the debt forgiveness in 2015–16.

4.9.34 Loans from the Commercial Account represent \$518.1 million of the National Interest Account liabilities as at 30 June 2017. 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 Accounts, compared with borrowings in 2015–16.

Key areas of financial statements risk

4.9.35 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the Corporation’s financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.9.9. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.9.9: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Commercial account loans and receivables \$1.8 billion	Valuation and impairment of loans and receivables	Moderate	<ul style="list-style-type: none"> • Complex measurement, classification and disclosure requirements; and • subject to estimation and judgement.
Commercial account financial instruments Financial assets \$932.1 million Financial liabilities \$2.6 billion	Recognition and measurement of financial instruments and disclosure requirements	Moderate	<ul style="list-style-type: none"> • Complex measurement which involves derivatives, available for sales financial instruments, borrowings and loans and receivables; and • subject to estimation and judgement.
Commercial account litigation matters	Inadequate provision or disclosure relating to litigation matters	Moderate	<ul style="list-style-type: none"> • Complexities and judgement in determining the point of recognition and disclosure of litigation matters.

Source: ANAO 2016–17 audit results, and the Corporation’s financial statements for the year ended 30 June 2017.

4.9.36 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 Corporation’s 2016–17 financial statements.

4.9.37 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.9.38 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

4.10 Health Portfolio

Reporting Entity	Material Entity	Risk of material misstatement	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Health	Yes	Moderate	✓	31 Aug 17	31 Aug 17	□
Australian Digital Health Agency	No	Moderate	✓	16 Oct 17	16 Oct 17	◆
Australian Sports Commission	Yes	Low	✓	24 Aug 17	24 Aug 17	Nil
National Blood Authority	Yes	Low	✓	17 Aug 17	17 Aug 17	Nil
National Health and Medical Research Council	Yes	Low	✓	14 Sept 17	14 Sept 17	◆
National Health Performance Authority	No	Low	✓ E	3 Feb 17	7 Feb 17	Nil

✓: auditor's report not modified

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

E: auditor's report contains an emphasis of matter

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2016–17 interim audit phase, now reclassified or resolved

☞: financial year end date other than 30 June 2017

Portfolio overview

4.10.1 The Health portfolio covers a range of policy and program areas aimed at achieving better health and ageing outcomes for Australians, supporting equitable, efficient and high-quality health and aged care systems, and improving opportunities for better outcomes in sport.

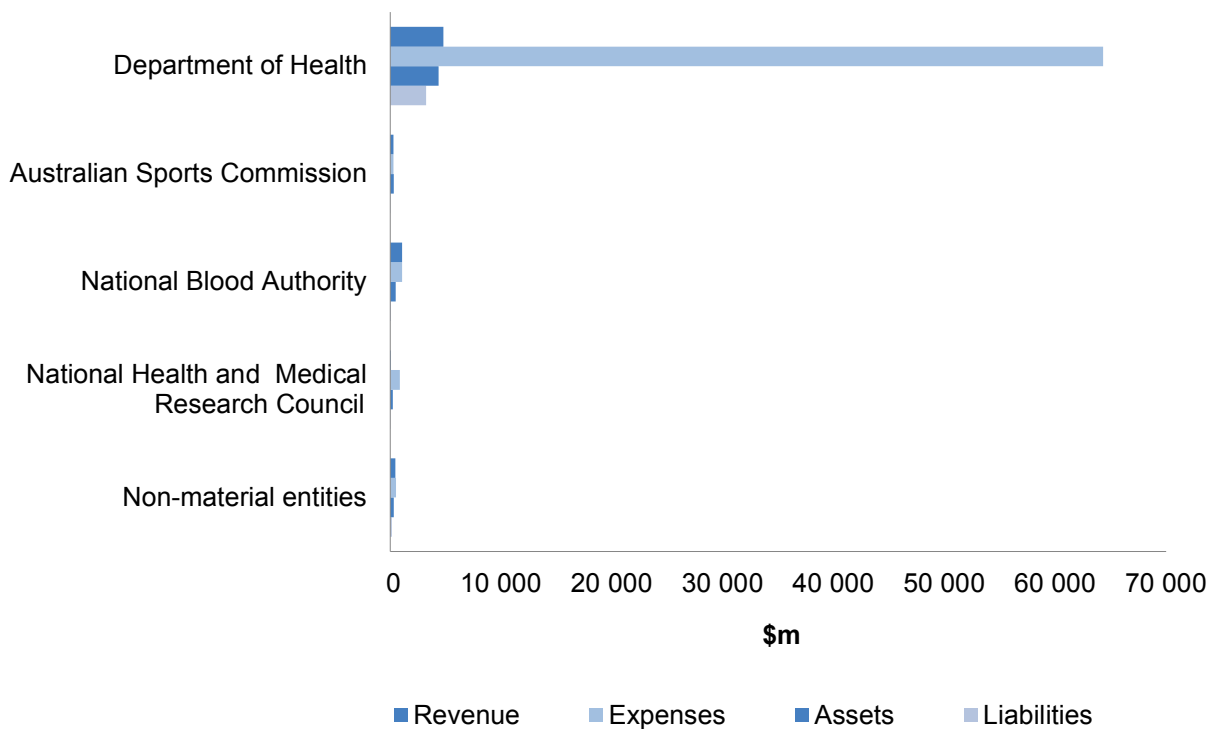
4.10.2 The Department of Health is the lead entity in the portfolio and is responsible for achieving the Australian Government's health priorities through the development of evidence-based policy; administering a range of health-related programs and services, including Medicare, the Pharmaceutical Benefits Scheme and aged care; managing pressures on government health expenditure, including for public hospitals and mental health care; progressing a broad range of reforms to Australia's health system; undertaking regulatory and compliance activities; and forming partnerships with the states and territories, other Australian Government entities, consumers and stakeholders.

4.10.3 In addition to the Department of Health, there are 19 entities⁴⁴ within the portfolio that are responsible for the delivery of programs across a range of areas, including aged care accreditation services, digital health reforms, the development and reporting of health and welfare data, nuclear safety, supporting the integrity of sport, funding medical research, managing blood supplies, cancer research, food safety and hospital pricing.

⁴⁴ As a result of the *Budget Savings (Omnibus) Bill 2016*, the National Health Performance Authority ceased to exist from 1 November 2016.

4.10.4 Figure 4.10.1 shows the Health Portfolio’s revenue, expenses, assets and liabilities.

Figure 4.10.1: Health Portfolio’s revenue, expenses, assets and liabilities⁴⁵



Source: 2016–17 CFS.

4.10.5 The following sections provide a summary of the 2016–17 financial statements audit results for the Department of Health, material entities in the portfolio, the Australian Digital Health Agency and the National Health Performance Authority. Where a performance audit was tabled during 2016–17 that was relevant to the financial management or administration of an entity, the impact of those observations on the audit approach are also discussed.

Department of Health

4.10.6 The Department of Health’s (Health) core areas of responsibility are achieving the Australian Government’s health and ageing 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 (DSS), and the Department of Human Services (Human Services) respectively.

⁴⁵ Figure 4.10.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

Summary of financial performance

4.10.8 The following section provides a comparison of the 2015–16 and 2016–17 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	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	737.3	619.7
Revenue from Government	655.2	595.0
Deficit attributable to the Government	82.1	24.7
Total other comprehensive income	4.8	–
Total comprehensive loss attributable to the Australian Government	77.4	24.7
Total assets	353.8	413.9
Total liabilities	299.1	287.5
Total equity	54.7	126.4

Source: Health's financial statements for the year ended 30 June 2017.

4.10.9 The net cost of services increased in 2016–17 by \$117.6 million primarily due to the full year impact of the machinery of government changes on employee benefits, supplier expenses and the voluntary redundancies offered during the 2016–17 year. The increase in expenditure was partially offset by additional funding provided by the Government for the administration of aged care programs.

4.10.10 The decrease in assets and equity was mainly due to the funding of additional expenditure incurred during the year on employees and supplier expenses.

Table 4.10.2: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	63 400.6	55 759.4
Total income	3 980.7	2 962.4
Deficit	59 419.9	52 797.0
Total other comprehensive income/(loss)	43.7	(0.2)
Total comprehensive loss	59 376.1	52 797.3
Total assets administered on behalf of Government	2 317.6	2 249.3
Total liabilities administered on behalf of Government	2 875.3	3 255.0
Net liabilities	557.7	1 005.7

Source: Health's financial statements for the year ended 30 June 2017.

4.10.11 The increase in total expenses is largely due to the listing of additional drugs in 2016–17 particularly for the treatment of Hepatitis C. In addition, the increase in expenditure reflects the full year impact of the transfer of the aged care function to Health. This increase in expenditure was partially offset by an increase in Pharmaceutical Benefits Scheme and aged care recovery revenues. These recoveries are collected in relation to the agreements between the Commonwealth and pharmaceutical companies and State and Territory Governments.

Key areas of financial statements risk

4.10.12 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of Health's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.10.3, including which areas were considered Key Audit Matters (KAM) by the ANAO.

Table 4.10.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Administered Total expenses Subsidies \$12 002.4 million	Accuracy of Aged Care subsidies paid by Human Services on behalf of Health KAM ^a	Higher	<ul style="list-style-type: none"> Payment of aged care subsidies to nursing home providers are based on Aged Care Funding Instrument assessments prepared by the same providers and involve judgements regarding the level of care. 	No significant or moderate audit findings identified.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Administered Total income \$3 267.5 million	Completeness and accuracy of Pharmaceutical Benefits Scheme recovery revenue KAM	Higher	<ul style="list-style-type: none"> Moderate audit finding identified in prior year; manual calculation of complex information in spreadsheets; and Health's reliance on data sourced from Human Services and complex arrangements in place with pharmaceutical companies for recovery of expenditure. 	One moderate audit finding has been downgraded to a minor audit finding. Refer to paragraphs 4.10.18 to 4.10.19 below.
Departmental Sale of goods and rendering of services \$139.0 million	Completeness and accuracy of Therapeutic Goods Administration revenue	Higher	<ul style="list-style-type: none"> The estimation of revenue under the <i>Therapeutic Goods Act (TGA) 1989</i> involves judgements and assumptions related to the assessment of applications and applicable exemptions. 	No significant or moderate audit findings identified.
Administered Total expenses Personal benefits \$42 556.0 million	Accuracy of personal benefits paid by Human Services on behalf of Health: Medicare Benefits Schedule Pharmaceutical Benefits Scheme Private Health Insurance Rebate KAM ^(a)	Moderate	<ul style="list-style-type: none"> Volume and complexity of health care payments with varying eligibility requirements; and personal benefits payments are processed by Human Services on ageing IT systems. 	No significant or moderate audit findings identified.
Administered Total liabilities Subsidies and personal benefits \$1 507.8 million	Valuation of the Medical Indemnity and Medicare and Pharmaceuticals Outstanding Claims provisions KAM	Moderate	<ul style="list-style-type: none"> Significant judgements and assumptions underlying the estimation of personal benefits and subsidies provisions. 	No significant or moderate audit findings identified.
Administered Total expenses Grants \$7 468.5 million	Accuracy and validity of grant program payments.	Moderate	<ul style="list-style-type: none"> A significant number of grant programs are administered by Health with different eligibility criteria. 	No significant or moderate audit findings identified.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Administered and Departmental Appropriation note disclosures	Completeness and accuracy of appropriation disclosures.	Moderate	<ul style="list-style-type: none"> Health has a complex array of appropriations, including multiple special appropriations, special accounts and ordinary appropriations. 	No significant or moderate audit findings identified.

Note a: Administered aged care subsidies and administered personal benefits payments were presented as a single Key Audit Matter in the 2016–17 ANAO auditor's report.

Source: ANAO 2016–17 audit results, and the Health's financial statements for the year ended 30 June 2017.

4.10.13 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 Health's 2016–17 financial statements.

4.10.14 The following performance audit reports were tabled during 2016–17 relevant to the financial management or administration of Health:

- ANAO Report No.3 2016–17 *Machinery of Government Changes*;
- ANAO Report No.6 2016–17 *Corporate Planning in the Australian Public Sector*;
- ANAO Report No.9 2016–17 *Community Pharmacy Agreement: Follow-on Audit*;
- ANAO Report No.18 2016–17 *Confidentiality in Government Contracts: Senate Order for Entity Contracts (Calendar Year 2015 Compliance)*;
- ANAO Report No.20 2016–17 *The Management, Administration and Monitoring of the Indemnity Insurance Fund*;
- ANAO Report No.53 2016–17 *Indigenous Aged Care*;
- ANAO Report No.57 2016–17 *Department of Health's Coordination of Communicable Disease Emergencies*; and
- ANAO Report No.61 2016–17 *Procurement of the National Cancer Screening Register*.

4.10.15 ANAO Report No.20 2016–17 included observations relevant to the valuation of medical indemnity provisions outlined in Table 4.10.3. The Report assessed Health's and Human Services' administration, including oversight and monitoring arrangements, for the Indemnity Insurance Fund. The report recommended that Health establish suitable governance and stakeholder engagement arrangements, including risk management plans, to support its and other shared responsibilities for the administration of the Indemnity Insurance Fund and related schemes. The observations from this report were considered in identifying risks relevant to the financial statements audit.

4.10.16 The other audit reports mentioned above were also considered in designing the audit procedures. Given the nature of the audit objectives, the observations from these audits had a limited impact on the design of the audit approach for the financial statements audit.

Audit results

4.10.17 The following table summarises the status of audit findings reported by the ANAO in 2016–17.

ANAO Report No.24 2017–18

Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2017

Table 4.10.4: Status of audit findings

Category	Closing Position (2015–16)	New Findings (2016–17)	Findings Resolved (2016–17)	Closing position (2016–17)
Significant (A)	0	0	0	0
Moderate (B)	1	0	(1) ^(a)	0
Total	1	0	(1)	0

Note a: The moderate audit finding relating to High Cost Drug Recoveries – Pharmaceutical Benefits Scheme has been downgraded to a minor audit finding.

Source: ANAO 2016–17 audit results.

Resolved moderate audit finding

High Cost Drug Recoveries – Pharmaceutical Benefits Scheme

4.10.18 Health's financial statements include administered income for recoveries of Pharmaceutical Benefits Scheme (PBS) expenditure under risk sharing agreements negotiated between Health and pharmaceutical companies. During the 2015–16 final audit, the ANAO identified that the recoveries were incomplete and some revenue was not recognised due to the weaknesses in the policies and procedures related to capturing and reporting of the recoveries. As a result, an adjustment of \$332 million was made to the 2015–16 financial statements.

4.10.19 In 2016–17, Health has implemented measures to strengthen its accounting processes related to capturing and reporting of recoveries. As a result, Health made an additional adjustment of \$130.8 million to its 2015–16 financial statements. The ANAO has assessed the measures implemented by Health and has downgraded the moderate audit finding to a minor audit finding. The ANAO will continue to review Health's progress towards updating its accounting policies and procedures related to the recoveries during the 2017–18 audit.

Australian Sports Commission

4.10.20 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

4.10.21 This section provides a comparison of the 2015–16 and 2016–17 key financial statements items reported by the Commission and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.10.5: Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	257.8	268.8
Revenue from Government	250.6	253.6
Deficit attributable to the Australian Government	7.2	15.2
Total other comprehensive income	–	10.0
Total comprehensive loss attributable to the Australian Government	7.2	5.2
Total assets	319.2	327.5
Total liabilities	17.0	18.1
Total equity	302.2	309.4

Source: The Commission's financial statements for the year ended 30 June 2017.

4.10.22 The decrease in net cost of services relates to the timing of funding received to assist the Commission with grant funding towards the National Sporting Organisations. In 2015–16 the revaluation increment of land and building assets was recognised in comprehensive income. There was no revaluation exercise in 2016–17.

4.10.23 Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.10.24 The ANAO's 2016–17 audit approach identified key areas of financial statements risk with the potential to impact the financial statements. Those areas highlighted for specific audit coverage, and a summary of the results of work carried out during the course of the audit are provided in Table 4.10.6. No significant or moderate audit findings were identified relating to these areas of risk.

Table 4.10.6: Key areas of financial statements risk audit results

Relevant financial statement item and impact	Key area of risk	Audit risk rating	Factors contributing to risk assessment
Grants expense \$171.5 million	Grants management	Moderate	<ul style="list-style-type: none"> • Payments of grants that involve manual intervention and are made in accordance with agreed terms and conditions.
Land and buildings \$213.5 million	Fair value of land and buildings	Moderate	<ul style="list-style-type: none"> • Judgements and assumptions involved in the valuation and reporting of land and buildings, and property, plant and equipment.

Source: ANAO 2016–17 audit results, and the Commission's financial statements for the year ended 30 June 2017.

4.10.25 The ANAO also completed appropriate audit procedures on all material financial statements items and the IT general and application controls for the key systems that supported the preparation of the Commission's 2016–17 financial statements.

4.10.26 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.10.27 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audit.

National Blood Authority

4.10.28 The core responsibility of the National Blood Authority (NBA) is to secure the supply of safe and affordable blood products, including through national supply arrangements and coordination of best practice standards within agreed funding policies under the national blood arrangements.

Summary of financial performance

4.10.29 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by the NBA. The financial statements for both departmental and administered items are relatively stable between the two years with modest movements in the key balances. These reflect normal business activities.

Table 4.10.7: Departmental key financial statements items

Departmental key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	5.2	6.0
Revenue from Government	5.6	5.7
Surplus/(deficit) attributable to the Government	0.4	(0.3)
Total other comprehensive income	0.1	–
Total comprehensive income/(loss) attributable to the Australian Government	0.5	(0.3)
Total assets	12.1	10.9
Total liabilities	3.0	2.9
Total equity	9.1	8

Source: NBA's financial statements for the year ended 30 June 2017.

Table 4.10.8: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	1 062.8	1 066.4
Total income	1 050.2	1 045.3
Deficit	12.6	21.1
Total other comprehensive income	–	–
Total comprehensive loss	12.6	21.1
Total assets administered on behalf of Government	493.4	498.5
Total liabilities administered on behalf of Government	53.8	51.5
Net assets	439.6	447.0

Source: NBA's financial statements for the year ended 30 June 2017.

Key areas of financial statements risk

4.10.30 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of NBA's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.10.9. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.10.9: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Inventories \$95.1 million Purchases of blood and blood products \$1 057.0 million	Valuation of Administered Inventory	Moderate	<ul style="list-style-type: none"> Judgements and assumptions involved in the valuation of blood and blood products; and the geographical spread of inventory and reliance on service providers to manage the inventory holdings.
Employee provisions \$1.9 million Employee benefits \$6.7 million	Estimation of provision for employee entitlements	Moderate	<ul style="list-style-type: none"> Judgements and assumptions involved in the estimation of employee provisions relies; and the issues identified in the prior year related to the accuracy of payroll data.

Source: ANAO 2016–17 audit results, and the NBA's financial statements for the year ended 30 June 2017.

4.10.31 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 NBA's 2016–17 financial statements.

4.10.32 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.10.33 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

National Health and Medical Research Council

4.10.34 The core responsibilities of the National Health and Medical Research Council (NHMRC) are raising the standard of individual and public health care within Australia; developing consistent health standards; supporting medical and public health research and training; and fostering consideration of ethical issues relating to health.

Summary of financial performance

4.10.35 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by NHMRC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.10.10: Departmental key financial statements items

Departmental key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	40.3	39.8
Revenue from Government	37.4	40.2
Surplus/(deficit) attributable to the Government	(2.9)	0.4
Total other comprehensive income/(loss)	(0.1)	0.1
Total comprehensive income/(loss) attributable to the Australian Government	(3.0)	0.5
Total assets	22.5	27.1
Total liabilities	10.9	12.5
Total equity	11.6	14.6

Source: NHMRC's financial statements for the year ended 30 June 2017.

4.10.36 In 2016–17 NHMRC had a deficit of \$2.96 million compared to a surplus of \$0.5 million in 2015–16. This operating result was mainly due to higher contractor and consultancy expenses for different projects while still maintaining the average staffing level. The increase in expenses was partially offset by additional revenue from those projects.

4.10.37 The decrease in total equity was due to increased spending of appropriation receivable balance to fund higher contractor and consultancy expenses discussed above.

Table 4.10.11: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	821.8	828.8
Total income	20.6	18.5
Deficit	801.2	810.3
Total other comprehensive income	–	–
Total comprehensive income	801.2	810.3
Total assets administered on behalf of Government	200.3	152.3
Total liabilities administered on behalf of Government	3.2	6.4
Net assets	197.1	145.9

Source: NHMRC's financial statements for the year ended 30 June 2017.

4.10.38 The small decrease in deficit is mainly due to underspends on grants as well as delays in commitments from different grant funding rounds. The decrease was partially offset by an increase in expenses relating to dementia research.

4.10.39 The increase in total assets is due to the appropriations credited to the special account that remained unspent.

Key areas of financial statements risk

4.10.40 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the Council's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.10.12. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.10.12: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Grant expenses \$815.5 million	Management and accounting of grant expenditure	Higher	<ul style="list-style-type: none"> • Management of, and accounting for, a range of grants payments that constitute a significant expense reported in the NHMRC's financial statements; • grants are susceptible to external fraud; and • complexities associated with the indexing of grant payments.
Property, plant and equipment \$3.6 million Intangibles \$4.7 million	Management and valuation of non-financial assets	Moderate	<ul style="list-style-type: none"> • Judgements and assumptions involved in the valuation of property, plant and equipment; and • prior year issues relating to the completeness and accuracy of the asset register.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Non-taxation revenue \$20.6 million Sale of goods and rendering of services \$2.3 million	Timely and accurate recognition of revenue	Moderate	<ul style="list-style-type: none"> Diverse type of services provided by NHMRC; and completeness and accuracy of revenue due to complex nature of contracts with customers.

Source: ANAO 2016–17 audit results, and the NHMRC's financial statements for the year ended 30 June 2017.

4.10.41 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 NHMRC's 2016–17 financial statements.

4.10.42 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.10.43 The following table summarises the status of audit findings reported by the ANAO in 2015–16 and 2016–17.

Table 4.10.13: Status of audit findings

Category	Closing Position (2015–16)	New Findings (2016–17)	Findings Resolved (2016–17)	Closing position (2016–17)
Significant (A)	0	0	0	0
Moderate (B)	0	1	0	1
Total	0	1	0	1

Source: ANAO 2016–17 audit results.

New moderate audit finding

User Access Management

4.10.44 During the 2016–17 audit, the ANAO's testing of user access to NHMRC's information technology (IT) systems, including the Financial Management Information System (FMIS), identified that external vendors have privileged user access to NHMRC's IT Infrastructure (Network, Databases and Operating Systems) and the FMIS. The activities performed by these vendors were not logged and, as a result, no regular monitoring of user activities was performed by NHMRC. Additionally, there were no regular monitoring controls in place at NHMRC to ensure that vendors' activities are compliant with NHMRC's policy and procedures.

4.10.45 Users with privileged access to IT systems are able to edit and change data within systems and by-pass the controls designed to ensure appropriate segregation of duties. Ineffective monitoring controls increases the risk that unauthorised changes may be made to NHMRC's IT infrastructure and compromise the security of systems and their data.

4.10.46 NHMRC has advised that it will implement processes and controls to address this issue in 2017–18. The ANAO will review measures implemented by NHMRC to address this issue as part of the 2017–18 audit.

Comments on non-material entities

Australian Digital Health Agency

New moderate audit finding

Financial statements quality assurance process

4.10.47 During the final audit phase of the 2016–17 audit, the ANAO identified that the Australian Digital Health Agency (Digital Health) did not have adequate quality assurance processes to support the timely and accurate preparation of the financial statements. The ANAO identified weaknesses in Digital Health’s quality assurance review processes and deficiencies in the preparation of work papers to support the financial statements and associated notes.

4.10.48 While acknowledging the challenges caused by the first year of operations, as a result of weaknesses in project management and process shortcomings a number of amendments, including material adjustments, were required to the draft financial statements submitted for audit. In addition, there were delays in the completion of the financial statements.

4.10.49 Digital Health has advised that it is implementing procedures to address these weaknesses in 2017–18. The ANAO will review the progress made by Digital Health to improve its financial statements preparation process as part of the 2017–18 audit.

National Health Performance Authority

Emphasis of matter

4.10.50 Following the enactment of the *Budget Savings (Omnibus) Bill 2016*, the National Health Performance Authority (the Authority) ceased to exist from 1 November 2016. The functions transferred to the Australian Institute of Health and Welfare, the Australian Commission of Safety and Quality in Health Care and the Department of Health. The emphasis of matter drew attention to the Authority ceasing to be a going concern.

4.11 Immigration and Border Protection Portfolio

Reporting Entity	Material Entity	Risk of material misstatement	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Immigration and Border Protection	Yes	Moderate	✓	7 Sept 17	7 Sept 17	▲◆□

✓: 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 2016–17 interim audit phase, now reclassified or resolved

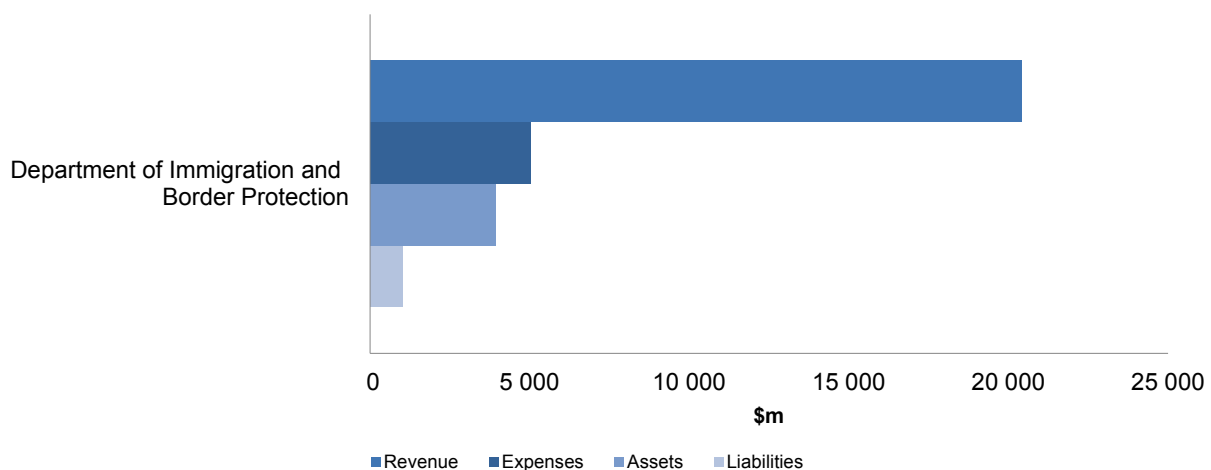
◆: new significant or moderate findings and/or legislative matters noted

Portfolio overview

4.11.1 The Immigration and Border Protection portfolio consists solely of the Department of Immigration and Border Protection (DIBP). DIBP 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 to protect Australia's border.

4.11.2 Figure 4.11.1 shows the Department of Immigration and Border Protection's 2016–17 revenue, expenses, assets and liabilities.

Figure 4.11.1: The Department of Immigration and Border Protection's 2016–17 revenue, expenses, assets and liabilities⁴⁶



Source: 2016–17 CFS.

⁴⁶ Figure 4.11.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

4.11.3 The following sections provide a summary of the 2016–17 financial statements audit results for DIBP. Where a performance audit was tabled during 2016–17 that was relevant to the financial management or administration of an entity, the impact of those observations on the audit approach are also discussed.

Department of Immigration and Border Protection

Summary of financial performance

4.11.4 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by DIBP, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.11.1: Departmental key financial statements items

Departmental key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	2 736.6	2 794.2
Revenue from Government	2 459.9	2 494.9
Deficit attributable to the Government	276.7	299.2
Total other comprehensive loss	2.0	3.6
Total comprehensive loss attributable to the Australian Government	278.7	302.8
Total assets	1 858.3	1 882.2
Total liabilities	689.3	737.5
Total equity	1 169.0	1 144.7

Source: DIBP's financial statements for the year ended 30 June 2017.

4.11.5 The decrease in total liabilities is primarily associated with lower supplier payables at 30 June 2017 which reflects a reduction in contractor and consultant expenses during 2016–17. There was also a reduction in the value of employee provisions due to changes in DIBP's employee profile and actuarial factors used in the valuation of employee provisions.

4.11.6 Fluctuations in other balances reflect normal business activity.

Table 4.11.2: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	2 116.8	2 307.0
Total income	17 751.6	17 325.0
Surplus	15 634.8	15 018.0
Total other comprehensive loss	10.3	1.1
Total comprehensive income	15 624.5	15 017.0
Total assets administered on behalf of Government	2 077.2	1 965.6
Total liabilities administered on behalf of Government	320.8	279.2
Net assets	1 756.4	1 686.4

Source: DIBP's financial statements for the year ended 30 June 2017.

4.11.7 Administered expenses decreased primarily due to reductions in supplier and personal benefit expenses. Supplier expenses decreased by \$111.2 million in 2016–17 due to a reduction in the costs associated with the detention and regional processing network, reflecting a lower number of detainees than 2015–16. Personal benefits expenses decreased by \$79.7 million in 2016–17 due to a reduction in the number of recipients receiving income support under the Status Resolution Support Service as their visa applications are finalised.

4.11.8 Administered income increased mainly due to increases in customs duty, visa application charge and the Passenger Movement Charge (PMC) collections. A \$150.5 million increase in customs duty collections related to the impact of a 12.5 per cent increase in the duty rate on tobacco products on 1 September 2016, partially offset by decreases in duty on other goods due to the introduction of free trade agreements with China, Japan and Korea. Visa application charges increased by \$131.6 million due to increases in the number of applications for visas made and the application charge rate. A \$115.0 million increase in PMC collections reflects an increase in the number of eligible people departing Australia during 2016–17.

4.11.9 Although administered expenses reduced in 2016–17, an increase in administered liabilities was observed due to the impact of the timing of supplier expenses close to financial year end that were not due to be paid until early in 2017–18.

4.11.10 The increase in administered assets is mainly associated with an increase in taxation receivables, reflecting higher collections of customs duty arising from the weekly settlement process for large imports of excise equivalents goods such as tobacco and alcohol. This increase was partially offset by a decrease in the value of non-financial assets reflecting depreciation for the period and decreases in the fair value of land held by DIBP.

Key areas of financial statements risk

4.11.11 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of DIBP's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in

2016–17 are provided in Table 4.11.3, including which areas were considered Key Audit Matters (KAM) by the ANAO.

Table 4.11.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Administered Customs duty revenue \$14.2 billion Taxation Receivable – Customs duty \$386.2 million	Completeness and accuracy of customs duty collections and refunds KAM	Higher	<ul style="list-style-type: none"> • The self-assessment nature of the import declaration process; • complexity of the legislation underpinning the import process; • 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 DIBP’s compliance program. 	A prior year moderate audit finding was resolved – refer to paragraphs 4.11.20 to 4.11.23 below.
Administered Other taxes – Visa application charges \$2.0 billion	Completeness and accuracy of the collection of visa revenue KAM	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.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
<p>Administered</p> <p>Land and buildings \$1.2 billion</p> <p>Property, plant and equipment \$267.4 million</p> <p>Suppliers expenses \$1.6 billion</p>	<p>Management of the onshore immigration detention centres and overseas regional processing centres, including management of assets and control over supplier expenditure</p> <p>KAM</p>	<p>Higher</p>	<ul style="list-style-type: none"> • Complex project and contract management processes associated with third party providers for health services, detention centre management and construction of detention centre assets; • ANAO Report No.32 2016–17 <i>Offshore Processing Centres in Nauru and Papua New Guinea: Contract Management of Garrison Support and Welfare Services</i> indicated that controls for the approval of expenditure for garrison support at regional processing centres did not operate effectively; • judgements applied to estimate the value of the detention centre asset portfolio; and • financial implications and reporting for the Australian Government announcement that some centres may be subject to closure. 	<p>No significant or moderate audit findings identified.</p>

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
<p>Administered</p> <p>Personal benefits expenses \$322.1 million</p>	<p>Payment of personal benefits under the Status Resolution Support Services (SRSS) program</p>	<p>Moderate</p>	<ul style="list-style-type: none"> • Complex eligibility criteria for the categories of allowable personal benefits; • payments are made under third-party arrangements with the Department of Human Services and other providers; and • the self-assessment nature of the personal benefits process; and • complexity in the underlying IT infrastructure that is used to assess eligibility and make payments to recipients. 	<p>No significant or moderate audit findings identified.</p>
<p>Departmental</p> <p>Employee benefits expense \$1.4 billion</p> <p>Employee provisions \$397.3 million</p>	<p>Completeness and accuracy of employee entitlements</p>	<p>Moderate</p>	<ul style="list-style-type: none"> • Selected DIBP staff are entitled to a range of allowances, subject to a number of conditions under different enterprise agreements; • 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; and • an unresolved moderate audit finding related to weaknesses in DIBP's management of employee payroll processes. 	<p>A prior year moderate audit finding has now been resolved — refer to paragraphs 4.11.24 to 4.11.26.</p>

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Administered and Departmental Multiple financial statement line items	Management of overseas posts particularly relating to the management of departmental resources and collection of visa application revenue	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 2016–17 audit results, and DIBP’s financial statements for the year ended 30 June 2017.

4.11.12 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 DIBP’s 2016–17 financial statements.

4.11.13 The following performance audit reports were tabled during 2016–17 relevant to the financial management or administration of DIBP:

- ANAO Report No.8 2016–17 *Controls over Credit Card Use*;
- ANAO Report No.13 2016–17 *Delivery of Health Services in Onshore Immigration Detention*;
- ANAO Report No.16 2016–17 *Offshore Processing Centres in Nauru and Papua New Guinea: Procurement of Garrison Support and Welfare Services*;
- ANAO Report No.32 2016–17 *Offshore Processing Centres in Nauru and Papua New Guinea: Contract Management of Garrison Support and Welfare Services*; and
- ANAO Report No.42 2016–17 *Cybersecurity Follow-up Audit*.

4.11.14 ANAO Reports No.16 and No.32 2016–17 included observations relevant to the risks outlined in Table 4.11.3 relating to the management of the overseas regional processing centres. The audits noted that DIBP did not have:

- an effective risk based contract management plan commensurate with the value, complexity and risks associated with the garrison welfare and support contracts;
- a robust process for ensuring that contract expenses had been appropriately authorised prior to payment, including confirming whether goods or services had been received and the retention of relevant documentation; and
- a robust process to ensure that contract expenditure for future periods had appropriate approval from Government before committing the funds.

4.11.15 For the purpose of the financial statements audit, the approach for this area included procedures designed to obtain assurance over the processes for the oversight of contract management expenses, application of relevant instructions and procedures, and obtaining records relevant to confirming that goods and services have been received. The ANAO performed

additional substantive procedures during the final phase of the audit that provided assurance that expenses associated with these contracts were supported by appropriate approvals.

4.11.16 The observations of the remaining reports have been considered in designing audit procedures to address areas considered to pose a lower risk of material misstatement.

Audit results

4.11.17 The following table summarises the status of audit findings reported by the ANAO in 2015–16 and 2016–17.

Table 4.11.4: Status of audit findings

Category	Closing Position (2015–16)	New Findings (2016–17)	Findings Resolved (2016–17)	Closing position (2016–17)
Significant (A)	0	0	0	0
Moderate (B)	3	2	(3) ^(a)	2
Total	3	2	(3)	2

Note a: The moderate audit finding relating to Customs Duty compliance program has been downgraded to a minor audit finding.

Source: ANAO 2016–17 audit results.

New moderate audit finding

Fraud and integrity reporting

4.11.18 Sections 15, 16 and 45 of the PGPA Act provide for the general duties of Accountable Authorities to include the establishing and maintaining systems relating to risk and control and for audit committees to review the appropriateness of the Accountable Authority's system of risk oversight and management. In undertaking the 2016–17 audit, the ANAO identified the following weaknesses in DIBP's fraud and integrity reporting:

- the reporting of fraud instances, including a breakdown of the various types of fraud and financial implications along with appropriate trend analysis over years has been limited and is on occasion provided to the audit committee by way of a verbal update. The reporting by DIBP has largely been in relation to: controls designed to adequately deter, prevent and detect fraud and corruption, and act to substantially prevent material financial misstatements; and high level reporting of allegations reported within the investigator management system used by DIBP;
- the reporting to the Audit Committee is not sufficient to facilitate appropriate review and independent advice and assurance about the appropriateness of DIBP's fraud control and anti-corruption as it relates to DIBP's system of risk oversight and management; and
- data flows from divisions and IT systems used for the purposes of reporting could be further refined.

4.11.19 DIBP have advised that it is developing a reporting template that will facilitate consistent and comparable fraud data and analysis being provided to the Executive and Audit Committee. The ANAO will review DIBP's progress in addressing these weaknesses in 2016–17.

Resolved moderate audit findings

Customs duty compliance program

4.11.20 An effective compliance program is a key management control in confirming that all customs duty revenue that should be collected by DIBP has been. During the 2014–15 audit of the former Australian Customs and Border Protection Service (ACBPS), the ANAO identified weaknesses in the governance and management oversight arrangements for the program. 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; 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.

4.11.21 DIBP has undertaken the following remediation actions in response to this finding:

- established a Customs Compliance Branch and working groups with primary responsibility for assessing risks of non-compliance with the relevant customs regulations;
- developed key governance arrangements and plans, such as risk identification, treatment and management policies. During the 2016–17 financial year DIBP implemented a quarterly risk assessment and prioritisation process that identifies risks impacting the complete collection of customs duty revenue and the associated compliance activities undertaken to address the risk of non-compliance identified;
- appointed of risk leads within the Customs Compliance Branch with responsibilities to coordinate and establish an appropriate risk register and treatment plans; and
- implemented a reporting structure for compliance outcomes, including formal reporting to key governance committees charged with the oversight of the compliance function.

4.11.22 Although DIBP has implemented revised processes that significantly address the observations and recommendations made by the ANAO, some recommendations have not been completely addressed at the final phase of the 2016–17 financial statements audit. Remediation action relating to documenting a rationale for the sample size and selection methodology used within the compliance program and quality assurance processes are scheduled to be finalised in 2017–18.

4.11.23 As a result of the remediation completed in 2016–17, this finding has been downgraded to a minor audit finding. The ANAO will continue to monitor the progress of DIBP in addressing the remaining observations.

Human Resources management

4.11.24 During 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.

4.11.25 DIBP has undertaken the following remediation actions in response to this finding:

- identified and documented key controls and policies and procedures to support the human resources process, including commencement, allowance modification and termination processes;
- implemented quarterly quality assurance processes to examine the validity and accuracy of transactions for commencements, terminations, superannuation and allowances;
- implemented automated processes to support timely processing of employee cessations;
- completed reviews of leave balances and termination payments, including an Allowance Assurance Review to provide assurance that allowance payments made were only made to eligible employees; and
- instigated the automation of a selection of payment processes for allowances, due to be introduced during 2017–18.

4.11.26 The ANAO performed test procedures on the revised commencement and termination processes during the 2016–17 audit and reviewed the actions arising from reviews undertaken. As a result of the remediation activities undertaken this issue has been resolved.

Record Keeping

4.11.27 Section 41 of the PGPA Act requires that the Accountable Authority of DIBP must cause records to be kept that properly record and explain transactions and DIBP's financial position. In undertaking the 2015–16 audit, the ANAO identified weaknesses in record keeping relating to the:

- transfer of employee leave balances from the former Australian Customs and Border Protection Service payroll system to the DIBP payroll system;
- missing transactional documentation for visa application fees and contract performance management;
- inadequate information recorded on the asset register to support the stocktake of information technology and infrastructure; and
- delays experienced in providing supporting documentation for material processes and balances.

4.11.28 DIBP have now implemented the following in response to this finding:

- a financial recordkeeping financial management guideline that provides principles on particular information that is to be retained to support transactions and balances impacting the financial statements; and
- revised monthly quality assurance processes to confirm sufficient and appropriate supporting documentation has been retained to support manual adjusting and accrual journals in the finance system.

4.11.29 All documents requested as part of the 2016–17 financial statements audit (and supporting the financial statements) were able to be provided to the ANAO. As a result of the remediation activities undertaken this issue has been resolved.

Unresolved moderate audit finding

Management of privileged security users in the IT networks

4.11.30 The ANAO's review of users with privileged access to DIBP's networks during the 2016–17 interim audit identified weaknesses in the operation of the controls relating to granting and terminating privileged user access and the use of these accounts. The weaknesses related to:

- the use of personal administrator accounts rather than a designated account for the running of scripted jobs;
- scripts to deactivate users for inactivity were not fully operational as there were instances identified with accounts active at the time of our audit despite greater than 90 days of inactivity; and
- domain administrator accounts with internet access. In protecting the related networks, DIBP's position is that this should not occur.

4.11.31 The above control weaknesses increase the risk of susceptibility of the networks being compromised and interruption to DIBP's operations.

4.11.32 The ANAO reviewed the remediation activities undertaken by DIBP during the final phase of the audit and confirmed that internet access had been removed from domain administrator accounts. However, the ANAO identified DIBP had not fully remediated weaknesses regarding the use of personal administrator accounts for running scripted jobs and deactivation of user accounts for inactivity. As a result, this issue remains unresolved.

4.11.33 The ANAO will continue to review remediation action implemented by DIBP as part of the 2017–18 interim audit.

4.12 Industry, Innovation and Science Portfolio

Reporting Entity	Material Entity	Risk of material misstatement	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Industry, Innovation and Science	Yes	Moderate	✓	5 Sept 17	6 Sept 17	☐
Australian Nuclear Science and Technology Organisation	Yes	Moderate	✓	10 Aug 17	10 Aug 17	Nil
– Synchrotron Light Source Australia Pty Ltd	No	Low	✓ E	10 Aug 17	10 Aug 17	Nil
Commonwealth Scientific and Industrial Research Organisation	Yes	Moderate	✓	31 Aug 17	31 Aug 17	Nil
– WLAN Services Pty Ltd	No	Low	✓ E	16 Aug 17	17 Aug 17	Nil

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

☐: significant or moderate findings and/or legislative matters identified in previous periods, or the 2016–17 interim audit phase, now reclassified or resolved

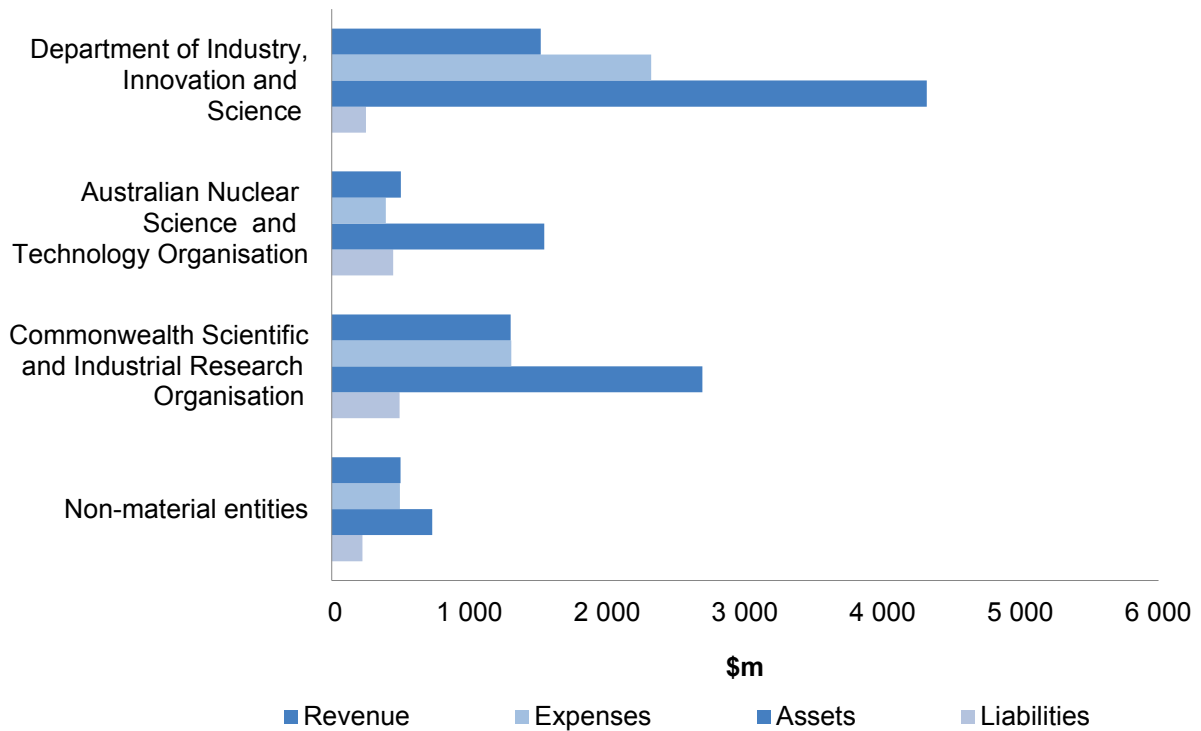
Portfolio overview

4.12.1 The Department of Industry, Innovation and Science is the lead entity in the portfolio and is responsible for supporting science and commercialisation; growing business investment and improving business capability; developing northern Australia; and streamlining regulation.

4.12.2 In addition to the department, there are seven portfolio entities, excluding subsidiaries, 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 Figure 4.12.1 shows the Industry, Innovation and Science Portfolio's revenue, expenses, assets and liabilities.

Figure 4.12.1: Industry, Innovation and Science Portfolio’s revenue, expenses, assets and liabilities⁴⁷



Source: 2016–17 CFS.

4.12.4 The following sections provide a summary of the 2016–17 financial statements audit results for the Department of Industry, Innovation and Science, other material entities in the portfolio and commentary relating to Synchrotron Light Source Australia Pty Ltd and WLAN Services Pty Ltd. Where a performance audit was tabled during 2016–17 that was 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 Commentary has also been included for the following non-material entities where an emphasis of matter was reported: Synchrotron Light Source Australia Pty Ltd; and WLAN Services Pty Ltd.

Department of Industry, Innovation and Science

4.12.6 The core areas of responsibility of the Department of Industry, Innovation and Science (Industry) are supporting science and commercialisation; growing business investment and improving business capability; developing Northern Australia; and streamlining regulation.

4.12.7 As a result of an Administrative Arrangements Order of 19 July 2016, the energy function was transferred from Industry to the Department of the Environment and Energy. This transfer impacted both the departmental and administered results as detailed below.

⁴⁷ Figure 4.12.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

Summary of financial performance

4.12.8 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by the department, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.1: Departmental key financial statements items

Departmental key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	408.8	451.8
Revenue from Government	365.8	400.2
Deficit attributable to the Government	42.9	51.6
Total other comprehensive income/(loss)	(2.2)	2.7
Total comprehensive loss attributable to the Australian Government	45.1	48.8
Total assets	368.5	440.7
Total liabilities	150.9	197.4
Total equity	217.5	243.2

Source: Industry's financial statements for the year ended 30 June 2017.

4.12.9 Industry's net cost of services has reduced from \$452 million to \$409 million from 2015–16 to 2016–17. Revenue from Government also declined in comparison to the previous year. The transfer of funding associated with the energy function, referred to in paragraph 4.12.7, resulted in reductions in Revenue from Government, assets, liabilities and equity.

4.12.10 The transfer of a major accommodation lease to another Commonwealth entity in 2016–17 also contributed to lower overall assets, liabilities and equity balances at year end.

Table 4.12.2: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	1 798.6	1 739.3
Total income	1 040.9	1 073.0
Deficit	757.7	666.4
Total other comprehensive income/(loss)	114.5	(38.2)
Total comprehensive loss	643.2	704.5
Total assets administered on behalf of Government	3 951.0	4 332.2
Total liabilities administered on behalf of Government	97.5	115.4
Net assets	3 853.4	4 216.8

Source: Industry's financial statements for the year ended 30 June 2017.

4.12.11 The deficit increased from \$666 million to \$758 million as a result of an increase in spending on grants of \$63 million and payments made to corporate Commonwealth entities of \$64 million. This was partially offset by a reduction in spending on subsidies of \$53 million due to the wind-down of the Automotive Transformation Scheme.

4.12.12 The change in total other comprehensive income was due to an increase in the fair value of administered assets held. This revaluation increase was partially offset by the impact of the transfer of the Commonwealth's investment in Snowy Hydro Limited as part of the transfer of the energy function to the Department of the Environment and Energy.

Key areas of financial statements risk

4.12.13 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of Industry's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.12.3, including which areas were considered Key Audit Matters (KAM) by the ANAO.

Table 4.12.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Departmental non – appropriation revenue \$109.4 million	Completeness and accuracy of revenues	Higher	<ul style="list-style-type: none"> Diversity of revenue streams, including cash-based transactions; and potential cut-off issues associated with several revenue streams. 	No significant or moderate audit findings identified.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Administered Royalties revenue \$950.1 million Administered Accrued revenue \$84.6 million	Completeness and accuracy of offshore petroleum and uranium royalties KAM	Higher	<ul style="list-style-type: none"> Reliance on data included in self-assessments provided by uranium and petroleum producers; and weaknesses identified in 2015–16 in relation to the assurance processes implemented by Industry and the Western Australian Department of Mines, Industry, Regulation and Safety. 	One prior year moderate finding was downgraded — refer to paragraphs 4.12.19 to 4.12.21 below.
Administered Grants expense \$490.6 million Administered Grants payable \$44.6 million	Grants management and reporting	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 2016–17 audit results, and Industry’s financial statements for the year ended 30 June 2017.

4.12.14 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 Industry’s 2016–17 financial statements.

4.12.15 One performance audit report was tabled during 2016–17 that was relevant to the financial management or administration of Industry. ANAO Report No. 28 2016–17 *Collection of North West Shelf Royalty Revenue* included observations relevant to the completeness and accuracy of royalties and the effectiveness of assurance processes implemented by Industry and the Western Australian Department of Mines, Industry Regulation and Safety.

4.12.16 In response to observations made in the performance audit and a moderate audit finding reported in 2015–16, as detailed in paragraphs 4.12.19 to 4.12.21 below, the Department implemented an assurance framework and formalised arrangements with the Western Australian Department of Mines, Industry Regulation and Safety. The 2016–17 financial statements audit approach included examination and re-performance of elements of the assurance framework relevant to Industry’s financial statements.

Audit results

4.12.17 There were no significant or moderate audit findings arising from the 2016–17 financial statements audit.

4.12.18 The following table summarises the status of audit findings reported by the ANAO in 2016–17.

Table 4.12.4: Status of audit findings

Category	Closing Position (2015–16)	New Findings (2016–17)	Findings Resolved (2016–17)	Closing position (2016–17)
Significant (A)	0	0	0	0
Moderate (B)	1	0	(1) ^(a)	0
Total	1	0	(1)	0

Note a: The moderate audit issue relating to the Administration of the North West Shelf (NWS) Royalties has been downgraded to a minor audit finding.

Source: ANAO 2016–17 audit results.

Resolved moderate audit finding

Administration of North West Shelf (NWS) Royalties

4.12.19 The Department is responsible for the collection of royalties levied on offshore petroleum operations from the North West Shelf. The 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, Industry Regulation and Safety as set out in the *Offshore Petroleum and Greenhouse Gas Storage Act 2006* and *Offshore Petroleum (Royalty) Act 2006*.

4.12.20 The ANAO identified in 2015–16 that the roles and responsibilities of Industry and the Department of Mines Industry Regulation and Safety had not been adequately documented, and that current administrative arrangements provided insufficient assurance that production and deductions had been adequately assessed.

4.12.21 In 2016–17 Industry formalised arrangements with the Department of Mines, Industry Regulation and Safety and implemented an assurance framework relating to the completeness and accuracy of the North West Shelf royalty revenue. As a result of this activity, the finding was downgraded to a minor audit finding.

Australian Nuclear Science and Technology Organisation

4.12.22 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 the Australian Synchrotron, contributes to radiopharmaceutical production and supply, and conducts research into areas of national priority, including human health, the environment and the nuclear fuel cycle. ANSTO also provides advice to Government and other stakeholders on matters relating to nuclear science, technology and engineering.

4.12.23 On 1 July 2016, ANSTO was transferred 97.6 per cent of the shares in the Australian Synchrotron Holding Company Pty Ltd (ASHCo) from the Victorian Government for no consideration, giving ANSTO 100 per cent of the shares. ASHCo owns the Australian Synchrotron.

Summary of financial performance

4.12.24 The following section provides a comparison of the 2015–16 and 2016–17 key financial statements items reported by ANSTO, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.5: Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	73.9	213.0
Revenue from Government	183.3	156.7
Income tax benefit	0.2	0.3
Surplus/(deficit) attributable to the Government	109.6	(56.0)
Total other comprehensive income/(loss)	13.6	(3.6)
Total comprehensive income/(loss) attributable to the Australian Government	123.3	(59.7)
Total assets	1 540.0	1 376.6
Total liabilities	444.3	433.0
Total equity	1 095.6	943.5

Source: ANSTO's financial statements for the year ended 30 June 2017.

4.12.25 The reduction in the net cost of services primarily relates to the recognition as income of the acquisition of \$191.1 million of ASHCo net assets 1 July 2016 at no cost. This was partially offset by write-downs in the value of assets including those under construction.

4.12.26 Total assets increased primarily due to the acquisition of ASHCo assets, including the Australian Synchrotron.

Key areas of financial statements risk

4.12.27 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of ANSTO's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.12.6. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.12.6: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
All financial statement line items	Complexities arising from changes to the governance structures of ANSTO and the accounting treatment resulting from the transfer of operations and assets	Higher	<ul style="list-style-type: none"> The 1 July 2016 transfer of the remaining 97.6 per cent of the shares in ASHCo; and the 2016–17 anticipated integration into ANSTO and the subsequent winding up of the operations of Synchrotron Light Source Australia Pty Ltd (SLSA) and ASHCo. The operations of SLSA and ASHCo remained in the process of being wound up at 30 June 2017.
Decommissioning provision \$313.4 million	Calculation of the decommissioning provision including radioactive waste	Higher	<ul style="list-style-type: none"> Complexity of the calculation and reliance upon the exercise of significant judgement.
Intangible assets \$86.8 million	Valuation and subsequent depreciation of non-financial assets	Higher	<ul style="list-style-type: none"> The valuation of non-financial assets is subjective and requires significant judgement particularly given the unique nature of assets held.
Property, plant and equipment additions \$32.2 million Assets under construction additions \$114.2 million	Classification of capital and operating expenditure	Moderate	<ul style="list-style-type: none"> Complexities in capturing the actual costs of various projects (including the construction of new plants) and the risk of incorrect financial reporting treatment.
Total own-source revenue \$124.9 million	Completeness and accuracy of material streams of commercial revenue	Moderate	<ul style="list-style-type: none"> The number of revenue streams from both commercial and government sources and complexity of funding arrangements.

Source: ANAO 2016–17 audit results, and ANSTO's financial statements for the year ended 30 June 2017.

4.12.28 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 ANSTO's 2016–17 financial statements.

4.12.29 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.12.30 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Commonwealth Scientific and Industrial Research Organisation

4.12.31 The primary functions of the Commonwealth Scientific and Industrial Research Organisation (CSIRO), 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

4.12.32 The following section provides a comparison of the 2015–16 and 2016–17 key financial statements items reported by the CSIRO, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.7: Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	792.9	818.4
Revenue from Government	787.3	750.3
Deficit attributable to the Government	5.6	68.1
Total other comprehensive income/(loss)	7.1	(2.8)
Total comprehensive income/(loss) attributable to the Australian Government	1.5	(70.9)
Total assets	2 690.4	2 695.1
Total liabilities	491.6	506.3
Total equity	2 198.9	2 188.8

Source: CSIRO's financial statements for the year ended 30 June 2017.

4.12.33 The total comprehensive income for 2016–17 was a reversal of the loss in 2015–16 due to a number of factors including increases in: the valuation of the National ICT Australia Limited and CSIRO portfolio assets of \$7.1 million; the provision of a grant to the Scientific Endowment Investment Fund of \$25.0 million by the New South Wales Government; the sale of investments worth \$8.3 million; and contributions by third parties for investment in projects.

Key areas of financial statements risk

4.12.34 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the CSIRO's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.12.8. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.12.8: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Sales of services revenue (project revenue) \$357.6 million Work in progress (WIP) project revenue \$28.3 million Other payables (contract research revenue received in advance) \$105.7 million	Accounting for project revenue and associated measurements of WIP and unearned revenue	Moderate	<ul style="list-style-type: none"> Recording of time spent on projects is subject to judgement.
Land and Buildings \$1 575.9 million Plant and equipment \$572.4 million Investment properties \$51.1 million	Valuation of assets	Moderate	<ul style="list-style-type: none"> Complex financial statement reporting and disclosure requirements; and non-routine processes.
Provision for remediation \$28.7 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.
All financial statement line items	Consolidation of new entities as part of the Innovation Fund	Moderate	<ul style="list-style-type: none"> Consolidating new entities adds complexity to the process of preparing financial statements.

Source: ANAO 2016–17 audit results, and the CSIRO's financial statements for the year ended 30 June 2017.

4.12.35 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 the CSIRO's 2016–17 financial statements.

4.12.36 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.12.37 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Comments on non-material entities

Synchrotron Light Source Australia Pty Ltd

Emphasis of matter

4.12.38 Synchrotron Light Source Australia Pty Ltd (Synchrotron Light Source) is a wholly-owned subsidiary of the Australian Nuclear Science and Technology Organisation. The emphasis of matter drew attention to Synchrotron Light Source ceasing to be a going concern as the company has ceased operations and will be de-registered in 2017–18.

WLAN Services Pty Ltd

Emphasis of matter

4.12.39 WLAN Services Pty Ltd (WLAN) is a small proprietary company limited by shares, which are solely held by the Commonwealth Scientific and Industrial Research Organisation (CSIRO). WLAN was established in 2005 to provide services to the CSIRO. The emphasis of matter drew attention to WLAN ceasing to be a going concern as the company will be cease operations in 2017–18.

4.13 Infrastructure and Regional Development Portfolio

Reporting Entity	Material Entity	Risk of material misstatement	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Infrastructure and Regional Development	Yes	Moderate	✓	31 Aug 17	31 Aug 17	Nil
Airservices Australia	Yes	Moderate	✓	27 Sept 17	27 Sept 17	◆
Australian Rail Track Corporation	Yes	Moderate	✓	31 Aug 17	31 Aug 17	Nil
Moorebank Intermodal Company Limited	Yes	Moderate	✓	20 Sept 17	20 Sept 17	Nil
National Capital Authority	Yes	Low	✓	13 Sept 17	13 Sept 17	Nil

✓: auditor's report not modified

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

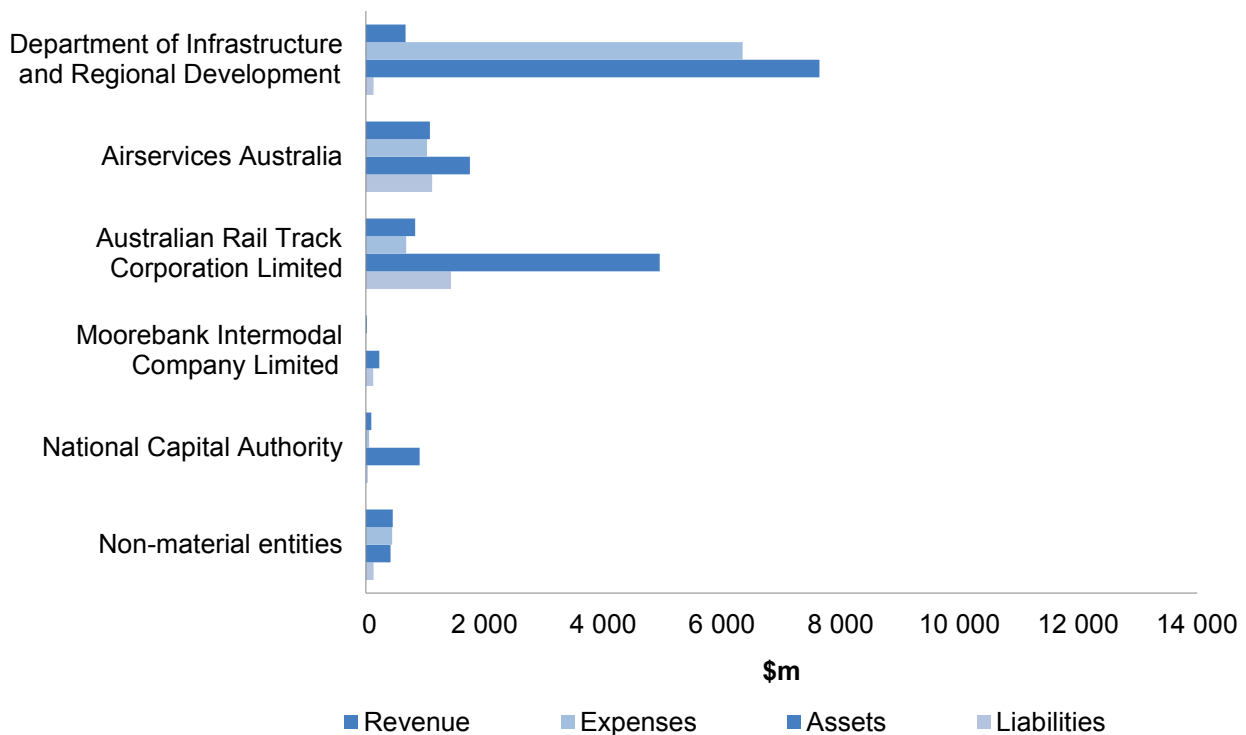
Portfolio overview

4.13.1 The Department of Infrastructure and Regional Development (Infrastructure) is the lead entity in the portfolio and 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.

4.13.2 In addition to Infrastructure, there are nine entities within the portfolio with responsibility for maritime, transport and civil aviation safety; infrastructure planning financing and delivery; and strategic planning for the national capital.

4.13.3 Figure 4.13.1 shows the Infrastructure and Regional Development Portfolio's revenue, expenses, assets and liabilities.

Figure 4.13.1: Infrastructure and Regional Development Portfolio’s revenue, expenses, assets and liabilities⁴⁸



Source: 2016–17 CFS.

4.13.4 The following sections provide a summary of the 2016–17 financial statements audit results for the Department and material entities in the portfolio. Where a performance audit was tabled during 2016–17 that was relevant to the financial management or administration of an entity, the impact of those observations on the audit approach are also discussed.

Department of Infrastructure and Regional Development

4.13.5 The four core areas of responsibility of the Department are 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

4.13.6 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by Infrastructure, and includes commentary regarding significant movements between years contributing to overall performance.

⁴⁸ Figure 4.13.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

Table 4.13.1: Departmental key financial statements items

Departmental key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	252.9	252.8
Revenue from Government	248.5	261.7
Surplus/(deficit) attributable to the Government	(4.4)	8.9
Total other comprehensive income/(loss)	(1.2)	15.4
Total comprehensive income/(loss) attributable to the Australian Government	(5.6)	24.3
Total assets	187.6	176.9
Total liabilities	73.5	68.7
Total equity	114.1	108.2

Source: Infrastructure's financial statements for the year ended 30 June 2017.

4.13.7 Overall, Infrastructure's financial performance remained stable between 2015–16 and 2016–17. The deficit and decrease in total comprehensive income in 2016–17 are mainly due to a reduction in Revenue from Government.

4.13.8 Total other comprehensive income decreased as a full asset revaluation was not undertaken on all asset classes in 2016–17. A significant increase was recognised in 2015–16 due to the renegotiation and extension of the lease for Infrastructure's Canberra office space.

4.13.9 All other movements in key financial statement balances were reflective of the normal course of Infrastructure's operations.

Table 4.13.2: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	6 088.4	3 287.5
Total income	414.2	459.4
Deficit	5 674.2	2 828.1
Total other comprehensive income/(loss)	568.4	(23.5)
Total comprehensive loss	5 105.8	2 851.6
Total assets administered on behalf of Government	7 452.0	6 268.8
Total liabilities administered on behalf of Government	56.9	55.5
Net assets	7 395.1	6 213.3

Source: Infrastructure's financial statements for the year ended 30 June 2017.

4.13.10 Total expenses increased by \$2.8 billion in 2016–17. This was mainly related to an increase in the value of Financial Assistance Grants paid to local government. A determination was made by the Treasurer to bring forward the release of 2017–18 grants to 2016–17. Expenses also increased due to:

- the write down of assets administered by Infrastructure predominantly related to the transfer of land held under a finance lease by the Moorebank Intermodal Company for a nominal value (\$361.5 million);
- the write down of the investment in the Administration of Norfolk Island (\$63.0 million). The Administration was abolished on 1 July 2016. Most of the functions of the Administration were transferred to the Norfolk Regional Council; and
- recognition of concessional loan expenses, predominantly arising from drawdowns of the WestConnex loan facility (\$117.6 million).

4.13.11 Total assets increased by \$1.18 billion in 2016–17. This was primarily due to:

- increases in the value of concessional loans receivable, primarily reflecting drawdowns for the WestConnex loan facility (\$517.8 million); and
- increases in the fair value of non-financial assets, particularly land administered by Infrastructure (\$173.6 million). The increase arose from a revaluation of land at Badgery’s Creek, reflecting changes in the market for land in the area.

4.13.12 The increase in total assets was partially offset by the write down of assets referred to above.

4.13.13 The increase in total other comprehensive income reflects the increase on the fair value of non-financial assets and investments.

Key areas of financial statements risk

4.13.14 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of Infrastructure’s financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.13.3, including which areas were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.13.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Investments \$4.8 billion	Valuation of the Australian Rail Track Corporation and Airservices Australia KAM	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.
Administered Concessional Loans \$1.0 billion Administered Concessional Loans expense \$117.6 million	Valuation of concessional loans KAM	Moderate	<ul style="list-style-type: none"> • Complexity of the loans and the level of estimation required to determine the appropriate market rate for the concessional component of loans.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Grants expense \$5.0 billion	Management of grant payments	Moderate	<ul style="list-style-type: none"> Complex and diverse range of programs that include a number of different arrangements.
Administered Grants Payable \$29.6 million			

Source: ANAO 2016–17 audit results, and Infrastructure’s financial statements for the year ended 30 June 2017.

4.13.15 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 Infrastructure’s 2016–17 financial statements.

4.13.16 The following performance audit reports were tabled during 2016–17 relevant to the financial management or administration of the Infrastructure:

- ANAO Report No.38 2016–17 *The Approval and Administration of Commonwealth Funding for the WestConnex Project*; and
- ANAO Report No.30 2016–17 *Design and Implementation of Round Two of the National Stronger Regions Fund*.

4.13.17 ANAO Report No.38 2016–17 included observations relevant to the valuation of the concessional loans outlined in Table 4.13.3. Audit procedures were undertaken in response to the observations raised in the report in relation to the selection of the market rates used to determine the fair value of the loan.

4.13.18 ANAO Report No.30 2016–17 included observations relevant to the management of grant payments outlined in Table 4.13.3. The observations in the report in respect of effective application and milestone acquittal assessment processes informed the development of substantive testing criteria for grant payments.

Audit results

4.13.19 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Airservices Australia

4.13.20 Airservices Australia’s (Airservices) core areas of responsibility are the provision of air navigation services across Australian and oceanic airspace, and the provision of aviation rescue firefighting services at major Australian airports. Supported by a national network of communications, surveillance and navigation facilities and infrastructure, Airservices is funded through charges levied on its customers and borrowings from debt markets.

Summary of financial performance

4.13.21 The following section provides a comparison of the 2015–16 and 2016–17 key financial statements items reported by Airservices, and include commentary regarding significant movements between years contributing to overall performance.

Table 4.13.4: Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total income	1 076.7	1 030.4
Total expenses	1 027.6	1 211.3
Income tax expense/(benefit)	15.1	(53.5)
Profit/(loss) after income tax	34.0	(127.3)
Total other comprehensive income net of tax	76.8	(26.9)
Total comprehensive income/(loss)	110.8	(154.3)
Total assets	1 750.5	1 978.3
Total liabilities	1 114.8	1 453.7
Total equity	635.7	524.6

Source: Airservices' financial statements for the year ended 30 June 2017.

4.13.22 The decrease in total liabilities and total expenses related to Airservices' restructuring program, Accelerate. In 2015–16 Airservices recognised a redundancy provision of \$106 million. A lower redundancy provision was recognised in 2016–17 as the largest component of the restructure occurred in 2015–16 and many of the employees provided for in 2015–16 have now separated. A repayment of \$200 million of borrowings also resulted in a decrease of liabilities. The implementation of the Accelerate program has resulted in decreased employee and supplier expenses.

4.13.23 The increase in other comprehensive income is primarily attributed to an actuarial valuation of the defined benefit fund that provided a \$102 million gain. This primarily related to a 0.8 per cent increase in the discount rate being applied to provide the present value of accrued benefits.

4.13.24 The decrease of total assets is largely attributed to the cash that has been applied to the \$200 million borrowing repayment.

Key areas of financial statements risk

4.13.25 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of Airservices' financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.13.5.

Table 4.13.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Airways revenue \$1 044.9 million	Completeness and accuracy of airways revenue	Higher	<ul style="list-style-type: none"> • Complexity of the flight traffic data captured that is used as the basis for customer billings; and • dependence on multiple integrated IT systems.
Property, plant and equipment \$969.8 million Assets under construction \$209.1 million Intangibles \$111.8 million	Management of, and accounting for, assets under construction, and existing, completed property, plant and equipment and intangibles	Moderate	<ul style="list-style-type: none"> • Sensitivity of completed asset infrastructure, which is a material balance for Airservices, to changes in the assumptions used in valuation models; and • complexity of capturing of costs related to assets under construction due to the technical nature of assets and the judgements involved in assessing whether costs can be capitalised.
Aviation Rescue and Fire Fighting (ARFF) decontamination provision \$23.2 million	Calculation of provisions for legal obligations and related contingencies	Moderate	<ul style="list-style-type: none"> • Complexity of the underlying event that gave rise to a potential legal obligation associated with ARFF decontamination; and • significant judgement required in valuing the ARFF decontamination provision and contingent liability.
Financial assets \$208.6 million Financial liabilities \$777.2 million	Management of and accounting for, a range 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.
Defined benefit asset \$231.4 million Defined benefit superannuation expense \$18.7 million Actuarial gain on defined benefit fund \$101.6 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 and the sensitivity of fund and the economic and demographic assumptions supporting the estimate.
Various expenses and capital items	Management and accounting of contracts	Moderate	<ul style="list-style-type: none"> • Significant monetary value of contracts; and • large number of diverse contracts that are complex in nature.

Source: ANAO 2016–17 audit results, and the Airservices' financial statements for the year ended 30 June 2017.

4.13.26 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 Airservices' 2016–17 financial statements.

4.13.27 The following performance audit reports were tabled during 2016–17 relevant to the financial management or administration of the Airservices:

- ANAO Report No.1 2016–17 *Procurement of the International Centre for Complex Project Management to Assist on the OneSKY Australia Program*; and
- ANAO Report No. 46 of 2016–2017 *Conduct of the OneSKY Tender*.

4.13.28 ANAO Reports No.1 and No.46 2016–17 included observations relevant to the risks outlined in Table 4.13.5 relating to the management and accounting of contracts. The audits:

- identified systematic failures in the adherence to the organisation's procurement policies and procedures and the cultural underpinnings of those failures;
- identified weaknesses in capability, separation of duties and probity relating to procurement activity; and
- proposed competitive procurement processes be employed, except in genuinely rare circumstances, to ensure value for money is achieved.

4.13.29 Airservices accepted all the recommendations made by the ANAO and advised it had implemented actions to address these by 30 September 2016. The observations of these reports were considered in designing audit procedures to address areas considered to pose a lower risk of material misstatement. As the observations related to tender processes, their impact upon the financial statements was limited. The audit included procedures that provided assurance that contracts or other formal arrangements supported financial transactions, including as it relates to OneSKY.

Audit results

4.13.30 The following table summarises the status of audit findings reported by the ANAO in 2015–16 and 2016–17.

Table 4.13.6: Status of audit findings

Category	Closing Position (2015–16)	New Findings (2016–17)	Findings Resolved (2016–17)	Closing position (2016–17)
Moderate (B)	0	1	0	1
Total	0	1	0	1

Source: ANAO 2016–17 audit results.

New audit finding

Management of IT Changes on the Corporate Network

4.13.31 Change Management is a key component of the control environment, supporting the controlled progression of changes to systems and processes.

4.13.32 The ANAO identified weaknesses in the IT change management processes for the Airservices corporate network that increased the risk that unauthorised or inappropriate changes

may be implemented. These weaknesses included an inability of Airservices to identify changes made to systems, validate that authorised changes were undertaken and provide evidence of approval and testing for some changes.

4.13.33 Airservices have advised that they will continue to mature the change processes for the corporate network as part of a program of work that started in 2016–17. An objective of this program is to lift capability in Information Technology Service Management across the organisation. The program is also intended to assist in the maturation of the organisation in the change management discipline through the implementation of a new service management platform which has a dedicated change management module. The ANAO will review Airservices' progress in addressing these weaknesses in 2017–18.

4.13.34 The ANAO did not identify any issues in relation to Airservices' operational network.

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 2015–16 and 2016–17 key financial statements items reported by the Corporation, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.13.7: Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	704.3	737.7
Total income	826.8	855.3
Profit after income tax	122.5	117.6
Total other comprehensive loss after income tax	96.7	142.8
Total comprehensive income/(loss) attributable to the Australian Government	25.8	(25.2)
Total assets	4 788.1	4 835.1
Total liabilities	1 273.8	1 344.7
Total equity	3 514.3	3 490.4

Source: The Corporation's financial statements for the year ended 30 June 2017.

4.13.37 The decrease in total assets is largely attributable to the decrease in valuation of the Hunter Valley Coal Network, partially offset by an increase in the value of Interstate Corridor assets for a net impact of \$98.8 million.

4.13.38 The increase in total comprehensive income is largely due to the reduction in the expense related to income tax and the reduction in liabilities related to a reduction in debt.

4.13.39 Fluctuations in other balances reflect normal business activity.

Key areas of financial statements risk

4.13.40 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the Corporation's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.13.8. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.13.8: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Property, plant and equipment \$4.3 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.
Access Revenue \$713.8 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.
Deferred tax assets \$193.1 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.
Interest bearing liabilities \$514.7 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.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Provisions \$60.3 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.
Government grants \$496.1 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.

Source: ANAO 2016–17 audit results, and the Corporation's financial statements for the year ended 30 June 2017.

4.13.41 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 2016–17 financial statements.

4.13.42 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.13.43 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audit.

Moorebank Intermodal Company Limited

4.13.44 Moorebank Intermodal Company Limited (MIC) was established to oversee the development and future operation of the Moorebank intermodal 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 and export facility with a direct link to Port Botany, and also an interstate and 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).

4.13.45 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

4.13.46 The following section provides a comparison of the 2015–16 and 2016–17 key financial statements items reported by MIC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.13.9: Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	3.7	4.4
Total revenue	0.3	0.3
Income tax benefit	1.0	1.1
Deficit attributable to the Australian Government	2.4	3.0
Total other comprehensive income	11.8	0
Total comprehensive income/(loss) attributable to the Australian Government	9.4	(3.0)
Total assets	223.1	54.3
Total liabilities	119.7	2.3
Total equity	103.4	52.0

Source: MIC's financial statements for the year ended 30 June 2017.

4.13.47 The increase in total assets is due to MIC's 65.63% investment in the Moorebank Precinct Land Trust. The Moorebank Precinct Land Trust holds the land for the terminal project under a 99-year lease. Additionally, there has been an increase in assets under construction as preliminary work has commenced on construction of a rail access line connecting the intermodal terminal to the Southern Sydney freight line.

4.13.48 The movement in total liabilities is the result of the recognition of a provision being recognised for land remediation expenses. MIC has an obligation to remediate the transferred land under the lease arrangements.

4.13.49 The increase in total equity is related to MIC receiving equity injections of \$42.0 million during 2016–17.

Key areas of financial statements risk

4.13.50 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of MIC's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.13.10. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.13.10: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Non-financial assets \$186.1 million	Accounting treatment of the land transfer from the Commonwealth government to the Precinct Land Trust	Higher	<ul style="list-style-type: none"> • Technical accounting issues associated with the correct recognition of the land transfer; • complexity of the investment structure; and • valuation of the land is subject to management judgement.
Non-financial liabilities \$118.4 million	Accounting treatment of the land remediation and site preparation costs	Higher	<ul style="list-style-type: none"> • Complexity of capturing of costs related to the remediation and site preparation due to the judgements involved in assessing whether costs can be capitalised; and • increasing activity as the terminal development progresses.

Source: ANAO 2016–17 audit results, and the MIC's financial statements for the year ended 30 June 2017.

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 the MIC's 2016–17 financial statements.

4.13.52 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.13.53 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 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 2015–16 and 2016–17 key departmental and administered financial statements items reported by the Authority, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.13.11: Departmental key financial statements items

Departmental key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	18.9	17.3
Revenue from Government	16.5	17.5
Surplus/(deficit) attributable to the Government	(2.4)	0.2
Total other comprehensive income	0.2	0.3
Total comprehensive income/(loss) attributable to the Australian Government	(2.2)	0.5
Total assets	24.2	25.7
Total liabilities	8.4	9.2
Total equity	15.8	16.5

Source: The Authority's financial statements for the year ended 30 June 2017.

4.13.56 Overall, the Authority's financial performance was stable between 2015–16 and 2016–17. The primary reasons for the reported deficit in 2016–17 include increased write-downs in the valuation of assets and reduced rental income from particular properties being vacant for part of the year.

Table 4.13.12: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	24.3	24.1
Total income	66.4	20.8
Surplus/(deficit)	42.1	(3.3)
Total other comprehensive income	27.4	17.9
Total comprehensive income	69.5	14.6
Total assets administered on behalf of Government	878.0	809.4
Total liabilities administered on behalf of Government	21.1	22.1
Net assets	856.9	787.3

Source: The Authority's financial statements for the year ended 30 June 2017.

4.13.57 The increase in total income relates to the recognition as revenue of the value of the upgraded Constitution Avenue assets in Canberra. These assets were transferred to the Authority by the Australian Capital Territory government.

4.13.58 The increase in other comprehensive income reflects the result of an independent valuation undertaken in 2016–17 in relation to land and buildings, and property, plant and equipment, leading to an increase in the fair values of these assets as at 30 June 2017.

4.13.59 In addition to the transfer of assets and valuation of assets, the increase in total assets is further explained by upgrades of a variety of existing assets.

Key areas of financial statements risk

4.13.60 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the Authority's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.13.13. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.13.13: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Departmental Operating lease commitments \$4.4 million Supplier expenses - property leases \$0.2 million Other payables - lease incentive \$0.1 million	Financial reporting of new leasing arrangements	Moderate	<ul style="list-style-type: none"> Complexities around the leasing arrangements which in turn impact on the lease incentive.
Administered Work-in-progress \$41.1 million Departmental Work-in-progress \$2.9 million	Financial reporting of the construction activities relating to the Authority's responsibility to develop, further enhance and replace assets on national land	Moderate	<ul style="list-style-type: none"> Complexities in determining the value of work in progress at balance date as works are often between defined construction milestones and professional judgement is required.
Administered Non-financial assets \$874.8 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 for these assets given the unique nature of the assets.
Administered Parking services revenue \$19.0 million	Completeness of revenue collection relating to the pay parking scheme on national land	Low	<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.

Source: ANAO 2016–17 audit results, and the Authority's financial statements for the year ended 30 June 2017.

4.13.61 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 Authority's 2016–17 financial statements.

4.13.62 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.13.63 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

4.14 Parliamentary Departments

Reporting Entity	Material Entity	Risk of material misstatement	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Parliamentary Services	Yes	Moderate	✓	13 Sept 17	13 Sept 17	Nil

✓: auditor's report not modified

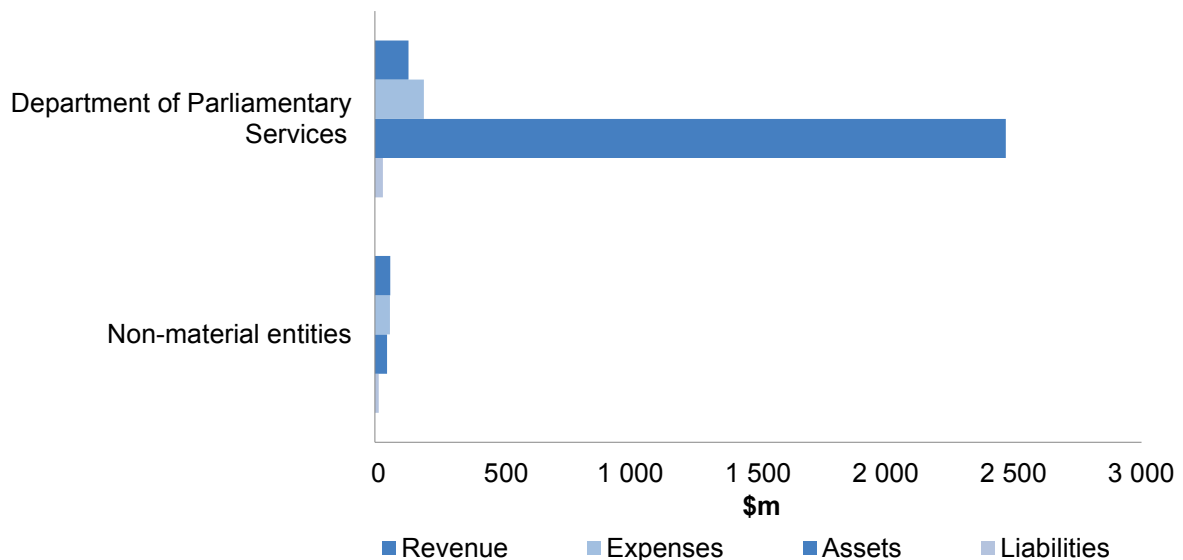
Overview

4.14.1 The Parliamentary Departments support the operation of the Parliament of Australia, its committees and members. There are four Parliamentary Departments: 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 Department of Parliamentary Services (DPS) is the lead entity and is responsible for supporting the Parliament through a range of services, including library, Hansard and broadcasting, communications and building security and maintenance.

4.14.3 Figure 4.14.1 shows the Parliamentary Departments' revenue, expenses, assets and liabilities.

Figure 4.14.1: Parliamentary Departments' revenue, expenses, assets and liabilities⁴⁹



Source: 2016–17 CFS.

49 Figure 4.14.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

4.14.4 The following sections provide a summary of the 2016–17 financial statements audit results for DPS. No performance audit reports were tabled during 2016–17 that were relevant to the financial management or administration of DPS.

Department of Parliamentary Services

4.14.5 The core responsibilities of the department are to support the Parliament through a range of services, including library, Hansard, broadcasting, communications, building security and maintenance.

Summary of financial performance

4.14.6 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by the Department of Parliamentary Services, 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	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	138.9	138.7
Revenue from Government	118.6	119.0
Deficit attributable to the Government	20.3	19.7
Total other comprehensive income/(loss)	(0.1)	0.0
Total comprehensive loss attributable to the Australian Government	20.4	19.7
Total assets	132.0	128.8
Total liabilities	29.1	28.1
Total equity	102.8	100.7

Source: Department of Parliamentary Services' financial statements for the year ended 30 June 2017.

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.

Table 4.14.2: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	41.8	36.5
Total income	2.8	0.0
Deficit	39.0	36.4
Total other comprehensive income	104.8	15.7
Total comprehensive income/(loss)	65.7	(20.6)
Total assets administered on behalf of Government	2 336.2	2 223.8
Total liabilities administered on behalf of Government	1.6	0.6
Net assets	2 335.5	2 223.5

Source: Department of Parliamentary Services' financial statements for the year ended 30 June 2017.

4.14.8 The department's primary asset is Parliament House which DPS manages on behalf of the Australian Government. Parliament House and heritage and cultural assets were independently valued at both reporting dates. The movement in other comprehensive income reflects the increase in the valuation of these assets.

Key areas of financial statements risk

4.14.9 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the entity's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.14.3, including which areas were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.14.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Total assets administered on behalf of government \$2 336.1 million KAM	Valuation of non-financial assets KAM	Higher	<ul style="list-style-type: none"> The unique nature of Parliament House, its contents and the purpose of the land, increases the judgement applied and complexity in establishing a fair value.
Departmental Sale of goods and rendering of services \$7.7 million	Completeness of catering revenue	Moderate	<ul style="list-style-type: none"> The development and implementation of new policies, procedures, governance arrangements and internal controls, to identify and safeguard assets and revenue arising from new business operations.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Departmental Employee provisions \$23.6 million	Valuation of employee provisions	Moderate	<ul style="list-style-type: none"> Significant judgement and assumptions are applied to determine the value of employee leave provisions.

Source: ANAO 2016–17 audit results, and the Department of Parliamentary Services' financial statements for the year ended 30 June 2017.

4.14.10 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' 2016–17 financial statements.

Audit results

4.14.11 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

4.15 Prime Minister and Cabinet Portfolio

Reporting Entity	Material Entity	Risk of material misstatement	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of the Prime Minister and Cabinet	Yes	Moderate	✓	7 Sept 17	8 Sept 17	◆
Indigenous Business Australia	Yes	Moderate	✓	7 Sept 17	8 Sept 17	Nil
Indigenous Land Corporation	Yes	Low	✓	25 Sept 17	25 Sept 17	Nil
Northern Land Council	No	Low	✓	20 Sept 17	20 Sept 17	▲

✓: auditor's report not modified

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

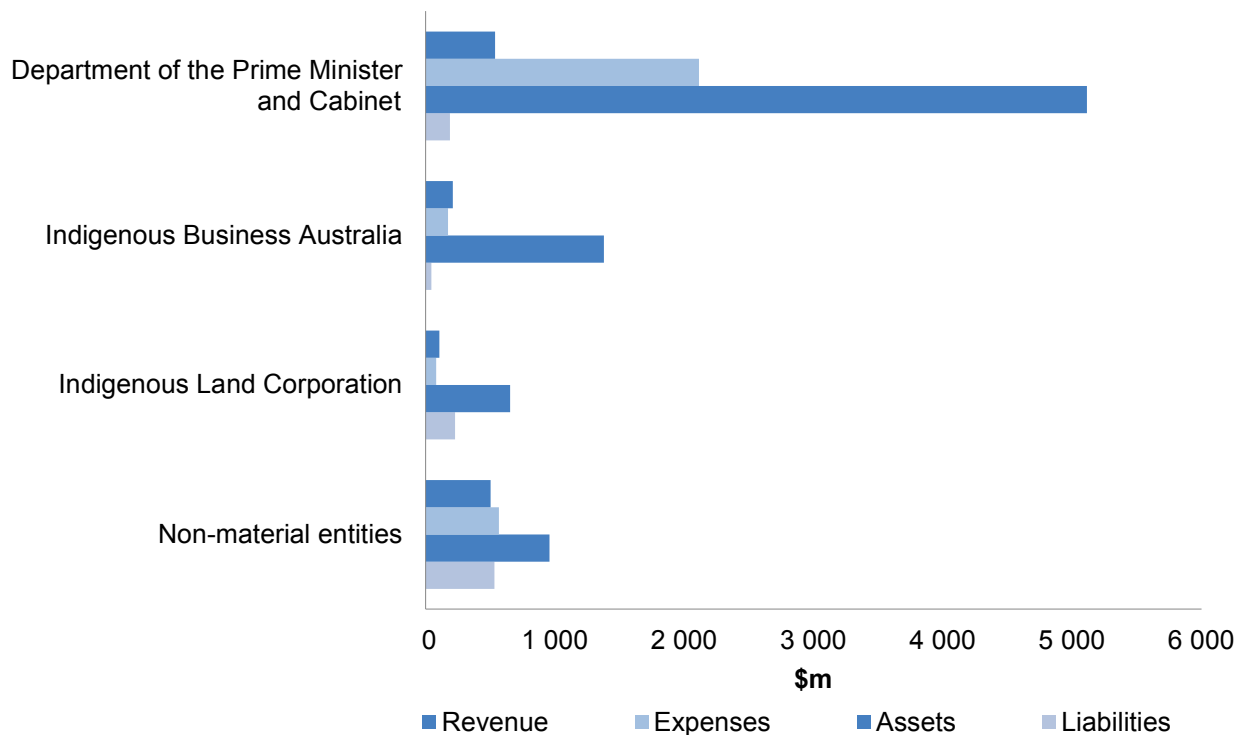
◆: new significant or moderate issues and/or legislative matters noted

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 Figure 4.15.1 shows the Prime Minister and Cabinet Portfolio's revenue, expenses assets and liabilities.

Figure 4.15.1: Prime Minister and Cabinet Portfolio’s revenue, expenses, assets and liabilities⁵⁰



Source: 2016–17 CFS.

4.15.3 The following sections provide a summary of the 2016–17 financial statements audit results for the Department of the Prime Minister and Cabinet (PM&C), other material entities in the portfolio and findings relating to Northern Land Council. Where a performance audit was tabled during 2016–17 and relevant to the financial management or administration of a portfolio, the impact of those observations on the audit approach are also discussed.

Department of the Prime Minister and Cabinet

4.15.4 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

4.15.5 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by the department, and includes commentary regarding significant movements between years contributing to overall performance.

⁵⁰ Figure 4.15.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

Table 4.15.1: Departmental key financial statements items

Departmental key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	427.0	410.4
Revenue from Government	406.4	384.2
Deficit attributable to the Australian Government	20.6	26.2
Total other comprehensive loss	0.3	5.1
Total comprehensive loss attributable to the Australian Government	20.9	31.3
Total assets	236.5	233.4
Total liabilities	122.6	118.9
Total equity	113.9	114.5

Source: Department of the Prime Minister and Cabinet financial statements for the year ended 30 June 2017.

4.15.6 The increase in net cost of services and revenue from Government reflects an increase in activity within the department during 2016–17, involving additional costs to establish taskforces for the Association of Southeast Asian Nations, to Redress Child Abuse, the Council of Australian Governments Data and Transparency and the Behavioural Economics Team.

4.15.7 Fluctuations in other departmental balances reflect normal business activities.

Table 4.15.2: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	1 663.9	1 637.2
Total income	108.2	100.4
Deficit after income tax	1 555.7	1 536.8
Total other comprehensive income after income tax	156.2	108.7
Total comprehensive loss	1 399.5	1 428.1
Total assets administered on behalf of Government	4 876.8	4 566.1
Total liabilities administered on behalf of Government	63.5	57.7
Net assets	4 813.3	4 508.4

Source: Department of the Prime Minister and Cabinet financial statements for the year ended 30 June 2017.

4.15.8 The increase in administered expenses reflects the service delivery costs of Indigenous programs, the majority of which consists of grant payments (\$1 347 million), supplier payments (\$59 million), and other administrative expenditure (\$257 million).

4.15.9 The increase in assets is due to an increase in the investment valuations of portfolio entities, primarily attributable to Indigenous Business Australia of \$92 million and the Indigenous Land Corporation of \$76 million. The current year surplus of \$54 million from the Aboriginal Benefit Account (ABA) also contributes to the increase.

4.15.10 Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.15.11 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of PM&C's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.15.3, including which areas were considered Key Audit Matters (KAM) by the ANAO.

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 \$1 347.4 million	Effectiveness of internal control activities and financial reporting arrangements for administered grant programs KAM	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 prior year issues noted in relation to the <i>Indigenous Advancement Strategy</i> grant approvals and acquittals; and program compliance for the <i>Community Development Programme</i>. 	No significant or moderate audit findings identified.
Various items	Effective operation and management of shared service arrangements	Moderate	<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 Land and buildings \$99.1 million	Valuation of land and building assets	Moderate	<ul style="list-style-type: none"> Subject to judgement and estimation; recognition and reporting of capital asset 'under construction' balances is in accordance with the accounting framework; and the physical disbursement of these assets across the regional 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
Departmental Employee provisions \$77.7 million KAM	Accuracy of employee expenses KAM	Moderate	<ul style="list-style-type: none"> The complexity of assumptions and calculations underlying the actuarial assessment of employee provisions. 	One moderate audit finding identified – refer to paragraphs 4.15.17 to 4.15.18 below.
Administered Investments (\$4 725 million)	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 the complexity and judgements 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 2016–17 financial statements audit results, and the Department of the Prime Minister and Cabinet's financial statements for the year ended 30 June 2017.

4.15.12 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 2016–17 financial statements.

4.15.13 The following performance audit reports were tabled during 2016–17 relevant to the financial management or administration of PM&C:

- ANAO Report No. 24 2016–17. *The Shared Services Centre*;
- ANAO Report No. 35 2016–17. *Indigenous Advancement Strategy*;
- ANAO Report No. 54 2016–17. *Effectiveness of the Governance of the Northern Land Council*;
- ANAO Report No. 55 2016–17. *Corporate Planning in the Australian Public Sector*.

4.15.14 Report No. 24 2016–17 included observations relevant to PM&C's management of shared services as outlined in Table 4.15.3. This includes ensuring effective governance, reporting and review processes were in place for all shared service operations during the financial year.

4.15.15 Report No. 35 2016–17 included observations relevant to PM&C's administration of grants and the Administered Grants Expense line item outlined in Table 4.15.3. This includes ensuring grant approvals are in place for all Indigenous Advancement expenditure for the 2016–17 financial year.

Audit results

4.15.16 There was one moderate audit finding arising from the 2016–17 financial statements audit. The following table summarises the status of audit findings reported by the ANAO in 2015–16 and 2016–17.

Table 4.15.4 Status of audit findings

Category	Closing position (2015–16)	New findings (2016–17)	Findings resolved (2016–17)	Closing position (2016–17)
Significant (A)	0	0	0	0
Moderate (B)	0	1	0	1
Total	0	1	0	1

Source: ANAO 2016–17 audit results.

New moderate audit finding

Internal Control over Human Resource Management Processes

4.15.17 During the 2016–17, the ANAO identified weaknesses in internal control and quality assurance processes for key human resource management processes, which resulted in overpayments in superannuation expenses.

4.15.18 PM&C have acknowledged this issue and advised that further HRMIS configuration controls and the strengthening of internal policies and procedures are being established as part of a formal remediation program. The ANAO will review progress in addressing this issue as part of the 2017–18 audit.

Indigenous Business Australia

4.15.19 Under its enabling legislation, the *Aboriginal and Torres Strait Islander Act 2005*, Indigenous Business Australia's (IBA's) purposes are 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 Islander peoples by accumulating and using a substantial capital base for the benefit of Aboriginal and Torres Strait Islander peoples. IBA has 21 actively trading subsidiaries, which are audited by the ANAO.

Summary of financial performance

4.15.20 The following section provides a comparison of the key 2015–16 and 2016–17 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	2016–17 (\$m)	2015–16 (\$m)
Net (cost of)/contribution by services	(24.5)	15.5
Revenue from Government	14.0	34.3
Surplus attributable to the Australian Government	38.6	18.8
Total other comprehensive loss	(1.7)	(2.2)
Total comprehensive loss attributable to the Australian Government	36.8	16.4
Total assets	1 378.9	1 293.3
Total liabilities	44.1	50.9
Total equity	1 334.8	1 242.4

Source: Indigenous Business Australia's financial statements for the year ended 30 June 2017.

4.15.21 A decrease in net cost of services and the increase in surplus attributable to the Australian Government were mainly due to the stabilisation of valuation of investment properties following a decline in commercial market conditions during 2016–17.

4.15.22 The increase in total assets and associated increases to equity were mainly due to increases in the fair value of managed investments offset by disposals of investment property during 2016–17.

Key areas of financial statements risk

4.15.23 The ANAO's undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of IBA's financial statements. This focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.15.6. No significant or moderate audit findings were identified relating to these key areas of risk.

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
Loans – Home Ownership Program \$679.3 million Loans – Business Development and Assistance Program \$30.2 million	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.
Investment property \$99.9 million Property, plant and equipment \$21.1 million	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
Own-source income \$175.8 million	Revenue recognition of own-sourced income	Moderate	<ul style="list-style-type: none"> • IBA has a number of streams of commercial income and associated accounting functions, some of which are geographically decentralised and remote.

Source: ANAO 2016–17 audit results, and Indigenous Business Australia's financial statements for the year ended 30 June 2017.

4.15.24 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 IBA's 2016–17 financial statements.

4.15.25 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach

Audit results

4.15.26 There were no significant or moderate audit findings arising from the 2016–17 financial statements audit.

Indigenous Land Corporation

4.15.27 Under its enabling legislation, the *Aboriginal and Torres Strait Islander Act 2005*, the Indigenous Land Corporation's (ILC's) purpose is to assist Aboriginal and Torres Strait Islander people to acquire and manage land so as to provide economic, environmental, social and cultural benefits; and to provide land management assistance to support the delivery of sustainable benefits from land acquisition.

4.15.28 The ILC consolidated entity includes the following subsidiaries: the Australian Indigenous Agribusiness Company Pty Ltd (formerly National Indigenous Pastoral Enterprises Pty Ltd); the National Centre of Indigenous Excellence Ltd; The Owners – Strata Plan No. 86156; and Voyages Indigenous Tourism Australia Pty Ltd.

Summary of financial performance

4.15.29 The following section provides a comparison of the key 2015–16 and 2016–17 financial statements items reported by the ILC consolidated entity, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.15.7 Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net (cost of)/contribution by services	(34.3)	9.0
Revenue from Government	60.6	60.1
Surplus before income tax attributable to the Government	26.3	69.1
Income tax benefit	0.3	0.7
Surplus attributed to the Government	26.6	69.8
Total other comprehensive income	0.3	2.0
Total comprehensive income attributable to the Australian Government	26.9	71.8
Total assets	752.3	683.7
Total liabilities	380.9	388.4
Total equity	371.4	295.3

Source: Indigenous Land Corporation's financial statements for the year ended 30 June 2017.

4.15.30 The movements in net cost of services, total assets and total equity are largely attributable to the recognition of the independent valuation of the Ayres Rock Resort (the Resort). In prior years, the independent valuation of the Resort resulted in a downward movement in the fair value of the Resort that was recognised as a decrease in the asset's fair value, with a corresponding increase in the impairment expense.

4.15.31 In 2016–17, an independent valuation of the Resort was undertaken resulting in a \$40 million increase in the fair value of the Resort. The current year increase was recognised through the balance sheet and asset revaluation reserve, contributing to the increase in total assets and total equity in 2016–17. There is no remaining prior year impairment.

Key areas of financial statements risk

4.15.32 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the ILC consolidated entity's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.15.8. No significant or moderate audit findings were identified relating to these key areas.

Table 4.15.8 Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Property, plant and equipment \$268.0 million Intangibles \$5.4 million	Valuation of property, plant and equipment and intangibles held by the ILC subsidiary, Voyages Indigenous Tourism Australia Pty Ltd	Higher	<ul style="list-style-type: none"> Complexities in valuing the assets due to the judgements and assumptions involved.
Property, plant and equipment \$355.3 million Biological assets \$54.1 million	Valuation of property, plant and equipment and livestock held by the ILC and the ILC subsidiary, Australian Indigenous Agribusiness Company Pty Ltd	Moderate	<ul style="list-style-type: none"> Complexities in valuing the assets due to the judgements and assumptions involved.
Income tax benefit \$0.3 million Deferred tax asset \$1.0 million	Valuation of tax balances in relation to the transfer of commercial properties between the ILC and the ILC subsidiary, Australian Indigenous Agribusiness Company Pty Ltd	Moderate	<ul style="list-style-type: none"> Complexities in the calculation of tax balances on transfer.
Concessional loan benefit \$10.9 million Interest bearing loans \$62.3 million	Valuation of the concessional loan liability and asset	Moderate	<ul style="list-style-type: none"> Significant value of the concessional loan; and exposure to movements in the interest rate potentially impacting the value of the concessional loan.
Total revenue \$170.2 million Total expenses \$169.6 million	Accuracy of revenue and expenses recognised by the ILC subsidiary, Voyages Indigenous Tourism Australia Pty Ltd	Moderate	<ul style="list-style-type: none"> Varying revenue and purchasing streams; and decentralised nature of the entity's operations.

Source: ANAO 2016–17 audit results, and the ILC's financial statements for the year ended 30 June 2017.

4.15.33 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 ILC's 2016–17 financial statements.

4.15.34 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.15.35 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Comments on non-material entities

Northern Land Council

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

4.15.37 The following table summarises the status of audit findings reported by the ANAO in 2015–16 and 2016–17.

Table 4.15.9 Status of audit findings

Category	Closing position (2015–16)	New findings (2016–17)	Findings resolved (2016–17)	Closing position (2016–17)
Significant (A)	0	0	0	0
Moderate (B)	0	0	0	0
Legislative breach (L1)	2	0	0	2
Total	2	0	0	2

Source: ANAO 2016–17 audit results.

Unresolved significant legislative breaches

Royalty trust account

4.15.38 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.

4.15.39 During 2016–17, 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.

4.15.40 The Council has commenced a royalty reform project that is aimed at reducing incidents of non-compliance with the *Aboriginal Land Rights (Northern Territory) Act 1976* and reconciling the outstanding balances in the royalty trust account to identify the appropriate owners for distribution.

4.15.41 The ANAO will review the Council's progress as part of the 2017–18 audit.

Risk management framework

4.15.42 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.

4.15.43 In 2015–16, the ANAO identified that the Council did not have an appropriate risk framework in place, including the development of a risk register. In 2016–17, the Council endorsed a risk management policy and had commenced the development of a risk management plan. At the time of the final audit, the Council was preparing to undertake a series of risk workshops to develop a risk register that will support the finalisation of the risk plan. It is expected that this will be finalised by the end of 2017.

4.15.44 The ANAO will review the Council's progress as part of the 2017–18 audit.

4.16 Social Services Portfolio

Reporting Entity	Material Entity	Risk of material misstatement	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of Social Services	Yes	Moderate	✓	13 Sept 17	13 Sept 17	Nil
Australian Hearing	Yes	Low	✓	15 Aug 17	15 Aug 17	Nil
Department of Human Services	Yes	Moderate	✓	29 Aug 17	29 Aug 17	Nil
National Disability Insurance Agency	Yes	High	✓	9 Oct 17	9 Oct 17	▲ ◆ □

✓: 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 2016–17 interim audit phase, now reclassified or resolved

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

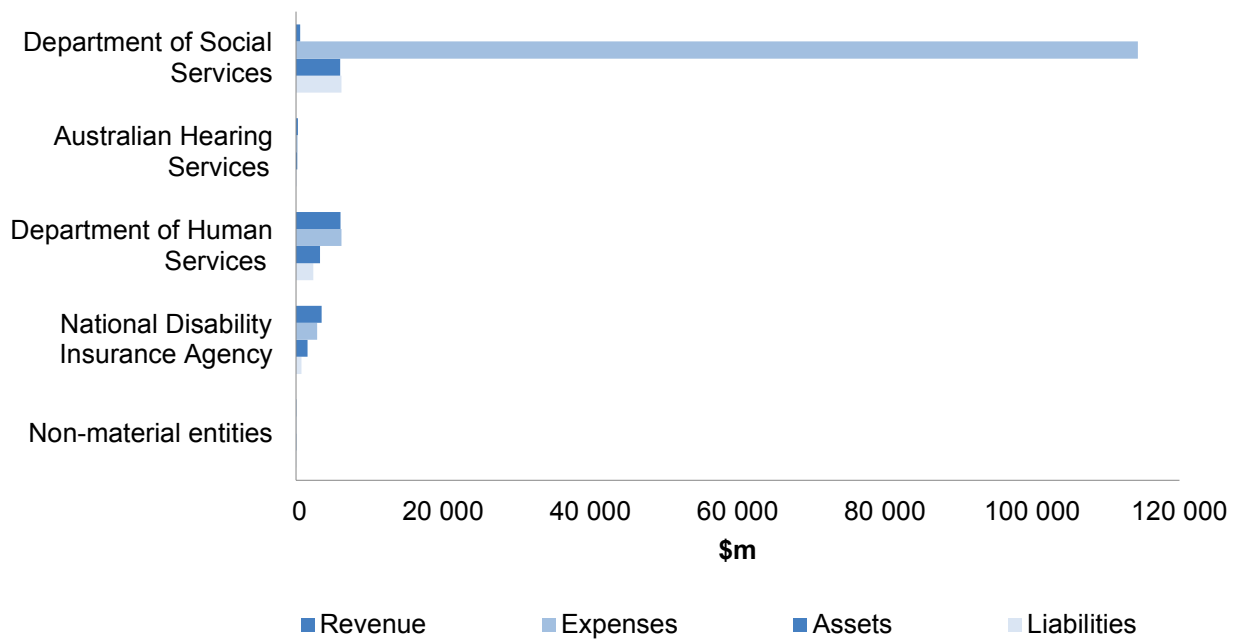
Portfolio overview

4.16.1 The Department of Social Services (DSS) is the lead entity in the portfolio and has four core areas of responsibility—social security, families and communities, disability and carers, and housing.

4.16.2 In addition to the department, the portfolio also includes the National Disability Insurance Agency (NDIA) and the Australian Institute of Family Studies. The Department of Human Services (Human Services) and Australian Hearing are also part of the broader Social Services portfolio. The entities within the Social Services portfolio partner with other government entities, non-government organisations, consumers and other stakeholders.

4.16.3 Figure 4.16.1 shows Social Services portfolio revenue, expenses, assets and liabilities.

Figure 4.16.1: Social Services Portfolio’s revenue, expenses, assets and liabilities ⁵¹



Source: 2016–17 CFS.

4.16.4 The following sections provide a summary of the 2016–17 financial statements audit results for the Social Services portfolio and material entities in the portfolio. Where a performance audit was tabled during 2016–17 that was relevant to the financial management or administration of an entity, the impact of those observations on the audit approach are also discussed.

51 Figure 4.16.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

Department of Social Services

4.16.5 The four core areas of responsibility of the Department of Social Services (DSS) are social security, families and communities, disability and carers, and housing. DSS works in partnership with other government and non-government organisations, particularly the Department of Human Services which is responsible for processing significant volumes of complicated benefit payments on behalf of DSS, on a range of policies, programs and services focused on improving the wellbeing of people and families in Australia.

Summary of financial performance

4.16.6 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by DSS, 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	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	430.9	530.6
Revenue from Government	369.0	475.3
Deficit attributable to the Government	61.9	55.3
Total other comprehensive income	4.6	1.6
Total comprehensive loss attributable to the Australian Government	57.3	53.7
Total assets	382.5	336.9
Total liabilities	152.3	137.4
Total equity	230.2	199.5

Source: DSS' financial statements for the year ended 30 June 2017.

4.16.7 The reduction in the net cost of services and revenue from government is primarily a result of employee transfers and lower operating costs due to the Machinery of Government changes that occurred in September 2015. Responsibility for childcare related programs was transferred from DSS to the Department of Education and Training and for aged care programs to the Department of Health.

4.16.8 The increase in assets was due to the capitalisation of leasehold improvements relating to the new National Office Accommodation Project and capitalisation of internally developed computer software. Liabilities increased as result of the recognition of a lease incentive liability for the new National Office Accommodation.

Table 4.16.2: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	113 783.0	120 478.3
Total income	78.6	118.7
Deficit	113 704.4	120 359.6
Total other comprehensive income	691.7	16.8
Total comprehensive loss	113 012.7	120 342.8
Total assets administered on behalf of Government	5 586.9	4 187.3
Total liabilities administered on behalf of Government	6 026.0	7 518.2
Net liabilities	439.1	3 330.9

Source: DSS' financial statements for the year ended 30 June 2017.

4.16.9 Total expenses decreased primarily as a result of a decrease in subsidies and child care payments due to transfer of functions to the Departments of Education and Training, and Health. In addition personal benefits decreased due to policy reforms and a reviving economic environment resulting in lower family tax benefits, working age payments, income support for people with disability, and student payments. This decrease was partially offset by an increase in income support for seniors and carers.

4.16.10 The increase in assets was due to the increase in the investment in National Disability Insurance Agency (NDIA) which is based on the net asset position of NDIA at 30 June 2017. Personal benefit receivables also increased as a result of changes in eligibility criteria and the automatic raising of debts.

4.16.11 The decrease in liabilities was due to the eligibility changes to the family tax benefit payments, adjustments to the pension bonus scheme estimates and closure of the 'school kids' bonus scheme.

Key areas of financial statements risk

4.16.12 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the DSS' financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.16.3, including which areas were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.16.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Personal benefit expenses \$109.5 billion	Accuracy and occurrence of personal benefit expenses KAM	Higher	<ul style="list-style-type: none"> Reliance on the correct disclosure of personal circumstances by a large number of recipients across diverse social economical groups; and reliance on Human Services' complex information technology system for the processing of a high volume of payments across numerous personal benefit types with varying complexities.
Administered Personal benefit provisions \$4.2 billion Personal benefit receivables (net) \$4.2 billion	Valuation of personal benefit provisions and personal benefit receivables KAM	Higher	<ul style="list-style-type: none"> Provisions and receivables involve estimation models which require significant judgements and assumptions, and are dependent on a number of factors. These factors include: new budget measures affecting benefit programs: timing of payments: personal circumstances of recipients: the economic environment and the accuracy and completeness of the source data used by the actuary in developing the estimation models.
Administered Grant expenses \$1.3 billion	Accuracy and occurrence of grant expenses KAM	Moderate	<ul style="list-style-type: none"> A large number of grants programs with differing legislative and policy requirements; and inherent information technology challenges relating to the expansion of existing grant management infrastructure including the use of DSS' systems as a shared service operation for other entities.

Source: ANAO 2016–17 audit results, and DSS' financial statements for the year ended 30 June 2017.

4.16.13 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 DSS' 2016–17 financial statements.

4.16.14 The following performance audit reports were tabled during 2016–17 relevant to the financial management or administration of DSS:

- ANAO Report No.3 2016–17 *Machinery of Government* (a cross entity audit);
- ANAO Report No.20 2016–17 *The Management, Administration and Monitoring of the Indemnity Insurance Fund* (a cross entity audit);
- ANAO Report No.23 2016–17 *National Rental Affordability Scheme – Administration of Allocations and Incentives*;
- ANAO Report No.24 2016–17 *National Disability Insurance Scheme – Management of Transition of the Disabilities Services Market* (a cross entity audit);

- ANAO Report No.41 2016–17 *Management of Selected Fraud Prevention and Compliance Budget Measures* (a cross entity audit);
- ANAO Report No.51 2016–17 *Administration of Youth Allowance (Student) and ABSTUDY* (a cross entity audit);
- ANAO Report No.52 2016–17 *Managing Underperformance in the Australian Public Service* (a cross entity audit); and
- ANAO Report No.59 2016–17 *myGov Digital Services* (a cross entity audit).

4.16.15 These reports did not include recommendations that impacted the financial statements audit approach.

Audit results

4.16.16 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Australian Hearing

4.16.17 Australian Hearing’s core responsibility is the provision of government-funded hearing services through a national network of hearing centres to eligible clients under the Australian Government Hearing Services program. Australian Hearing is managed by a board of directors appointed by the Minister for Human Services and is constituted under the *Australian Hearing Services Act 1991*.

Summary of financial performance

4.16.18 The following section provides a comparison of the 2015–16 and 2016–17 key departmental financial statements items reported by Australian Hearing, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.16.4: Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Surplus after income tax equivalent expense	22.4	20.8
Total other comprehensive income	0	0
Total comprehensive income attributable to the Australian Government	22.4	20.8
Total assets	143.6	136.9
Total liabilities	78.9	79.0
Total equity	64.7	57.9

Source: Australian Hearing’s financial statements for the year ended 30 June 2017.

4.16.19 The increased surplus in 2016–17 was a result of greater revenue from sales of goods and provision of services to eligible individuals requiring hearing services, reduced by the increased expenses associated with the provision of these services.

4.16.20 Total assets in 2016–17 increased due to greater investment in leasehold assets, property, plant, equipment and cash term deposits resulting from the increased cash from operations, partially offset by the payment of an increased dividend to Government.

4.16.21 Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.16.22 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of Australian Hearing's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.16.5. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.16.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Total revenue \$255.3 million	Revenue recognition	Higher	<ul style="list-style-type: none"> A number of revenue streams under the Hearing Services Program that are governed by various Acts and Rules.
Non-financial assets \$44.4 million	Recognition and valuation of property plant and equipment and intangible assets	Moderate	<ul style="list-style-type: none"> Complex accounting judgements and estimates are required.
Accruals \$15.8 million Employee liabilities \$21.8 million Deferred revenue \$18.2 million Other provisions \$7.0 million	Management Estimates	Moderate	<ul style="list-style-type: none"> significant management judgement of accounting estimates is required; and These estimates directly affect the calculation of Australian Hearing's annual results.

Source: ANAO 2016–17 audit results, and Australian Hearing's financial statements for the year ended 30 June 2017.

4.16.23 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 2016–17 financial statements.

4.16.24 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.16.25 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Department of Human Services

4.16.26 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.

4.16.27 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

4.16.28 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by Human Services, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.16.6: Departmental key financial statements items

Departmental key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	4,363.8	4 476.2
Revenue from Government	4 201.6	4 223.5
Deficit attributable to the Government	162.2	252.7
Total other comprehensive income	37.6	33.3
Total comprehensive loss attributable to the Australian Government	124.6	219.5
Total assets	2,227.0	2 061.0
Total liabilities	1 379.7	1 363.1
Total equity	847.3	698.0

Source: The Department of Human Services' financial statements for the year ended 30 June 2017.

4.16.29 The total comprehensive loss has decreased in 2016–17 by \$94.9 million mainly due to a change in bond rate resulting in a decrease in employee entitlements. In addition, own-source revenue increased primarily due to the provision of services to the NDIA, the Australian Digital Health Agency and the Department of Health. These increases were partially offset by the write-down of information technology (IT) systems.

4.16.30 Total assets increased mainly due to: an increase in receivables from other Commonwealth entities for the provision of services; unspent capital appropriations due to delays in IT projects; and prepayments made for a significant contract for IT services. The increase was partially offset by write-down of IT systems.

4.16.31 Fluctuations in other balances reflect normal business activities.

Table 4.16.7: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	1 566.0	1 540.2
Total income	1 604.9	1 576.4
Surplus	38.9	36.2
Total other comprehensive income	6.9	8.4
Total comprehensive income	45.8	44.6
Total assets administered on behalf of Government	1 013.3	961.5
Total liabilities administered on behalf of Government	936.9	889.5
Net assets	76.4	72.0

Source: The Department of Human Services' financial statements for the year ended 30 June 2017.

4.16.32 The key activity within Human Services' administered business relates to child support. The cash collected by Human Services from non-custodial parents in 2017 was \$1.417 billion with \$1.411 billion transferred to the custodial parents in that same year. The total child support amount payable to Human Services to be transferred to custodial parents has built up over time to \$1.467 billion with an associated impairment allowance estimated by an actuary to be \$663 million. This is an increase of \$44 million over the previous year and was driven by a combination of a fall in collection rates, an increase of half a year in the mean term to recovery and the impact of changes in the bond rate.

Key areas of financial statements risk

4.16.33 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of Human Services' financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.16.8, including which areas were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.16.8: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Departmental Land and Buildings \$354.6 million Plant and Equipment \$194.7 million Software \$360.7 million	Capitalisation and valuation of non-financial assets KAM	Moderate	<ul style="list-style-type: none"> • Valuations of land and buildings and property, plant and equipment are subject to judgements and assumptions and are geographically dispersed; • significant judgements involved in considering the indicators of impairment to estimate the value of intangible assets; and • judgments involved in estimating the staff and other costs attributable to developing the software applications;
Administered Child support receivables \$806.3 million	Valuation of child support receivables that are yet to be paid by non-custodial parents at the end of the financial year KAM	Moderate	<ul style="list-style-type: none"> • Significant judgement and assumptions applied in determining the valuation of child support receivables that require an involvement of an actuary. These judgements rely on the quality of the underlying data used in the estimation process which is maintained in spreadsheets and requires manual processing; and • a large volume of child support financial transactions are processed under the complex <i>Child Support Act 1988</i>.

Source: ANAO 2016–17 audit results and Human Services’ financial statements for the year ended 30 June 2017.

4.16.34 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 Human Service’s 2016–17 financial statements.

4.16.35 The following performance audit reports were tabled during 2016–17 relevant to the financial management or administration of Human Services:

- ANAO Report No. 59 2016–17 *myGov Digital Services*;
- ANAO Report No. 51 2016–17 *Administration of Youth Allowance (Student) and ABSTUDY*;
- ANAO Report No. 50 2016–17 *Child Support Collection Arrangements between the Australian Taxation Office and the Department of Human Services*;
- ANAO Report No. 42 2016–17 *Cybersecurity Follow-Up Audit*;
- ANAO Report No. 41 2016–17 *Management of Selected Fraud Prevention and Compliance Budget Measures*; and
- ANAO Report No. 20 2016–17 *The Management, Administration and Monitoring of the Indemnity Insurance Fund*.

4.16.36 The observations of these reports were considered in designing audit procedures to address areas outlined in Table 4.16.8 and areas considered to pose a lower risk of material misstatement.

Audit results

4.16.37 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

National Disability Insurance Agency

4.16.38 The NDIA, which commenced operations on 1 July 2013, was established under the *National Disability Insurance Scheme Act 2013*. The NDIA is responsible for delivering the National Disability Insurance Scheme (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 disability, their families and carers; and associated referral services and activities.

Summary of financial performance

4.16.39 The following section provides a comparison of the 2015–16 and 2016–17 key financial statements items reported by the NDIA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.16.9: Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	981.3	565.3
Revenue from Government	1 598.5	581.1
Surplus attributable to the Government	617.1	15.8
Total other comprehensive income	3.7	1.9
Total comprehensive income attributable to the Australian Government	620.7	17.7
Total assets	1 572.1	396.3
Total liabilities	709.5	270.7
Total equity	862.5	125.6

Source: The NDIA's financial statements for the year ended 30 June 2017.

4.16.40 The increase in the net cost of services is associated primarily with higher participant plan expenses due to the phasing in of participants into the Scheme as it moves towards Full Scheme in 2020–21. Scheme participants increased from 30,281 at 30 June 2016 to 96,772 at 30 June 2017. Revenue from Government also increased in line with the growth in the Scheme.

4.16.41 Total assets increased primarily due to a higher cash balance as at 30 June 2017. This is the result of under-utilisation of participant plan budgets since the inception of the Scheme and reduced use of capital contributions due to the change in property roll-out in line with Government requirements.

4.16.42 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 2016–17.

Key areas of financial statements risk

4.16.43 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the NDIA’s financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.16.10

Table 4.16.10: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Participant plan expenses \$2 238.1 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; • no supporting documentation required as part of the claiming process; and • significant work required to implement a successful compliance program supporting payments to participants. 	Two significant and three moderate findings were identified — refer to paragraphs Audit Results section below.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Participant plan provisions \$505.6 million	Valuation of participant plan provisions	Higher	<ul style="list-style-type: none"> The provisions are subject to 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.
Contributions in-kind from Commonwealth, State and Territory governments \$477.5 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 2016–17 audit results, and the NDIA's financial statements for the year ended 30 June 2017.

4.16.44 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 NDIA's 2016–17 financial statements.

4.16.45 The following performance audit reports were tabled during 2016–17 relevant to the financial management or administration of the NDIA:

- ANAO Report No.24 2016–17 *National Disability Insurance Scheme – Management of Transition of the Disability Services Market*; and
- ANAO Report No.13 2017–18 *Decision-making controls for sustainability – National Disability Insurance Scheme access*.

4.16.46 ANAO Report No.13 2017–18 included observations relevant to the participant plan expenses outlined in Table 4.16.10. The audit assessed the effectiveness of controls being implemented and/or developed by the NDIA to ensure that access decisions are consistent with legislative and other requirements. The report concluded that the NDIA has implemented some controls to ensure that NDIA access decisions are consistent with legislative requirements but these have been inconsistently applied.

Audit results

4.16.47 The following table summarises the status of audit findings reported by the ANAO in 2015–16 and 2016–17.

Table 4.16.11: Status of audit findings

Category	Closing Position (2015–16)	New Findings (2016–17)	Findings Resolved (2016–17)	Closing position (2016–17)
Significant (A)	1	1	0	2
Moderate (B)	2	5	(2)	5
Total	3	6	(2)	7

Source: ANAO 2016–17 audit results.

4.16.48 For each of the findings listed below, the ANAO undertook additional audit procedures to gain assurance that the NDIA’s 2016–17 financial statements were not materially misstated.

New significant audit finding

IT User Access Management

4.16.49 The NDIA uses the Customer Relationship Management (CRM) system to manage Scheme participant records, assess eligibility to the Scheme, create and approve participant support plans, create and register disability support service providers and process claims for payment to providers and participants.

4.16.50 Each individual with access to the CRM is designated a role or roles that determine what functions they can perform in the CRM. To mitigate the risk of error or fraudulent behaviour it is important that roles are appropriately segregated.

4.16.51 ANAO testing identified that a formal segregation of duties matrix had not been developed for CRM roles, users had been granted access to roles within the system that should be segregated and there were no processes in place to regularly review user access to ensure that it remained current and appropriate based on the user’s role within the organisation. These issues increase the risk of inappropriate or unauthorised transactions being processed.

4.16.52 The NDIA have committed to: undertaking a risk assessment of user activity that took place in 2016–17; implementing a regular review process of system access to ensure access remains consistent with the user’s role; and to the development and application of a segregation of duties matrix that removes incompatible roles from any single user access profile. The ANAO’s review of user access in 2017–18 will focus on these activities.

New moderate audit findings

IT Change Management

4.16.53 IT change management processes provide a disciplined approach to making changes to the IT environment. It includes controls to ensure that only authorised changes are made to the system and that these changes do not disrupt normal business operations. IT change management processes at the NDIA are managed concurrently by both the NDIA and Human Services.

4.16.54 A sample of CRM system changes tested by the ANAO for the period 1 July 2016 to 14 October 2016 noted that the NDIA was unable to provide evidence that appropriate testing had occurred prior to the change being implemented. In addition, the ANAO identified instances in the sample tested where evidence was not available to support the approval of the system change prior to its implementation. For system changes tested for the period 15 October 2016 to 30 June 2017, while evidence that testing had occurred was available, this was not the case for evidence supporting the approval for all implementations.

4.16.55 The NDIA has assessed that there is a low risk of the weaknesses in the change management process impacting the operation and integrity of the CRM. This is based on the decreasing number of system issues being reported by CRM users. The NDIA have advised that the change management process and associated evidentiary requirements have been reinforced with relevant staff. The ANAO will review progress of this finding during the 2017–18 audit.

Provider Registration

4.16.56 Providers must register with the NDIA to submit claims for payment for goods and services provided to Scheme participants. The provider registration occurs in the CRM system.

4.16.57 A sample of provider registrations tested by the ANAO identified that approximately 10% of provider registrations were completed by one NDIA user. There is no control preventing a single person from creating and approving a registered provider. Once a provider has been approved as registered, a claim for payment can be made without any further approval or review by the NDIA. This increases the risk of inappropriate or unauthorised providers being registered and able to submit invalid claims for payment.

4.16.58 The NDIA has advised that a review of the process will be undertaken to reduce the risk of inappropriate provider registration and subsequent payments, including a quality assurance process to review registration decisions on a sample basis. The ANAO will review the progress of this work in as part of the 2017–18 audit.

Streamlined Access to Scheme - Defined Programs

4.16.59 Streamlined access processes for participants were introduced to facilitate the timely transition of large numbers of people into the Scheme. One of the streamlined pathways is through Defined Programs. Defined Programs are existing State, Territory and Commonwealth disability support programs that have been assessed by the NDIA as having eligibility requirements that align with Scheme access requirements. People currently receiving support from a Defined Program are automatically deemed eligible for the Scheme, as long as they meet the Scheme age and residence requirements. The NDIA advised that between 1 July 2016 and 30 June 2017, approximately 67 percent of NDIS participants entered the Scheme through a Defined Program.

4.16.60 The Commonwealth and State and Territory governments provide information to the NDIA on existing disability clients transitioning into the Scheme in accordance with an agreed data standard, including if a potential participant is a participant in a Defined Program.

4.16.61 Due to the reliance on State and Territory information and the limited access review processes for participants once they have been accepted as eligible to the Scheme, there is an increased risk of ineligible participants entering the Scheme and not being identified as ineligible in a timely manner. A risk mitigation strategy had not been implemented to address this risk.

4.16.62 The NDIA have advised that commencing in 2017–18 participants entering the Scheme under a Defined Program will be risk profiled and a process to mitigate the risk of ineligible participants implemented. In addition, work will continue with the States and Territories to improve the data provided for Defined Programs and implementing quality assurance processes including review of access decisions for Defined Program participants post access to the Scheme being granted. The ANAO will review these processes as part of the 2017–18 audit.

Scheme Eligibility

4.16.63 Decisions on eligibility and therefore access to the Scheme are critical to both participant outcomes and Scheme financial sustainability. Evidence demonstrating that an applicant meets the Scheme eligibility requirements is to be provided as part of a valid Scheme access request. Additional information may also be requested by the NDIA to inform an access decision.

4.16.64 The ANAO reviewed a sample of Scheme access requests. A number of issues were identified including cases where:

- supporting evidence was not attached to the client record;
- additional evidence was requested but an access decision was made prior to receipt of the requested evidence; and
- the decision maker granting access did not detail the reasons for their access decision.

4.16.65 Access decisions that allow people to enter the Scheme who do not meet the eligibility requirements will increase the cost of the Scheme and have the potential to impact on the Scheme's financial sustainability.

4.16.66 The NDIA have advised that staff guidance was updated in August 2017 to support the recording of evidence supporting eligibility decisions. The NDIA have also advised that quality assurance processes will be enhanced to ensure regular quality checks verify that relevant documentation can be evidenced on the participant record. Scheme eligibility will form one of the key audit risk areas for the 2017–18 audit.

IT Logging and Monitoring

4.16.67 Maintaining and supporting IT systems requires that some individuals have powerful access rights – known as privileged access. This level of access can be used to bypass security controls and make changes, either to system settings or directly to system data. Individuals with privileged access should have their activity regularly monitored to detect any unauthorised use.

4.16.68 NDIA's financial management information system is hosted and maintained by Human Services, and privileged user access is managed by Human Services. Although Human Services manage the granting of privileged access, NDIA is accountable for ensuring that privileged access is used appropriately.

4.16.69 The NDIA does not have a formal policy for logging and monitoring privileged user activity. No evidence of the regular monitoring of privileged user access was able to be provided during the course of the 2016–17 audit. The NDIA performed a review after year end of the activity undertaken by privileged users to mitigate the risk.

4.16.70 The NDIA have committed to developing a logging and monitoring policy for the NDIA business system, to developing and implementing a process to review the activities of privileged

users and to putting in place processes to gain assurance that Human Services has appropriate controls in place to oversight Human Services IT staff that have access to NDIA systems and data. The ANAO will review these processes as part of the 2017–18 audit.

Resolved moderate audit findings

HR Employee Commencements

4.16.71 In 2015–16, the ANAO raised a moderate audit finding relating to weaknesses in the controls supporting employee commencements. DSS performed the human resource (HR) transactional processing for NDIA under a Memorandum of Understanding. DSS commenced new employees based on information provided by NDIA's HR area.

4.16.72 A sample of commencements tested in 2015–16 noted overpayments of salary due to the commencement date changing from the original agreed date. NDIA were unable to demonstrate to the ANAO the means by which the overpayments were identified or identify a process for the capture and communication to DSS of changes in commencement dates.

4.16.73 From 1 July 2016, the NDIA moved to a shared services arrangement with the Human Services to perform its transactional human resources and payroll processing. The Human Services control framework has a number of preventative and detective controls for new commencements. The combination of controls limits the potential for incorrect payments to employees not being detected.

4.16.74 The ANAO's review in 2016–17 of the employee commencement controls embedded in the Human Services commencement process did not identify any issues. As a result this finding is now resolved.

Segregation of Duties Participant Plan Approvals

4.16.75 In 2014–15 the ANAO reported a moderate finding as 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 increased the risk of ineligible or fraudulent claims being paid under the Scheme.

4.16.76 The IT system that this finding related to was decommissioned in June 2016. While there were issues noted in the new CRM system concerning user access (refer to paragraphs 4.16.49 to 4.16.52), the functions of Scheme access approval and participant plan approval are segregated and not able to be performed by the same user. As a result the issue is now resolved.

Unresolved significant audit finding

Business Assurance – Compliance Program

4.16.77 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.

4.16.78 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 the claims. Self-managed participants are required to keep copies of receipts for supports provided.

4.16.79 In 2015–16 the ANAO's review of 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 identified weaknesses. The review noted that there were no documented compliance activities for payments made directly to self-managed participants and that the review program for payments made to providers was based on a non-statistical sample methodology which does not allow results to be extrapolated across the population to estimate the potential rate of non-compliance within the Scheme.

4.16.80 The ANAO also identified 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.

4.16.81 In 2015–16, the NDIA advised that it is developing a comprehensive assurance framework that examines payment integrity, as well as eligibility and plan approvals, for both self-managed and agency managed plans.

4.16.82 The ANAO notes the progress made during 2016–17, including the endorsement in May 2017 of an Integrated Assurance Framework; the introduction of a Quality Assurance Program focussed on quality of decision making and payment correctness; early implementation of a program of work targeting payment integrity (with analysis of quarters 1 to 3 of 2016–17 completed in September 2017); and the establishment in April 2017 of a formal accountability structure for assurance and compliance.

4.16.83 The NDIA have advised that ICT functionality has been developed to support the checking of access decisions made and was released in September 2017. Additional ICT functionality to address some of the other identified weaknesses is in the process of being developed.

4.16.84 There continues to be no compliance program for payments made directly to self-managed participants. The NDIA has advised that a pilot program will be implemented in 2017–18 and that additional ICT functionality was in the process of being developed to support quality assurance processes.

4.16.85 The ongoing progress of these remediation activities by the NDIA will be a key audit risk area for the ANAO in 2017–18.

4.17 Treasury Portfolio

Reporting Entity	Material Entity	Risk of material misstatement	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit findings identified
Department of the Treasury	Yes	Moderate	✓	14 Sept 17	14 Sept 17	Nil
Australian Bureau of Statistics	Yes	Low	✓	18 Aug 17	18 Aug 17	Nil
Australian Office of Financial Management	Yes	Moderate	✓	24 Aug 17	24 Aug 17	Nil
Australian Prudential Regulation Authority	Yes	Low	✓	17 Aug 17	17 Aug 17	Nil
Australian Reinsurance Pool Corporation	Yes	Moderate	✓	19 Sept 17	19 Sept 17	Nil
Australian Securities and Investments Commission	Yes	Moderate	✓	14 Aug 17	14 Aug 17	Nil
Australian Taxation Office	Yes	High	✓	14 Sept 17	14 Sept 17	□◆
Reserve Bank of Australia	Yes	Moderate	✓	16 Aug 17	16 Aug 17	Nil
Corporations and Markets Advisory Commission	No	Low	⇒			◆
Office of the Auditing and Assurance Standards Board	No	Low	✓E	6 Oct 17	6 Oct 17	Nil
Office of the Australian Accounting Standards Board	No	Low	✓E	6 Oct 17	6 Oct 17	Nil
Royal Australian Mint	No	Moderate	✓	13 Sept 17	13 Sept 17	□

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

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

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2016–17 interim audit phase, now reclassified or resolved

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

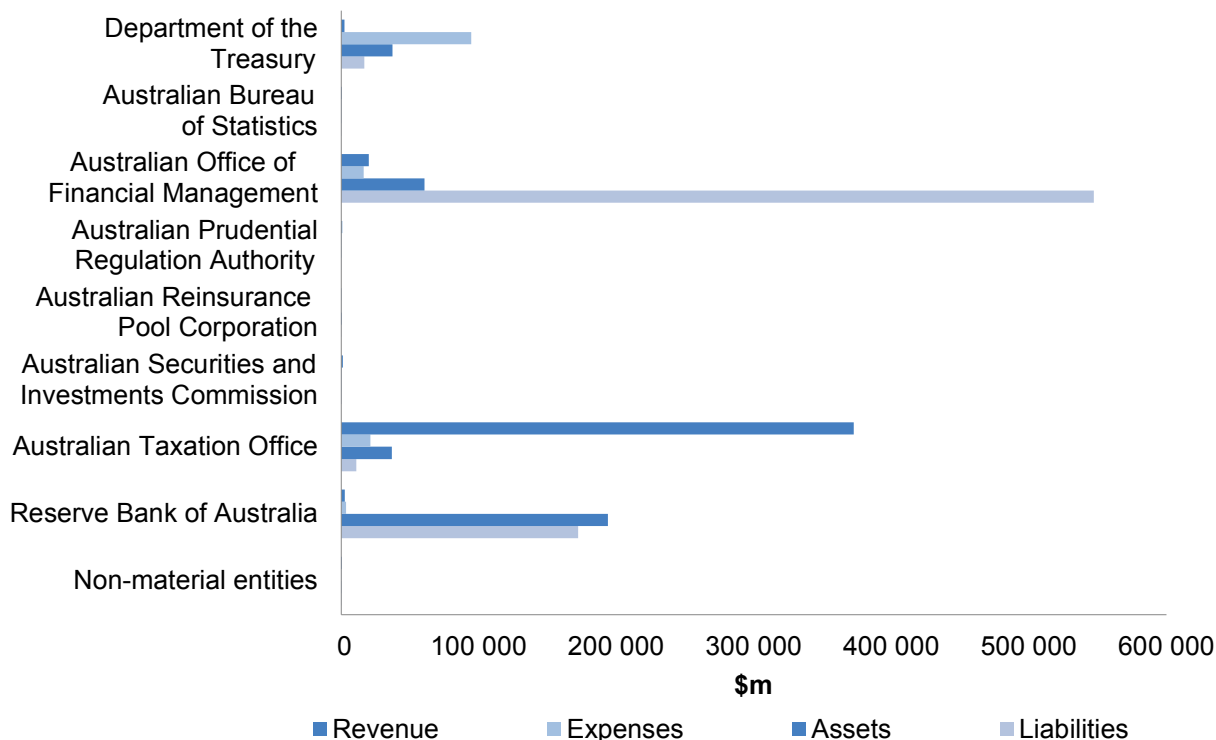
Portfolio overview

4.17.1 The Department of the Treasury (the Treasury) is the lead entity in the portfolio and is responsible 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. In addition to the department, there are 17 entities within the portfolio with a broad range of responsibilities, including revenue collection, consumer protection, financial regulation and the provision of official statistics. The portfolio includes the Australian Taxation Office (ATO).

4.17.2 Figure 4.17.1 shows the Treasury Portfolio’s revenue, expenses, assets and liabilities.

Figure 4.17.1: Treasury Portfolio’s revenue, expenses, assets and liabilities⁵²



Source: 2016–17 CFS.

4.17.3 The following sections provide a summary of the 2016–17 financial statements audit results for the Treasury Portfolio, other material entities in the portfolio, findings relating to the Corporations and Markets Advisory Committee and the Royal Australian Mint, commentary relating to the Office of the Auditing and Assurance Standards Board and the Office of the Australian Accounting Standards Board. Where a performance audit was tabled during 2016–17 that was relevant to the financial management or administration of an entity, the impact of those observations on the audit approach are also discussed.

52 Figure 4.17.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

Department of the Treasury

4.17.4 The Treasury's core areas of responsibility are development, delivery and implementation of economic policy and advice on taxation; the Budget and economy; financial, foreign investment, competition and broader structural policy; small business; and international economic policy.

Summary of financial performance

4.17.5 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by the Treasury, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.1: Departmental key financial statements items

Departmental key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	177.6	171.8
Revenue from Government	170.5	160.1
Deficit attributable to the Government	7.1	11.7
Total other comprehensive income	0.2	6.0
Total comprehensive loss attributable to the Australian Government	6.8	5.6
Total assets	97.2	91.8
Total liabilities	62.8	56.1
Total equity	34.4	35.7

Source: The Treasury's financial statements for the year ended 30 June 2017.

4.17.6 The increase in net cost of services in 2016–17 largely reflects expenditure associated with the Tax Integrity (public information) campaign. This also contributed to an increase in revenue from Government related to additional funding for the campaign.

4.17.7 Total assets increased in 2016–17 as a result of an increase in appropriations receivable, reflecting the Treasury's more favourable financial results in 2016–17 and an increase in trade receivables relating to employees seconded to other government entities.

4.17.8 The increase in total liabilities is largely attributable to year-end payables associated with the Tax Integrity (public information) campaign.

Table 4.17.2: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	94 493.7	88 037.7
Total income	2 231.7	4 334.6
Deficit	92 262.0	83 703.1
Total other comprehensive loss	2 170.9	305.2
Total comprehensive loss	94 432.9	84 008.3
Total assets administered on behalf of Government	37 272.6	41 874.6
Total liabilities administered on behalf of Government	16 731.5	17 407.2
Net assets	20 541.1	24 467.3

Source: The Treasury's financial statements for the year ended 30 June 2017.

4.17.9 The increase in the Treasury's deficit largely relates to an increase in GST assistance provided to the States and Territories between years. The dividend payable to the Treasury by the Reserve Bank of Australia less in 2016–17 compared to 2015–16 which also contributed to the increased deficit.

4.17.10 The movement in other comprehensive income reflects the decrease in the fair value of administered investments, in particular the fair value of the Commonwealth's investment in the Reserve Bank of Australia. The fair value of the Reserve Bank of Australia is taken to be the net assets at 30 June, adjusted for the discount of employee benefit obligations with reference to the yield on Australian Government bonds. This also contributed to the decrease in net assets administered on behalf of government.

Key areas of financial statements risk

4.17.11 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the Treasury's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.17.3, including which areas were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.17.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Grant expenses \$94.3 billion Grants payable \$793.7 million	Payment to States and Territories under the <i>Federal Financial Relations Act 2009</i> KAM	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.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Other provisions \$705 million Grant expenses and Natural Disaster Relief and Recovery Arrangements (NDRRA) provision \$1.1 billion	Valuation of the NDRRA provision KAM	Higher	<ul style="list-style-type: none"> Complexities in calculating the provision due to the nature and higher level of judgement relating to the estimation process and compliance requirements; and reliance on the estimates provided by States and Territory governments in determining the provision.

Source: ANAO 2016–17 audit results, and the Treasury's financial statements for the year ended 30 June 2017.

4.17.12 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 Treasury's 2016–17 financial statements.

4.17.13 The following performance audit report was tabled during 2016–17 relevant to the financial management or administration of the Treasury:

- ANAO Report No.22 2016–17 *Government Advertising: March 2013 to June 2015*.

4.17.14 The observations of this report were considered in designing audit procedures to address areas considered to pose a lower risk of material misstatement.

Audit results

4.17.15 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Australian Bureau of Statistics

4.17.16 The core area of responsibility of the Australian Bureau of Statistics (ABS) is 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 2015–16 and 2016–17 key financial statements items reported by the ABS, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.4: Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	(537.8)	(444.1)
Revenue from Government	520.3	407.5
Deficit attributable to the Government	17.5	36.6
Total other comprehensive income	–	0.1
Total comprehensive income/(loss) attributable to the Australian Government	17.5	(36.5)
Total assets	248.7	206.4
Total liabilities	168.4	170.4
Total equity	80.3	36.0

Source: ABS' financial statements for the year ended 30 June 2017.

4.17.18 The net cost of services increased as a result of increases in employee expenses and supplier expenses partially offset by an increase in revenue from Government and other gains. The employee expenses primarily increased due to the increased number of census field staff and pay increases from the enterprise bargaining agreement. The increase in supplier expenses was primarily due to additional spending on contractors and consultants, advertising and postage costs as a result of the Census outage.

4.17.19 Revenue from Government increased due to the appropriations increase associated with the Census and the transformation program to modernise ABS's infrastructure, systems and processes used to produce critical statistics.

4.17.20 Total assets increased due to gains recognised following a compensatory settlement and negotiated make-good provision for the Canberra office. The increase in equity was primarily the result of the 2016–17 equity injection for transforming the ABS infrastructure, systems and processes used to produce official statistics.

Key areas of financial statements risk

4.17.21 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of ABS' financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2016–17 is provided in Table 4.17.5. No significant or moderate audit findings were identified relating to this key area.

Table 4.17.5: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Intangible assets \$91.3 million	Valuation and impairment of non-financial assets	Moderate	<ul style="list-style-type: none"> Implementation of significant technology upgrades as part of the transformation program; and the potential misstatement associated with the high capitalisation threshold used for internally developed software.

Source: ANAO 2016–17 audit results, and the ABS' financial statements for the year ended 30 June 2017.

4.17.22 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' 2016–17 financial statements.

4.17.23 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.17.24 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Australian Office of Financial Management

4.17.25 The core areas of responsibility of the Australian Office of Financial Management (AOFM) are managing Australian Government debt and financial assets through the issuance of Treasury bonds, Treasury indexed bonds and Treasury notes.

Summary of financial performance

4.17.26 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by the AOFM, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.6: Departmental key financial statements items

Departmental key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	9.6	9.2
Revenue from Government	11.2	11.2
Surplus attributable to the Government	1.6	2.0
Total comprehensive income attributable to the Australian Government	1.6	2.0
Total assets	28.2	33.1
Total liabilities	3.2	2.4
Total equity	25.0	30.7

Source: AOFM's financial statements for the year ended 30 June 2017.

4.17.27 The movements in departmental key financial statement line items are not significant and represent normal business activities.

Table 4.17.7: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	16 076.0	15 338.8
Total income	754.4	764.7
Surplus/(deficit) ^a	3 667.4	(32 509.2)
Total comprehensive gain/(loss)	3 667.4	(32 509.2)
Total assets administered on behalf of Government	60 660.3	33 690.4
Total liabilities administered on behalf of Government	547 253.7	483 360.8
Net liabilities	(486 593.4)	(449 670.4)

Note a: This amount reflects estimated net re-measurements and gains/losses.

Source: AOFM's financial statements for the year ended 30 June 2017.

4.17.28 Total expenses increased due to financing costs associated with increased Treasury Bonds and Treasury Indexed Bonds on issue in 2016–17. The issuance of these bonds also increased liabilities.

4.17.29 Other comprehensive gains in 2016–17 are a result of the impact of higher interest rates on the fair value of Treasury Bonds and Treasury Indexed Bonds.

4.17.30 Total assets increased in 2016–17 as a result of an increase in term deposits invested with the Reserve Bank of Australia as part of the AOFM's cash management strategy. Terms deposits were higher in 2016–17 reflecting a conservative cash management approach and to meet a Treasury Bond maturity in July 2017.

Key areas of financial statements risk

4.17.31 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the AOFM's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.17.8, including which areas were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.17.8: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Australian Government securities \$547.3 billion	Valuation of Australian Government Securities KAM	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.
Administered Residential Mortgage-Backed Securities (RMBS) \$1.9 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.

Source: ANAO 2016–17 audit results, and the AOFM's financial statements for the year ended 30 June 2017.

4.17.32 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 AOFM's 2016–17 financial statements.

4.17.33 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.17.34 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Australian Prudential Regulation Authority

4.17.35 As the prudential regulator of the Australian financial services industry, the Australian Prudential Regulation Authority (APRA) oversees banks, credit unions, building societies, friendly

societies, general insurance, life insurance, private health insurance, reinsurance companies and most of the superannuation industry. APRA is funded largely by the industries that it regulates.

Summary of financial performance

4.17.36 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by APRA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.9: Departmental key financial statements items

Departmental key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	125.0	130.7
Revenue from Government	123.9	126.5
Deficit attributable to the Government	1.1	4.3
Total other comprehensive income/(loss)	(0.2)	0.0
Total comprehensive loss attributable to the Australian Government	1.3	4.3
Total assets	115.9	117.4
Total liabilities	68.1	68.4
Total equity	47.8	49.0

Source: APRA's financial statements for the year ended 30 June 2017.

4.17.37 The decrease in the 2016–17 deficit is largely attributable to costs incurred in 2015–16 associated with the relocation of APRA's main office to new premises in June 2016, including the replacement of expired leasehold assets. These costs were not incurred in 2016–17.

4.17.38 Fluctuations in other balances reflect normal business activities.

Table 4.17.10: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	458.4	440.9
Total income	708.6	678.7
Surplus	250.2	237.7
Total comprehensive income	250.2	237.7
Total assets administered on behalf of Government	3.2	3.2
Total liabilities administered on behalf of Government	2.0	2.0
Net assets	1.2	1.2

Source: APRA's financial statements for the year ended 30 June 2017.

4.17.39 The increase in income administered by APRA is attributable to an increase in the collection of levy revenue. Levy revenue collected by APRA includes Financial Institutions

Supervisory levies and Risk Equalisation levies. The Financial Institutions Supervisory levy is determined annually by the Treasury, in conjunction with APRA. The Risk Equalisation levy is also determined annually and included in the *Private Health Insurance Supervisory Levy Imposition Determination*.

4.17.40 Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.17.41 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of APRA's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2016–17 is provided in Table 4.17.11. No significant or moderate audit findings were identified relating to this key area of risk.

Table 4.17.11: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Levy revenue \$708.5 million	Accuracy of administered levy revenue	Moderate	<ul style="list-style-type: none"> Complex calculations that are prescribed in a number of Acts and rules.

Source: ANAO 2016–17 audit results, and APRA's financial statements for the year ended 30 June 2017.

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 2016–17 financial statements.

4.17.43 ANAO Report No.26 2016–17 *Prudential Regulation of Superannuation Entities* was tabled during 2016–17 relevant to the financial management or administration of APRA. The observations of this Report were considered in designing audit procedures to address areas considered to pose a lower risk of material misstatement.

Audit results

4.17.44 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Australian Reinsurance Pool Corporation

4.17.45 The Australian Reinsurance Pool Corporation (ARPC), which was established by the *Terrorism Insurance Act 2003*, 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 2015–16 and 2016–17 key departmental financial statements items reported by ARPC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.12: Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	159.9	126.2
Own source income	168.9	149.7
Surplus attributable to the Government	9.0	23.5
Total assets	566.3	604.6
Total liabilities	111.1	100.9
Total equity	455.2	503.7

Source: ARPC's financial statements for the year ended 30 June 2017.

4.17.47 The increase in total expenses is largely attributable to an increase in a fee payable by ARPC to the Treasury from \$55 million to \$90 million. The fee is payable pursuant to section 38(3)(a) of the *Terrorism Insurance Act 2003* (the Act) and is designed to ensure that the Act does not give ARPC a competitive advantage over the industry.

4.17.48 The increase in own source income is the full year impact of an increase in rates charged to policy holders for reinsurance premiums as a result of the triennial review, which saw rates increase from 1 April 2016.

4.17.49 Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.17.50 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of ARPC's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.17.13. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.17.13: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Premium revenue \$147.2 million Unearned premium \$78.8 million	Accuracy of insurance premium	Moderate	<ul style="list-style-type: none"> • Inaccurate recognition of premium; • insurers may calculate and remit incorrect premium reviews; and • incorrect calculation of unearned premium.
Outward retrocession ^a premium expense \$61.5 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.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Fees \$90 million Dividend \$57.5 million	Fees and dividends	Moderate	<ul style="list-style-type: none"> • Dividend focus by the Government as part of budget setting; and • recognition, measurement and disclosure of dividends declared in previous years and for the current year.
All financial statement items	Implementation of a new financial management information system (FMIS)	Moderate	<ul style="list-style-type: none"> • Incomplete migration of balances; • inaccurate and incomplete mapping from the old FMIS to the new FMIS balances; and • incorrect interfacing with other IT systems.

Note a: Retrocession is the practice of one reinsurance company providing services to another by insuring activities of another reinsurance company.

Source: ANAO 2016–17 audit results, and ARPC's financial statements for the year ended 30 June 2017.

4.17.51 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 ARPC's 2016–17 financial statements.

4.17.52 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.17.53 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Australian Securities and Investments Commission

4.17.54 The Australian Securities and Investments Commission (ASIC) is the 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). ASIC's core responsibility 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

4.17.55 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by ASIC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.14: Departmental key financial statements items

Departmental key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	385.2	366.0
Revenue from Government	341.6	311.4
Deficit attributable to the Government	(43.6)	(54.6)
Total other comprehensive income	-	10.8
Total comprehensive loss attributable to the Australian Government	(43.6)	(43.8)
Total assets	313.6	282.7
Total liabilities	166.8	143.0
Total equity	146.8	139.7

Source: ASIC's financial statements for the year ended 30 June 2017.

4.17.56 The reduction in ASIC's deficit is largely the result of an increase in government funding associated with new measures, including 'Improving outcomes in financial services' and an increase in own-source revenue as a result of the courts awarding costs to ASIC for a number of enforcement matters. This was partially off-set by an increase in employee expenses resulting from an increase in staffing numbers and the full year impact of a 2% pay increase.

4.17.57 Movements in total assets and liabilities are the result of an increase in appropriations receivable and employee provisions respectively, reflecting the impact of new government measures and employee movements outlined above.

Table 4.17.15: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	98.4	153.5
Total income	997.7	922.2
Surplus	899.3	769.0
Total assets administered on behalf of Government	137.8	132.9
Total liabilities administered on behalf of Government	378.2	417.0
Net liabilities	240.4	284.1

Source: ASIC's financial statements for the year ended 30 June 2017.

4.17.58 ASIC has responsibility for the administration of unclaimed monies received by banks, deposit taking institutions, life insurance and friendly societies and those monies collected under the *Corporations Act 2001*.

4.17.59 From December 2015, the relevant legislation setting out the time periods that monies are deemed as unclaimed increased from three years to seven years. This has contributed to the reduction in monies that were decreed as unclaimed and claimed in 2016–17, in particular those relating to deposit taking institutions resulting in a reduction in total expenses. This has also

resulted in a reduction in total liabilities relating to the provision for unclaimed monies for deposit taking institutions.

4.17.60 The impact on both total expenses and total liabilities was partially off-set by an increase in the provision for unclaimed monies collected under the *Corporations Act 2001* as a result of higher than expected lodgements in 2016–17 than provided for in 2015–16.

4.17.61 The increase in total income in 2016–17 is attributable to an increase in fees charged as a result of the annual review of fees and an increase in court litigation fees and fines.

Key areas of financial statements risk

4.17.62 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of ASIC's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.17.16. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.17.16: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Other provisions \$351.5 million	Valuation of the provisions for future claims of unclaimed monies	Higher	<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.
Administered Taxation revenue \$920.2 million Non-taxation revenue \$77.5 million	Completeness and accuracy of administered 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.

Source: ANAO 2016–17 audit results, and ASIC's financial statements for the year ended 30 June 2017.

4.17.63 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 ASIC's 2016–17 financial statements.

4.17.64 ANAO Report No.6 2016–17 *Corporate Planning in the Australian Public Sector* was tabled during 2016–17 relevant to the financial management or administration of ASIC. The observations of this report were considered in designing audit procedures to address areas considered to pose a lower risk of material misstatement.

Audit results

4.17.65 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Australian Taxation Office

4.17.66 The ATO is a large organisation with revenue collection responsibilities that, in some way, affect the lives of all Australians. While the Treasury has responsibility for taxation policy, the ATO is responsible for administering the tax and superannuation systems and for the delivery of a range of programs that result in transfers and benefits to the community. The ATO is currently undertaking a major reinvention program designed to make it easier for people to participate in the tax and superannuation systems.

Summary of financial performance

4.17.67 The following section provides a comparison of the 2015–16 and 2016–17 key departmental and administered financial statements items reported by the ATO and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.17: Departmental key financial statements items

Departmental key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Net cost of services	3 374.2	3 351.4
Revenue from Government	3 197.8	3 189.7
Deficit attributable to the Government	176.4	161.7
Total other comprehensive income	0	6.4
Total comprehensive loss attributable to the Australian Government	176.4	155.3
Total assets	1 338.6	1 386.1
Total liabilities	1 066.7	1 104.2
Total equity	271.9	281.9

Source: The ATO's financial statements for the year ended 30 June 2017.

4.17.68 The movement in net cost of services and deficit was due to an increase in depreciation and amortisation following the capitalisation of internally developed software. This was partially offset by compensation received in relation to contractual obligations not being met.

4.17.69 Fluctuations in other balances reflect normal business activities.

Table 4.17.18: Administered key financial statements items

Administered key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	17 817	15 550
Total income	369 375	350 401
Surplus	351 558	334 851
Total other comprehensive income	-	-
Total comprehensive income	351 558	334 851
Total assets administered on behalf of Government	35 488	32 497
Total liabilities administered on behalf of Government	9 881	9 645
Net assets	25 607	22 852

Source: ATO's financial statements for the year ended 30 June 2017.

4.17.70 The movement in administered income and the associated assets reflects the result of increased income taxation revenue attributable to growth in the Australian labour market, improved corporate profitability, and increased indirect taxation revenue from growth in goods and services taxation revenue. The growth in goods and services taxation revenue was due to higher household consumption in comparison to 2015–16 and the strength in dwelling investment.

4.17.71 The increase in administered expenses was primarily due to an increase in the impairment of taxation receivables as a result of: an overall increase in taxation receivables; increased audit activity on large entities; and the impact of entities entering insolvency.

Key areas of financial statements risk

4.17.72 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the ATO's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.17.19, including which areas were considered Key Audit Matters (KAM) by the ANAO.

Table 4.17.19: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Administered revenue \$369.4 billion Administered expenses \$17.8 billion	Estimation and allocation processes associated with reporting of taxation revenue KAM (accuracy of administered income and expenses)	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 reported in 2015–16 has now been resolved — refer to paragraphs 4.17.85 to 4.17.89 below.
Administered Allowance for credit amendments \$2.5 billion Provision for refund \$1.6 billion Impairment allowance \$13.5 billion	Processes for estimating taxation debt provisions KAM (valuation of taxation receivables)	Higher	<ul style="list-style-type: none"> Complex estimation processes for debt provisions, including allowance for credit amendment and impairment losses associated with taxation receivable balances, involving significant judgement and specialist knowledge; completeness, relevance and accuracy of source data; and quality assurance processes in relation to debt provision judgements made. 	A moderate audit finding was identified — refer to paragraphs 4.17.76 to 4.17.80 below.
Administered revenue \$369.4 billion Expenses \$17.8 billion Taxation receivables \$21.1 billion	Accounting for settlements of outstanding taxation liabilities and other adjustments to taxpayer client accounts	Higher	<ul style="list-style-type: none"> Complexity associated with negotiations and dispute resolutions; and application of significant judgement resulting from differing terms and conditions. 	A moderate audit finding was identified — refer to paragraphs 4.17.76 to 4.17.80 below.
Administered revenue \$369.4 billion	ATO compliance risk management relating to the collection of taxation revenue KAM (completeness and accuracy of taxation revenue)	Higher	<ul style="list-style-type: none"> Self-assessment and voluntary compliance regime; and judgements associated with the risk management approach to compliance activities. 	No significant or moderate audit findings identified.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Administered revenue \$369.4 billion Penalty and interest charge remission expenses \$1.1 billion	Application of various types of penalties and interest charges	Moderate	<ul style="list-style-type: none"> • Significant manual process surrounding imposition and remission of penalties; • application of various types of penalties and interest charges imposed by legislative requirements; and • application of judgement surrounding cancellation or remission of penalties and interest charges on unpaid or amended taxation liabilities. 	A moderate audit finding reported in 2015–16 has been downgraded — refer to paragraphs 4.17.81 to 4.17.84 below.
All administered items	Complex manual processes required for financial reporting	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 reported in 2015–16 has now been resolved — refer to paragraphs 4.17.95 to 4.17.97 below.
All administered 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. 	No significant or moderate audit findings identified.

Source: ANAO 2016–17 audit results, and the ATO's financial statements for the year ended 30 June 2017.

4.17.73 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 2016–17 financial statements.

4.17.74 Following on from ANAO Report No.60 2016–17 *Interim Report on Key Financial Controls of Major Entities* there have been no further performance audit reports that were tabled in the final audit phase of 2016–17 that impacted on the ATO's financial statements audit approach.

Audit results

4.17.75 The following table summarises the status of audit findings reported by the ANAO in 2015–16 and 2016–17.

Table 4.17.20: Status of audit findings

Category	Closing Position (2015–16)	New Findings (2016–17)	Findings Resolved (2016–17)	Closing position (2016–17)
Significant (A)	-	-	-	-
Moderate (B)	4	1	4 ^(a)	1
Total	4	1	(4)	1

Note a: One moderate audit issue relating to the Administration of penalties and interest has been downgraded to a minor audit finding.

Source: ANAO 2016–17 audit results.

New moderate audit finding

Debt provisions and adjustments to client accounts

4.17.76 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.

4.17.77 The ATO performs a yearly assessment on the recoverability of all taxation receivables. This estimation process is inherently complex and reliant on a significant degree of specialised knowledge and judgement. In addition, settlements of disputed debts can occur for some outstanding taxation receivables by legal agreement between the taxpayer and ATO. Reductions of taxation receivables come from the re-assessment of taxation liabilities and adjustment to the taxpayer's client account. Adjustments to taxation receivables involve manual processes.

4.17.78 During 2016–17 the ANAO reviewed the approach adopted by the ATO to determine the debt provision estimate and adjustments, including settlements, to taxpayer client accounts. The ANAO identified a number of weaknesses:

- instances of limited documentation to support key judgements made by ATO officers relating to large or complex cases; and
- inconsistent documentation of reconciliation between deeds of settlement and taxpayer client accounts.

4.17.79 These weaknesses increase the risk that key judgements applied by ATO officers are not based on sufficient and appropriate documentation and/or adjustments to taxpayer client accounts may not be correctly recorded. The ANAO undertook additional audit procedures to gain assurance that the 2016–17 financial statements were not materially misstated.

4.17.80 The ATO agreed to strengthen and improve its debt provision processes, provide training to staff; and enhance documentation requirements supporting settlements and provision estimates. The ANAO will review the ATO's progress as part of the 2017–18 audit.

Resolved moderate audit findings

Administration of penalties and interest

4.17.81 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.

4.17.82 During the 2015–16 interim audit phase, the ANAO reviewed the imposition and remission of interest and penalties and identified:

- 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.

4.17.83 These weaknesses increased the risk that remission of taxation liability charges being incorrectly administered. Following the 2015–16 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.

4.17.84 In 2016–17 the ANAO observed that the ATO had made progress in addressing this matter. A small number of instances of limited documentation to support decisions were still identified, as a result, this finding has been reclassified to a minor finding.

Estimation and allocation processes for revenue and expenses

4.17.85 The ATO's administered income and expense balances incorporate a number of significant estimates and allocation processes that involve high degrees of complexity, sensitivity and uncertainty. These estimates can also involve uncertainty as to future conditions and may have limited availability of information from which to base the estimation.

4.17.86 To manage this risk the ATO instituted an estimation process. During the 2015–16 final audit phase 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.

4.17.87 These weaknesses increased the risk that taxation revenue and expense estimates may be unreliable or materially misstated in the ATO's financial statements. The ATO advised it would

review the methodologies and processes used in the calculation of revenue and expense estimates and the documentation of changes made to methodologies adopted.

4.17.88 The ANAO reviewed actions taken by the ATO to address this matter during the 2016–17 final audit. The ANAO observed that the ATO had:

- consulted within the ATO as to alternate assumptions, in particular to support the reasonableness of significant assumptions; and
- improved its documentation to support consideration of the impact of changes to methodologies and data inputs on the ATO’s financial statements.

4.17.89 As a result, this finding was resolved.

Debt provision assessments

4.17.90 As detailed at paragraph 4.17.76, 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. This estimation process is inherently complex and reliant on a significant degree of specialised knowledge and judgement.

4.17.91 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.

4.17.92 These weaknesses increased the risk that key judgements may be inconsistently applied by ATO officers or not based on sufficient and appropriate evidence; data extracted from the ATO’s key business systems for the development of key estimates for financial reporting not complete or accurate; or reported balances may be misstated.

4.17.93 The ANAO reviewed actions taken by the ATO to address this matter during the final phase of the 2016–17 audit. The ANAO observed that the ATO had:

- improved documentation guidance for ATO case officers to obtain as appropriate documentation evidence to support key judgements that are made; and
- implemented a quality assurance process on the judgements made by case officers that confirmed the appropriateness of the accounting estimates to be reported in ATO’s administered financial statements.

4.17.94 As a result, this finding was resolved. Observations relating to the documentation of key judgements are reflected in the new moderate audit finding *Debt provisions and adjustments to client accounts* as detailed at paragraph 4.17.76 to 4.17.80.

Support and quality assurance over manual inputs to the financial statements

4.17.95 In 2015–16 the ATO implemented a project plan to assist in the timely preparation of its financial statements. While the 2015–16 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 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.

4.17.96 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.

4.17.97 In 2016–17 the ATO improved its quality assurance practices and assurance processes of data used in the preparation of its financial statements. As a result, this finding was resolved.

Reserve Bank of Australia

4.17.98 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 policymaking 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

4.17.99 The following section provides a comparison of the 2015–16 and 2016–17 key financial statements items reported by the RBA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.21: Key financial statements items

Key financial statements items	2016–17 (\$m)	2015–16 (\$m)
Total expenses	3 529	1 656
Total income	2 632	4 539
Net profit/(loss)	(897)	2 883
Total other comprehensive income	34	382
Total comprehensive income/(loss) attributable to the Australian Government	(863)	3 265
Total assets	194 012	167 489
Total liabilities	172 249	143 577
Total equity	21 763	23 912

Source: RBA’s financial statements for the year ended 30 June 2017.

4.17.100 The decrease in net profit in 2016–17 was primarily driven by valuation losses on foreign exchange. The valuation losses reflect the net appreciation of the Australian dollar against major currencies.

4.17.101 The increase in assets was primarily due to an increase in Australian dollar Investments, which includes securities purchased under reverse repurchase agreements. In carrying out operations to manage domestic liquidity and foreign reserves, the RBA enters into reverse repurchase agreements in Australian dollar and foreign currency securities.⁵³

4.17.102 The increase in liabilities was primarily due to an increase in deposits. The increased deposits as at 30 June 2017 were largely due to higher Australian Government term deposits and to a smaller extent higher Exchange Settlement (ES) balances.⁵⁴

Key areas of financial statements risk

4.17.103 The ANAO undertakes appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the RBA’s financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2016–17 are provided in Table 4.17.22, including which areas were considered Key Audit Matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.17.22: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Australian dollar investments \$104.8 billion Foreign currency investments \$83.6 billion Net loss on foreign exchange and securities \$1.9 billion	Valuation of Australian dollar securities and foreign currency investments KAM	Higher	<ul style="list-style-type: none"> Complexity in valuing a range of investments using different methodologies; and the balance is significant.

53 In a reverse repurchase agreement, securities are initially bought and this transaction is reversed at an agreed price on an agreed future date. As a reverse repurchase agreement provides the RBA's counterparties with cash for the term of the agreement, the RBA treats it as an asset by recording a cash receivable.

54 ES funds are held in accounts at the Reserve Bank by banks (as well as a small number of other financial institutions) and are used by account holders to meet their payment obligations with each other and with the Reserve Bank.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Australian banknotes on issue \$73.6 billion	Production and destruction of Australian banknotes including the issue of the Next Generation banknotes. KAM (accuracy of the liability for the Australian banknotes)	Higher	<ul style="list-style-type: none"> • High volume of note production and structurally significant to the economy; • security around production, storage and destruction of banknotes; and • complexity in assessing the accuracy of the liability for Australian banknotes on issue that are placed in circulation in the economy.
All financial statement line items	IT controls over key financial systems	Higher	<ul style="list-style-type: none"> • Reliance on multiple IT systems to generate financial information for the financial statements.

Source: ANAO 2016–17 audit results, and the RBA's financial statements for the year ended 30 June 2017.

4.17.104 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 2016–17 financial statements.

4.17.105 No performance audits were tabled in 2016–17 which impacted the financial statements audit approach.

Audit results

4.17.106 There were no significant or moderate audit findings arising from the 2015–16 or 2016–17 financial statements audits.

Comments on non-material entities

Corporations and Markets Advisory Committee

4.17.107 The Corporations and Markets Advisory Committee (CMAC) is established under the *Australian Securities and Investments Commission Act 2001* to, on its own initiative or when requested by the Minister, provide advice and recommendations to the Minister about matters relating to corporations and financial services law, administration and practice.

New legislative finding

Breach of section 42 and 46 of the *Public Governance, Performance and Accountability Act 2013*

4.17.108 In 2014–15, the normal business operations of CMAC ceased. At the time of preparation of the annual financial statements for the year ended 30 June 2015, a Government bill to abolish CMAC was before the Senate. At that time it was unclear when the passage of the bill would be secured.

4.17.109 The 2014–15 financial statements were prepared by CMAC and subject to audit by the ANAO. However the Statement by the Accountable Authority was not signed, and remains unsigned at 30 November 2017. The ANAO is unable to sign and issue an Independent Auditor's

Report until the Statement by the Accountable Authority is signed. The ANAO is also unable to commence the audit of future financial statements until the matters associated with the 2014–15 financial statements have been resolved.

4.17.110 Sections 42 and 46 of the PGPA Act outline the Accountable Authority's responsibilities in relation to the preparation of annual financial statements and the provision of an annual report to the responsible Minister, respectively. CMAC has not provided an annual report, including audited financial statements, for presentation to the Parliament since the year ended 30 June 2014. This represents a breach of sections 42 and 46 the PGPA Act.

4.17.111 With the dissolution of Parliament in April 2016, the Government bill to abolish CMAC lapsed. In June 2017, the *Statute Update (Smaller Government) Bill 2017* was put before the Parliament and included the abolishment of CMAC.

4.17.112 Until such time as the Bill passes through Parliament and is enacted as an Act, CMAC will be required to prepare annual financial statements and provide an annual report to the responsible Minister under the PGPA Act. The abolishment of CMAC will not retrospectively remove CMACs reporting obligations under the PGPA Act for past years.

Office of the Australian Accounting Standards Board

4.17.113 The Office of the Australian Accounting Standards Board (AASB) is established under the *Australian Securities and Investments Commission Act 2001*. The AASB is responsible for developing external reporting standards that are used by Australian entities to prepare financial reports and enable users of these reports to make informed decisions

Office of the Auditing and Assurance Standards Board

4.17.114 The Office of the Auditing and Assurance Standards Board (AUASB) is established under the *Australian Securities and Investments Commission Act 2001*. The AUASB is responsible for the making of auditing and assurance standards that are used by auditors of Australian entity financial reports or for other auditing and assurance engagements.

Emphasis of matter paragraphs

4.17.115 During 2016–17, the Office of the Australian Accounting Standards Board and the Office of the Auditing and Assurance Standards Board jointly presented the individual financial statements in a single report. The auditor's report for each entity included an emphasis of matter paragraph to draw attention to the joint presentation of the financial statements.

Royal Australian Mint

4.17.116 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.

Resolved moderate audit findings

Payment controls

4.17.117 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.

4.17.118 These payments were not initiated through the Mint's FMIS and 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.

4.17.119 The Mint revised its authorisation controls for all payments in 2016–17, made either directly through the online banking portal or through the Mint's FMIS, with the implementation of a four person review process for all payments. The ANAO assessed the effectiveness of this control implemented by the Mint during the 2016–17 audit and as a result, this finding was resolved.

Access to payroll processing systems

4.17.120 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, the 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.

4.17.121 The Mint progressed actions to remediate this issue in 2016–17 including disabling the use of the generic account. As a result, this finding was resolved.



Grant Hehir
Auditor-General

Canberra ACT
20 December 2017

Appendices

Appendix 1 Listing of entities by Portfolio





Reporting Entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified	Annual report approval date	Annual report tabling date	Portfolio Senate Estimates hearing date ^(a)
Agriculture and Water Resources Portfolio									
Department of Agriculture and Water Resources	Yes	Moderate	✓	31 Aug 17	1 Sept 17	Nil	27 Sept 17	23 Oct 17	24 Oct 17
Australian Fisheries Management Authority	No	Low	✓	7 Sept 17	7 Sept 17	Nil	21 Sept 17	18 Oct 17	
Australian Grape and Wine Authority	No	Low	✓	20 Sept 17	20 Sept 17	Nil	20 Sept 17	27 Nov 17	
Australian Pesticides and Veterinary Medicines Authority	No	Low	✓	20 Sept 17	20 Sept 17	Nil	29 Sept 17	27 Oct 17	
Cotton Research and Development Corporation	No	Low	✓	17 Aug 17	17 Aug 17	Nil	13 Oct 17	27 Nov 17	
Fisheries Research and Development Corporation	No	Low	✓	17 Aug 17	17 Aug 17	Nil	10 Oct 17	•	
Grains Research and Development Corporation	Yes	Low	✓	14 Aug 17	15 Aug 17	Nil	13 Oct 17	•	
Murray-Darling Basin Authority	No	Low	✓	13 Sept 17	13 Sept 17	Nil	17 Nov 17	29 Nov 17	
Rural Industries Research and Development Corporation	No	Low	✓	13 Sept 17	13 Sept 17	Nil	13 Oct 17	•	
Attorney-General's Portfolio									
Attorney-General's Department	Yes	Moderate	✓	25 Aug 17	28 Aug 17	Nil	29 Sept 17	13 Oct 17	24 Oct 17
Administrative Appeals Tribunal	No	Moderate	✓	8 Sept 17	8 Sept 17	Nil	25 Sept 17	18 Oct 17	
Australian Commission for Law Enforcement Integrity	No	Low	✓	28 Sept 17	28 Sept 17	Nil	13 Oct 17	27 Oct 17	

Reporting Entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified	Annual report approval date	Annual report tabling date	Portfolio Senate Estimates hearing date ^(a)
Australian Criminal Intelligence Commission	No	Low	✓	19 Sept 17	20 Sept 17	Nil	5 Oct 17	19 Oct 17	
Australian Federal Police	Yes	Low	✓	7 Sept 17	7 Sept 17	◆	15 Sept 17	19 Oct 17	
Australian Financial Security Authority	No	Moderate	✓	22 Sept 17	22 Sept 17	□	22 Sept 17	27 Oct 17	
Australian Human Rights Commission	No	Moderate	✓	8 Sept 17	8 Sept 17	Nil	10 Sept 17	19 Oct 17	
Australian Institute of Criminology	No	Low	✓	19 Sept 17	20 Sept 17	Nil	5 Oct 17	19 Oct 17	
Australian Law Reform Commission	No	Low	✓	15 Sept 17	15 Sept 17	Nil	15 Sept 17	16 Oct 17	
Australian Security Intelligence Organisation	Yes	Moderate	✓	24 Aug 17	24 Aug 17	Nil	3 Oct 17	17 Oct 17	
Australian Transaction Reports and Analysis Centre	No	Low	✓	15 Sept 17	15 Sept 17	◆	4 Oct 17	16 Oct 17	
Federal Court of Australia	Yes	Low	✓	1 Sept 17	1 Sept 17	Nil	20 Sept 17	18 Oct 17	
High Court of Australia	Yes	Low	✓	31 Aug 17	31 Aug 17	Nil	30 Nov 17	•	
National Archives of Australia	Yes	Low	✓	1 Sept 17	1 Sept 17	Nil	4 Oct 17	31 Oct 17	
Office of Parliamentary Counsel	No	Low	✓	15 Sept 17	15 Sept 17	Nil	18 Sept 17	17 Oct 17	
Office of the Australian Information Commissioner	No	Low	✓	8 Sept 17	8 Sept 17	Nil	14 Sept 17	18 Oct 17	
Office of the Commonwealth Director of Public Prosecutions	No	Low	✓	22 Sept 17	22 Sept 17	□	22 Sept 17	23 Oct 17	

Reporting Entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified	Annual report approval date	Annual report tabling date	Portfolio Senate Estimates hearing date ^(a)
Communications and the Arts Portfolio									
Department of Communications and the Arts	Yes	Moderate	✓	22 Sept 17	22 Sept 17	Nil	29 Sept 17	19 Oct 17	24 Oct 17
Australia Business Arts Foundation Limited	No	Low	✓	12 Sept 17	13 Sept 17	Nil	12 Sept 17	31 Oct 17	
Australia Council	No	Low	✓	30 Aug 17	30 Aug 17	Nil	30 Aug 17	23 Oct 17	
Australian Broadcasting Corporation	Yes	Moderate	✓	10 Aug 17	10 Aug 17	Nil	6 Oct 17	26 Oct 17	
Australian Communications and Media Authority	Yes	Low	✓	29 Aug 17	29 Aug 17	Nil	19 Sept 17	17 Oct 17	
Australian Film, Television and Radio School	No	Low	✓	8 Sept 17	8 Sept 17	☐	8 Sept 17	26 Oct 17	
Australian National Maritime Museum	No	Low	✓	13 Sept 17	13 Sept 17	Nil	3 Oct 17	31 Oct 17	
– Australian National Maritime Foundation	No	Low	✓	13 Sept 17	13 Sept 17	Nil	N/a	N/a	
Australian Postal Corporation	Yes	Moderate	✓	24 Aug 17	24 Aug 17	Nil	24 Aug 17	19 Oct 17	
– Australia Post Licensee Advisory Council Limited	No	Low	✓	21 Aug 17	21 Aug 17	Nil	N/a	N/a	
– Australia Post Services Pty Ltd	No	Low	✓	15 Sept 17	15 Sept 17	Nil	N/a	N/a	
– Australia Post Transaction Services Pty Ltd	No	Moderate	✓	15 Sept 17	15 Sept 17	Nil	N/a	N/a	
– DFE Pty Limited	No	Low	✓	15 Sept 17	15 Sept 17	Nil	N/a	N/a	
– Our Neighbourhood Pty Ltd	No	Low	✓	27 Jul 17	27 Jul 17	Nil	N/a	N/a	
Bundanon Trust	No	Low	✓	8 Sept 17	8 Sept 17	Nil	8 Sept 17	23 Oct 17	

Reporting Entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified	Annual report approval date	Annual report tabling date	Portfolio Senate Estimates hearing date ^(a)
National Film and Sound Archive of Australia	No	Low	✓	21 Sept 17	22 Sept 17	Nil	21 Sept 17	24 Oct 17	
National Gallery of Australia	Yes	Low	✓	31 Aug 17	1 Sept 17	Nil	3 Oct 17	17 Oct 17	
- National Gallery of Australia Foundation	No	Low	✓	30 Aug 17	1 Sept 17	Nil	N/a	N/a	
National Library of Australia	Yes	Low	✓	4 Aug 17	4 Aug 17	Nil	4 Aug 17	27 Oct 17	
National Museum of Australia	Yes	Low	✓	17 Aug 17	17 Aug 17	Nil	17 Aug 17	25 Oct 17	
National Portrait Gallery of Australia	No	Low	✓	27 Sept 17	27 Sept 17	Nil	27 Sept 17	23 Oct 17	
nbn co limited	Yes	High	✓	10 Aug 17	10 Aug 17	Nil	10 Aug 17	22 Sept 17	
Old Parliament House	No	Low	✓	1 Sept 17	1 Sept 17	Nil	1 Sept 17	23 Oct 17	
Screen Australia	No	Low	✓	29 Aug 17	29 Aug 17	Nil	29 Aug 17	27 Oct 17	
Special Broadcasting Service Corporation	Yes	Low	✓	30 Aug 17	30 Aug 17	Nil	30 Aug 17	26 Oct 17	
Defence Portfolio									
Department of Defence	Yes	High	✓	27 Sept 17	27 Sept 17	◆▲□	12 Oct 17	31 Oct 17	25 Oct 17
AAF Company	No	Low	⇒	-	-	-	π	•	
Army and Air Force Canteen Service	No	Low	✓	29 Aug 17	29 Aug 17	Nil	30 Aug 17	27 Oct 17	
Australian Defence Force Super	No	Moderate	✓	26 Sept 17	26 Sept 17	Nil	N/a	N/a	
Australian Military Forces Relief Trust Fund	No	Low	✓	30 Aug 17	30 Aug 17	Nil	30 Aug 17	27 Oct 17	
Australian Strategic Policy Institute Ltd	No	Low	✓	1 Sept 17	1 Sept 17	Nil	1 Sept 17	15 Nov 17	
Australian War Memorial	Yes	Low	✓	31 Aug 17	1 Sept 17	Nil	7 Sept 17	17 Oct 17	

Reporting Entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified	Annual report approval date	Annual report tabling date	Portfolio Senate Estimates hearing date ^(a)
Defence Housing Australia	Yes	Moderate	✓	17 Aug 17	17 Aug 17	☐	29 Sept 17	17 Nov 17	
– Defence Housing Australia Investment Management Limited	No	Low	✓	26 Sept 17	26 Sept 17	Nil	N/a	N/a	
Department of Veterans' Affairs	Yes	Moderate	✓	7 Sept 17	7 Sept 17	Nil	13 Oct 17	31 Oct 17	
– Defence Service Homes Insurance Scheme	No	Moderate	✓	7 Sept 17	7 Sept 17	Nil	N/a	N/a	
Military Superannuation and Benefits Scheme	No	Moderate	✓	26 Sept 17	26 Sept 17	Nil	N/a	N/a	
RAAF Welfare Recreational Company	No	Low	⇒	-	-	-	π	•	
Royal Australian Air Force Veterans' Residences Trust Fund	No	Low	✓	26 Sept 17	26 Sept 17	Nil	26 Sept 17	31 Oct 17	
Royal Australian Air Force Welfare Trust Fund	No	Low	✓	14 Aug 17	14 Aug 17	Nil	14 Aug 17	27 Oct 17	
Royal Australian Navy Central Canteens Board	No	Low	✓	5 Oct 17	5 Oct 17	Nil	5 Oct 17	31 Oct 17	
Royal Australian Navy Relief Trust Fund	No	Low	✓	18 Aug 17	18 Aug 17	Nil	18 Aug 17	27 Oct 17	
Education and Training Portfolio									
Department of Education and Training	Yes	Moderate	✓	12 Sept 17	12 Sept 17	☐	13 Oct 17	25 Oct 17	26 Oct 17
Australian Curriculum, Assessment and Reporting Authority	No	Low	✓	24 Aug 17	24 Aug 17	Nil	24 Aug 17	31 Oct 17	
Australian Institute for Teaching and School Leadership Limited	No	Low	✓	1 Sept 17	1 Sept 17	Nil	1 Sept 17	30 Oct 17	
Australian Institute of Aboriginal and Torres Strait Islander Studies	No	Low	✓	22 Sept 17	22 Sept 17	Nil	13 Oct 17	30 Oct 17	

Reporting Entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified	Annual report approval date	Annual report tabling date	Portfolio Senate Estimates hearing date ^(a)
– AIATSIS Foundation Incorporated	No	Low	✓ E	22 Sept 17	22 Sept 17	Nil	N/a	N/a	
Australian National University	No	Moderate	✓ 	7 Apr 17	7 Apr 17	Nil	7 Apr 17	14 Jun 17	
– ANU Enterprise Pty Limited	No	Low	✓ 	28 Mar 17	29 Mar 17	Nil	N/a	N/a	
– Australian Scientific Instruments Pty Ltd	No	Moderate	✓ 	28 Mar 17	29 Mar 17	Nil	N/a	N/a	
– Social Research Centre Pty Limited	No	Low	✓ 	28 Mar 17	29 Mar 17	Nil	N/a	N/a	
Australian Research Council	Yes	Low	✓	5 Sept 17	6 Sept 17	Nil	4 Oct 17	31 Oct 17	
Australian Skills Quality Authority	No	Low	✓	11 Sept 17	11 Sept 17	Nil	4 Oct 17	31 Oct 17	
Tertiary Education Quality and Standards Agency	No	Low	✓	31 Aug 17	31 Aug 17	Nil	30 Aug 17	31 Oct 17	
Employment Portfolio									
Department of Employment	Yes	Moderate	✓	5 Sept 17	5 Sept 17	☐	29 Sept 17	18 Oct 17	25 Oct 17
Asbestos Safety and Eradication Agency	No	Low	✓	3 Oct 17	3 Oct 17	Nil	25 Sept 17	23 Oct 17	
Australian Building and Construction Commission	No	Low	✓	8 Sept 17	8 Sept 17	Nil	27 Sept 17	19 Oct 17	
Coal Mining Industry (Long Service Leave Funding) Corporation	Yes	Moderate	✓	10 Oct 17	10 Oct 17	Nil	10 Oct 17	24 Oct 17	
Comcare	Yes	Moderate	✓	27 Sept 17	27 Sept 17	Nil	19 Sept 17	23 Oct 17	
Fair Work Commission	No	Low	✓	5 Sept 17	5 Sept 17	☐	21 Sept 17	24 Oct 17	
Fair Work Ombudsman and Registered Organisations Commission Entity	No	Low	✓	19 Sept 17	19 Sept 17	☐	27 Sept 17	24 Oct 17	
Safe Work Australia	No	Low	✓	22 Sept 17	22 Sept 17	Nil	5 Oct 17	30 Oct 17	

Reporting Entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified	Annual report approval date	Annual report tabling date	Portfolio Senate Estimates hearing date ^(a)
Seafarers Safety Rehabilitation and Compensation Authority (Seacare Authority)	No	Low	✓	22 Sept 17	22 Sept 17	Nil	15 Sept 17	20 Oct 17	
Workplace Gender Equality Agency	No	Low	✓	13 Sept 17	13 Sept 17	Nil	8 Nov 17	•	
Environment and Energy Portfolio									
Department of the Environment and Energy	Yes	Moderate	✓	28 Aug 17	29 Aug 17	Nil	18 Oct 17	30 Oct 17	23 Oct 17
– Natural Heritage Trust of Australia	No	Low	✓	28 Aug 17	29 Aug 17	Nil	N/a	N/a	
Australian Renewable Energy Agency	Yes	Moderate	✓	14 Sept 17	14 Sept 17	Nil	14 Sept 17	26 Oct 17	
Bureau of Meteorology	Yes	Low	✓	7 Sept 17	7 Sept 17	Nil	20 Sept 17	24 Oct 17	
Clean Energy Finance Corporation	Yes	Moderate	✓	25 Aug 17	25 Aug 17	Nil	21 Sept 17	31 Oct 17	
Clean Energy Regulator	Yes	Moderate	✓	20 Sept 17	22 Sept 17	Nil	3 Oct 17	25 Oct 17	
Climate Change Authority	No	Low	✓	3 Oct 17	3 Oct 17	Nil	13 Oct 17	30 Oct 17	
Director of National Parks	No	Low	✓	13 Nov 17	13 Nov 17	◆	π	•	
Great Barrier Reef Marine Park Authority	No	Low	✓	4 Sept 17	4 Sept 17	Nil	5 Oct 17	27 Oct 17	
Sydney Harbour Federation Trust	No	Low	✓	18 Sept 17	19 Sept 17	Nil	29 Sept 17	30 Oct 17	
–Sydney Harbour Conservancy Limited	No	Low	✓	18 Sept 17	19 Sept 17	Nil	N/a	N/a	
Finance Portfolio									
Department of Finance	Yes	Moderate	✓	5 Sept 17	5 Sept 17	□	11 Oct 17	20 Oct 17	24 Oct 17
ASC Pty Ltd	Yes	Moderate	✓	7 Sept 17	7 Sept 17	Nil	26 Sept 17	23 Oct 17	
–ASC AWD Shipbuilder Pty Ltd	No	Low	✓	7 Sept 17	7 Sept 17	Nil	N/a	N/a	

Reporting Entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified	Annual report approval date	Annual report tabling date	Portfolio Senate Estimates hearing date ^(a)
–ASC Shipbuilding Pty Ltd	No	Low	✓	7 Sept 17	7 Sept 17	Nil	N/a	N/a	
Australian Electoral Commission	Yes	Low	✓	12 Sept 17	12 Sept 17	Nil	28 Sept 17	18 Oct 17	
Australian Naval Infrastructure Pty Ltd	Yes	Moderate	✓	26 Sept 17	26 Sept 17	Nil	22 Sept 17	23 Oct 17	
Commonwealth Superannuation Corporation	No	Moderate	✓	26 Sept 17	26 Sept 17	□	26 Sept 17	27 Nov 17	
Commonwealth Superannuation Scheme	No	Moderate	✓	26 Sept 17	26 Sept 17	Nil	N/a	N/a	
Future Fund Management Agency and the Board of Guardians	Yes	Moderate	✓	26 Sept 17	26 Sept 17	Nil	26 Sept 17	20 Oct 17	
Independent Parliamentary Expenses Authority	No	Low	✓	28 Sept 17	28 Sept 17	Nil	23 Oct 17	31 Oct 17	
Public Sector Superannuation Accumulation Plan	No	Moderate	✓	26 Sept 17	26 Sept 17	Nil	N/a	N/a	
Public Sector Superannuation Scheme	No	Moderate	✓	26 Sept 17	26 Sept 17	Nil	N/a	N/a	
Foreign Affairs Portfolio									
Department of Foreign Affairs and Trade	Yes	Moderate	✓	12 Sept 17	12 Sept 17	Nil	21 Sept 17	18 Oct 17	26 Oct 17
Australian Centre for International Agriculture Research	No	Low	✓	11 Sept 17	11 Sept 17	Nil	20 Oct 17	20 Oct 17	
Australian Secret Intelligence Service	No	Low	✓	19 Oct 17	19 Oct 17	Nil	N/a	N/a	
Australian Trade and Investment Commission	Yes	Low	✓	31 Aug 17	31 Aug 17	Nil	21 Sept 17	23 Oct 17	
Export Finance and Insurance Corporation	Yes	Moderate	✓	24 Aug 17	25 Aug 17	Nil	24 Aug 17	20 Oct 17	
Tourism Australia	No	Low	✓	31 Aug 17	4 Sept 17	Nil	12 Oct 17	26 Oct 17	

Reporting Entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified	Annual report approval date	Annual report tabling date	Portfolio Senate Estimates hearing date ^(a)
Health Portfolio									
Department of Health	Yes	Moderate	✓	31 Aug 17	31 Aug 17	□	13 Oct 17	30 Oct 17	26 Oct 17
Australian Aged Care Quality Agency	No	Low	✓	31 Aug 17	31 Aug 17	Nil	30 Sept 17	27 Oct 17	
Australian Commission on Safety and Quality in Health Care	No	Low	✓	13 Sept 17	15 Sept 17	Nil	13 Sept 17	17 Oct 17	
Australian Digital Health Agency	No	Moderate	✓	16 Oct 17	16 Oct 17	◆	16 Oct 17	13 Nov 17	
Australian Institute of Health and Welfare	No	Low	✓	28 Sept 17	28 Sept 17	Nil	28 Sept 17	26 Oct 17	
Australian National Preventive Health Agency	No	Low	✓	31 Aug 17	31 Aug 17	Nil	13 Oct 17	30 Oct 17	
Australian Organ and Tissue Donation and Transplantation Authority	No	Low	✓	15 Sept 17	18 Sept 17	Nil	18 Sept 17	17 Oct 17	
Australian Radiation Protection and Nuclear Safety Agency	No	Low	✓	6 Sept 17	6 Sept 17	Nil	30 Sept 17	18 Oct 17	
Australian Sports Anti-Doping Authority	No	Low	✓	1 Sept 17	1 Sept 17	Nil	20 Oct 17	31 Oct 17	
Australian Sports Commission	Yes	Low	✓	24 Aug 17	24 Aug 17	Nil	13 Sept 17	26 Oct 17	
Australian Sports Foundation Limited	No	Low	✓	23 Aug 17	23 Aug 17	Nil	9 Oct 17	27 Oct 17	
Cancer Australia	No	Low	✓	7 Sept 17	7 Sept 17	Nil	5 Oct 17	30 Oct 17	
Food Standards Australia New Zealand	No	Low	✓	14 Sept 17	14 Sept 17	Nil	16 Oct 17	16 Oct 17	
Independent Hospital Pricing Authority	No	Low	✓	22 Sept 17	26 Sept 17	Nil	2 Oct 17	19 Oct 17	
National Blood Authority	Yes	Low	✓	17 Aug 17	17 Aug 17	Nil	9 Oct 17	18 Oct 17	
National Health and Medical Research Council	Yes	Low	✓	14 Sept 17	14 Sept 17	◆	11 Oct 17	30 Oct 17	

Reporting Entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified	Annual report approval date	Annual report tabling date	Portfolio Senate Estimates hearing date ^(a)
National Health Funding Body	No	Low	✓	22 Sept 17	22 Sept 17	Nil	10 Oct 17	20 Oct 17	
National Health Performance Authority	No	Low	✓E	3 Feb 17	7 Feb 17	Nil	21 Feb 17	30 Mar 17	
National Mental Health Commission	No	Low	✓	12 Sept 17	12 Sept 17	Nil	12 Sept 17	20 Oct 17	
Professional Services Review Scheme	No	Low	✓	4 Oct 17	5 Oct 17	Nil	18 Oct 17	27 Oct 17	
Immigration and Border Protection Portfolio									
Department of Immigration and Border Protection	Yes	Moderate	✓	7 Sept 17	7 Sept 17	◆▲□	18 Sept 17	19 Oct 17	23 Oct 17
Industry, Innovation and Science Portfolio									
Department of Industry, Innovation and Science	Yes	Moderate	✓	5 Sept 17	6 Sept 17	□	15 Sept 17	24 Oct 17	26 Oct 17
Australian Nuclear Science and Technology Organisation	Yes	Moderate	✓	10 Aug 17	10 Aug 17	Nil	20 Sept 17	20 Oct 17	
– ANSTO Nuclear Medicine Pty Ltd	Yes ^(b)	Low	✓	10 Aug 17	10 Aug 17	Nil	N/a	N/a	
– PETTECH Solutions Pty Ltd	No	Low	✓	10 Aug 17	10 Aug 17	Nil	N/a	N/a	
– Synchrotron Light Source Australia Pty Ltd	No	Low	✓E	10 Aug 17	10 Aug 17	Nil	N/a	N/a	
Australian Institute of Marine Science	No	Low	✓	25 Aug 17	25 Aug 17	Nil	20 Sept 17	19 Oct 17	
Commonwealth Scientific and Industrial Research Organisation	Yes	Moderate	✓	31 Aug 17	31 Aug 17	Nil	1 Sept 17	24 Oct 17	
–CSIRO General Partner Co Pty Ltd	Yes ^(c)	Low	✓	2 Aug 17	2 Aug 17	Nil	N/a	N/a	
–National ICT Australia Limited	No	Moderate	✓	21 Aug 17	21 Aug 17	Nil	N/a	N/a	
–Science and Industry Endowment Fund	No	Low	✓	14 Aug 17	14 Aug 17	Nil	N/a	N/a	

Reporting Entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified	Annual report approval date	Annual report tabling date	Portfolio Senate Estimates hearing date ^(a)
–WLAN Services Pty Ltd	No	Low	✓ E	16 Aug 17	17 Aug 17	Nil	N/a	N/a	
Geoscience Australia	No	Low	✓	6 Sept 17	6 Sept 17	Nil	12 Sept 17	24 Oct 17	
IP Australia	No	Low	✓	15 Sept 17	15 Sept 17	Nil	15 Sept 17	24 Oct 17	
National Offshore Petroleum Safety and Environmental Management Authority	No	Low	✓	27 Sept 17	29 Sept 17	Nil	5 Oct 17	26 Oct 17	
Northern Australia Infrastructure Facility	No	Low	✓	23 Aug 17	24 Aug 17	Nil	28 Sept 17	23 Oct 17	
Infrastructure and Regional Development Portfolio									
Department of Infrastructure and Regional Development	Yes	Moderate	✓	31 Aug 17	31 Aug 17	Nil	14 Sept 17	30 Oct 17	
Airservices Australia	Yes	Moderate	✓	27 Sept 17	27 Sept 17	◆	27 Sept 17	18 Oct 17	
Australian Maritime Safety Authority	No	Low	✓	21 Sept 17	21 Sept 17	Nil	21 Sept 17	19 Oct 17	
Australian Rail Track Corporation	Yes	Moderate	✓	31 Aug 17	31 Aug 17	Nil	31 Aug 17	1 Nov 17	
Australian Transport Safety Bureau	No	Low	✓	19 Sept 17	19 Sept 17	Nil	13 Oct 17	30 Oct 17	
Civil Aviation Safety Authority	No	Low	✓	25 Aug 17	25 Aug 17	Nil	26 Sept 17	20 Oct 17	23 Oct 17
Infrastructure Australia	No	Low	✓	7 Sept 17	7 Sept 17	Nil	30 Sept 17	20 Oct 17	
Moorebank Intermodal Company Limited	Yes	Moderate	✓	20 Sept 17	20 Sept 17	Nil	20 Sept 17	30 Oct 17	
–Moorebank Intermodal Development Investment Trust	No	Moderate	✓	20 Sept 17	20 Sept 17	Nil	N/a	N/a	
–Moorebank Intermodal Development Rail Trust	No	Moderate	✓	20 Sept 17	20 Sept 17	Nil	N/a	N/a	
National Capital Authority	Yes	Low	✓	13 Sept 17	13 Sept 17	Nil	28 Sept 17	31 Oct 17	

Reporting Entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified	Annual report approval date	Annual report tabling date	Portfolio Senate Estimates hearing date ^(a)
National Transport Commission	No	Low	✓	25 Aug 17	25 Aug 17	Nil	9 Sept 17	18 Oct 17	
Parliamentary Departments									
Department of Parliamentary Services	Yes	Moderate	✓	13 Sept 17	13 Sept 17	Nil	29 Sept 17	16 Oct 17	23 Oct 17
Department of the House of Representatives	No	Low	✓	18 Sept 17	18 Sept 17	Nil	3 Oct 17	16 Oct 17	
Department of the Senate	No	Low	✓	26 Sept 17	26 Sept 17	Nil	12 Oct 17	17 Oct 17	
Parliamentary Budget Office	No	Low	✓	20 Jul 17	20 Jul 17	Nil	9 Oct 17	17 Oct 17	
Prime Minister and Cabinet Portfolio									
Department of the Prime Minister and Cabinet	Yes	Moderate	✓	7 Sept 17	8 Sept 17	◆	7 Sept 17	16 Oct 17	23 Oct 17
– Aboriginals Benefit Account	No	Moderate	✓	7 Sept 17	8 Sept 17	Nil	N/a	N/a	
Aboriginal Hostels Limited	No	Moderate	✓	22 Sept 17	22 Sept 17	Nil	22 Sept 17	31 Oct 17	
Anindilyakwa Land Council	No	Low	✓	26 Sept 17	26 Sept 17	Nil	26 Sept 17	27 Nov 17	
Australian Public Service Commission	No	Low	✓	20 Sept 17	21 Sept 17	Nil	4 Oct 17	17 Oct 17	
Central Land Council	No	Low	✓	18 Aug 17	18 Aug 17	Nil	20 Sept 17	26 Oct 17	
Digital Transformation Agency	No	Low	✓	18 Sept 17	18 Sept 17	Nil	π	•	
Indigenous Business Australia	Yes	Moderate	✓	7 Sept 17	8 Sept 17	Nil	7 Sept 17	19 Oct 17	
– Gagudju Crocodile Hotel Trust	No	Low	✓	30 Oct 17	30 Oct 17	Nil	N/a	N/a	
– Gagudju Lodge Coinda Trust	No	Low	✓	2 Nov 17	2 Nov 17	Nil	N/a	N/a	
– IBA Retail Asset Management Pty Ltd	No	Low	✓	17 Oct 17	17 Oct 17	Nil	N/a	N/a	

Reporting Entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified	Annual report approval date	Annual report tabling date	Portfolio Senate Estimates hearing date ^(a)
– IBA Retail Property Trust	No	Low	✓	11 Oct 17	12 Oct 17	Nil	N/a	N/a	
– IBA Tourism Asset Management Pty Ltd	No	Low	⇒	-	-	-	N/a	N/a	
– Ikara Wilpena Enterprises Pty Ltd	No	Low	✓	5 Nov 17	7 Nov 17	Nil	N/a	N/a	
– Ikara Wilpena Holdings Trust	No	Low	✓	6 Nov 17	6 Nov 17	Nil	N/a	N/a	
– Indigenous Economic Development Trust	No	Low	✓	29 Sept 17	29 Sept 17	Nil	N/a	N/a	
– Indigenous Prosperity Fund – Cash Fund	No	Low	✓	18 Sept 17	18 Sept 17	Nil	N/a	N/a	
– Indigenous Prosperity Fund – Growth Fund	No	Low	✓	18 Sept 17	18 Sept 17	Nil	N/a	N/a	
– Indigenous Prosperity Fund – Income Fund	No	Low	✓	18 Sept 17	18 Sept 17	Nil	N/a	N/a	
– Indigenous Real Estate Investment Trust	No	Low	✓	19 Sept 17	20 Sept 17	Nil	N/a	N/a	
– Kakadu Tourism (GCH) Pty Ltd	No	Low	✓	20 Sept 17	20 Sept 17	Nil	N/a	N/a	
– Kakadu Tourism (GLC) Pty Ltd	No	Low	✓	20 Sept 17	20 Sept 17	Nil	N/a	N/a	
– Larrakia Darwin Hotel Partnership	No	Low	✓	6 Nov 17	6 Nov 17	Nil	N/a	N/a	
– Li Ar Yalug Land Holding Trust	No	Low	✓	27 Sept 17	27 Sept 17	Nil	N/a	N/a	
– Minjerribah Camping Pty Limited	No	Low	⇒	-	-	-	N/a	N/a	
– Tennant Creek Foodbarn Partnership	No	Low	✓	9 Oct 17	9 Oct 17	Nil	N/a	N/a	
– Tennant Creek Land Holding Trust	No	Low	✓	20 Nov 17	20 Nov 17	Nil	N/a	N/a	

Reporting Entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified	Annual report approval date	Annual report tabling date	Portfolio Senate Estimates hearing date ^(a)
– Tjapukai Aboriginal Cultural Park Partnership	No	Low	✓	26 Oct 17	26 Oct 17	Nil	N/a	N/a	
– Wilpena Pound Aerodrome Services Pty Ltd	No	Low	✓	5 Nov 17	7 Nov 17	Nil	N/a	N/a	
Indigenous Land Corporation	Yes	Low	✓	25 Sept 17	25 Sept 17	Nil	13 Sept 17	24 Oct 17	
– Australian Indigenous Agribusiness Company Pty Ltd	No	Low	✓	31 Aug 17	31 Aug 17	Nil	N/a	N/a	
– National Centre of Indigenous Excellence Limited	No	Low	✓	28 Aug 17	28 Aug 17	Nil	N/a	N/a	
– The Owners - Strata Plan No. 86156	No	Low	✓	12 Sept 17	12 Sept 17	Nil	N/a	N/a	
– Voyages Indigenous Tourism Australia Pty Ltd	Yes^(d)	Moderate	✓	30 Aug 17	30 Aug 17	Nil	N/a	N/a	
National Australia Day Council Limited	No	Low	✓	29 Aug 17	29 Aug 17	Nil	23 Oct 17	31 Oct 17	
Northern Land Council	No	Low	✓	20 Sept 17	20 Sept 17	▲	20 Sept 17	31 Oct 17	
Office of National Assessments	No	Low	✓	22 Sept 17	22 Sept 17	Nil	N/a	N/a	
Office of the Commonwealth Ombudsman	No	Low	✓	18 Sept 17	18 Sept 17	Nil	3 Oct 17	24 Oct 17	
Office of the Inspector-General of Intelligence and Security	No	Low	✓	20 Sept 17	20 Sept 17	Nil	22 Sept 17	23 Oct 17	
Office of the Official Secretary to the Governor-General	No	Low	✓	6 Oct 17	6 Oct 17	Nil	11 Oct 17	19 Oct 17	
Outback Stores Pty Ltd	No	Moderate	✓	24 Aug 17	24 Aug 17	Nil	25 Aug 17	9 Nov 17	
Tiwi Land Council	No	Low	✓	6 Sept 17	6 Sept 17	Nil	27 Sept 17	9 Nov 17	

Reporting Entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified	Annual report approval date	Annual report tabling date	Portfolio Senate Estimates hearing date ^(a)
Torres Strait Regional Authority	No	Low	✓	5 Sept 17	5 Sept 17	Nil	9 Oct 17	14 Nov 17	
Wreck Bay Aboriginal Community Council	No	Low	✓	11 Sept 17	11 Sept 17	Nil	11 Sept 17	•	
Social Services Portfolio									
Department of Social Services	Yes	Moderate	✓	13 Sept 17	13 Sept 17	Nil	14 Sept 17	16 Oct 17	25 Oct 17
Australian Hearing	Yes	Low	✓	15 Aug 17	15 Aug 17	Nil	26 Sept 17	18 Oct 17	
Australian Institute of Family Studies	No	Low	✓	1 Sept 17	4 Sept 17	Nil	14 Sept 17	23 Oct 17	
Department of Human Services	Yes	Moderate	✓	29 Aug 17	29 Aug 17	Nil	15 Sept 17	24 Oct 17	
National Disability Insurance Agency	Yes	High	✓	9 Oct 17	9 Oct 17	◆▲□	12 Oct 17	24 Oct 17	
Treasury Portfolio									
Department of the Treasury	Yes	Moderate	✓	14 Sept 17	14 Sept 17	Nil	12 Oct 17	30 Oct 17	25 Oct 17
Australian Bureau of Statistics	Yes	Low	✓	18 Aug 17	18 Aug 17	Nil	8 Sept 17	18 Oct 17	
Australian Competition and Consumer Commission	No	Low	✓	23 Aug 17	24 Aug 17	Nil	29 Aug 17	23 Oct 17	
Australian Office of Financial Management	Yes	Moderate	✓	24 Aug 17	24 Aug 17	Nil	11 Oct 17	24 Oct 17	
Australian Prudential Regulation Authority	Yes	Low	✓	17 Aug 17	17 Aug 17	Nil	6 Oct 17	26 Oct 17	
Australian Reinsurance Pool Corporation	Yes	Moderate	✓	19 Sept 17	19 Sept 17	Nil	19 Sept 17	23 Oct 17	
Australian Securities and Investments Commission	Yes	Moderate	✓	14 Aug 17	14 Aug 17	Nil	5 Oct 17	26 Oct 17	
Australian Taxation Office	Yes	High	✓	14 Sept 17	14 Sept 17	◆□	12 Oct 17	27 Oct 17	
Commonwealth Grants Commission	No	Low	✓	13 Sept 17	13 Sept 17	Nil	20 Sept 17	23 Oct 17	

Reporting Entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified	Annual report approval date	Annual report tabling date	Portfolio Senate Estimates hearing date ^(a)
Corporations and Markets Advisory Committee	No	Low	⇒	-	-	◆	π	●	
Inspector-General of Taxation	No	Low	✓	6 Sept 17	6 Sept 17	Nil	3 Oct 17	26 Oct 17	
National Competition Council	No	Low	✓	25 Aug 17	25 Aug 17	Nil	25 Aug 17	16 Oct 17	
Office of the Auditing and Assurance Standards Board	No	Low	✓E	6 Oct 17	6 Oct 17	Nil	6 Oct 17	30 Oct 17	
Office of the Australian Accounting Standards Board	No	Low	✓E	6 Oct 17	6 Oct 17	Nil	6 Oct 17	30 Oct 17	
Productivity Commission	No	Low	✓	24 Aug 17	26 Aug 17	Nil	14 Sept 17	23 Oct 17	
Reserve Bank of Australia	Yes	Moderate	✓	16 Aug 17	16 Aug 17	Nil	25 Aug 17	14 Sept 17	
- Note Printing Australia Ltd	No	Low	✓	20 Jul 17	20 Jul 17	Nil	N/a	N/a	
Royal Australian Mint	No	Moderate	✓	13 Sept 17	13 Sept 17	□	17 Oct 17	26 Oct 17	

Note a: This date is the first appearance for the portfolio at the 2017–18 supplementary budget hearings.

Note b: This entity is classified as material by the Department of Finance. As it is consolidated into a material entity, Australian Nuclear Science and Technology Organisation, it is not discussed separately as a material entity in this report.

Note c: This entity is classified as material by the Department of Finance. As it is consolidated into a material entity, Commonwealth Scientific and Industrial Research Organisation, it is not discussed separately as a material entity in this report.

Note d: This entity is classified as material by the Department of Finance. As it is consolidated into a material entity, Indigenous Land Corporation, it is not discussed separately as a material entity in this report.

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

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

π: annual report not approved (or dated) by accountable authority as at 30 November 2017

●: annual report not tabled as at 30 November 2017

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

□: significant or moderate issues and/or legislative matters identified in previous periods, or the 2016–17 interim audit phase, now downgraded or resolved

⇒: signed financial statements not signed at this time

☞: financial year end date other than 30 June 2017

Appendix 2 Changes in audit responsibilities in 2016–17

The following is a listing of new entities that were required to be audited by the Auditor-General in 2016–17, entities that ceased to be audited by the Auditor-General in 2016–17 and entities that had a name change in 2016–17

New entities audited in 2016–17

Australian Criminal Intelligence Commission	CSIRO General Partner Co Ltd
Australian Defence Force Super	Independent Parliamentary Expenses Authority
Australian Naval Infrastructure Pty Ltd	

Entities that ceased to be audited by the Auditor-General

Administration of Norfolk Island	Hotel Holdings Trust
ASC Engineering Pty Ltd	National ICT Australia Limited
Australian Crime Commission	Norfolk Island Hospital Enterprise
BRU Holdings Pty Limited	SA2 Holdings Pty Limited
Consolidated Manufacturing Enterprise Pty Ltd	South Hedland Indigenous Property Trust
CrimTrac Agency	Swanbrook Road Holding Trust
Family Court and Federal Circuit Court	
Grains and Cropping R&D Trust	
Hotel Enterprises Pty Ltd	

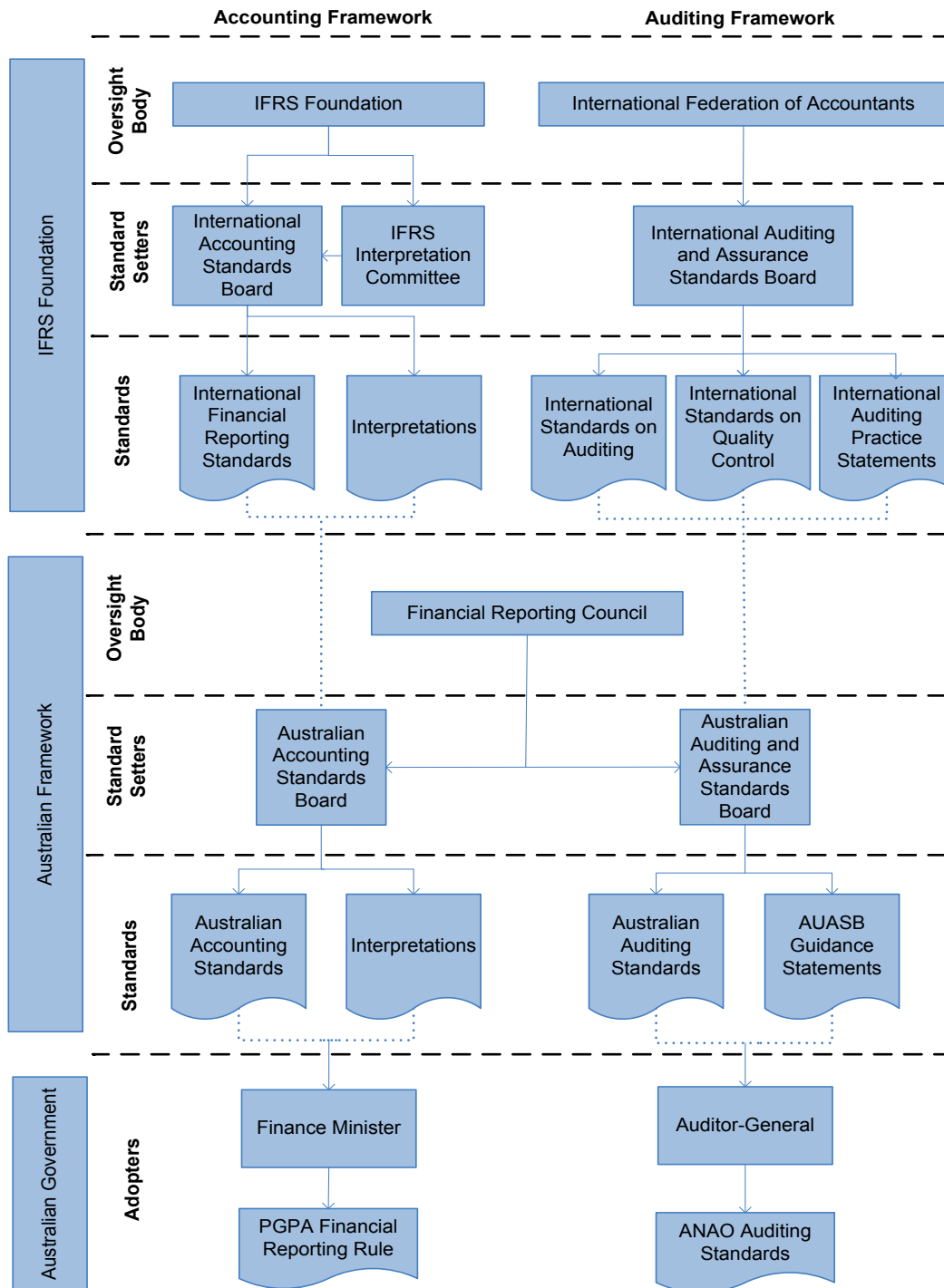
Entities that had a name change

2016–17 Entity name	Former entity name
Australian Building and Construction Commission	Office of the Fair Work Building Industry Inspectorate
Australian Indigenous Agribusiness Company Pty Ltd	National Indigenous Pastoral Enterprises Pty Ltd
Digital Transformation Agency	Digital Transformation Office
Fair Work Ombudsman and Registered Organisations Commission	Office of the Fair Work Ombudsman
PETTECH Solutions Pty Ltd	PETNET Australia Pty Ltd

Appendix 3 The financial reporting and auditing standards frameworks for 2016–17

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

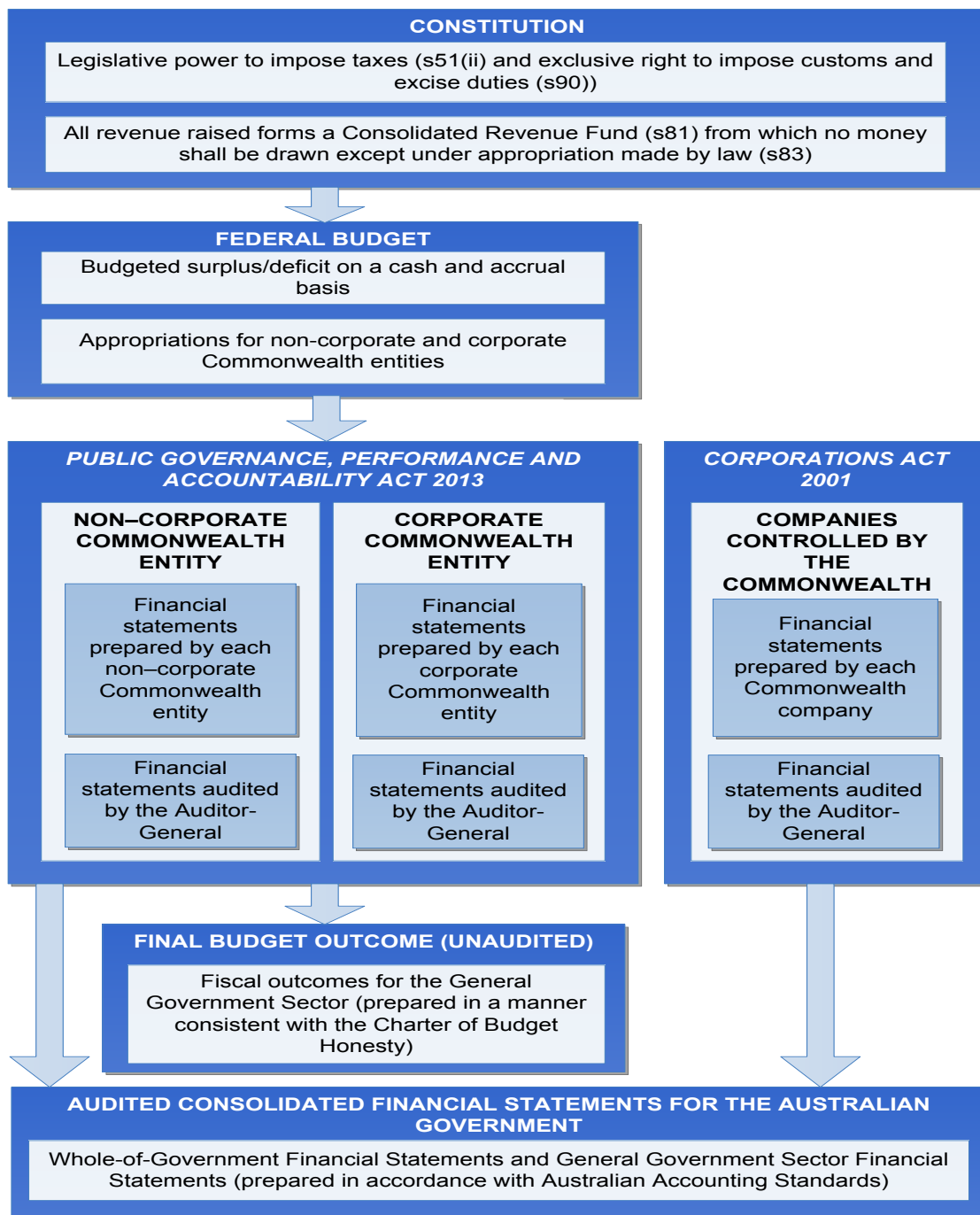


Source: ANAO compilation.

Appendix 4 The financial reporting and auditing framework for 2016–17 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.

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 (AASs), 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 corporate⁵⁵; 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 Financial Reporting Rule (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.

55 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 2001* (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*. Examples of these bodies are 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,' 'other matter' or 'material uncertainty related to going concern' paragraph. A report on other legal and regulatory requirements may accompany the auditor's report on the financial statements. The inclusion of these paragraphs does not modify the auditor's opinion.

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 circumstances in which an emphasis of matter is used include:

- 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.

Material uncertainty related to going concern

27. The auditor's report on the financial statements will also include a reference to a 'material uncertainty related to going concern' when there are possible or actual events or conditions that may cast significant doubt on an entity's ability to continue as a going concern and the financial statements include adequate disclosure about the uncertainty.

Report on other legal and regulatory requirements

28. 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.

29. 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.