

The Auditor-General  
Audit Report No.13 2013–14  
Financial Statement Audit

**Audits of the Financial Statements of  
Australian Government Entities  
for the Period Ended 30 June 2013**

Australian National Audit Office

© Commonwealth of Australia 2013

ISSN 1036-7632

ISBN 0 642 814147 (Print)

ISBN 0 642 81415 5 (Online)

Except for the content in this document supplied by third parties, the Australian National Audit Office logo, the Commonwealth Coat of Arms, and any material protected by a trade mark, this document is licensed by the Australian National Audit Office for use under the terms of a Creative Commons Attribution-NonCommercial-NoDerivatives 3.0 Australia licence. To view a copy of this licence, visit

<http://creativecommons.org/licenses/by-nc-nd/3.0/au/>

You are free to copy and communicate the document in its current form for non-commercial purposes, as long as you attribute the document to the Australian National Audit Office and abide by the other licence terms. You may not alter or adapt the work in any way.

Permission to use material for which the copyright is owned by a third party must be sought from the relevant copyright owner. As far as practicable, such material will be clearly labelled.

For terms of use of the Commonwealth Coat of Arms, visit the *It's an Honour* website at <http://www.itsanhonour.gov.au/>.

Requests and inquiries concerning reproduction and rights should be addressed to:

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

Or via email:

[publications@anao.gov.au](mailto:publications@anao.gov.au)





Canberra ACT  
18 December 2013

Dear Mr President

Dear Madam Speaker

The Australian National Audit Office has undertaken audits of the 2012–13 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 of these audits to the Parliament. The report is titled *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2013*.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee'.

Ian McPhee  
Auditor-General

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

## AUDITING FOR AUSTRALIA

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

For further information contact:

**The Publications Manager**  
**Australian National Audit Office**  
**GPO Box 707**  
**Canberra ACT 2601**

**Phone:** (02) 6203 7505  
**Fax:** (02) 6203 7519  
**Email:** [publications@anao.gov.au](mailto:publications@anao.gov.au)

ANAO audit reports and information about the ANAO are available on our website:

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

# Contents

---

|   |    |
|---|----|
| Glossary of commonly used accounting terms .....                            | 10 |
| Abbreviations and acronyms .....  | 12 |
| Summary .....   | 15 |
| Introduction .....  | 15 |
| Accounting and auditing framework developments .....                        | 16 |
| Summary of audit findings .....   | 17 |
| Commentary on financial statement related matters .....                     | 19 |
| Financial statements preparation .....                                      | 20 |
| Future audit coverage .....   | 21 |
| 1. Introduction .....   | 22 |
| Background .....  | 22 |
| Report structure .....  | 23 |
| Acknowledgements .....  | 24 |
| 2. Financial Reporting and Auditing Frameworks .....                        | 25 |
| Introduction .....  | 25 |
| Recent changes to the Australian public sector reporting framework .....    | 26 |
| Developments in Auditing Standards .....                                    | 27 |
| Conclusion .....  | 28 |
| 3. The Audit of the Consolidated Financial Statements .....                 | 30 |
| Background .....  | 30 |
| Auditor's report .....  | 31 |
| Australian Government's financial outcome for 2012–13 .....                 | 32 |
| Significant disclosures in the CFS .....                                    | 41 |
| Future Accounting Standard requirements specific to the CFS .....           | 43 |
| 4. Commentary on Financial Statement Related Matters .....                  | 44 |
| Analysis of entities' financial statements .....                            | 44 |
| Audit coverage of Commonwealth payments to the States and Territories ..... | 50 |
| 5. Summary of Audit Results .....   | 61 |
| Audit approach .....  | 61 |
| Classification of entities .....  | 63 |
| Summary of results of audits .....  | 64 |
| Summary of other audit findings .....                                       | 71 |
| Preparation of entity financial statements .....                            | 73 |
| Certificate of Compliance .....   | 75 |
| 6. Results of Financial Statement Audits by Portfolio .....                 | 77 |
| Introduction .....  | 77 |

|  |            |
|--|------------|
| <b>Agriculture, Fisheries and Forestry Portfolio</b> .....               | <b>81</b>  |
| Portfolio Overview .....   | 81         |
| Department of Agriculture, Fisheries and Forestry .....                  | 82         |
| Grains Research and Development Corporation .....                        | 85         |
| Comments on non-material entities .....                                  | 86         |
| <b>Attorney–General’s Portfolio</b> .....                                | <b>88</b>  |
| Portfolio Overview .....   | 89         |
| Attorney–General’s Department .....                                      | 90         |
| Australian Customs and Border Protection Service .....                   | 93         |
| Australian Federal Police .....  | 98         |
| Australian Government Solicitor .....                                    | 100        |
| Australian Security Intelligence Organisation .....                      | 101        |
| Family Court of Australia .....  | 102        |
| High Court of Australia .....  | 104        |
| Comments on non-material entities .....                                  | 105        |
| <b>Broadband, Communications and the Digital Economy Portfolio</b> ..... | <b>108</b> |
| Portfolio Overview .....   | 108        |
| Department of Broadband, Communications and the Digital Economy .....    | 109        |
| Australian Broadcasting Corporation .....                                | 111        |
| Australian Communications and Media Authority .....                      | 113        |
| Australian Postal Corporation .....                                      | 115        |
| NBN Co Limited .....   | 118        |
| Special Broadcasting Service Corporation .....                           | 121        |
| Comments on non-material entities .....                                  | 122        |
| <b>Defence Portfolio</b> .....   | <b>123</b> |
| Portfolio Overview .....   | 123        |
| Department of Defence .....  | 124        |
| Australian War Memorial .....  | 135        |
| Defence Housing Australia .....  | 136        |
| Defence Materiel Organisation .....                                      | 138        |
| Department of Veterans’ Affairs .....                                    | 142        |
| Comments on non-material entities .....                                  | 148        |
| <b>Education, Employment and Workplace Relations Portfolio</b> .....     | <b>149</b> |
| Portfolio Overview .....   | 149        |
| Department of Education, Employment and Workplace Relations .....        | 150        |
| Coal Mining Industry (Long Service Leave Funding) Corporation .....      | 155        |
| Comcare .....  | 157        |
| Comments on non-material entities .....                                  | 158        |

|  |     |
|--|-----|
| Families, Housing, Community Services and Indigenous Affairs Portfolio .....                       | 159 |
| Portfolio Overview .....   | 161 |
| Department of Families, Housing, Community Services and Indigenous Affairs .....                   | 162 |
| Indigenous Business Australia .....  | 167 |
| Comments on non-material entities .....  | 168 |
| Finance and Deregulation Portfolio .....   | 171 |
| Portfolio Overview .....   | 172 |
| Department of Finance and Deregulation .....   | 172 |
| Albury-Wodonga Development Corporation .....   | 177 |
| ASC Pty Ltd .....  | 178 |
| Australian Electoral Commission .....  | 180 |
| Future Fund Management Agency and the Board of Guardians .....                                     | 182 |
| Medibank Private Limited .....   | 184 |
| Comments on non-material entities .....  | 185 |
| Foreign Affairs and Trade Portfolio .....  | 187 |
| Portfolio Overview .....   | 187 |
| Department of Foreign Affairs and Trade .....  | 189 |
| Australian Agency for International Development .....  | 192 |
| Australian Trade Commission .....  | 196 |
| Export Finance and Insurance Corporation .....   | 197 |
| Comments on non-material entities .....  | 200 |
| Health and Ageing Portfolio .....  | 201 |
| Portfolio Overview .....   | 202 |
| Department of Health and Ageing .....  | 202 |
| National Blood Authority .....   | 206 |
| National Health and Medical Research Council .....   | 209 |
| Comments on non-material entities .....  | 210 |
| Human Services Portfolio .....   | 212 |
| Portfolio Overview .....   | 212 |
| Department of Human Services .....   | 213 |
| Australian Hearing .....   | 217 |
| Immigration and Citizenship Portfolio .....  | 219 |
| Portfolio Overview .....   | 219 |
| Department of Immigration and Citizenship .....  | 220 |
| Comments on non-material entities .....  | 223 |
| Industry, Innovation, Climate Change, Science, Research and Tertiary Education Portfolio .....     | 224 |
| Portfolio Overview .....   | 225 |
| Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education ..... | 226 |

|   |            |
|---|------------|
| Australian Nuclear Science and Technology Organisation.....                           | 230        |
| Australian Research Council.....  | 232        |
| Clean Energy Regulator.....   | 234        |
| Commonwealth Scientific and Industrial Research Organisation.....                     | 236        |
| Comments on non-material entities.....  | 237        |
| <b>Infrastructure and Transport Portfolio .....</b>                                   | <b>239</b> |
| Portfolio Overview.....   | 239        |
| Department of Infrastructure and Transport.....                                       | 240        |
| Airservices Australia.....  | 243        |
| Australian Rail Track Corporation Limited.....  | 244        |
| Comments on non-material entities.....  | 246        |
| <b>Parliamentary Departments .....</b>  | <b>247</b> |
| Portfolio Overview.....   | 247        |
| Department of Parliamentary Services.....   | 248        |
| Comments on non-material entities.....  | 249        |
| <b>Prime Minister and Cabinet Portfolio.....</b>                                      | <b>250</b> |
| Portfolio Overview.....   | 250        |
| Department of the Prime Minister and Cabinet.....                                     | 251        |
| Comments on non-material entities.....  | 253        |
| <b>Regional Australia, Local Government, Arts and Sport Portfolio .....</b>           | <b>255</b> |
| Portfolio Overview.....   | 256        |
| Department of Regional Australia, Local Government, Arts and Sport.....               | 257        |
| Australian Sports Commission.....   | 259        |
| National Archives of Australia.....   | 260        |
| National Capital Authority.....   | 261        |
| National Gallery of Australia.....  | 263        |
| National Library of Australia.....  | 264        |
| National Museum of Australia.....   | 266        |
| Comments on non-material entities.....  | 267        |
| <b>Resources, Energy and Tourism Portfolio .....</b>                                  | <b>269</b> |
| Portfolio Overview.....   | 269        |
| Department of Resources, Energy and Tourism.....                                      | 270        |
| Australian Renewable Energy Agency.....   | 272        |
| Comments on non-material entities.....  | 274        |
| <b>Sustainability, Environment, Water, Population and Communities Portfolio .....</b> | <b>275</b> |
| Portfolio Overview.....   | 275        |
| Department of Sustainability, Environment, Water, Population and<br>Communities.....  | 276        |
| Bureau of Meteorology.....  | 278        |
| Comments on non-material entities.....  | 279        |



|  |     |
|--|-----|
| Treasury Portfolio .....   | 280 |
| Portfolio Overview .....   | 281 |
| Department of the Treasury .....   | 281 |
| Australian Bureau of Statistics .....  | 284 |
| Australian Office of Financial Management .....                              | 286 |
| Australian Reinsurance Pool Corporation.....                                 | 288 |
| Australian Securities and Investments Commission .....                       | 289 |
| Australian Taxation Office .....   | 292 |
| Clean Energy Finance Corporation.....  | 295 |
| Reserve Bank of Australia .....  | 297 |
| Comments on non-material entities .....                                      | 299 |
| Appendix 1: Revised administrative arrangements as at 18 September 2013 .... | 303 |
| Appendix 2: Changes in audit responsibilities in 2012–13 .....               | 307 |
| Appendix 3: The Financial Reporting Framework .....                          | 309 |
| Appendix 4: The Financial Reporting and Auditing Standards Frameworks.....   | 315 |
| Appendix 5: Number of Audit Findings .....                                   | 316 |
| Series Titles.....   | 320 |
| Current Better Practice Guides .....   | 322 |

# Glossary of commonly used accounting terms

---

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

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

## Abbreviations and acronyms

---

|                                     |  |
|-------------------------------------|--|
| AAO                                 | Administrative Arrangements Order                      |
| AAS                                 | Australian Accounting Standard                         |
| AASB                                | Australian Accounting Standards Board                  |
| AGD                                 | Attorney-General's Department                          |
| ANAO                                | Australian National Audit Office                       |
| AOFM                                | Australian Office of Financial Management              |
| ASA                                 | Australian Auditing Standard                           |
| ATO                                 | Australian Taxation Office                             |
| AUASB                               | Australian Auditing and Assurance Standards Board      |
| BCM                                 | Business Continuity Management                         |
| BCP                                 | Business Continuity Plan                               |
| CAC Act                             | <i>Commonwealth Authorities and Companies Act 1997</i> |
| CEIs                                | Chief Executive's Instructions                         |
| CEO                                 | Chief Executive Officer                                |
| CFO                                 | Chief Finance Officer                                  |
| CFS                                 | Consolidated Financial Statements                      |
| CoC                                 | Certificate of Compliance                              |
| CRF                                 | Consolidated Revenue Fund                              |
| Customs and<br>Border<br>Protection | Australian Customs and Border Protection Service       |
| DMO                                 | Defence Materiel Organisation                          |
| DAFF                                | Department of Agriculture, Fisheries and Forestry      |

|                |  |
|----------------|--|
| DBCDE          | Department of Broadband, Communications and the Digital Economy                              |
| Defence        | Department of Defence  |
| DEEWR          | Department of Education, Employment and Workplace Relations                                  |
| DFAT           | Department of Foreign Affairs and Trade  |
| DIAC           | Department of Immigration and Citizenship  |
| Infrastructure | Department of Infrastructure and Transport   |
| DIICCSRTE      | Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education |
| DoHA           | Department of Health and Ageing  |
| DHS            | Department of Human Services   |
| DSEWPaC        | Department of Sustainability, Environment, Water, Population and Communities                 |
| DVA            | Department of Veterans' Affairs  |
| FaHCSIA        | Department of Families, Housing, Community Services and Indigenous Affairs                   |
| Finance        | Department of Finance and Deregulation   |
| FMA Act        | <i>Financial Management and Accountability Act 1997</i>                                      |
| FMIS           | Financial Management Information System  |
| FMOs           | Finance Minister's Orders  |
| GFS            | Government Finance Statistics  |
| GGs            | General Government Sector  |
| GST            | Goods and Services Tax   |
| HRMIS          | Human Resources Management Information System  |
| IAASB          | International Auditing and Assurance Standards Board   |
| IASB           | International Accounting Standards Board   |

|          |  |
|----------|--|
| IFRS     | International Financial Reporting Standards            |
| IPSASB   | International Public Sector Accounting Standards Board |
| IT       | Information Technology                                 |
| JCPAA    | Joint Committee of Public Accounts and Audit           |
| OECD     | Organisation for Economic Co-operation and Development |
| PM&C     | Department of the Prime Minister and Cabinet           |
| RET      | Department of Resources, Energy and Tourism            |
| RBA      | Reserve Bank of Australia                              |
| Treasury | Department of the Treasury                             |

# Summary

---

## Introduction

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

2. The preparation of audited financial statements in compliance with the Finance Minister's Orders<sup>1</sup> (FMOs) is a key element of the financial management and accountability regime applicable to Australian Government entities. It is generally accepted in both the private and public sectors that a good indicator of the effectiveness of an entity's financial management is the timely finalisation of its annual financial statements, accompanied by an unmodified audit opinion. Australian Government entities, in cooperation with the Australian National Audit Office (ANAO), devote considerable effort to achieving timeliness in financial reporting.

3. ANAO financial statement audits are an independent examination of the financial accounting and reporting of public sector entities. The results of the examination are presented in an auditor's report, which expresses the auditor's opinion on whether the financial statements as a whole and the information contained therein fairly present each entity's financial position and the results of its operations and cash flows. The accounting treatments and disclosures reflected in the financial statements by the entity are assessed against relevant Accounting Standards and legislative reporting requirements.

4. In addition to undertaking financial statement audits, the ANAO tables two reports annually addressing the outcomes of the financial statement audits of public sector entities. The first of these, *Audit Report No. 49 2012–13 Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the Year Ending 30 June 2013*, outlined the ANAO's assessment of audit findings relating to the internal controls of major agencies, including governance arrangements, information systems and control procedures. The

---

1 The Finance Minister's Orders (FMOs) made by the Minister for Finance set out the requirements for the preparation of financial statements of all reporting entities covered by the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*. These Acts are expected to be replaced by the *Public Governance, Performance and Accountability Act 2013* on 1 July 2014.

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

5. This report complements the interim phase report referred to above, and provides a summary of the final audit results of the audits of the financial statements of all Australian Government entities, including the Consolidated Financial Statements for the Australian Government.

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

## **Accounting and auditing framework developments**

7. Relatively few changes to the Public Sector Reporting Framework took effect in 2012–13, with the main change being the deferral of a requirement until 2014–15 to measure defence weapons platforms at fair value. Guidance was also issued on accounting for the carbon tax.

8. The International Accounting Standards Board (IASB) is finalising a number of major projects with significant potential impacts on financial reporting, including projects on leasing, revenue recognition and financial instruments. The International Public Sector Accounting Standards Board's project to adopt IASB standards and modify them for the public sector has been completed. It is now developing a range of standards and guidance specifically for the public sector, including on such topics as the long term sustainability of government finances and service performance information.

9. There are also number of important projects in auditing being conducted by the International Auditing and Assurance Standards Board. These include the development of a broader framework for audit quality and continuing consultation on proposals to enhance the value of auditors' reports on the financial statements of listed entities, in the first instance.



## Summary of audit findings

10. The ANAO is responsible for the audits of the financial statements of all Australian Government entities. For the 2012–13 financial year, the Auditor-General and senior staff under delegation, issued 252 auditor’s reports, all of which were unmodified. Five of these reports included an emphasis of matter<sup>2</sup>; and 22<sup>3</sup> contained a reference to other legal and regulatory requirements.<sup>4</sup>

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

12. The auditor’s report on the Consolidated Financial Statements also referred to the High Court’s most recent decision on Commonwealth expenditure in *Williams v Commonwealth* (2012) 288 ALR 410 (*Williams*), and to the disclosure that the Australian Government will continue to monitor and assess risk and decide on any appropriate actions to respond to risks of expenditure not being consistent with constitutional requirements.

## Consolidated Financial Statements

13. The Consolidated Financial Statements that present the consolidated whole of government financial results inclusive of all Australian Government controlled entities, as well as the General Government Sector financial report, were signed by the Minister for Finance on 27 November 2013.

14. The operating result attributable to the Australian Government disclosed in the 2012–13 Consolidated Financial Statements was a deficit of \$3.7 billion (2011–12: deficit of \$68.8 billion). At 30 June 2013, the reported fiscal balance was a deficit of \$27.9 billion (2011–12: deficit of \$46.3 billion) and the reported negative net worth position was \$210.5 billion (2011–12: negative \$256.9 billion). These outcomes reflect the financial effect of government policies and the economic environment for the year ended 30 June 2013 and

---

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

3 Includes the auditor’s report on 16 material entities, five non-material entities and the Consolidated Financial Statements of the Australian Government.

4 All numbers are as at 30 November 2013.

the associated movement in assets and liabilities as at the financial year end, particularly as a result of the increase in the long term government bond rate that is used to discount significant liabilities.

15. The Consolidated Financial Statements provide explanations of variances between the original budget and 2012–13 actuals as part of the audited set of Australian Government financial statements. Commentary on these variances is provided in chapter 3 of this report.

16. The auditor's report on the 2012–13 Consolidated Financial Statements was issued on 27 November 2013 and expressed the opinion that the statements give a true and fair view of the Australian Government's and the General Government Sector's financial position as at 30 June 2013 and their financial performance and cash flows for the year then ended. As mentioned above, the auditor's report included a reference to the aggregate position relating to actual and potential breaches of section 83 of the Constitution and to the High Court's most recent decision on Commonwealth expenditure in *Williams*.

## **Entity financial statements**

17. As indicated above, no auditors' reports were modified in 2012–13. This is a good result and reflects well on the integrity of financial reporting by all Australian Government entities.

18. There was also a reduction in the number and significance of issues arising from the final phase of all 2012–13 financial statement audits of individual entities finalised by 30 November 2013. The number of significant and moderate audit findings decreased from 38 in 2011–12 to 30 in 2012–13, a reduction of 30 per cent. This is consistent with the trend in recent years, which has seen a significant reduction in the number of significant and moderate audit issues in entities. Issues that are common across a number of entities that were identified in the final audit phase that required attention by entities were in respect of: controls in entities' IT environments, such as the management of user access and the segregation of duties; asset management processes, including the valuation of assets and the reporting of inventory; business system processing controls; and the documentation of policies and procedures. These issues are generally consistent with our audit findings in previous years.

19. Our audits also found that generally entities had made good progress in addressing and resolving issues identified during the 2012–13 interim audit phase and previous audits.

20. The ANAO continues to include an assessment of compliance in relation to annual appropriations, special appropriations, special accounts and the investment of public moneys in its financial statement audits. There continues to be a high level of compliance in most of these areas. However, as mentioned above, the auditor's report on the financial statements of a number of entities mentioned actual or potential breaches of section 83 of the Constitution, and referred to the note disclosure in the entities' financial statements. The financial statements of a number of entities also referred to the High Court's most recent decision on Commonwealth expenditure in *Williams*.

## Commentary on financial statement related matters

### Audit coverage of Commonwealth payments to the States and Territories

21. Each year our financial statement audit coverage includes a review of Commonwealth payments to the States and Territories including arrangements in place for National Partnership payments to the States and Territories under the *Federal Financial Relations Act 2009*. In 2012–13, \$11.0 billion was paid in accordance with over 100 agreements between the Commonwealth and the States and Territories. A number of agreements require the achievement of specified performance benchmarks, project milestones and/or other conditions prior to payment. The ANAO's review of a sample of agreements identified that relevant agencies generally had controls in place to support the payment process. Nevertheless, our audits identified: there is wide variation in the accountability and reporting arrangements in individual agreements; agreements generally did not provide for information, particularly of a non-financial nature to be subject to independent assurance or verification; agreements generally did not include provisions that allowed the Commonwealth to obtain independent assurance over the accuracy and completeness of information submitted by the States and Territories; and relevant agencies generally did not utilise provisions that allowed them direct access to information and records maintained by the States and Territories.

22. Our performance audits that have reviewed individual agencies' responsibilities for managing agreements have identified the need to improve the effectiveness of reporting in informing the responsible Commonwealth agency of performance in achieving the outcomes of individual agreements and providing visibility to the Commonwealth on key matters of implementation.

23. As National Partnership agreements continue to evolve, the ANAO considers there would be benefit in relevant agencies exploring opportunities, within existing administrative arrangements and in the design of future agreements, for introducing mechanisms for obtaining additional assurance over the integrity of information provided by the States and Territories, particularly where Commonwealth payments are dependent on this information. Our audits have also highlighted there is scope in the design of future agreements to enhance the arrangements for measuring the achievement of program outcomes for the benefit of all stakeholders.

### **Analysis of entities' financial statements**

24. An analysis of material entities' operating results by the ANAO identified that: the majority of entities had made small surpluses or deficits in the period 2010–11 to 2012–13; and only five entities had averaged deficits/losses over these three years and had incurred at least two annual deficits over this period that were greater than five per cent of total expenses. Eighteen entities had an average annual surplus over this period that was greater than five per cent of total expenses. This suggests that, overall, entities continue to appropriately manage their finances. An analysis of the balance sheet positions of material entities as at 30 June 2013 identified that, in aggregate, material entities' financial assets were 165 per cent of the value of liabilities and equity was 61 per cent of the value of total assets. This was broadly comparable to the situation at 30 June 2012 and suggests that, overall, the balance sheet position of material entities also remains satisfactory. Nevertheless, a tightening budget environment is likely to increase budget pressures on individual entities.

### **Financial statements preparation**

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

26. In addition, the timeframes for the submission of audit cleared financial information to the Department of Finance and Deregulation was largely consistent with the prior year.

## Future audit coverage

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

# 1. Introduction

---

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

## Background

**1.1** Each year the results of the annual financial statement audit work undertaken by the ANAO are reported to the Parliament in two reports. This report provides the results of the audit of the financial statements of all Australian Government entities and the Consolidated Financial Statements of the Australian Government for the financial year ended 30 June 2013. The results of the interim phase<sup>5</sup> of the audits of major agencies were reported in Audit Report No. 49 2012–13 *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2013*.<sup>6</sup> These reports also discuss contemporary issues and practices impacting on public sector entities' financial reporting responsibilities, and the ANAO's responsibilities.

**1.2** The preparation of audited financial statements in compliance with the Finance Minister's Orders<sup>7</sup>, which require adherence to the Australian Accounting Standards, is a key element of the financial management and accountability regime applicable to Australian Government entities. It is generally accepted in both the private and public sectors that a good indicator of the effectiveness of an entity's financial management is the timely finalisation of its annual financial statements, accompanied by an unmodified audit opinion. Australian Government entities in cooperation with the ANAO devote considerable effort to achieving timeliness in financial reporting.

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

---

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

6 The 24 agencies covered in Audit Report No. 49 2012–13 represent approximately 95 per cent of total General Government Sector revenues and expenses.

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

Standards. An audit performed in accordance with the Australian Auditing Standards is designed to provide reasonable assurance that a financial report, taken as a whole, is free from material misstatement whether due to fraud or error. Reasonable assurance as defined in the Australian Auditing Standards means a high, but not absolute, level of assurance. It is reached when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial report is materially misstated) to an acceptably low level. However, reasonable assurance is not an absolute level of assurance, because an audit has inherent limitations as most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion is persuasive rather than conclusive.<sup>8</sup>

## Report structure

1.4 The report is organised as follows:

- Chapter Two *Financial Reporting and Auditing Frameworks* provides commentary on recent developments in the financial reporting and auditing frameworks relevant to the Australian Government and its reporting entities.
- Chapter Three *The Audit of the Consolidated Financial Statements* outlines the results of the audit of the Consolidated Financial Statements of the Australian Government, which includes the whole of government and the General Government Sector financial reports, of the Australian Government for the year ended 30 June 2013.
- Chapter Four *Commentary on Financial Statement Related Matters* provides an analysis of entities' operating results and balance sheet position, and a discussion of our audit coverage of Commonwealth payments to the States and Territories.
- Chapter Five *Summary of Audit Results* includes: a summary of issues included in the auditors' reports on entities' 2012–13 financial statements including a commentary on actual and potential breaches of section 83 of the Constitution in a number of agencies and the High Court's most recent decision on Commonwealth expenditure in *Williams*; a summary of other audit findings identified in the 2012–13

---

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

audits; and a commentary on the preparation of entities' 2012–13 financial statements and the 2012–13 Certificate of Compliance process.

- Chapter Six *Results of Financial Statement Audits by Portfolio* summarises the results of the 2012–13 financial statement audits of individual Australian Government entities. The chapter is structured in accordance with the portfolio arrangements established by the Administrative Arrangements Order (AAO) of 16 May 2013. For reporting purposes, this reflects the portfolio arrangements that existed on 30 June 2013. The main Machinery of Government changes that took effect on 18 September 2013 are summarised in appendix 1 and in relevant portfolio sections.

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

## Acknowledgements

**1.6** I would like to acknowledge the professionalism and commitment of my staff in finalising the audits of 252 entities' financial statements in the tight timeframes required. This work has enabled the tabling of this report in a timely manner for the information of the Parliament. I would also like to acknowledge the important role that Audit Committees, Chief Financial Officers and other entity staff involved in financial statement preparations continue to play. Their effort in providing information and assistance to the ANAO is much appreciated.



## 2. Financial Reporting and Auditing Frameworks

---

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

### Introduction

**2.1** The Australian Government's financial reporting framework is based, in large part, on standards made independently by the Australian Accounting Standards Board (AASB). This framework is designed to support decision-making by, and accountability to, the Parliament. The financial reporting and auditing frameworks are illustrated in appendices 3 and 4 of this report.

**2.2** The AASB bases its accounting standards on the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). Because IFRS are designed primarily for use by for-profit organisations, the AASB amends the IFRS to reflect the unique transactions and events of the public and not-for-profit private sectors. In doing so, it takes into account standards issued by the International Public Sector Accounting Standards Board (IPSASB). The Minister for Finance prescribes additional financial reporting requirements for Australian Government agencies and authorities through the Finance Minister's Orders (FMOs) for financial reporting.

**2.3** Changes to Australian Accounting Standards in 2012–13 included the deferral of a requirement for the Australian Government to measure defence weapons platforms at fair value. Guidance was also issued on accounting for the carbon tax.

**2.4** Major developments in accounting standards internationally will continue to be a significant driver of changes to Australian Accounting Standards. At the international level, proposed significant changes to accounting standards are well progressed, potentially affecting reporting requirements in important areas such as financial instruments, revenue, and leases.

2.5 Australian Auditing Standards have been largely unchanged since the completion in 2009 of the major revision of International Standards of Auditing (ISAs) known as the 'Clarity Project'.

## Recent changes to the Australian public sector reporting framework

### Whole of Government Reporting

2.6 AASB 1049 *Whole of Government and General Government Sector Financial Reporting* requires government financial statements to align with the principles and rules in the Australian Bureau of Statistics' Government Finance Statistics (GFS) framework, provided the other accounting standards are also followed. For example, plant and equipment must be valued at fair value rather than cost, where fair value can be reliably measured.

2.7 Changes to the GFS framework in 2012–13 would have required weapons platforms held by the Department of Defence to be measured at fair value in the Australian Government Consolidated Financial Statements with effect from 2012–13. The AASB recognised that reliably measuring the fair value of weapons platforms raises substantial practical issues and decided to defer the effective date of the new requirement until the 2014–15 financial year. A standard implementing this decision was issued in December 2012.

2.8 Consideration is now being given to the preparatory work required to meet the requirements of this standard by the Departments of Finance and Defence.

2.9 Following a post implementation review of AASB 1049, the AASB also made a number of minor changes to that standard with effect from 1 July 2012.

### Accounting for carbon pricing

2.10 In 2012–13 the *Clean Energy Act 2013* required a wide range of organisations to acquire and surrender a permit for each tonne of carbon emitted. Permits were available in 2012–13 at a fixed price of \$23 per tonne. To assist the implementation of the associated financial reporting processes, the staff of the AASB released a paper addressing the key financial reporting issues for emitter entities in this initial phase. The AASB also published a staff paper<sup>9</sup> *Financial Reporting Implications of the Carbon Tax for Government* on the

---

9 AASB staff papers are not authoritative pronouncements of the AASB.

financial reporting issues facing the Australian Government in the fixed price phase.

**2.11** The AASB staff paper called for the Australian Government to recognise revenue from the carbon tax when relevant emissions occur, measured at the amount received from the sale of emission permits. It also proposed that the Government recognise a liability for refunds expected to be sold back to the Government by organisations. This treatment was adopted by the Clean Energy Regulator in its 2012–13 financial statements and is reflected in the 2012–13 Consolidated Financial Statements.

**2.12** In November 2013 the Government introduced legislation to repeal the Clean Energy legislation with effect from 1 July 2014. The future accounting requirements in relation to carbon pricing are dependent on the passage of this legislation through the Parliament.

## Future changes in the public sector reporting framework

**2.13** Relatively few changes to the public sector reporting framework took effect in 2012–13. Further changes to the framework are expected over the next few years, as projects by Australian and international accounting standard setters lead to new accounting standards for both the public and private sectors.

**2.14** Projects specific to the public sector include: reporting of budgetary information at the entity level, disclosure of transactions with related parties; and new accounting rules for grants, taxes and appropriations. Projects aimed primarily at the private sector, but with public sector implications, include major revisions to the accounting standards on leases, commercial revenue, and financial instruments.

## Developments in Auditing Standards

**2.15** Section 24 of the *Auditor-General Act 1997* requires the Auditor-General to set auditing standards which need to be followed by ANAO and contracted staff. The ANAO Auditing Standards incorporate, by reference, the current versions of standards made by the Australian Auditing and Assurance Standards Board (AUASB). They include the Australian Auditing Standards which establish mandatory requirements and provide explanatory guidance for audits of financial statements. As a result, the statutory audits of the financial statements of Australian Government entities conducted by the

ANAO conform with the standards that apply to the broader auditing profession in Australia.

**2.16** The AUASB uses International Auditing Standards (ISAs) as the primary basis for the Australian Auditing Standards. ISAs are made by the International Auditing and Assurance Standards Board (IAASB), an independent standard setting board of the International Federation of Accountants (IFAC). In making its standards and guidance, the AUASB consults formally with organisations representing stakeholders, including users of financial statements, regulators and the accounting profession. The consultative processes are scheduled so that the AUASB can consider stakeholder views in making submissions on proposals from the IAASB.

**2.17** The AUASB also works closely with the New Zealand Auditing and Assurance Standards Board (NZAuASB) to facilitate harmonisation of auditing and assurance standards in Australia and New Zealand.

**2.18** The International and Australian standards for auditing financial statements were subject to a major revision and re-issue which concluded in 2009. This 'Clarity Project' was a comprehensive program to enhance the clarity of the ISAs.

**2.19** No substantive changes were made to the Australian Auditing Standards in 2012–13.

## Conclusion

**2.20** Ongoing developments in accounting and auditing frameworks and standards continue to have an impact on the financial reporting responsibilities of public sector entities and on the ANAO's auditing methodology. The ANAO will continue to assist entities through client seminars and publications that explain new regulatory and accounting requirements.

**2.21** While there were few changes in Australian Accounting Standards during 2012–13, significant changes to the financial reporting framework are under way, both in Australia and internationally. A number of the proposed changes will affect the Australian public sector over the next few years, particularly in relation to lease accounting, revenue recognition and the reporting of financial instruments.

**2.22** Internationally, enhancing audit quality and communication continue to be the top priorities of the auditing profession. In Australia, the AUASB continues to develop Australian auditing and assurance standards and guidance with an increased focus on non-financial information.

## 3. The Audit of the Consolidated Financial Statements

---

*This chapter outlines the results of the audit of the Consolidated Financial Statements of the Australian Government, which includes the whole of government and the General Government Sector financial reports for the year ended 30 June 2013, and the Australian Government's financial outcome for 2012–13.*

### Background

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

**3.2** The CFS are one source of information on the Government's financial performance and position. Other information sources include the Budget and Budget updates presented to Parliament<sup>10</sup>, the Intergenerational reports<sup>11</sup> and the annual Final Budget Outcome.<sup>12</sup> These various sources provide information on a range of policy and financial matters, including the medium-term and intergenerational effect of decisions.

**3.3** In recent years, through the work of the Australian Accounting Standards Board in issuing AASB 1049 *Whole of Government and General Government Sector Reporting*, the statistical and accounting standards for the reporting of budget and financial statement information have been harmonised resulting in comprehensive financial information being presented in both the Budget Papers and the CFS. AASB 1049, by incorporating factors of the conceptual and accounting framework on which the Australian Bureau of Statistics' Government Finance Statistics (GFS) is based, provides a single framework for financial reporting by governments in Australia.

**3.4** The CFS present the consolidated whole of government financial results inclusive of all Australian Government controlled entities, as well as the General Government Sector (GGS) financial report. The CFS are prepared in

---

10 Available at <http://www.budget.gov.au/2013-14>.

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

12 Available at [www.budget.gov.au/2012-13/content/fbo/html/](http://www.budget.gov.au/2012-13/content/fbo/html/).

accordance with the regulations of the *Financial Management and Accountability Act 1997* and the requirements of the Australian Accounting Standards as mentioned above. The CFS operating statement and balance sheet are prepared on an accrual<sup>13</sup> basis, with the cash flow statement prepared on a cash basis.

**3.5** Since 2009–10 the CFS has incorporated both the whole of government and GGS financial reports required by AASB 1049, and the 2012–13 CFS again includes both of these reports. The CFS and the associated auditor’s report can be accessed from the Department of Finance’s website.<sup>14</sup>

**3.6** This chapter discusses the auditor’s report on the 2012–13 CFS, the high level impact of the economic conditions and associated government measures and decisions on the Australian Government’s financial position as represented in the CFS and the significant disclosures included in the CFS. The commentary in this chapter has focussed on the financial results at the consolidated whole of government level rather than at the GGS level. High level variances between the actual GGS results and the original GGS budget presented to Parliament are discussed in paragraphs 3.30 and 3.31.

## Auditor’s report

**3.7** The CFS were signed by the Minister for Finance on 27 November 2013 and an unmodified auditor’s report was issued on the same day.

**3.8** The auditor’s report on the 2012–13 CFS, which includes the GGS report, expressed the opinion that the statements presented a true and fair view of the financial operations and position of the Australian Government.

**3.9** A report on other legal and regulatory requirements was included in the auditor’s report following the opinion on the 2012–13 CFS to draw attention to:

- the note disclosure included in the CFS in respect of actual and potential breaches of section 83 of the Constitution. Further information on this matter is included at paragraphs 3.26 to 3.29; and
- the note disclosure included in the CFS that the Australian Government continues to have regard to developments in case law, including the High Court’s most recent decision on Commonwealth expenditure in

---

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

14 [www.finance.gov.au](http://www.finance.gov.au).

*Williams v Commonwealth* (2012) 288 ALR 410, and that the Australian Government will continue to monitor and assess risk and decide on any appropriate actions to respond to risks of expenditure not being consistent with constitutional or other legal requirements.

## Australian Government's financial outcome for 2012–13

**3.10** The reported 2012–13 operating result<sup>15</sup> attributable to the Australian Government was a deficit of \$3.7 billion (2011–12: deficit of \$68.8 billion), the fiscal balance<sup>16</sup> was a deficit of \$27.9 billion (2011–12: deficit of \$46.3 billion) and the reported negative net worth<sup>17</sup> position was \$210.5 billion (2011–12: negative \$256.9 billion). These outcomes reflect the financial effect of government policies and the economic environment for the year ended 30 June 2013 and the associated movement in assets and liabilities as at the financial year end, particularly as a result of the increase in the long term government bond rate<sup>18</sup> that is used to discount significant assets and liabilities. Further information on the significant movements between 2011–12 and 2012–13 in the operating statement and the balance sheet is provided in the commentary that is published with the audited CFS, and is discussed below.

**3.11** In broad terms, the Australian Government is in a sound financial position relative to the governments of many other countries although there continues to be rising levels of interest bearing liabilities.

---

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

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

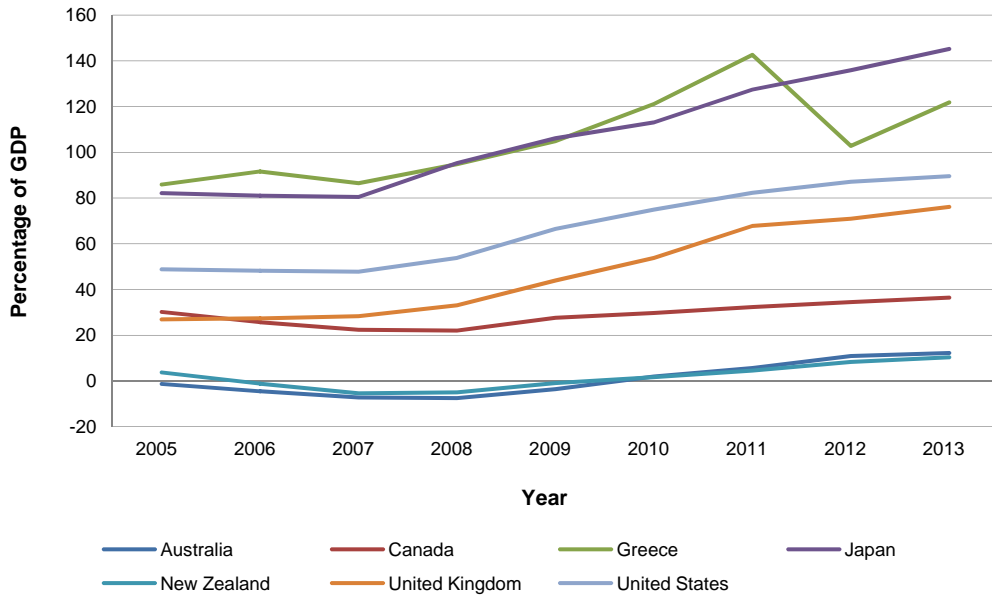
17 Net worth equals assets less liabilities.

18 Movements in interest rates directly affect the balance at year end of various liabilities, particularly provisions relating to long term employee benefits and superannuation, and some asset balances such as the Higher Education Loans Program. In accordance with Australian Accounting Standards, the reported values of these liabilities are to be calculated by discounting expected future payments, such as employee benefits and superannuation to their present value. The discount factor commonly used is the Australian Government long term bond rate. An increase in the bond rate between financial years increases the extent of discounting and reduces the present value of liabilities. Conversely, a decrease in the rate increases their present value. The period over which the future value of the liability is calculated is determined by the period over which payments are expected to become due and payable. During 2012–13, there was an increase in the long term government bond rate. Further, in 2012–13 a number of long-tail liabilities were discounted using the 16 year government bond rate instead of the 10 year government bond rate that was used in 2011–12. As a result, there was a significant decrease in the reported value of some long term liabilities during 2012–13. An increase or decrease in liabilities and assets, associated with the movement in the rate used, is recognised as an adjustment to expenses or revenues that are reflected in an entity's operating result.



3.12 The following charts show the net financial liabilities of the Australian Government’s General Government Sector as a percentage of gross domestic product relative to some other OECD<sup>19</sup> countries, and the Australian Government’s negative net worth.

**Figure 3.1: General Government net financial liabilities<sup>20</sup> as a percentage of gross domestic product<sup>21</sup>**



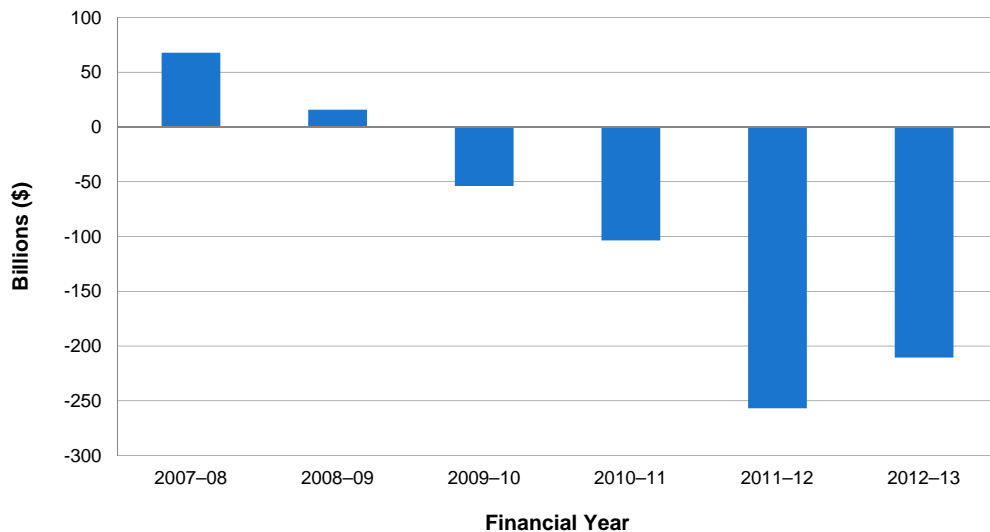
Source: OECD Economic Outlook 93 database at <http://www.oecd.org/statistics/>.

19 The Organisation for Economic Co-operation and Development.

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

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

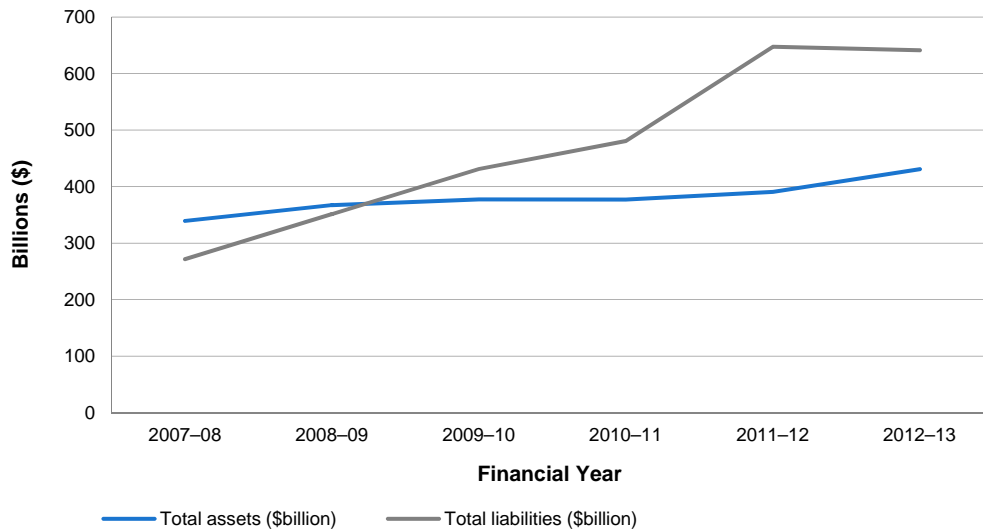
**Figure 3.2: Australian Government’s net worth**



Source: Consolidated Financial Statements from 2007-08 to 2012-13.

**3.13** While there has been an improvement in the Australian Government’s net worth in 2012-13, it remains in a negative position as total liabilities continue to exceed total assets in recent years (see figure 3.3).

**Figure 3.3: Australian Government’s total assets and total liabilities**



Source: Consolidated Financial Statements from 2007-08 to 2012-13.

**3.14** The noteworthy movements in the CFS affecting the operating statement and the balance sheet of the Australian Government are explained hereunder.

### **Operating statement**

**3.15** Total revenue of the Australian Government increased by \$21.5 billion in 2012–13 to \$372.0 billion. The significant movement in revenue reflected a \$19.2 billion increase in taxation revenue, primarily as a result of:

- an increase in income tax on individuals, reflecting moderate growth in wages and salaries, offset to some extent by tax cuts associated with the *Clean Energy Future Package*;
- the introduction of the carbon pricing mechanism;
- an increase in other individuals' income tax, consistent with growth in personal non-wage income;
- an increase in company tax, primarily reflecting changes announced in the Budget to the treatment of research and development tax incentives;
- an increase in the goods and services tax (GST) in line with the overall growth in consumption;
- an increase in excise and customs duty revenue consistent with indexation arrangements and a modest increase in the volume of goods subject to excise and customs duty; and
- the introduction of the minerals resource rent tax and an increase in the petroleum resource rent tax.

**3.16** Total non-taxation revenues increased by \$2.4 billion in 2012–13, primarily due to:

- an increase in sales of goods and services revenue, mainly associated with:
  - increases in Australia Post revenue as a result of growth in its parcel and express services business;
  - an increase in Medibank Private health insurance premium revenue;

- an increase in revenue from unclaimed monies under the *Banking Act 1959*, *Life Insurance Act 1995* and *Corporations Act 2001*, resulting from legislative changes which reduced the time before which unclaimed monies are transferred to the Commonwealth, as well as changes to the administrative arrangements for managing unclaimed monies under the *Corporations Act 2001*;
- an increase in housing inventory sales by Defence Housing Australia; and
- an increase in immigration visa application fees;

these increases in sales of goods and services revenue were partially offset by decreases in revenue relating to fees for the guarantee of large deposits and wholesale funding as these schemes wind down, and licence fees for wireless products as some licence agreements are concluded;

- an increase in other revenue, primarily as a result of an increase in unclaimed superannuation accounts as a result of changes to the legislation surrounding the operation of lost superannuation accounts and an increase in revenue from the settlement of damages claims;
- an increase in dividend income, primarily relating to the Future Fund's investment portfolio; and
- a decrease in interest income primarily in the Reserve Bank of Australia's and the Australian Government Nation Building Funds' investment portfolios.

**3.17** The Australian Government's total expenses increased by \$5.5 billion in 2012–13. The major causes of this increase were:

- increased direct personal benefits, grants and subsidies expenses, primarily relating to:
  - an increase in assistance to the aged, unemployed, low income earners, people with disabilities, carers and family tax benefit recipients due to payment indexation arrangements, customer growth and the impact of new government measures;
  - an increase in subsidy expenses primarily due to the introduction of carbon pricing free permits as part of the carbon

- pricing mechanism, a higher take-up of the research and development tax incentive, an increase in aged care research and an increase in universal service payments by the Telecommunications Universal Service Management Agency; and
- offsetting decreases in grants due to:
    - a decrease in road grants under the National Building Program and from the Building Australia Fund;
    - a decrease in capital grants for housing, community amenities, education and health;
    - a decrease in payments to highly emissions-intensive coal-fired generators, after payments to these entities were made as part of the energy security fund program in June 2012; and
    - a decrease in NBN payments to Telstra, which were a one-off payment in 2011–12.
  - an increase in operating expenses due to an increase in superannuation expenses related to the Australian Government’s unfunded superannuation liabilities due to higher service costs. The service cost captures the increase in the superannuation liability that results from employee service in the reporting period. As the calculation of the amount is based on a present value, it is sensitive to changes in the discount rate used for the calculation<sup>22</sup>. The longer the length of service, the greater the impact of discount rate changes. Under the relevant accounting standard, AASB 119 *Employee Benefits*, the discount rate used in the calculation of the service cost is based on the interest rate at the start of year. In addition, an increase in depreciation and amortisation expenses in line with the increase in non-financial assets and an increase in the supply of goods and services expenses is primarily due to:
    - increases in the costs associated with detention centres and settlement;
    - an increase in the claims processed by Medibank Private;

---

22 Op cit (refer footnote 18 on p. 32).

- increases in payments related to the Medicare Benefits Scheme which funds access to medical services; and
- increases in the costs of Australia Post services.

These increases were partially offset by a decrease in supplier expenses across a number of entities.

**3.18** Other economic flows, which include asset and liability revaluation gains and losses, moved from a loss of \$114.1 billion in 2011–12 to a gain of \$70.0 billion in 2012–13. The primary drivers for this movement were:

- the impact of movements in the long term government bond rate<sup>23</sup> used to calculate the Australian Government superannuation liability. Even small movements in the bond rate can cause significant movements in the valuation of the liability. Between 30 June 2012 and 30 June 2013 the bond rate increased by 1.2 per cent<sup>24</sup> whereas between 30 June 2011 and 30 June 2012 the bond rate decreased by 2.2 per cent, resulting in a \$85.9 billion negative flow in 2011–12 compared to a \$50.4 billion positive flow in 2012–13;
- an unrealised gain from the re-measurement of Commonwealth Government securities as at 30 June 2013 as a result of the impact of increased interest rates;
- a gain from the re-measurement of the Future Fund investment portfolio to market values as at 30 June 2013;
- increased foreign currency gains by the Reserve Bank of Australia;
- a gain on the sale of digital spectrum in 2012–13; and
- these movements were partially offset by an increase in the write-offs associated with taxation receivables.

**3.19** The net acquisition of non-financial assets decreased by \$2.3 billion in 2012–13 to \$4.5 billion, primarily as a result of an increase in the sale of non-financial assets, particularly in relation to the sale of digital spectrum. This was partially offset by a reduction in asset purchases.

---

23 Op cit (refer footnote 18 on p. 32).

24 This movement includes a move from the previously used 10 year government bond rate to the 16 year government bond rate.

## Balance sheet

**3.20** The 2012–13 CFS reported a \$46.4 billion increase in the net worth position of the Australian Government from negative \$256.9 billion in 2011–12 to negative \$210.5 billion in 2012–13. This increase was a consequence of a \$40.3 billion increase in assets, and a \$6.1 billion decrease in liabilities as at 30 June 2013.

**3.21** The value of the Australian Government's financial assets at 30 June 2013 increased by \$34.8 billion, compared to 30 June 2012. The primary reasons for this increase were:

- an increase in investments, loans and placements, mainly as a result of an increase in the Australian dollar securities and foreign exchange holdings of the Reserve Bank of Australia, an increase in collective investment vehicles, interest bearing securities and other investments held by the Future Fund;
- an increase in equity investments as a result of an increased investment in listed equities and listed managed investment schemes by the Future Fund due to improved market conditions;
- an increase in advances paid, primarily due to an increase in the value of student loans under the Higher Education Loan Program, the revaluation of the International Development Association/Asian Development Fund subscription investment and the provision of funds to the International Monetary Fund under the *New Arrangements to Borrow* arrangements; and
- an increase in other receivables, primarily in relation to taxation receivables and market trades that were not settled by the Future Fund as at 30 June 2013.

**3.22** Total non-financial assets increased by \$5.5 billion in 2012–13 primarily due to:

- an increase in the non-financial assets held by NBN Co Limited due to the roll-out of the National Broadband Network;
- an increase in intangible assets, mainly due to Australia Post taking full ownership of its joint venture company StarTrack; and
- an increase in consumable inventory held by the Department of Defence.

**3.23** Interest bearing liabilities increased by \$27.7 billion in the 2012–13 year. This increase primarily related to:

- an increase in Commonwealth Government securities on issue, which is primarily driven by the need to fund the underlying cash deficit. This increase was partially offset by an unrealised gain in the fair value of these securities due to the requirement under the accounting standards to measure these securities at their fair value at 30 June, using the long term government bond rate<sup>25</sup> at that date;
- an increase in derivative liabilities entered into by the Future Fund to manage its investment portfolio;
- an increase in amounts purchased under repurchase agreements and purchases by the Reserve Bank of Australia not settled as at 30 June 2013;
- an increase in bank exchange settlement balances and deposits held by foreign governments, foreign institutions and international organisations in the Reserve Bank of Australia; and
- an increase in finance leases and right of use licences entered into by NBN Co Limited for its infrastructure assets and premises.

**3.24** Provisions and payables decreased by \$33.8 billion. The main causes of this movement were:

- a decrease in the defined benefit obligations for Australian Government sponsored superannuation schemes at 30 June 2013, primarily due to the upwards movement in the long term government bond rate explained in paragraph 3.18, and a move from the previously used 10 year government bond rate to the 16 year government bond rate;
- an increase in the value of Australian notes on issue in line with historical trends;
- an increase in the provision for amounts payable under the Natural Disaster Relief and Recovery Arrangements, including as a result of the January 2013 floods and Tropical Cyclone Oswald;
- an increase in the provision for payment of unclaimed superannuation accounts and unclaimed monies under the *Banking Act 1959*,

---

<sup>25</sup> Op cit (refer footnote 18 on p. 32).



*Life Insurance Act 1995* and *Corporations Act 2001*, as a result of legislative changes which, as mentioned previously, reduced the time before which unclaimed monies are transferred to the Commonwealth;

- an increase in unsettled investment purchases and other accrued expenses of the Future Fund; and
- a decrease in unearned revenue relating to the wind-up of the large deposit and wholesale funding guarantee schemes.

## Significant disclosures in the CFS

### Outstanding workers compensation and asbestos related claims

**3.25** In 2012–13, Comcare changed its accounting policy on provisions for outstanding workers compensation and asbestos related disease claims and liabilities. The change involved reporting claims provisions on the basis of actuarial estimates at a 75 per cent probability of sufficiency instead of the central estimates previously adopted in the financial statements (50 per cent probability of sufficiency). The use of the central estimate in reporting claims provisions was inconsistent with the practice of other similar insurance entities in Australia. Furthermore, in reporting the Scheme’s funding ratio and in making premium determinations, Comcare adheres to prudential management principles and uses a more prudent 75<sup>th</sup> percentile estimate. Details of this change in accounting policy and its impact on the restated 2011–12 financial statements are disclosed in Note 1.5 to the CFS.

### Actual and potential breaches of the Constitution

**3.26** As outlined in paragraphs 5.27 to 5.40, the Australian Government is aware of the risk of a breach of section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where the payments do not accord with conditions included in the relevant legislation. Section 83 of the Constitution requires that no money shall be drawn from the Treasury of the Commonwealth except under an appropriation made by law.

**3.27** Note 1.28 to the CFS provides information on the Australian Government’s continuing review during 2012–13 of its exposure to risks of not complying with statutory conditions on payments from special appropriations and special accounts. As disclosed in Note 1.28 to the CFS, payments were made in 2012–13:

- in breach of section 83 of the Constitution, totalling \$31.3 million across 11 agencies; and
- potentially in breach of section 83 of the Constitution, totalling \$537.5 million across seven agencies.

**3.28** Note 1.28 to the CFS also discloses that the Australian Government continues to have regard to developments in case law, including the High Court's most recent decision on Commonwealth expenditure in *Williams v Commonwealth* (2012) 288 ALR 410, and that the Australian Government will continue to monitor and assess risk and decide on any appropriate actions to respond to risks of expenditure not being consistent with constitutional or other legal requirements.

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

### **Significant differences between original budget and actual results**

**3.30** Australian Accounting Standard AASB 1049 requires significant variances between the original budget presented to the Parliament and the actual results to be disclosed in the audited financial statements. These explanations are included at Note 43 to the CFS. The Australian Government only presents a budget at the GGS level, and not at the whole of government level therefore variances between budget and actual are only presented for the GGS.

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

- a decrease of \$17.4 billion in actual revenue compared to the amount of revenue expected at the time the original budget was presented to Parliament in May 2012;
- a \$5.4 billion increase in actual expenses compared to the original budgeted amount;
- a decrease of \$3.7 billion in the net acquisition of non-financial assets compared to the original budget;
- a \$70.0 billion decrease in the net worth position when compared to the original budget; and

- a \$20.7 billion larger GFS cash deficit position than the position that was included in the original budget.

## Future Accounting Standard requirements specific to the CFS

### Ministerial remuneration

3.32 The 2012–13 CFS has continued the approach of prior years of incorporating disclosure of ministerial remuneration in Note 6 to the CFS. The disclosure includes Cabinet Ministers that served at any time during the financial year. The disclosure is provided at the aggregate level only and details of individual Cabinet Ministers' remuneration are not included. In this context, in July 2011 the Australian Accounting Standards Board (AASB) issued an exposure draft of an accounting standard, ED 214 *Extending Related Party Disclosures to the Not-for-Profit Public Sector*. At the AASB's July 2012 meeting it was agreed that the Board would progress the drafting of the amendments to AASB 124 *Related Party Disclosures*. Based on the AASB's decisions to date, more detailed ministerial remuneration disclosure is likely to be required in the CFS from 2014–15.

### Defence Weapons Platforms

3.33 AASB 1049 requires the CFS to apply the principles and rules in the ABS GFS Manual, where this does not conflict with the Australian Accounting Standards. The ABS GFS manual requires property, plant and equipment, which includes Defence Weapons Platforms (DWPs), to be recorded at market value. The Australian Accounting Standards allow these assets to be measured on a valuation basis or at cost, therefore the valuation basis is the measurement approach that should be adopted in the CFS. In December 2012, a pronouncement<sup>26</sup> was released, granting an extension of transitional relief from the adoption of AASB 1049 as it relates to DWPs. The transitional relief extended the date of implementation to the 2014–15 financial year. The Australian Government has commenced preparatory work on this matter.

---

26 AASB 2012-8 *Amendments to AASB 1049 – Extension of Transitional Relief for the Adoption of Amendments to the ABS GFS Manual relating to Defence Weapons Platforms*.

## 4. Commentary on Financial Statement Related Matters

---

*This chapter provides an analysis by the ANAO of material entities' operating results and balance sheet position and commentary on the Commonwealth payments to the States and Territories.*

### Analysis of entities' financial statements

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

**4.2** Reporting on an accrual basis provides information on the full cost of government activities, not just costs that are paid in cash in the current year. In 2010–11, the Government shifted its funding for asset replacement for many entities from a full accrual basis towards a cash basis.

**4.3** From 2010–11, the Government ceased to provide funding for makegood, depreciation and amortisation expenses for most agencies established under the *Financial Management and Accountability Act 1997*. Instead, funding is provided when assets need to be replaced. Since the latter funding does not qualify as revenue under Australian Accounting Standards, such agencies are permitted to incur operating deficits. Similar arrangements were put in place from 2009–10 for other entities with significant heritage and cultural assets. In some instances, the Government has chosen not to fund specific expenses at the time they are incurred. The following ANAO analysis is based on reported surpluses or deficits after adjusting for the amount of unfunded expenses, where relevant.<sup>27</sup> In this context, the reporting of accrual

---

<sup>27</sup> From 2010–11, the Government ceased to provide funding for makegood, depreciation and amortisation expenses for most agencies established under the *Financial Management and Accountability Act 1997*. Instead, funding is provided when assets need to be replaced. Since the latter funding does not qualify as revenue under Australian Accounting Standards, such agencies are permitted to incur operating deficits. Similar arrangements were put in place from 2009–10 for other entities with significant heritage and cultural assets. In some instances, the Government has chosen not to fund specific expenses at the time they are recognised in an entity's financial statements.

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

## Operating results analysis

**4.4** 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. An important aspect of an entity’s financial management responsibilities is the preparation of financial statements that disclose the entity’s sources of revenue, its full costs of operation and the resulting surplus or deficit.

**4.5** The financial performance of a public sector entity cannot be measured solely on its operating results. Circumstances can arise that result in an entity incurring deficits in the course of meeting its responsibilities. A history of significant deficits, however, could suggest the need for: additional funding; elimination of non-value adding costs; reductions in service levels; and/or improved entity financial management.

**4.6** Against this background, the ANAO undertook an analysis of the operating results of all material entities over the three years 2010–11 to 2012–13. The ANAO grouped material entities into four categories, which are explained in table 4.1 below.

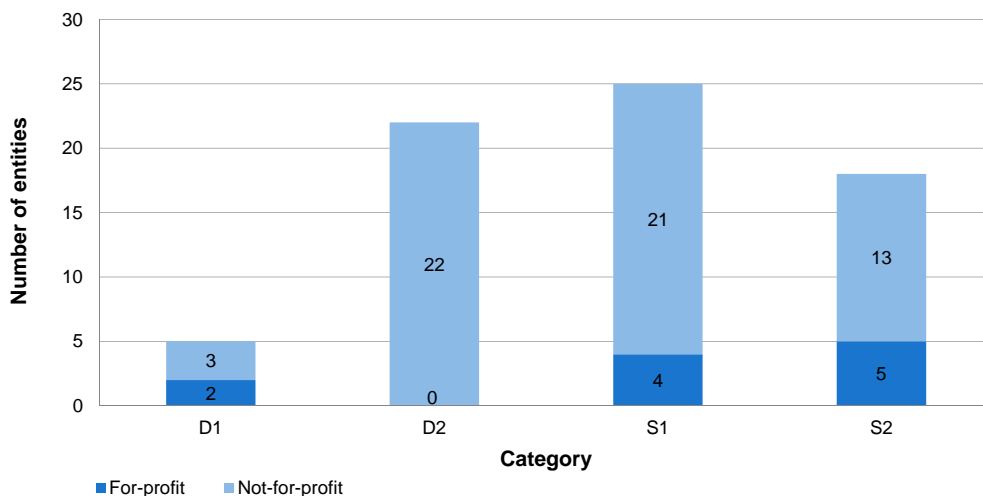
**Table 4.1: Operating result categories**

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

Source: ANAO analysis.

**4.7** Figure 4.1 presents the results of the ANAO analysis of entities’ operating results in the period 2010–11 to 2012–13.

**Figure 4.1: Material entities by operating results category<sup>28</sup>**



Source: ANAO analysis.

### Reported material entities by operating results category

4.8 Significantly, the ANAO’s analysis identified that 47 material entities (approximately 67 per cent of the total) made small surpluses/profits or deficits/losses over the three year period; these entities are grouped in categories D2 or S1 (see figure 4.1). The high percentage of entities in these categories suggests that, overall, entities have been appropriately managing their finances for the period under analysis. A tightening budget environment is likely to increase budget pressures on individual entities.

4.9 Entities that averaged a deficit/loss over the three years, and incurred at least two annual deficits/losses over that period greater than five per cent of expenses, are grouped in category D1. Only five entities (approximately seven per cent of entities analysed) were in this category, and each had particular circumstances that explain its results. The NBN Group has incurred losses in its start-up phase, as anticipated in its business plan projections; the Australian Rail Track Corporation has experienced a series of downward revaluations of some of its infrastructure assets; the Australian Nuclear Science and Technology Organisation has incurred significant costs associated with the decommissioning of nuclear reactors, which were not fully funded; the Department of Agriculture, Fisheries and Forestry has experienced lower revenue due to a decline in trade volumes associated with biosecurity

28 Two entities with a limited history of financial information have been excluded from this analysis.

activities; and Comcare has incurred higher expenses as a result of an increase in its liabilities for workers compensation, mainly due to a higher number of claims and claimants receiving benefits for longer periods, but also due to some changes in the methodology and economic variables used to measure these liabilities.

**4.10** Eighteen entities (approximately 26 per cent of the total) incurred an average annual surplus/profit greater than five per cent of expenses. These entities are grouped in category S2. In nine cases<sup>29</sup>, these surpluses/profits arose from the commercial operations of for-profit entities or the quasi-commercial operations of not-for-profit entities.

**4.11** The other nine entities in category S2 were: the Albury-Wodonga Development Corporation; the Australian Office of Financial Management; the Australian War Memorial; the Australian Research Council; the Grains Research and Development Corporation; the National Archives of Australia; the National Library of Australia; the Clean Energy Finance Corporation; and the National Museum of Australia. There were a range of reasons for these entities recording surpluses/profits, including the receipt of donated assets, a reduction in expenses resulting from efficiency measures, increased primary producer levy receipts due to higher production, additional government funding, changes in accounting policies, and decrease in expenses as entities strive to improve their operating results.

**4.12** The aggregate results of material entities are not the major factor contributing to the operating results of the Australian Government; changes in the level of taxation revenue and transfer payments are much more significant<sup>30</sup>. In 2012–13, material entities generated, in aggregate, \$15.5 billion in surpluses/profits. This was mainly driven by \$15.1 billion in surpluses/profits from for-profit entities and the Future Fund. In the same year, the operating result of the Australian Government as a whole was a deficit of \$3.7 billion, as reported in paragraph 3.10.

---

29 The nine entities are: Australian Government Solicitor; Airservices Australia; Coal Mining Industry (Long Service Leave Funding) Corporation; Defence Housing Australia; Export Finance and Insurance Corporation; Future Fund Management Agency; Australian Reinsurance Pool Corporation; Australian Postal Corporation; and Indigenous Business Australia.

30 Taxation receipts, transfer payments and similar items are collected and paid by Australian Government entities, but are not included in their departmental operating results, as they are treated and reported as administered items. The 2012–13 operating result of the Australian Government as a whole is discussed in chapter 3 of this report.

## Balance sheet analysis

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

**4.14** Under Australian Accounting Standards, a distinction is made between those assets and liabilities that a government entity controls (departmental) and those that it administers on behalf of the Government (administered). An entity does not have full discretion over the use of administered assets, due to legislation or government policy, and is not required to settle administered liabilities from its own resources. While a large proportion of Australian Government assets and liabilities are administered<sup>31</sup>, significant levels of assets and liabilities are departmental. As at 30 June 2013, Australian Government entities held \$209.6 billion in departmental assets and \$130.8 billion in departmental liabilities.

**4.15** Determining the appropriate level of assets and liabilities for a particular entity is a complex exercise. Judgements are necessarily influenced by the responsibilities of the entity, past entity decisions on resource allocation and the funding models put in place by government.<sup>32</sup>

**4.16** Against this background, as part of the audit of entities' 2012–13 financial statements, the ANAO also conducted an analysis of the balance sheet positions of material Australian Government entities as at 30 June 2013. This analysis focused on two aspects of entity 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

---

31 Of total whole of government assets at 30 June 2013 of \$430.8 billion, administered assets constituted \$221.2 billion (51 per cent), mainly comprising investments and tax receivables. Of total liabilities of \$641.4 billion, \$510.6 billion (80 per cent) were administered, mainly comprising government debt and provisions for superannuation.

32 As noted earlier in this chapter, some entities are not funded for depreciation of assets as it occurs; instead, they receive capital funding when assets need to be replaced. This means, for example, that the value of an entity's asset holdings may decline because the assets are depreciating, but because they are not yet due for replacement, no capital funding has been received from government.



its asset base and may also need a future injection from government to continue operating.

4.17 The ANAO grouped material entities into the following categories:

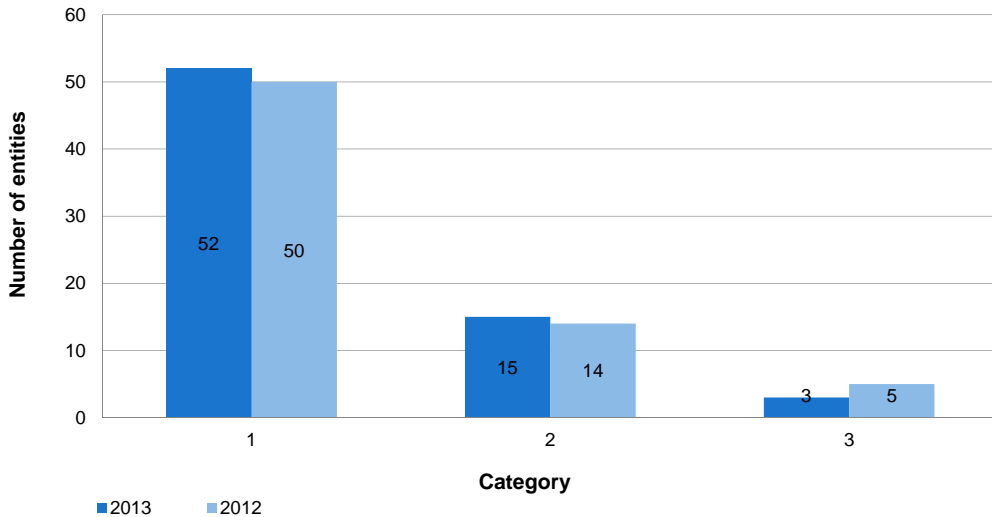
**Table 4.2: Balance sheet categories**

| Category | Explanation   |
|----------|---|
| 1        | 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.                         |
| 2        | Entities where financial assets were less than 50 per cent of liabilities or where equity is less than 25 per cent of total assets. These entities had weaker balance sheets, either in liquidity or gearing terms. |
| 3        | Entities where financial assets were less than 50 per cent of liabilities and where equity was less than 25 per cent of total assets. These entities are the most likely to need additional funding in the future.  |

Source: ANAO analysis.

4.18 Results of the ANAO analysis are shown in figure 4.2.

**Figure 4.2: Material entities by balance sheet category<sup>33</sup>**



Source: ANAO analysis.

33 The list of material entities is reviewed each year by the ANAO, taking into account factors such as changes in the relative scale of entities' assets and liabilities. One entity has been included and two entities have been excluded from the prior year. The changes are also reflected in the comparative analysis.

**4.19** Collectively, at 30 June 2013, material entities' financial assets were 165<sup>34</sup> per cent of liabilities, and equity was 61 per cent of total assets. This was broadly comparable to the situation at 30 June 2012. This suggests that, overall, the balance sheet position of material entities remains satisfactory.

**4.20** It is also encouraging to observe that the large majority of entities fell into category 1, which indicates a relatively strong balance sheet position. Fifteen entities were in category 2 and 3 in category 3. Two of the entities in category 3 (the Australian Taxation Office and the Australian Bureau of Statistics) are large government agencies with relatively stable funding and operations. On this basis, and provided that appropriate attention is given to liquidity issues in the future, these entities are not at high risk of experiencing liquidity problems. Nevertheless, with a tightening fiscal outlook, it is important that entities in this category continue to monitor their financial position and improve it, where practicable. The remaining entity, the Department of Sustainability, Environment, Water Population and Communities had a significant unfunded liability relating to the rehabilitation of its Antarctic sites; the Government's general policy is to provide cash to meet agency rehabilitation liabilities at the time the work is undertaken.

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

## **Audit coverage of Commonwealth payments to the States and Territories**

### **Introduction**

**4.22** The ANAO's financial statement audits include the assessment of key internal controls in relation to systems that produce material financial statement balances and the substantive testing of material balances and disclosures in entities' financial statements. Among the most significant

---

34 The 2011–12 analysis did not include the majority of the assets of the Future Fund Management Agency. For comparative purposes, taking into account all assets of the Future Fund Management Agency, the 2011–12 position would be 164 per cent, rather than the 98 per cent as reported in the Audit Report No.16 of 2012–13.

balances that are reported in the Australian Government's Consolidated Financial Statements and in the financial statements of a number of individual Australian Government entities are payments to the States and Territories. These payments are made in accordance with various legislative requirements and related agreements and in 2012–13 totalled \$92.3 billion. Of this, \$81.4 billion<sup>35</sup> relates to payments made under the *Federal Financial Relations Act 2009*.

## The Federal Financial Relations framework

**4.23** The *Federal Financial Relations Act 2009* provides the legislative basis for the majority of the payments by the Commonwealth to the States and Territories. This Act provides a standing appropriation for the Commonwealth to make ongoing financial contributions to the States and Territories through the Council of Australian Governments (COAG) Reform Fund. The application of this Act is supported by the Intergovernmental Agreement on Federal Financial Relations (the Intergovernmental Agreement) between the Commonwealth and the State and Territory Governments.

**4.24** The Commonwealth provides financial support to the States and Territories through:

- *General revenue assistance*: this consists of GST payments to be used by the States for any purpose, and other general revenue assistance. Total expenditure in 2012–13 was \$49.2 billion.
- *National Specific Purpose payments (National SPPs)*: these payments support State and Territory service delivery in the areas of: healthcare; schools; skills and workforce development; disability services; and affordable housing. Total expenditure in 2012–13 was \$21.2 billion.
- *National Partnership payments*: these payments support the delivery of specified outputs or projects, facilitate reforms or reward those jurisdictions that deliver on nationally significant reforms. National Partnership agreements outline mutually agreed policy objectives to deliver specific projects, achieve service delivery improvements, or nationally significant reform. Total expenditure in 2012–13 was \$11.0 billion.

---

35 The numbers in this report are derived from the Treasury's 2012–13 financial statements.

**4.25** Payments to the States and Territories of general revenue assistance and national specific purpose payments are based on legislation or agreements that establish the basis for payments.<sup>36</sup> Although the payments are significant, the audit of these payments is relatively straight forward. By contrast, National Partnership payments are based on individual agreements that establish the terms and conditions for these payments. Payments made by the Department of the Treasury (the Treasury), following determinations made by the Treasurer, are dependent on authorisations by the relevant Commonwealth Minister or delegate. These are supported by certification arrangements between a number of individual agencies and the Treasury. As such, these payments are a key element of our financial statement audit coverage, and are the main focus of the discussion below.

**4.26** Separate arrangements apply to national health reform funding that commenced from 1 July 2012 under the *National Health Reform Act 2011*. Under this Act, payments are made into national health funding pools in each State and Territory to support public hospital and public health services provided by the States and Territories. In addition, from 1 July 2013, separate funding arrangements apply in relation to the National Disability Insurance Scheme that is administered by the National Disability Insurance Agency.

**4.27** The Commonwealth also makes payments to non-government schools and local governments under separate legislative arrangements. Most payments to non-government schools are part of the schools National SPP, with the balance paid through the States and Territories under arrangements that are largely consistent with the arrangements for National Partnership payments outlined below. Payments to local governments are made both directly and through the States and Territories, including a small proportion as National Partnership payments.

**4.28** Local government and non-government school payments are made under agreements with the States and Territories and the Commonwealth's eligibility assessment for payments are largely consistent with the arrangements for National Partnership payments outlined below.

---

36 A key feature of the payment arrangements is the centralisation of all payments to the States and Territories through the Department of the Treasury. Under these arrangements, all general revenue assistance, National SPP and National Partnership payments are processed centrally by the Treasury and paid directly to each state treasury. State treasuries are responsible for distributing the funding within their respective jurisdictions. Details of payments made are reported in the annual financial statements of the Treasury and in the budget papers of the Australian Government for the subsequent year.

## National Partnership payments

**4.29** As at 30 June 2013, there were over 100 National Partnership agreements in place covering a broad range of service delivery areas and projects. Many agreements are with all States and Territories but some are with one or nominated States and Territories.

**4.30** The aims of National Partnership payments to the States and Territories are to:

- facilitate reforms;
- support the delivery of specified outputs or projects; or
- reward those jurisdictions that deliver on nationally significant reforms.

**4.31** The general accountability and performance reporting arrangements for National Partnership payments are outlined in schedule C of the Intergovernmental Agreement, *Performance Accountability and Performance Reporting*. Payment arrangements and associated accountabilities are outlined in schedule D of the Intergovernmental Agreement, *Payment Arrangements*.

**4.32** The three main types of payments made are facilitation, project and reward payments<sup>37</sup>. In 2012–13, payments by main payment type were as follows:

- facilitation payments: \$116 million;
- project payments: \$10.8 billion; and
- reward payments: \$73 million.

**4.33** Where the achievement of a performance benchmark is not required before a payment is made to a State or Territory, such as with facilitation payments, payments will be scheduled in accordance with the payment profile set out in the agreement or related implementation plan.

**4.34** In the case of project payments, the relevant Commonwealth Minister, or delegate, is responsible for determining whether a payment will be made

---

<sup>37</sup> Facilitation payments provide an incentive for States and Territories to implement nationally significant reforms or service delivery improvements; project payments are made periodically in accordance with agreed funding arrangements and may be subject to the satisfactory attainment of performance benchmarks or milestones by the States and Territories; reward payments are made to States and Territories that deliver reform progress and are contingent on the achievement of performance benchmarks. Schedule D also provides for the payment of contingent payments under Natural Disaster Relief and Recovery Arrangements.

based on terms and conditions, including whether required performance benchmarks or project milestones have been met, as set out in each National Partnership agreement.

**4.35** In respect of reward payments, the COAG Reform Council is responsible for independently assessing whether pre-determined milestones and performance benchmarks have been achieved, and providing advice to the responsible Commonwealth Minister, before an incentive payment to reward nationally significant reforms or service delivery improvements under a National Partnership is made. The final decision on such payments is made by the Commonwealth Minister.<sup>38</sup>

#### *Accountability arrangements*

**4.36** An overarching accountability requirement for each National Partnership agreement is that each State and Territory Treasurer is required to provide a report to the Standing Council for Federal Financial Relations within six months of the end of every financial year, reporting total expenditure, by payment type, under the relevant agreement.

**4.37** Some National Partnership payments, particularly facilitation payments, and a range of project payments, are not subject to pre-conditions and payments are made in a straightforward manner in accordance with agreed payment arrangements outlined in agreements. Most agreements do, however, specify that payments to the States and Territories are subject to the achievement of pre-determined conditions such as performance benchmarks or project milestones, or compliance with relevant building codes of practice. Many conditions are, nevertheless, not onerous. Such conditions include maintaining existing service levels, as distinct from requiring the achievement of improvements; providing the Commonwealth with reports demonstrating progress towards or achievement of performance benchmarks or project milestones for a particular service or project.

**4.38** Individual National Partnership agreements or implementation plans may also contain specific accountability arrangements. While such arrangements vary between agreements, the ANAO identified that these can include the provision to the Commonwealth of:

---

<sup>38</sup> Five agreements or four per cent of active agreements in 2012–13 provide for reward payments that are subject to an assessment of specified milestones or performance benchmarks by the COAG Reform Council. The COAG Reform Council also undertakes a comparative analysis of performance information for those National Partnership agreements that support the objectives of National Agreements.

- progress and/or annual reports by the States and Territories on the achievement of specified milestones and/or benchmarks<sup>39</sup>;
- audited financial statements or grant acquittals by a State or Territory Auditor-General or other specified auditor in relation to spending of Commonwealth monies for a specific purpose;<sup>40</sup>
- independent reports by third parties; and
- cash flow and expenditure projections and exception reporting in relation to these projections.<sup>41</sup>

*Governance and monitoring arrangements in individual departments*

**4.39** It is the responsibility of individual Commonwealth agencies to assess compliance by the States and Territories with specified performance benchmarks, project milestones and other conditions and accountability arrangements, and provide advice to the responsible Minister. Governance and monitoring arrangements in place in agencies include:

- formal committee arrangements that can involve Commonwealth, State and Territory and industry representatives;
- dedicated program areas with responsibility for managing agreements;
- structured approval arrangements;
- site visits by Commonwealth representatives;
- the analysis and quality assurance review of reports and data provided by the States and Territories; and
- performance reviews, generally undertaken six to 12 months prior to the expiration of the National Partnership agreement.

**4.40** Some agreements also provide the Commonwealth with the authority to seek further information and/or clarification from the States and Territories or direct access to project sites, information and records for the purpose of

---

39 In relation to facilitation and project payments, in accordance with schedule D of the Intergovernmental Agreement, each State and Territory Treasurer is required to provide a report to the Standing Council for Federal Financial Relations within six months of each financial year, reporting total expenditure under the relevant National Partnership agreement, stating both expenditure of Commonwealth project and facilitation funding and State and Territory co-contributions, where these are required by the National Partnership agreement.

40 These are more common in agreements for infrastructure or capital projects.

41 *ibid.*

obtaining additional assurance over information submitted by the States and Territories.<sup>42</sup>

### *Treasury payment arrangements*

**4.41** As mentioned above, the Treasury is responsible for making all National Partnership payments to the States and Territories. Up until 2012–13, the processes for making these payments were reliant on the manual processing of payment details provided by individual agencies. During 2012–13, the Treasury implemented a system that automates the collection of payment details and incorporates a certification by individual agencies. The system includes a number of validation checks designed to identify potential data entry discrepancies. The information captured by this system is used by the Treasury to support determinations by the Treasurer under section 16(1) of the *Federal Financial Relations Act 2009* following authorisation by the responsible Commonwealth Minister or delegate.<sup>43</sup>

**4.42** While the non-achievement of performance benchmarks and project milestones in individual agreements or implementation plans does not invalidate the Treasurer's determinations, the relevant payments from the COAG Reform Fund Special Account could potentially be in breach of section 83 of the Constitution in circumstances where conditions or performance benchmarks have not been met. This situation arises due to the wording of section 7(2) of the *COAG Reform Fund Act 2008* which requires monies to be debited from the Special Account when terms and conditions contained within the specific National Partnership agreement have been met. Non compliance with terms and conditions may occur where performance benchmarks are incorrectly assessed as having been met, when in fact they have not, and the determination is made on the basis of the incorrect advice. The Treasury has advised that it is considering options to address this issue, including providing advice to government on possible legal remedies. The Treasury is also working with individual Commonwealth agencies to strengthen their monitoring of controls and review of information provided by States and Territories to ensure the terms and conditions contained in individual agreements are met.

---

42 Such access provisions are more common in agreements relating to the funding of infrastructure or other capital projects.

43 Amongst other things, agencies certify that the relevant Commonwealth Minister (or authorised delegate) has determined that the payments can be made in accordance with expenditure and performance reporting arrangements set out in relevant National Partnership agreements and in accordance with relevant provisions of the Intergovernmental Agreement on Federal Financial Relations.



## *ANAO audit coverage*

### Financial statement audit coverage

**4.43** The ANAO's financial statement audit coverage of the Treasury's annual financial statements includes an assessment of the completeness and accuracy of all payments to the States and Territories.

**4.44** Audit coverage in individual agencies includes a review of arrangements in place to monitor the achievement of performance benchmarks, project milestones and other conditions, such as those mentioned in paragraph 4.39 above, that are required to be met before payments are made.

**4.45** During the final phase of the 2012–13 financial statement audits, the ANAO examined whether payments totalling in excess of \$8 billion in 2012–13 that were made pursuant to a range of agreements were appropriately authorised. This involved a review of a sample of agreements, including a number that require the achievement of specified performance benchmarks, project milestones and/or other conditions prior to payment. The ANAO's review identified that relevant agencies generally had controls in place to support the certification processes referred to above in paragraph 4.41. Our audits did, nevertheless, identify that:

- while the Intergovernmental Agreement contains broad objectives in relation to public accountability and performance reporting, there is a wide variation in the accountability and reporting arrangements specified in individual agreements;
- the terms of individual agreements generally did not provide for information, particularly of a non-financial nature, to be subject to independent assurance or verification;<sup>44</sup>
- while agreements generally provided the authority for Commonwealth agencies to seek clarification or obtain additional information from the States and Territories, agreements generally did not include provisions that allowed the Commonwealth to obtain independent assurance on

---

44 For example, payments based on States and Territories achieving certain performance targets or benchmarks.

the accuracy and completeness of information submitted by the States and Territories;<sup>45</sup> and

- in the small number of cases where agreements provided the Commonwealth with the authority to have direct access to information and records maintained by the States and Territories, the relevant agency generally did not utilise these provisions.

#### Performance audit coverage

**4.46** Our financial statement audit coverage is complemented by a range of performance audits that have reviewed individual agencies' responsibilities for managing individual National Partnership agreements. Performance audits completed in the last two years include:

- Administration of the National Partnership on Early Childhood Education (Audit Report No. 10 2011–12);
- Implementation of the National Partnership Agreement on Remote Indigenous Housing in the Northern Territory (Audit Report No. 12 2011–12);
- Indigenous Early Childhood Development, New Direction: Mothers and Babies Services (Audit Report No. 35 2011–12);
- National Partnership Agreement on Literacy and Numeracy (Audit Report No. 41 2011–12);
- National Partnership Agreement on Remote Service Delivery (Audit Report No. 43 2011–12);
- Administration of Commonwealth Responsibilities under the National Partnership Agreement on Preventive Health (Audit Report No. 12 2012–13);
- The Preparation and Delivery of the Natural Disaster Recovery Work Plans for Queensland and Victoria (Audit Report No. 24 2012–13);

---

45 The COAG Reform Council's Assessment Framework for National Partnerships with reward funding indicates that the Council 'may request additional information directly from governments where necessary to assist the assessment of performance benchmarks (milestones or targets)'. The Framework also indicates that: 'an assessment based on a government's report against agreed performance benchmarks may be verified to the extent that information is available in the public domain; and where such verification is not feasible, evidence to support an achievement of a reform or initiative may be requested from governments'. The Assessment Framework does not provide for the Council's direct access to information and records of State and Territory governments.

- Implementation of the National Partnership Agreement on Homelessness (Audit Report No. 31 2012–13); and
- Indigenous Early Childhood Development: Children and Family Centres (Audit Report No. 38 2012–13).

**4.47** The need to improve the effectiveness of reporting in informing the responsible Commonwealth agency of performance in achieving the outcomes of individual agreements and providing visibility to the Commonwealth on key matters of implementation was an area highlighted in many of the above-mentioned performance audits. Particular issues included the limited availability of relevant data and a tendency for performance frameworks to focus on activities rather than outcomes or reform objectives. Clarity of roles and responsibilities of agencies was another area often identified, particularly in relation to agreements with a large number of shared responsibilities, but also in respect to the role of the Commonwealth agency in areas where State and Territory governments carried the dominant service delivery role. In some cases, the Commonwealth identified reforms to service delivery as a key expected outcome of National Partnership agreements but the design of funding and reporting arrangements did not support an assessment of whether these reforms were being progressed or achieved.

**4.48** Other issues in relation to the ongoing administration of agreements identified by these audits include the importance of developing strong working relationships to facilitate efficient targeting of priorities and alignment with existing services delivered by different levels of government. In this respect, stronger management approaches under some agreements included joint staffing structures for program delivery and representation in communities, and the use of existing state/territory based structures and networks for consultation, joint planning and oversight of activities. In some agreements, collaboration was important to negotiate the delivery of shared responsibilities although no funding transfers were involved from the Commonwealth to the States or Territories.

## **Conclusion**

**4.49** As National Partnership arrangements continue to evolve, the ANAO considers there would be benefit in relevant agencies exploring opportunities, within existing administrative arrangements and in the design of future agreements, for introducing mechanisms for obtaining additional assurance over the integrity of information provided by the States and Territories,

particularly where Commonwealth payments are dependent on this information. Such mechanisms could include: providing the Commonwealth, in specified circumstances, access to information and records of other jurisdictions, as is the case in a number of existing agreements; and/or the States and Territories engaging an independent party to provide assurance over the integrity of such information; and/or relying on a State or Territory Auditor-General to independently verify information and provide assurance to the Commonwealth over the integrity of information. The strengthening of assurance mechanisms would assist in providing increased confidence to the Commonwealth, and the States and Territories, about the integrity of performance data particularly in circumstances where this performance data influences the level of Commonwealth payments under the agreements between governments.

**4.50** More broadly, the ANAO has been raising the need for a greater focus by agencies on assessing the impact of programs on the achievement of agreed outcomes. This issue is also relevant in the context of programs that are governed by a National Partnership agreement. While the design of future agreements is a matter for governments to decide, audits have highlighted that there is scope in the design of future agreements to enhance the arrangements for measuring the achievement of program outcomes for the benefit of all stakeholders. This could include a reassessment of how performance against agreed outcomes is measured, assessed and reported, including providing a closer link between project payments and the achievement of agreed milestones and outcomes. The design of the assurance framework will be more important should the achievement of performance benchmarks and agreed program outcomes become a stronger focus in future agreements.

## 5. Summary of Audit Results

---

*This chapter includes: a summary of issues included in our reports on entities' 2012–13 financial statements including a commentary on actual and potential breaches of section 83 of the Constitution and the High Court's most recent decision on Commonwealth expenditure in Williams v Commonwealth (2012) in a number of entities; a summary of other audit findings identified in the 2012–13 audits; and a brief commentary on the preparation of entity 2012–13 financial statements and the 2012–13 Certificate of Compliance process.*

### Audit approach

**5.1** Each year the Auditor-General is required to report to the relevant Minister on whether the financial statements of individual Australian Government entities have been prepared in accordance with the Finance Minister's Orders (FMOs) and whether they give a true and fair view of the matters required by the FMOs.

**5.2** As previously indicated, the ANAO conducts its financial statement audits in accordance with ANAO Auditing Standards which incorporate the Australian Auditing Standards. An audit performed in accordance with the Australian Auditing Standards is designed to provide reasonable assurance that a financial report taken as a whole is free from material misstatement whether due to fraud or error. Reasonable assurance as defined in the Australian Auditing Standards means a high, but not absolute, level of assurance. It is reached when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial report is materially misstated) to an acceptably low level. However, reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit as most of the audit evidence on which the auditor draws conclusions on which the auditor's opinion is based is persuasive rather than conclusive.<sup>46</sup>

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

---

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

performing an audit that accepts no, or an extremely low, level of risk. The ANAO performs specific audit procedures based on this low level of risk including, for example, reviewing the operation of internal controls, testing a sample of transactions and account balances, confirming year end balances with third parties and undertaking analytical reviews.

**5.4** Financial statement audits focus on the significant financial reporting risks facing entities and the manner in which the entities seek to manage those risks. The risks will vary according to such matters as the size and nature of the entity, including the nature of its operating environment, the complexity of its information technology systems and the geographical spread of its operations. The auditor's understanding of the entity, its environment and its internal controls and previous audit findings, helps the auditor design the work needed and respond to significant risks.<sup>47</sup> Broad areas of audit focus, determined as a result of our planning approach, are discussed in chapter 6 in relation to each material entity covered by this report.

**5.5** Our financial statement audit coverage also takes into account the findings of performance audits, including relevant cross-agency performance audits. In particular, the potential impact on an entity's financial statements of matters referred to in performance audits is considered in determining our financial statement audit coverage. In many cases, issues relating to the administration of a program or activity included in our performance audits will not have a significant financial statement impact. In other cases, our performance audit work and findings will inform our financial statement risk assessment and audit approach.

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

**5.7** The ANAO's Audit Report No. 49 2012–13 reported the results of the interim phase of the 2012–13 audits of major General Government Sector

---

47 Significant risks are those risks of material misstatement of the financial statements that, in the auditor's judgement, require special audit consideration.

agencies. The results of the 2012–13 audits of 252 Australian Government entities are presented in this report.<sup>48</sup>

## Classification of entities

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

**5.9** As at 30 June 2013, the following 11 entities represented a significant proportion of the Australian Government’s 2012–13 financial statement balances:

- Australian Office of Financial Management;
- Australian Taxation Office;
- Department of Defence;
- Department of Education, Employment and Workplace Relations;
- Department of Families, Housing, Community Services and Indigenous Affairs;
- Department of Finance and Deregulation;
- Department of Health and Ageing;
- Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education;
- Department of the Treasury;
- Future Fund Management Agency and the Board of Guardians; and
- Reserve Bank of Australia.

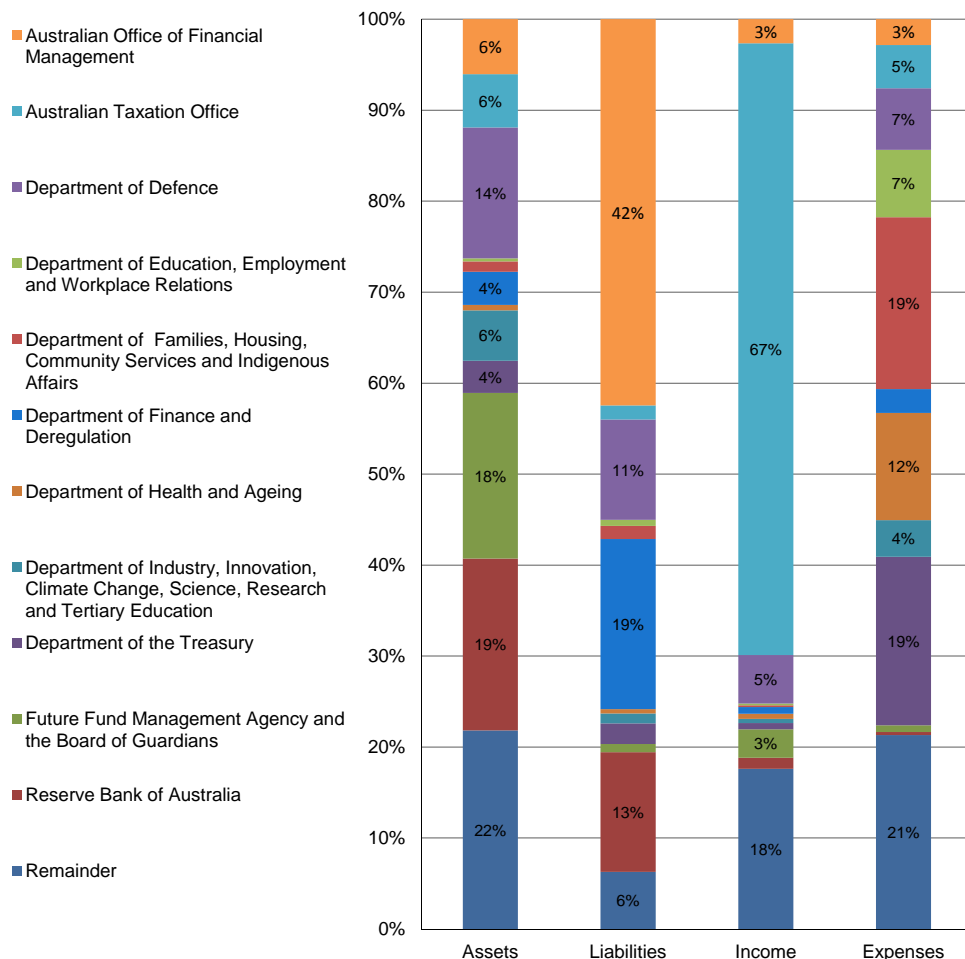
**5.10** The contribution of these entities to the Australian Government’s assets, liabilities, income and expenses balances<sup>49</sup> is shown in figure 5.1.

---

48 Appendix 2 provides details of changes in audit responsibilities in 2012–13.

49 Prior to the elimination of inter entity transactions.

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



Source: ANAO analysis.

## Summary of results of audits

### Summary of reports issued

**5.11** The Auditor-General and his delegates issued auditors’ reports on the 2012–13 financial statements of 252 Australian Government reporting entities. In each case, the audit opinion was unmodified as in the auditor’s opinion, the financial statements gave a true and fair view of the financial position, financial performance and cash flows of the entity in accordance with the applicable financial reporting framework. Where appropriate, an auditor’s



report can, without affecting the audit opinion on the financial statements, also draw attention to matters of importance to the understanding of the financial statements or the audit, or include a report on other legal and regulatory requirements. A summary of this information is in table 5.1 below. Appendix 3 explains in more detail the financial reporting frameworks applicable in the Australian Government and the form and content of auditor's reports.

**Table 5.1: Summary of auditors' reports issued and outstanding**

| Financial Statement Auditor's Reports*    | 2012–13    | 2011–12    |
|---|------------|------------|
| Unmodified auditors' reports**            | 252        | 254        |
| Emphasis of matter                        | 5          | 6          |
| Other legal and regulatory requirements** | 22         | 21         |
| Modified auditors' reports                | 0          | 0          |
| <b>Total issued</b>                       | <b>252</b> | <b>254</b> |
| Auditors' reports outstanding             | 8          | 7          |
| <b>Total number of audits</b>             | <b>260</b> | <b>261</b> |

Source: ANAO analysis.

\* As at 30 November 2013.

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

## Entity auditors' reports containing a modification or an emphasis of matter

**5.12** Five auditors' reports for the 2012–13 year contained an emphasis of matter (six in 2011–12).

### *Aged Care Standards and Accreditation Agency Ltd*

**5.13** The auditor's report on the financial report of the Aged Care Standards and Accreditation Agency Ltd (ACSAA) contained an emphasis of matter that draws attention to Note 1 of the 2012–13 financial report which stated that the *Australian Aged Care Quality Agency Act 2013* and the *Australian Aged Care Quality Agency (Transitional Provisions) Act 2013* (the Acts) received Royal Assent on 28 June 2013. The Acts established the Australian Aged Care Quality Agency (Quality Agency) as a statutory agency and make transitional provisions for the transfer of assets and liabilities of the ACSAA to the Quality Agency on 1 January 2014. Accordingly, the ACSAA is not a going concern.

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

### *ANU Section 68 Pty Ltd*

**5.15** The auditor's report on the 2012 financial statements of ANU Section 68 Pty Ltd contained an emphasis of matter that draws attention to the fact that the financial statements have been prepared on a liquidation basis as it was the expectation of the company that it would be wound up within a 12 month period.

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

### *Low Carbon Australia Limited*

**5.17** The auditor's report on the 2012–13 financial statements of Low Carbon Australia Ltd contained an emphasis of matter that draws attention to the fact that the financial report has not been prepared on a going concern basis due to Low Carbon Australia Ltd ceasing trading from 1 July 2013 with the operations being integrated into the Clean Energy Finance Corporation.

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

### *Sugar Research and Development Corporation*

**5.18** The auditor's report on the financial statements of the Sugar Research and Development Corporation (SRDC) contained an emphasis of matter that draws attention to the notes to the 2012–13 financial statements which stated that, following the passing of the *Sugar Research and Development Services Act 2013*, the *Sugar Research and Development Services (Consequential Amendments and Transitional Provisions) Act 2013*, and the *Sugar Research and Development Services (Consequential Amendments - Excise) Act 2013*, SRDC ceased to exist from 1 October 2013.

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

### *Wheat Exports Australia*

**5.20** The auditor's report on the financial statements of the Wheat Exports Australia (WEA) contained an emphasis of matter that draws attention to the notes to the 2012–13 financial statements which stated that, following the passing of the *Wheat Export Marketing Amendment Act 2012*, WEA ceased to exist on 31 December 2012.

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

## Legislative compliance

**5.22** The financial framework for the Australian Government entities included in this report is established by the FMA and CAC Acts and their subsidiary legislation.<sup>50</sup> The key feature of the framework is that the Chief Executive or board of each entity is responsible for the financial management of their entity, including compliance with applicable laws and associated policies.

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

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

**5.25** The coverage by the ANAO involves assessing key aspects of legislative compliance in relation to annual appropriations, special appropriations, special accounts and the investment of public monies. Audit testing includes confirming the presence of key documents or authorities, and testing of relevant transactions directed at obtaining reasonable assurance about agencies' compliance with these key components of the financial management framework. ANAO audits also review the results of compliance self-assessment and processes and other reviews undertaken in the context of entities' Certificate of Compliance responsibilities that involve the annual reporting to the Finance Minister of any known breaches of the financial management framework.

### *Observations*

**5.26** As in previous years, the ANAO identified an overall high level of compliance in these areas, except in respect of actual and potential breaches of section 83 of the Constitution. These matters are discussed at paragraphs 5.27 to 5.40 below.

---

50 These Acts are to be replaced by the *Public Governance, Performance and Accountability Act 2013* on 1 July 2014

## *Section 83 of the Constitution*

**5.27** Audit Reports No. 16 2012–13 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2012* and No. 49 2012–13 *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the Year Ended 30 June 2013*, included a discussion of agencies' progress in addressing the risk of breaches of section 83 of the Constitution. Section 83 provides that no money should be drawn from the Treasury of the Commonwealth except under an appropriation made by law and requires that all spending by the Executive Government from the Consolidated Revenue Fund must be in accordance with an authority given by the Parliament. Breaches of section 83 can occur in a range of circumstances, including when payments are made from appropriations that do not comply with the specific requirements of the relevant legislation. This includes situations where an administrative error such as a duplicate payment occurs, even if the overpayment is able to be recovered.

**5.28** As reported in Audit Report No. 16, all affected agencies had undertaken or commenced a review, based on guidance issued by Finance, of payments made from special appropriations, including special accounts, to assess the risk of a breach of Section 83. These reviews identified a large number of actual or potential Section 83 breaches in a number of agencies.

**5.29** Audit Report No. 16 2012–13 also referred to the enactment of the *Financial Framework Legislation Amendment Act No. 2) 2012* (the FFLA Act) in June 2012 that amended 21 Acts relevant to six portfolios to regularise Commonwealth payments supported by special appropriations, including special accounts, consistent with legislative requirements and section 83 of the Constitution.

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

**5.31** During 2012–13, the Parliament passed the *Financial Framework Legislation Amendment Acts (No. 1 and No. 2) 2013*. These Acts included amendments to a number of Acts to further regularise certain Commonwealth payments to address the risk of breaches of section 83 of the Constitution.

**5.32** The final phase of the 2012–13 financial statement audits of agencies continued to include a review of agencies' progress in finalising the risk

assessments relating to potential section 83 breaches, and actions taken as a result of these assessments.

**5.33** Consistent with the results of the 2011–12 audits, the 2012–13 audits identified that, at the date of the signing of their financial statements, the majority of agencies had completed or updated their risk assessments and no section 83 breaches were identified or the risk of section 83 breaches had been assessed as low. For these agencies, no reference was made to this issue in the respective auditor’s report on their 2012–13 financial statements.

**5.34** In 21 agencies, the risk assessments undertaken, including in relation to payments of long service leave, goods and services tax and payments under determinations of the Remuneration Tribunal, identified actual and/or potential breaches of section 83, details of which were included in the Notes to each agency’s 2012–13 financial statements and the auditor’s report on the financial statements.<sup>51</sup> The CFS and the auditor’s report on the CFS also included a reference to the aggregate number of actual and potential section 83 breaches reported by agencies. The section 83 reference in the auditors’ reports was included under other legal and regulatory requirements due to the importance of this issue in a public sector context, but the reports were unmodified as the financial statements fairly represented the financial operations and position of the agency at year end.<sup>52</sup>

**5.35** Breaches identified by agencies in 2012–13 totalled approximately \$31.3 million and potential breaches totalled approximately \$537.5 million.<sup>53</sup> Consistent with the situation in 2011–12, the large majority of both breaches and potential breaches involve situations where agencies rely on information from clients and other parties, including personal information such as estimates of income and employment status, as the basis for the payment of benefits and other payments such as superannuation entitlements. An actual or potential breach of section 83 can occur when this information is subsequently found to be incorrect and the legislation does not explicitly provide for these inaccuracies. The risk assessments in a small number of agencies also identified

---

51 In a number of agencies, the actual or potential breaches were in relation to payments made between 1 July 2012 and the date of effect of relevant legislative amendments made in the relevant FFLA Act referred to above.

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

53 These figures are derived from Note 1.28 of the Consolidated Financial Statements that disclosed details of actual and potential breaches of section 83 of the Constitution.

that control weaknesses had resulted in, or at least contributed to, actual or potential breaches.

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

**5.37** Agencies have in place a range of controls and other mechanisms designed to ensure that payments to recipients are in accordance with legislative requirements. Consistent with the position in 2011–12, in the large majority of instances where there were actual or potential section 83 breaches, agencies recovered, or were able to recover, overpayments through normal mechanisms such as adjustments to future payments and routine debt recovery processes. In other instances, action was taken to obtain approval to waive or write off debts on the basis that it would be inequitable to recover the amounts overpaid or it would not be cost effective to do so in view of the relatively small amounts involved.

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

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

**5.40** Each of the 21 agencies which disclosed details of actual or potential section 83 breaches in its 2012–13 financial statements is identified in the relevant portfolio table in chapter 6.

### *Constitutional validity of Commonwealth expenditure*

**5.41** Audit Report No. 16 2012–13 (at paragraphs 5.44 and 5.45) referred to the High Court’s judgement of 20 June 2012 in *Williams v Commonwealth* (2012) 288 ALR 410 (*Williams*) that payments made under the National School Chaplaincy program were constitutionally invalid and to the passage by the Parliament on 28 June 2012 of the *Financial Framework Legislation Amendment Act (No. 3) 2012*. This Act, amongst other things, was passed to provide Parliamentary authority for the Chaplaincy program and for over 400 other programs and arrangements identified at the time as not supported by legislation other than an appropriation Act.

**5.42** The 2012–13 Australian Government’s Consolidated Financial Statements and the 2012–13 financial statements of relevant entities disclosed, in the notes to these statements, that the Australian Government continues to have regard to developments in case law, including the decision in *Williams*, as they contribute to the larger body of law relevant to the development of Commonwealth programs. In accordance with its general practice, the Australian Government will continue to monitor and assess risk and decide on any appropriate actions to respond to risks of expenditure not being consistent with constitutional and other legal requirements.

## Summary of other audit findings

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

**Table 5.2: ANAO rating structure**

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

Source: ANAO reporting framework.

**5.44** In addition, the ANAO reports to entities and the Parliament any instances identified of non-compliance, or potential non-compliance, with: the Constitution; the entity’s enabling legislation; legislation that the entity is responsible for administering; and the FMA or CAC Acts. These are reported

as L1 findings. In addition, potential breaches of section 83 of the Constitution that are included in the auditor's report on the entity's financial statements are reported as L1 findings.

**5.45** The final phase of the 2012–13 audits included a review of progress achieved by entities in addressing audit issues identified during the 2012–13 interim phase or carried forward from previous years. Similar to the experience in recent years, most entities have made good progress in resolving outstanding audit issues.

**5.46** In situations where the ANAO reviewed actions taken and was satisfied that the issue had been satisfactorily addressed, the matter has been reported as 'resolved'. Where the issue has been partly addressed, the finding may be downgraded in significance. In other cases, the ANAO will review the actions taken by entities as part of the 2013–14 audits.

**5.47** Issues identified during the final phase of the 2012–13 audits included issues relating to: controls in entities' IT environments, such as user access and the segregation of duties; asset management processes including the valuation of assets and reporting of inventory; business system processing controls; and documentation of defined policies and procedures. These issues are generally consistent with our audit findings in previous years.

**5.48** Details of category A, B and L1 audit findings for each entity, together with a summary of the status of previously reported audit issues as well as new issues identified during the final phase of the 2012–13 audit, are provided in chapter 6 of this report.

**5.49** A summary of trends in category A, B and L1 findings between the 2011–12 and 2012–13 final audit phases for all entities is outlined below:

- there were no category A audit findings in 2012–13, consistent with the result in 2011–12;
- the total number of category B audit findings decreased from 38 in 2011–12 to 30 in 2012–13;
- there was a reduction in the number of category B findings in 12 entities; nine entities showed an increase in the number of category B findings; and five entities reported the same number of category B findings; and



- the total number of category L1 findings decreased from 22 in 2011–12 to 21 in 2012–13.<sup>54</sup>

**5.50** The following information is provided in appendix 5:

- the number of category A, B and L1 audit findings for agencies included in Audit Report No. 49 2012–13<sup>55</sup> at the conclusion of the interim phase of the 2012–13 audits (table A.1);
- the number of category A, B and L1 audit findings for all material entities at the conclusion of the final phase of 2012–13 audits (table A.2); and
- the number of category A, B and L1 audit findings in non-material entities at the conclusion of the final phase of 2012–13 audits (table A.3).

## Preparation of entity financial statements

**5.51** The preparation and publication of annual audited financial statements is a key means by which entities meet their financial accountability and legislative obligations. It is generally accepted that a good indicator of the effectiveness of an entity's stewardship and financial management processes is the timely finalisation of the entity's financial statements, accompanied by an unmodified audit opinion. While acknowledging the challenges caused by tight completion requirements, rushed preparations, particularly if caused by poor project management or process shortcomings, heighten the risk of error or unreasonable resource usage in completing the financial statements. The emphasis is on both the timeliness and quality of financial reporting.

### Financial statement timeframes

**5.52** For 2012–13, material entities were required to submit audit cleared financial information to Finance by 15 August 2013. For non-material agencies, the date was 30 August 2013.

**5.53** Eighty per cent of material entities met the 15 August 2013 deadline and 68 per cent of non-material entities met the deadline of 30 August 2013. This is largely consistent with the position in 2011–12.

---

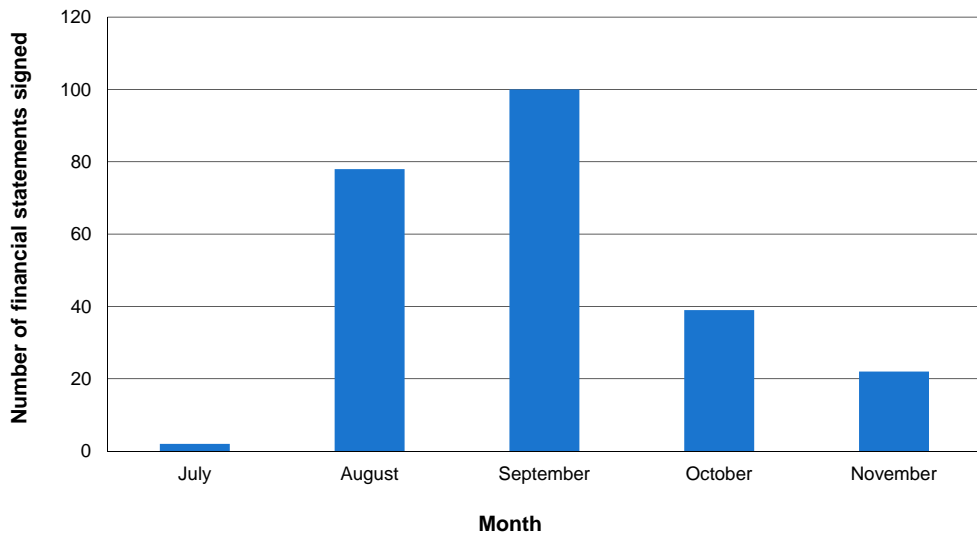
54 This analysis includes audit findings in relation to non-material entities which have previously only been included in relevant portfolio sections in chapter 6 of this report.

55 This report provides details of the results of the 2012–13 interim audit phase of 25 major General Government Sector agencies. These agencies are listed in table A.1 of appendix 5 of this report.

**5.54** There are no specific deadlines for the signing of the actual financial statements (although in a number of entities the financial statements were signed at or about the same time as audit cleared information was provided to Finance) and the issue of the related audit opinion. There is, however, a deadline of 31 October for the tabling of entities' annual reports<sup>56</sup> that are required to include a copy of the signed financial statements and the auditor's report. Ninety-eight percent of our auditors' reports on 2012–13 financial statements were signed within two days of the signed financial statements compared with 100 per cent for the 2011–12 financial statements.

**5.55** An analysis of the dates on which entities' financial statements were signed is provided in figure 5.2.

**Figure 5.2: Analysis of date of signing of the 2012–13 financial statements\***



Source: ANAO analysis.

\* Includes financial statements signed up to 30 November 2013.

**5.56** Consistent with previous years, the audits of a large majority of entities' financial statements were completed within three months of the end of the financial year. Overall, this continues to reflect positively on the priority entities give to meeting their financial reporting responsibilities and on the financial stewardship of the public sector generally.

56 Agencies are required to table their Annual Reports by 31 October. CAC Act authorities are required to provide their Annual Report to the responsible Minister by the 15th day of the fourth month after the end of the financial year, that is, 15 October.

## Financial statement preparation processes

**5.57** As part of the 2012–13 final audits, the ANAO reviewed entities' financial statement preparation processes. The ANAO observed that the majority of entities have an effective control framework necessary for the preparation of their 2012–13 financial statements. Areas of improvement included: working papers supporting disclosures in the financial statements; adherence to financial statement preparation timetables; and quality assurance processes. Compared with 2011–12, for a small number of entities, there had been deterioration in the financial statement preparation processes in the areas mentioned above. All entities are encouraged to maintain their commitment to the preparation of timely and accurate financial statements as a key element of their financial management responsibilities. To assist entities to prepare their financial statements in an efficient and effective manner, the ANAO published a Better Practice Guide *Preparation of Financial Statements by Public Sector Entities* in June 2013.

## Certificate of Compliance

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

**5.59** Consistent with established practice, the ANAO obtained, as part of the 2012–13 financial statement audit process, details of actual or potential breaches of the relevant financial framework referred to in entities' certificate or other records. The impact of any reported breaches on the financial statements was considered prior to the signing of the auditor's report.

**5.60** Finance has advised that for the 2012–13 reporting period, 110 agencies submitted certificates with a total of 14 027 instances of non-compliance reported by agencies. This represents an increase in reported non-compliance of about ten per cent, compared to the 12 798 instances reported in 2011–12.

**5.61** Finance advised that the increase in non-compliance is due to the introduction of a new mandatory reporting requirement in the *Commonwealth*

*Procurement Rules* (CPR) which came into effect on 1 July 2012.<sup>57</sup> Removing the impact of this new CPR requirement, overall non-compliance decreased to approximately 10 000 instances, reflecting continuous improvement, both in agency processes and to the framework more broadly.

**5.62** Four public reports on the certificate results have been tabled in the Parliament. The fifth report is expected to be tabled in early 2014.

---

57 Agencies are now required to report in the certificate whether contracts are posted on AusTender within 42 days of entering into, or amending, the contract.

## 6. Results of Financial Statement Audits by Portfolio

---

*This chapter summarises the results of the audits of the 2012–13 financial statements of individual Australian Government entities by portfolio.*

### Introduction

**6.1** For reporting purposes, the structure of this chapter reflects the portfolio arrangements existing at 30 June 2013.<sup>58</sup>

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

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

**6.3** The table also identifies, for each entity, whether previously reported significant or moderate issues remain unresolved and/or new significant or moderate issues have been identified during the 2012–13 audit.

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

**6.5** For each material entity<sup>59</sup>, the balance of key financial measures for 2011–12 and 2012–13, split between departmental and administered where applicable, are provided. A brief explanation of any fluctuations in these measures that are significant is also provided. Broad areas of audit focus determined as a result of our planning approach, or subsequently, which were significant in terms of their potential impact on the entity's 2012–13 financial statements, are listed for each material entity.

**6.6** For each portfolio entity, the chapter also indicates the status of significant and moderate audit issues, and significant legislative issues

---

58 These arrangements were as established by the Administrative Arrangements Order dated 16 May 2013. Machinery of Government changes that took effect on 18 September 2013 are summarised in each portfolio section.

59 Seventy-two entities are classified as material entities for whole of government reporting purposes with the remainder classified as non-material. Entities considered material collectively account for some 99 per cent of assets, liabilities, income and expenses of the Australian Government.

(category A and B, and L1 issues respectively) identified in the 2012–13 interim audit phase, or in prior years. Where issues relate to a major General Government Sector agency, they were reported in Audit Report No 49 2012–13. (These agencies are listed in table A.1 of appendix 5 of this report.) The chapter also provides a summary of new significant or moderate audit issues and significant legislative issues arising from the final phase of 2012–13 audits.

6.7 A summary of significant, moderate and L1 findings arising from the 2012–13 audits for all entities is provided in the following table. A full listing of the results of audits for 2011–12 and 2012–13 is at tables A.2 and A.3 of appendix 5 of this report.

**Table 6.1: Significant, moderate and L1 findings arising from the 2011–12 and 2012–13 audits for all entities**

| Entity  | 2012–13 Rating |   |     | 2011–12 Rating |    |     |
|---|----------------|---|-----|----------------|----|-----|
|   | A              | B | L1* | A              | B  | L1* |
| Agriculture, Fisheries and Forestry Portfolio                   |                |   |     |                |    |     |
| Department of Agriculture, Fisheries and Forestry               | –              | – | –   | –              | –  | 1   |
| Attorney–General’s Portfolio                                    |                |   |     |                |    |     |
| Attorney–General’s Department                                   | –              | – | 1   | –              | –  | 1   |
| Australian Customs and Border Protection Service                | –              | 1 | 1   | –              | 3  | 1   |
| Family Court of Australia                                       | –              | 1 | –   | –              | –  | –   |
| Federal Circuit Court of Australia                              | –              | 1 | –   | –              | –  | –   |
| Federal Court of Australia                                      | –              | 2 | –   | –              | 2  | –   |
| Insolvency and Trustee Service Australia                        | –              | – | –   | –              | –  | 2   |
| Broadband, Communications and the Digital Economy Portfolio     |                |   |     |                |    |     |
| Department of Broadband, Communications and the Digital Economy | –              | – | –   | –              | 1  | –   |
| Australian Postal Corporation                                   | –              | 2 | –   | –              | 1  | –   |
| NBN Co Limited  | –              | 2 | –   | –              | 2  | –   |
| Defence Portfolio   |                |   |     |                |    |     |
| Department of Defence   | –              | 8 | 1   | –              | 10 | 1   |
| Defence Materiel Organisation                                   | –              | 1 | –   | –              | 2  | –   |
| Department of Veterans’ Affairs                                 | –              | 2 | 2   | –              | 5  | 2   |
| Royal Australian Navy Canteen Board                             | –              | – | –   | –              | 1  | –   |

## Results of Financial Statement Audits by Portfolio

| Entity  | 2012–13 Rating |   |     | 2011–12 Rating |     |     |
|---|----------------|---|-----|----------------|-----|-----|
|   | A              | B | L1* | A              | B   | L1* |
| Education, Employment and Workplace Relations Portfolio                                       |                |   |     |                |     |     |
| Department of Education, Employment and Workplace Relations                                   | –              | 1 | 1   | –              | –   | 1   |
| Families, Housing, Community Services and Indigenous Affairs Portfolio                        |                |   |     |                |     |     |
| Department of Families, Housing, Community Services and Indigenous Affairs                    | –              | – | 1   | –              | –   | 1   |
| Aboriginals Benefit Account   | –              | – | 1   | –              | –   | 1   |
| Anindilyakwa Land Council   | –              | – | 1   | –              | –   | –   |
| Northern Land Council   | –              | 1 | –   | –              | –   | –   |
| Wreck Bay Aboriginal Community Council  | –              | 1 | –   | –              | 1   | –   |
| Finance and Deregulation Portfolio  |                |   |     |                |     |     |
| Department of Finance and Deregulation  | –              | 1 | 1   | –              | –   | 1   |
| Australian Electoral Commission   | –              | – | –   | –              | 1   | –   |
| Commonwealth Superannuation Corporation   | –              | – | –   | –              | 2   | –   |
| ComSuper  | –              | – | 1   | –              | –   | 1   |
| Foreign Affairs and Trade Portfolio   |                |   |     |                |     |     |
| Australian Agency for International Development (AusAID)                                      | –              | – | –   | –              | –   | 1   |
| Health and Ageing Portfolio   |                |   |     |                |     |     |
| Department of Health and Ageing   | –              | – | 1   | –              | –   | 1   |
| Human Services Portfolio  |                |   |     |                |     |     |
| Department of Human Services  | –              | 1 | 1   | –              | 2   | 1   |
| Immigration and Citizenship Portfolio   |                |   |     |                |     |     |
| Department of Immigration and Citizenship   | –              | – | 2   | –              | –   | –   |
| Industry, Innovation, Climate Change, Science, Research and Tertiary Education Portfolio      |                |   |     |                |     |     |
| Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education* | –              | – | 1   | –              | 1** | 1   |
| Infrastructure and Transport Portfolio  |                |   |     |                |     |     |
| Department of Infrastructure and Transport  | –              | – | –   | –              | –   | 1   |
| Australian Rail Track Corporation Limited   | –              | – | –   | –              | 1   | –   |
| Prime Minister and Cabinet Portfolio  |                |   |     |                |     |     |
| Australian Public Service Commission  | –              | – | 1   | –              | –   | 1   |

| Entity  | 2012–13 Rating |           |           | 2011–12 Rating |           |           |
|---|----------------|-----------|-----------|----------------|-----------|-----------|
|   | A              | B         | L1*       | A              | B         | L1*       |
| Regional Australia, Local Government, Arts and Sport Portfolio            |                |           |           |                |           |           |
| Australian National Maritime Museum                                       | –              | 1         | –         | –              | 1         | –         |
| Australian Sports Anti-Doping Authority                                   | –              | –         | 1         | –              | –         | –         |
| National Film and Sound Archive   | –              | 1         | –         | –              | –         | –         |
| National Gallery of Australia   | –              | –         | –         | –              | 1         | –         |
| Resources, Energy and Tourism Portfolio                                   |                |           |           |                |           |           |
| Department of Resources, Energy and Tourism                               | –              | –         | –         | –              | –         | 1         |
| National Offshore Petroleum Safety and Environmental Management Authority | –              | 1         | 1         | –              | –         | –         |
| Treasury Portfolio  |                |           |           |                |           |           |
| Department of the Treasury  | –              | –         | 1         | –              | –         | 1         |
| Australian Bureau of Statistics   | –              | 1         | –         | –              | –         | –         |
| Australian Securities and Investments Commission                          | –              | –         | 1         | –              | –         | –         |
| Australian Taxation Office  | –              | –         | –         | –              | –         | 1         |
| Royal Australian Mint   | –              | 1         | –         | –              | 1         | –         |
| <b>Total</b>  | <b>–</b>       | <b>30</b> | <b>21</b> | <b>–</b>       | <b>38</b> | <b>22</b> |

\* Formerly the Department of Industry, Innovation, Science, Research and Tertiary Education.

\*\* A category B finding was raised for the Department of Climate Change and Energy Efficiency which remained unresolved at the closing of the 2011–12 final audit phase. Climate Change functions were transferred to the Department of Industry, Innovation, Science, Research and Tertiary Education as a result of Machinery of Government changes on 25 March 2013.



# Agriculture, Fisheries and Forestry Portfolio<sup>60</sup>

| Reporting Entity   | Material Entity | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit issues identified |
|--|-----------------|--------------------------|----------------------------------|------------------------------|-------------------------|
| Department of Agriculture, Fisheries and Forestry        | Yes             | ✓                        | 26 Aug 13                        | 26 Aug 13                    | ☐                       |
| Australian Fisheries Management Authority                | No              | ✓                        | 11 Sept 13                       | 11 Sept 13                   |                         |
| Australian Pesticides and Veterinary Medicines Authority | No              | ✓                        | 2 Sept 13                        | 2 Sept 13                    |                         |
| Cotton Research and Development Corporation              | No              | ✓                        | 19 Sept 13                       | 19 Sept 13                   |                         |
| Fisheries Research and Development Corporation           | No              | ✓                        | 28 Aug 13                        | 28 Aug 13                    |                         |
| Grains Research and Development Corporation              | Yes             | ✓                        | 8 Aug 13                         | 8 Aug 13                     |                         |
| Grape and Wine Research and Development Corporation      | No              | ✓                        | 23 Aug 13                        | 23 Aug 13                    |                         |
| Rural Industries Research and Development Corporation    | No              | ✓                        | 6 Sept 13                        | 6 Sept 13                    |                         |
| Sugar Research and Development Corporation               | No              | ✓E                       | 9 Sept 13                        | 9 Sept 13                    |                         |
| Wheat Exports Australia                                  | No              | ✓E                       | 26 Aug 13                        | 26 Aug 13                    |                         |
| Wine Australia Corporation                               | No              | ✓                        | 28 Aug 13                        | 28 Aug 13                    |                         |

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

☐: significant or moderate issues and/or legislative matters identified in previous periods, or the 2012–13 interim audit phase, now downgraded or resolved

## Portfolio Overview

**6.8** As at 30 June 2013, the Agriculture, Fisheries and Forestry portfolio was responsible for enhancing the sustainability, profitability and competitiveness of Australia's agriculture, food, fisheries and forestry industries.

**6.9** During 2012–13, the portfolio comprised the Department of Agriculture, Fisheries and Forestry and a number of prescribed agencies,

<sup>60</sup> The portfolio was renamed the Agriculture Portfolio as part of the MOG changes on 18 September 2013.

statutory authorities and research and development corporations. These portfolio entities work towards the common goal of ensuring Australian agricultural, food, fisheries, and forestry industries are based on sustainable management of, and access to, natural resources, are more competitive, self-reliant and innovative, have increased access to markets, are protected from diseases and are underpinned by scientific advice and economic research.

## Department of Agriculture, Fisheries and Forestry<sup>61</sup>

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year *       | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 346.3          | 370.0          |
| Revenue from government                 | 298.1          | 327.5          |
| Surplus/(deficit) **                    | (48.2)         | (42.5)         |
| Total other comprehensive income/(loss) | –              | –              |
| Total comprehensive income/(loss)       | (48.2)         | (42.5)         |
| Total assets                            | 261.8          | 311.7          |
| Total liabilities                       | 218.6          | 236.4          |

\* The department's operating results are referred to in the ANAO's analysis of entities' operating results at paragraphs 4.8 to 4.12 of chapter 4 of this report.

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

**6.11** The net cost of services decreased mainly due to a reduction in employee and supplier expenses, and an increase in quarantine revenue relating to the meat industry.

**6.12** Revenue from government decreased mainly due to a number of budget measures including a reduction in the Export Control Reform Initiative (ECRI) rebate, the termination of a number of programs, and the effect of efficiency dividend targets achieved by the department in 2012–13.

---

61 The department was renamed the Department of Agriculture as part of the MOG changes on 18 September 2013.

**6.13** The deficit increased as a result of a decrease in revenue from government, partially offset by a decrease in the net cost of services.

**6.14** Assets decreased mainly due to a reduction in unspent appropriations following decreased revenue from government, while liabilities decreased due to a reduction in accrued expenses relating to plant export operations and grain rebates, meat inspection payments, and a reduction in IT project expenses.

**6.15** Fluctuations in other balances reflect normal business activities.

*Items administered on behalf of the Australian Government*

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 451.0          | 395.8          |
| Total expenses                  | 791.1          | 883.3          |
| Surplus/(deficit)               | (340.1)        | (487.5)        |
| Total assets                    | 344.4          | 302.0          |
| Total liabilities               | 79.0           | 94.6           |

**6.16** Own-source income increased mainly due to increased primary industry levies in respect of wheat production.

**6.17** Administered expenses decreased due to a decline in personal benefits expenses resulting from the cessation of the climate change adjustment programs and completion of a number of grant programs in 2013.

**6.18** Administered assets increased due to an increase in the value of the department's investment in the Grains Research and Development Corporation and the Cotton Research and Development Corporation.

**6.19** Fluctuations in other balances reflect normal business activities.

### Areas of audit focus

**6.20** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the department's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the accuracy and completeness of primary industry levies and charges revenue, in light of the complexity involved in estimating agricultural production on which the revenue is based, and the self-assessment nature of collections;

- arrangements for the collection of biosecurity revenue, of which a significant portion is collected by the Australian Customs and Border Protection Service on behalf of the department; and
- grant financial management processes, given the high number and value of grant programs administered by the department.

## **Audit results**

### *Summary of audit findings*

**6.21** Audit coverage of the key areas of audit focus did not identify any new significant or moderate audit issues.

**6.22** The matters giving rise to the legislative breach relating to section 83 of the Constitution that is discussed below have been resolved.

### *Actual breaches of section 83 of the Constitution*

**6.23** In its 2011–12 financial statements, the department reported 19 actual breaches of section 83 of the Constitution in relation to payments under the *Australian Animal Health Council (Livestock Industries) Funding Act 1996* which requires the department to make payments to the Australian Animal Health Council (the Council) of levies collected. The Act allowed a net payment of levies, after administrative costs, but did not support payment to the Council of the full amount of levies collected. Breaches occurred due to the department paying out the full amount of levies collected of approximately \$83 700. Amounts paid in breach were subsequently recovered by the department.

**6.24** Amendments were made to the *Australian Animal Health Council (Livestock Industries) Funding Act 1996* in June 2012 to allow the department to pay the full amount of levies and to separately invoice the Council for administrative costs. Changes were also made to a number of other Acts to reduce the risk of future section 83 breaches.

**6.25** The department has also implemented procedures to continue to monitor its level of compliance, including with section 83 of the Constitution, across all legislation for which it is administratively responsible. A general discussion of this matter is at paragraphs 5.27 to 5.40 in chapter 5 of this report.

## Grains Research and Development Corporation

### Summary of financial results

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

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 44.6           | 43.5           |
| Revenue from government                 | 62.8           | 55.9           |
| Surplus/(deficit)                       | 18.4           | 12.3           |
| Total other comprehensive income/(loss) | –              | 0.6            |
| Total comprehensive income/(loss)       | 18.4           | 12.9           |
| Total assets                            | 265.3          | 230.7          |
| Total liabilities                       | 84.7           | 68.4           |

**6.27** Total comprehensive income increased mainly due to increases in revenue received from government and levies revenue as a result of higher grain production resulting from improved climatic conditions and higher grain prices. The increase in comprehensive income allowed the Grains Research and Development Corporation (GRDC) to increase its asset holding by investing in a new managed fund. This new investment and the change in the fair value of existing investments resulted in an increase in assets. Liabilities increased primarily due to an increase in research and development expenses incurred but not paid prior to year end.

**6.28** Fluctuations in other balances reflect normal business activities.

## Areas of audit focus

6.29 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on GRDC's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

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

## Audit results

### *Summary of audit findings*

6.30 Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Comments on non-material entities

## Audit results

### *Summary of audit findings*

6.31 There were no significant or moderate audit issues or significant legislative matters noted in non-material entities within the portfolio. The auditor's report on the financial statements of Wheat Exports Australia and Sugar Research and Development Corporation contained an emphasis of matter and is discussed below.

### *Wheat Exports Australia*

#### Emphasis of Matter

6.32 The auditor's report on the financial statements of the Wheat Exports Australia (WEA) contained an emphasis of matter that drew attention to the notes to the 2012–13 financial statements which stated that, following the passing of the *Wheat Export Marketing Amendment Act 2012*, WEA ceased to exist on 31 December 2012.

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

### *Sugar Research and Development Corporation*

#### Emphasis of Matter

6.34 The auditor's report on the financial statements of the Sugar Research and Development Corporation (SRDC) contained an emphasis of matter that drew attention to the notes to the 2012–13 financial statements which stated

that, following the passing of the *Sugar Research and Development Services Act 2013*, the *Sugar Research and Development Services (Consequential Amendments and Transitional Provisions) Act 2013*, and the *Sugar Research and Development Services (Consequential Amendments - Excise) Act 2013*, SRDC ceased to exist from 1 October 2013.

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

# Attorney–General’s Portfolio<sup>62</sup>

| Reporting Entity                                    | Material Entity | Type of auditor’s report | Date financial statements signed | Date auditor’s report issued | Audit issues identified |
|---|-----------------|--------------------------|----------------------------------|------------------------------|-------------------------|
| Attorney–General’s Department                       | <b>Yes</b>      | ✓L                       | 27 Aug 13                        | 27 Aug 13                    | ▲□                      |
| Administrative Appeals Tribunal                     | No              | ✓                        | 3 Sept 13                        | 4 Sept 13                    |                         |
| Australian Commission for Law Enforcement Integrity | No              | ✓                        | 12 Sept 13                       | 12 Sept 13                   |                         |
| Australian Crime Commission                         | No              | ✓                        | 17 Sept 13                       | 19 Sept 13                   |                         |
| Australian Customs and Border Protection Service    | <b>Yes</b>      | ✓L                       | 5 Sept 13                        | 6 Sept 13                    | ▲◆□                     |
| Australian Federal Police                           | <b>Yes</b>      | ✓                        | 6 Sept 13                        | 6 Sept 13                    |                         |
| Australian Government Solicitor                     | <b>Yes</b>      | ✓                        | 26 Aug 13                        | 26 Aug 13                    |                         |
| Australian Human Rights Commission                  | No              | ✓                        | 22 Aug 13                        | 22 Aug 13                    |                         |
| Australian Institute of Criminology                 | No              | ✓                        | 16 Sept 13                       | 16 Sept 13                   |                         |
| Australian Law Reform Commission                    | No              | ✓                        | 10 Sept 13                       | 10 Sept 13                   |                         |
| Australian Security Intelligence Organisation       | <b>Yes</b>      | ✓                        | 28 Aug 13                        | 28 Aug 13                    |                         |
| Australian Transaction Reports and Analysis Centre  | No              | ✓                        | 2 Oct 13                         | 2 Oct 13                     |                         |
| CrimTrac Agency                                     | No              | ✓                        | 16 Sept 13                       | 16 Sept 13                   |                         |
| Family Court of Australia                           | <b>Yes</b>      | ✓                        | 28 Aug 13                        | 30 Aug 13                    | ◆                       |
| Federal Court of Australia                          | No              | ✓                        | 13 Sept 13                       | 13 Sept 13                   | ▲◆□                     |
| Federal Circuit Court of Australia                  | No              | ✓                        | 28 Aug 13                        | 30 Aug 13                    | ◆                       |
| High Court of Australia                             | <b>Yes</b>      | ✓                        | 9 Sept 13                        | 9 Sept 13                    |                         |
| Insolvency and Trustee Service Australia            | No              | ✓                        | 2 Oct 13                         | 2 Oct 13                     |                         |
| Office of Parliamentary Counsel                     | No              | ✓                        | 24 Sept 13                       | 25 Sept 13                   |                         |

62 The responsibilities of the portfolio changed as a result of the MOG changes on 18 September 2013, with the main change being the transfer of the Australian Customs and Border Protection Service to Immigration and Border Protection Service. Other changes included the transfer of the Australian Archives to the Portfolio.



| Reporting Entity                                  | Material Entity | Type of auditor’s report | Date financial statements signed | Date auditor’s report issued | Audit issues identified |
|---|-----------------|--------------------------|----------------------------------|------------------------------|-------------------------|
| Office of the Director of Public Prosecutions     | No              | ✓                        | 26 Sept 13                       | 26 Sept 13                   |                         |
| Office of the Australian Information Commissioner | No              | ✓                        | 5 Sept 13                        | 5 Sept 13                    |                         |

- ✓: auditor’s report not modified
- L: auditor’s report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution
- ▲: significant or moderate issues and/or legislative matters reported previously not yet resolved
- ◆: new significant or moderate issues and/or legislative matters noted
- : significant or moderate issues and/or legislative matters identified in previous periods, or the 2012–13 interim audit phase, now downgraded or resolved

## Portfolio Overview

**6.36** The Attorney–General’s portfolio comprises the Attorney–General’s Department (AGD) and a large number of statutory and non-statutory bodies. The AGD is the central policy and coordinating entity within the portfolio.

**6.37** During 2012–13, the portfolio’s responsibilities were diverse, including providing legal policy advice and legal services to the Commonwealth in the areas of access to justice; administrative, civil, family and international law; international adoption; international child abduction; Commonwealth courts and tribunals; national and international human rights issues; Indigenous justice; legal assistance; native title; personal property securities; bankruptcy; privacy; freedom of information; law reform; constitutional policy; classification of content; copyright; legislative drafting; international crime cooperation; federal criminal law, law enforcement and prosecutions; national security (including counter-terrorism and an important contribution to cyber security) and emergency management; natural disaster relief and recovery; customs and border control; and the administration of the Royal Commission into Institutional Responses to Child Sexual Abuse.

## Attorney–General’s Department <sup>63</sup>

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 218.4          | 283.4          |
| Revenue from government                 | 198.4          | 205.7          |
| Surplus/(deficit) *                     | (19.9)         | (77.8)         |
| Total other comprehensive income/(loss) | 0.2            | (0.4)          |
| Total comprehensive income/(loss)       | (19.8)         | (78.2)         |
| Total assets                            | 183.7          | 222.8          |
| Total liabilities                       | 82.6           | 104.5          |

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

6.39 The reduction in the net cost of services primarily relates to the one-off charge to expenditure in 2011–12 following the transfer of the Personal Property Securities register to the Insolvency and Trustee Service Australia. In addition, employee expenses decreased as a consequence of a reduction in the number of employees and the employee provisions reduced due to an increase in the government bond rate<sup>64</sup>. As a result of the decreases in expenses there has been an improvement in the deficit position. This was partially offset by a reduction in revenue from government.

6.40 In total, the above factors resulted in a significant decrease in the deficit reported in 2012–13.

6.41 Assets decreased primarily due to a reduction in unspent appropriations at year end, in line with the decrease in revenue from government.

6.42 Liabilities decreased mainly as a result of a reduction in amounts owing to suppliers at year end due to system improvements enabling more timely

---

63 A small number of the department’s responsibilities changed as part of the MOG changes on 18 September 2013.

64 Op cit (refer footnote 18 on p. 32).

payments. In addition, there were no accrued redundancies payments at year end in 2012–13, unlike in 2011–12. As mentioned above, employee provisions also decreased.

**6.43** Fluctuations in other balances reflect normal business activities.

*Items administered on behalf of the Australian Government*

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 24.1           | 22.6           |
| Total expenses                  | 620.0          | 510.2          |
| Surplus/(deficit)               | (595.9)        | (487.6)        |
| Total assets                    | 426.4          | 430.6          |
| Total liabilities               | 23.0           | 17.8           |

**6.44** The Attorney-General's Department (AGD) makes Australian Government Disaster Recovery Payments under the *Social Security Act 1991* and the *Social Security (Administration) Act 1999*. The increase in administered expenses is mainly due to an increase in personal benefit payments following a number of natural disasters that occurred in early 2013.

**6.45** Fluctuations in other balances reflect normal business activities.

### Areas of audit focus

**6.46** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on AGD's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- grant financial management arrangements, given grant expenditure is a major component of AGD's administered accounts, and the operation of a decentralised grants management system which involves multiple and varied practices;
- the reporting of the administered superannuation provision for former Solicitors-General paid under the Judges Pension Scheme, for which AGD relies on information from the then Department of Finance and Deregulation and involves complex reporting requirements;
- reporting of expenditure for the Royal Commission into Institutional Responses to Child Sexual Abuse, given the additional disclosure in the financial statements and an increased level of stakeholder scrutiny; and

- legislative compliance with statutory and other legal requirements, including constitutional requirements, relevant to special appropriations and special accounts.

## Audit results

### *Summary of audit findings*

6.47 The following table summarises the status of audit issues reported by the ANAO in 2011–12 and 2012–13.

| Category     | Opening position (at end of the 2011–12 final audit phase) | Issues resolved (during the 2012–13 interim audit phase) | New issues identified (during the 2012–13 interim audit phase) | Issues resolved (during the 2012–13 final audit phase) | New issues identified (during the 2012–13 final audit phase) | Closing position (at end of the 2012–13 final audit phase) |
|--------------|--|--|--|--|--|--|
| A            | 0  | 0  | 0  | 0  | 0  | 0  |
| B            | 0  | 0  | 1  | (1)  | 0  | 0  |
| L1           | 1  | 0  | 0  | 0  | 0  | 1  |
| <b>Total</b> | <b>1</b>   | <b>0</b>   | <b>1</b>   | <b>(1)</b>   | <b>0</b>   | <b>1</b>   |

### *Resolved audit issues*

#### Grant governance and reporting arrangements

6.48 The 2012–13 interim audit phase identified weaknesses in governance and reporting arrangements for grant payments made by the then Department of Families, Housing, Community Services and Indigenous Affairs for which AGD has policy, funding and financial reporting responsibilities. The 2012–13 final audit phase identified that reasonable progress had been made by AGD to address the finding. As a result, this finding has been resolved.

### *Potential breaches of section 83 of the Constitution*

6.49 During 2011–12, AGD undertook a review to determine the risk of payments being made in breach of section 83 of the Constitution from the special appropriations and special accounts for which it is administratively responsible.

6.50 For Australian Government Disaster Recovery Payments (AGDRP) made under the Social Security Act 1991 and Social Security (Administration) Act 1999, the Department of Human Services (DHS) provides assessment and payment services on behalf of AGD in disaster-affected locations to claimants assessed as being eligible in accordance the statutory conditions on which

payments are made. In circumstances where payments are made other than in accordance with these conditions, a potential breach of section 83 may occur.

**6.51** The risk assessment and subsequent analysis conducted up to 30 June 2012 identified 5 577 potential breaches of section 83 totalling \$6.9 million in relation to payments under the *Social Security Act 1991* and the *Social Security (Administration) Act 1999*. Of these amounts, approximately \$3.9 million had been recovered or waived.

**6.52** In 2012–13, a further review of the risk of payments being made in breach of section 83 of the Constitution identified payments made under the *Social Security Act 1991* and *Social Security (Administration) Act 1999*, totalling \$312 855, as potentially in breach of section 83 of the Constitution.

**6.53** The 2012–13 auditor's report included a report on other legal and regulatory requirements referring to payments made that were identified as being in breach of section 83 of the Constitution. This is not a qualification or modification of the audit opinion on AGD's financial statements as the financial statements fairly presented the financial operations and position of AGD at year end.

**6.54** Full details of potential breaches identified during 2012–13 are outlined in Note 29 of AGD's 2012–13 financial statements, and a general discussion of this matter is at paragraphs 5.27 to 5.40 in chapter 5 of this report.

## Australian Customs and Border Protection Service <sup>65</sup>

### Summary of financial results

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

---

65 This agency became part of the Immigration and Border Protection Portfolio as part of the MOG changes on 18 September 2013.

## Departmental items

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 1 065.0        | 1 049.5        |
| Revenue from government                 | 951.3          | 935.4          |
| Surplus/(deficit) *                     | (113.7)        | (114.1)        |
| Total other comprehensive income/(loss) | (2.0)          | 34.2           |
| Total comprehensive income/(loss)       | (115.7)        | (79.9)         |
| Total assets                            | 800.5          | 798.8          |
| Total liabilities                       | 307.3          | 314.5          |

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

**6.56** The Australian Customs and Border Protection Service (Customs and Border Protection) reported a total comprehensive loss of \$115.7 million primarily due to an increase in the depreciation expense. The increase in depreciation reflects the full year effect of an asset revaluation in 2011–12 that resulted from an increase in the fair value of property, plant and equipment. Customs and Border Protection also reviewed the adequacy of its provision for the restoration of a leased vessel to its original condition at the end of the lease term. As a result, the provision was increased in 2012–13, resulting in a loss in the total other comprehensive balance.

**6.57** Fluctuations in other balances reflect normal business activities.

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

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 9 103.2        | 7 901.0        |
| Total expenses                  | 6.7            | 7.6            |
| Surplus/(deficit)               | 9 096.5        | 7 893.4        |
| Total assets                    | 235.8          | 176.9          |
| Total liabilities               | 13.8           | 10.0           |

**6.58** Total own-source income increased in 2012–13 due to an increase in both customs duty and the Passenger Movement Charge (PMC), leading to an increase in the operating surplus. During 2012–13, the Australian Government introduced tobacco plain packaging laws, effective from 1 December 2012. The new laws required existing tobacco products to be removed from sale and replaced with tobacco products that met the plain packaging requirements.

This resulted in tobacco manufacturers importing a significant volume of tobacco products to replace previous stock that was subject to customs duty. The increase in PMC income is a result of the charge increasing from \$47 to \$55. There was also an increase in the number of people travelling overseas during 2012–13.

**6.59** Assets include taxation receivables relating to customs duty, the PMC and import processing charges. The increase in taxation receivables reflects the increase in customs duty collections and PMC income in 2012–13.

**6.60** The increase in liabilities reflects a number of refunds of customs duty that had been approved for payment but not paid from the Official Public Account at 30 June 2013.

**6.61** Fluctuations in other balances reflect normal business activities.

### **Areas of audit focus**

**6.62** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on Customs and Border Protection's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the accuracy and completeness of PMC collections in view of the self assessment nature of the PMC and the increase in the charge for departing passengers from 1 July 2012;
- the accuracy and completeness of customs duty collections and refunds in light of the self-assessment nature of customs duty and the complexity of the related IT infrastructure;
- the progress in addressing the moderate audit findings in 2011–12 relating to the new human resource management information system (HRMIS), including the management of defects and security management and access controls; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2011–12 financial statements.

### **Audit results**

#### *Summary of audit findings*

**6.63** Audit coverage of the key areas of audit focus did not identify any new significant or moderate audit issues.

**6.64** The following table summarises the status of audit issues reported by the ANAO in 2011–12 and 2012–13.

| Category     | Opening position (at end of the 2011–12 final audit phase) | Issues resolved (during the 2012–13 interim audit phase) | New issues identified (during the 2012–13 interim audit phase) | Issues resolved (during the 2012–13 final audit phase) | New issues identified (during the 2012–13 final audit phase) | Closing position (at end of the 2012–13 final audit phase) |
|--------------|--|--|--|--|--|--|
| A            | 0  | 0  | 0  | 0  | 0  | 0  |
| B            | 3  | 0  | 0  | (2) **   | 0  | 1  |
| L1           | 1  | (1) *  | 0  | 0  | 1  | 1  |
| <b>Total</b> | <b>4</b>   | <b>(1)</b>   | <b>0</b>   | <b>(2)</b>   | <b>1</b>   | <b>2</b>   |

\* The breaches in 2011–12 relate to section 83 of the Constitution. The finding is considered to be resolved on the basis that the risk of breaches in 2012–13 has been assessed as low.

\*\*Issue relating to HRMIS system management – security management and access controls has been reclassified to a category C finding.

### *Resolved audit issues*

#### Passenger Movement Charge

**6.65** The PMC is a charge levied on each departing passenger from Australia. Customs and Border Protection collected \$777 million in PMC income in 2012–13. The charge is applied and collected by airline carriers under the *Passenger Movement Charge Act 1978* and the *Passenger Movement Collection Act 1978*.

**6.66** The 2009–10 interim audit phase identified a number of weaknesses in the management of the PMC, including that airline carrier compliance activity had not been undertaken in accordance with Customs and Border Protection’s policies and procedures. In 2011–12, Customs and Border Protection employed an external consultant to develop a compliance program of carrier’s activities. A pilot of the compliance program was undertaken in early 2012–13 and the full compliance program was undertaken in June 2013. This finding is considered resolved as the compliance program now forms part of Customs and Border Protection’s operational activities.

#### HRMIS system management – security management and access controls

**6.67** During the 2011–12 interim audit phase, weaknesses were identified in the design and effectiveness of IT security management. Customs and Border Protection has progressively implemented system and process changes to address the issue. Due to the remediation work undertaken, this issue has been reclassified as a category C finding.



### *Outstanding audit issues*

#### HRMIS system management – management of defects

**6.68** Customs and Border Protection implemented a new HRMIS in June 2011 with a high number of defects and a significant number of processing and compensating administrative procedures. At the time of the 2012–13 final audit phase, Customs and Border Protection had implemented processes to address the on-going management of defects, including the development of system change and release management procedures.

**6.69** At the time of the 2012–13 final audit phase, Customs and Border Protection was continuing to address outstanding defects using a risk based approach. Due to the significance of a number of outstanding defects and the continued reliance on a number of processing and compensating administrative procedures, resolution of this matter remains outstanding. Customs and Border Protection has undertaken to review outstanding defects during 2013–14 and the related processing and compensating administrative procedures put in place to address the defects, with the aim of assessing the effectiveness and sustainability of the procedures. This approach will further guide Customs and Border Protection in risk rating the outstanding defects for remediation.

**6.70** The ANAO will monitor progress made by Customs and Border Protection to address this matter during the 2013–14 audit.

#### *Actual breaches of section 83 of the Constitution.*

**6.71** Customs and Border Protection's 2011–12 financial statements reported three breaches of section 83 of the Constitution in relation to payments totalling \$24 617 made under section 28 of the *Financial Management and Accountability Act 1997*. All amounts were subsequently recovered.

**6.72** During 2012–13, Customs and Border Protection implemented a number of measures to address the risks associated with legislative compliance. As a result, the department assessed the risk as low and the ANAO assessed the finding as resolved following the completion of the 2012–13 interim audit phase. Notwithstanding the measures implemented in 2012–13, Customs and Border Protection identified and reported further breaches of section 83 of the Constitution in the 2012–13 financial statements. The breaches total \$844 270 under section 28 of the *Financial Management and Accountability Act 1997*, \$20 130 under section 20 of the *Financial Management and Accountability Act 1997* and \$360 under the *Long Service Leave*

(*Commonwealth Employees*) Act 1976. At 30 June 2013 Customs and Border Protection had recovered \$782 680 and was in the process of recovering the remaining overpayments.

**6.73** Customs and Border Protection has undertaken to continue to monitor its level of compliance with section 83 of the Constitution across all legislation for which it is administratively responsible. Customs and Border Protection will also continue to progress legislative amendments and system changes where appropriate.

**6.74** The auditor’s report included a report on other legal and regulatory requirements referring to the breaches identified. This is not a qualification or modification to the audit opinion on Customs and Border Protection’s financial statements, as the financial statements fairly presented the financial operations and position of the agency at year end.

**6.75** Full details of actual breaches identified during 2012–13 are outlined in Note 27 of Customs and Border Protection’s 2012–13 financial statements, and a general discussion of this matter is at paragraphs 5.27 to 5.40 in chapter 5 of this report.

## Australian Federal Police

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 1 066.1        | 1 123.6        |
| Revenue from government                 | 978.2          | 1 002.1        |
| Surplus/(deficit) *                     | (87.9)         | (121.5)        |
| Total other comprehensive income/(loss) | 0.6            | 5.7            |
| Total comprehensive income/(loss)       | (87.3)         | (115.7)        |
| Total assets                            | 873.3          | 928.7          |
| Total liabilities                       | 408.9          | 412.9          |

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

6.77 The net cost of services reduced mainly due to the impact of a change in the long term government bond rate used to calculate the present value of the employee long service leave provision<sup>66</sup>.

6.78 Total other comprehensive income in 2011–12 reflected an increase in the fair value of assets that were subject to revaluation as at 30 June 2012. No revaluation occurred in 2012–13.

6.79 Fluctuations in other balances reflect normal business activities.

*Items administered on behalf of the Australian Government*

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 1.7            | 0.2            |
| Total expenses                  | 16.9           | 44.1           |
| Surplus/(deficit)               | (15.2)         | (43.9)         |
| Total assets                    | 0.7            | 0.4            |
| Total liabilities               | 1.1            | 1.2            |

6.80 Administered expenses decreased mainly due to a winding down of some international development assistance, such as Regional Assistance Missions. This decrease in activity also contributed to the reduction in the deficit.

6.81 Fluctuations in other balances reflect normal business activities.

### Areas of audit focus

6.82 The ANAO's audit approach identified the following matters that were significant in terms of their potential impact on the 2012–13 financial statements:

- the accuracy, completeness and valuation of contractual commitments and their associated disclosures; and
- the accuracy and completeness of executive remuneration disclosures given the nature of AFP staffing and remuneration arrangements.

---

66 Op cit (refer footnote 18 on p. 32).

## Audit results

### *Summary of audit findings*

6.83 Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Australian Government Solicitor

### Summary of financial results

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

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Total income                            | 113.9          | 118.4          |
| Total expenses                          | 107.8          | 109.9          |
| Profit/(loss) after income tax          | 3.7            | 5.7            |
| Total other comprehensive income/(loss) | (0.7)          | (0.2)          |
| Total comprehensive income/(loss)       | 3.0            | 5.5            |
| Total assets                            | 86.0           | 92.5           |
| Total liabilities                       | 47.3           | 48.1           |

6.85 Fluctuations in all balances reflect normal business activities.

### Areas of audit focus

6.86 The ANAO's audit approach identified the recognition of revenue and supporting revenue management systems as significant in terms of the potential to impact on the Australian Government Solicitor's 2012–13 financial statements.

## Audit results

### *Summary of audit findings*

6.87 There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Australian Security Intelligence Organisation

### Summary of financial results

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

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 384.7          | 373.6          |
| Revenue from government                 | 329.7          | 328.1          |
| Surplus/(deficit) *                     | (54.9)         | (45.5)         |
| Total other comprehensive income/(loss) | 9.8            | –              |
| Total comprehensive income/(loss)       | (45.1)         | (45.5)         |
| Total assets                            | 603.4          | 573.7          |
| Total liabilities                       | 104.7          | 95.7           |

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

6.89 Assets increased mainly due to continuing work associated with the Australian Security Intelligence Organisation's new headquarters in Canberra and a revaluation of leasehold improvements during 2012–13.

6.90 Fluctuations in other balances reflect normal business activities.

### Areas of audit focus

6.91 The ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on the entity's financial statements. The new headquarters in Canberra is a significant investment and the valuation of this building and the associated assets was an area highlighted for specific audit coverage in 2012–13.

6.92 In addition, the ANAO continued to focus on areas previously identified as significant to the financial statements, including:

- the accuracy and completeness of employee benefits, including the executive remuneration disclosure, due to the complexity and nature of the agency's operations;
- the completeness and accuracy of supplier expenses and payables.

## Audit results

### Summary of audit findings

6.93 Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Family Court of Australia

### Summary of financial results

#### Departmental items

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

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 100.8          | 131.5          |
| Revenue from government                 | 94.0           | 120.1          |
| Surplus/(deficit) *                     | (6.9)          | (11.4)         |
| Total other comprehensive income/(loss) | 2.5            | (0.3)          |
| Total comprehensive income/(loss)       | (4.3)          | (11.7)         |
| Total assets                            | 58.0           | 50.8           |
| Total liabilities                       | 37.3           | 31.7           |

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

6.95 The net cost of services and revenue from government decreased primarily due to a new funding arrangement relating to the lease of Commonwealth Law Courts buildings. During the year, the Family Court of Australia (Family Court) ceased to be responsible for the payment of the majority of the operating lease expenses related to these buildings. The appropriation funding in respect of these expenses was transferred to the then Department of Finance and Deregulation, resulting in the decrease in revenue from government.

6.96 The effect of the above movements resulted in the significant decrease in total comprehensive income.

6.97 Assets increased largely due to a temporary increase in the working cash held at year end to enable the payment of salary and supplier expenses

that were due in early July 2013 as a result of the merger with the Federal Circuit Court of Australia.

**6.98** Liabilities increased due to the signing, late in the financial year, of a new rental agreement in relation to the portion of the Commonwealth Law Courts buildings that are leased by the Family Court. As a result, rental payments for 2012–13 were not made until 2013–14, resulting in an accrued expense at year end.

**6.99** Fluctuations in other balances reflect normal business activities.

*Items administered on behalf of the Australian Government*

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income *       | 3.0            | 2.5            |
| Total expenses                  | 0.0            | 0.0            |
| Surplus/(deficit)               | 3.0            | 2.5            |
| Total assets                    | 0.0            | 0.0            |
| Total liabilities               | –              | –              |

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

## Areas of audit focus

**6.100** The ANAO's audit approach identified the following areas that were significant in terms of their potential to impact on the Family Court's financial statements:

- the accounting for expenses, in light of previously reported operating losses;
- the valuation and disclosure of the Court's library assets transferred to the Federal Court of Australia; and
- the valuation of property, plant and equipment.

## Audit results

**6.101** One new moderate risk issue was identified during 2012–13. This issue is discussed below.

## *New audit issues*

### Uncollected Court fees

**6.102** One moderate audit issue was reported in the 2012–13 final audit phase in relation to court fees that became payable from 1 July 2010 due to a change in legislation, but had not been collected. The Family Court’s review of uncollected court fees outstanding as at 30 June 2013 resulted in the write off of fees in instances where the Court had not originally notified clients that a fee was payable. The Family Court also wrote off other amounts where recovery action was considered uneconomical to pursue. Recovery action had commenced for the remainder of the uncollected fees and the Court was examining the option of introducing an automated solution to address this matter in the future.

## High Court of Australia

### Summary of financial results

#### *Departmental items*

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

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 17.8           | 21.4           |
| Revenue from government                 | 13.4           | 14.3           |
| Surplus/(deficit) *                     | (4.4)          | (7.1)          |
| Total other comprehensive income/(loss) | 5.9            | 5.5            |
| Total comprehensive income/(loss)       | 1.5            | (1.6)          |
| Total assets                            | 233.5          | 228.3          |
| Total liabilities                       | 2.8            | 3.0            |

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

**6.104** Assets increased mainly due to an increase in the value of land and buildings.

**6.105** Fluctuations in other balances reflect normal business activities.



*Items administered on behalf of the Australian Government*

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income *       | 1.3            | 1.3            |
| Total expenses                  | –              | –              |
| Surplus/(deficit)               | 1.3            | 1.3            |
| Total assets                    | –              | –              |
| Total liabilities               | –              | –              |

\* Administered income relates to court filing and hearing fees

## Areas of audit focus

**6.106** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the High Court's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- revaluation of land and buildings, property, plant and equipment; and
- the calculation of employee benefit liabilities.

## Audit results

### *Summary of audit findings*

**6.107** Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Comments on non-material entities

## Audit results

### *Summary of audit findings*

**6.108** There were no significant or moderate audit issues or significant legislative matters noted in non-material entities within the portfolio except in relation to the Federal Court of Australia and the Federal Circuit Court of Australia. The matters giving rise to the two legislative breaches reported in 2011–12 in the Insolvency and Trustee Service Australia have been resolved.

### *Federal Court of Australia*

**6.109** During the 2011–12 audit, the ANAO reported two moderate audit issues. The ANAO's review of user access to the financial management information system (FMIS) identified a number of users with access to

combinations of functions that were considered incompatible or excessive. This matter was resolved in 2012–13 as a result of manual review processes being implemented by the Court to mitigate the risk of a lack of segregation of duties.

**6.110** The ANAO also identified that: the business continuity plan was not tested as part of a holistic approach and the associated procedures designed to test the plan had not been implemented; and the Court’s IT disaster recovery plans were not reviewed and tested on a regular basis. The Court advised in 2011–12 that a review of the business continuity and IT disaster recovery plans was being undertaken. This matter remained outstanding at the completion of the 2012–13 audit.

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

#### *Federal Circuit Court of Australia*

**6.112** The moderate audit issue outlined in paragraph 6.102 above in relation to the Family Court of Australia was also applicable to the Federal Circuit Court. The Federal Circuit Court’s review of uncollected court fees outstanding as at 30 June 2013 resulted in the write off of fees in instances where the Court had not originally notified clients that a fee was payable. The Federal Circuit Court also wrote off other amounts where recovery action was considered uneconomical to pursue. Recovery action had commenced for the remainder of the uncollected fees and the Court was examining the option of introducing an automated solution to address this matter in the future.

#### *Insolvency and Trustee Service Australia*

**6.113** The matters giving rise to the two legislative breaches reported in 2011–12 have been resolved. These issues are discussed below.

Resolved issue - actual breach of section 83 of the Constitution

**6.114** The 2011–12 auditor’s report referred to an actual breach of section 83 of the Constitution totalling \$2 361 in relation to a payment made from the Common Investment Fund Equalisation Special Account.

**6.115** To address the risk of further breaches, the Insolvency and Trustee Service Australia (ITSA) agreed to strengthen its risk assessment process and implement additional controls in relation to payment processes.

**6.116** The ANAO reviewed ITSA's 2012–13 risk assessment of payments from special appropriations and special accounts and considered that appropriate controls were in place. Testing of these controls did not identify any new breaches of section 83 of the Constitution. A general discussion of this matter is at paragraphs 5.27 to 5.40 in chapter 5 of this report.

Resolved issue - special account transactions

**6.117** In 2011–12, the ANAO identified that interest had been credited to two special accounts, in contravention of proceeds of crime legislation. The ANAO reviewed the special account's credit transactions in 2012–13 and confirmed that interest was no longer credited to the special accounts.

# Broadband, Communications and the Digital Economy Portfolio<sup>67</sup>

| Reporting Entity  | Material Entity | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit issues identified |
|---|-----------------|--------------------------|----------------------------------|------------------------------|-------------------------|
| Department of Broadband, Communications and the Digital Economy | Yes             | ✓                        | 26 Aug 13                        | 26 Aug 13                    |                         |
| Australian Broadcasting Corporation                             | Yes             | ✓                        | 26 July 13                       | 26 July 13                   |                         |
| Australian Communications and Media Authority                   | Yes             | ✓                        | 18 Sept 13                       | 19 Sept 13                   |                         |
| Australian Postal Corporation                                   | Yes             | ✓                        | 29 Aug 13                        | 29 Aug 13                    | ◆□                      |
| - Australia Post Licensee Council Ltd                           | No              | ✓                        | 27 Aug 13                        | 27 Aug 13                    |                         |
| - Australia Post Transaction Services Pty Ltd                   | No              | ✓                        | 24 Oct 13                        | 24 Oct 13                    |                         |
| NBN Co Limited  | Yes             | ✓                        | 13 Aug 13                        | 13 Aug 13                    | ▲                       |
| Special Broadcasting Service Corporation                        | Yes             | ✓                        | 29 Aug 13                        | 29 Aug 13                    |                         |
| Telecommunications Universal Service Management Agency          | No              | ✓                        | 1 Oct 13                         | 1 Oct 13                     |                         |

✓: auditor's report not modified

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

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

□: significant or moderate issues and/or legislative matters identified in previous periods, or the 2012–13 interim audit phase, now downgraded or resolved

## Portfolio Overview

**6.118** As at 30 June 2013, the portfolio was responsible for the promotion of the digital economy, the development of communications, broadcasting and related policies and codes of practice, in addition to the provision of services through the former Department of Broadband, Communications and the Digital Economy and a number of portfolio entities, including the Australian Postal Corporation, the NBN Co Limited, the Australian Broadcasting Corporation and the Special Broadcasting Service Corporation.

67 The portfolio was renamed the Communications Portfolio as part of the MOG changes on 18 September 2013.

## Department of Broadband, Communications and the Digital Economy<sup>68</sup>

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 118.7          | 132.3          |
| Revenue from government                 | 113.2          | 127.6          |
| Surplus/(deficit) *                     | (5.6)          | (4.7)          |
| Total other comprehensive income/(loss) | 0.2            | 0.2            |
| Total comprehensive income/(loss)       | (5.3)          | (4.5)          |
| Total assets                            | 105.5          | 104.7          |
| Total liabilities                       | 41.0           | 40.3           |

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

**6.120** The net cost of services decreased primarily due to a reduction in contractors and consultants engaged by the Department of Broadband, Communications and the Digital Economy (DBCDE) during the year. In addition, there was a decrease in employee expenses due to a reduction in staff numbers and a change in discount rates reflecting the movements in the long term government bond rate.<sup>69</sup>

**6.121** Fluctuations in other balances reflect normal business activities.

68 The department was renamed the Department of Communications as part of the MOG changes on 18 September 2013.

69 Op cit (refer footnote 18 on p. 32).

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

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 245.7          | 195.6          |
| Total expenses                  | 1 627.3        | 1 859.7        |
| Surplus/(deficit)               | (1 381.5)      | (1 664.1)      |
| Total assets                    | 7 018.9        | 7 109.9        |
| Total liabilities               | 99.6           | 71.7           |

**6.122** Administered income increased primarily due to an increase in the dividend received from the Australian Postal Corporation.

**6.123** Administered expenses decreased primarily due to the 2011–12 balance reflecting grant payments to Telstra Corporation Limited supporting the transition to the National Broadband Network. In 2012–13, there was an increase in supplier and subsidies expenses primarily due to increased activity in the Digital Switchover subsidy program. This increase in supplier and subsidies expenses has also resulted in an increase in administered liabilities due to increased payables owing as at 30 June 2013.

**6.124** Administered assets reflected a decrease in the value of the administered investment in the Australian Postal Corporation. The decrease has partially been offset by an increase in the equity holding of NBN Co Limited.

### **Areas of audit focus**

**6.125** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on DBCDE's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the valuation of administered investments, particularly the significant investments in Australian Government portfolio entities;
- the valuation of the assets related to the Regional Backbone Blackspots Program, reflected as an administered asset in DBCDE's financial statements;
- presentation and disclosure of large administered contingent liabilities and commitments associated with the National Broadband program; and

- administered grants and subsidies expenses which represent a significant portion of total administered expenses.

**6.126** The valuation of administered investments in portfolio entities, which includes the valuation of the Australian Postal Corporation and NBN Co Limited, was of particular interest in view of the nature and complexity of the respective businesses. The ANAO reviewed the valuation calculations to gain assurance over the values reported in DBCDE's 2012–13 financial statements.

## Audit results

### Summary of audit findings

**6.127** Audit coverage of the key areas of audit focus did not identify any new significant or moderate audit issues.

**6.128** A moderate audit issue in relation to user access controls was reported as resolved in the ANAO's Audit Report No. 49 *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2013*.

## Australian Broadcasting Corporation

### Summary of financial results

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

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 1 009.0        | 1 006.8        |
| Revenue from government                 | 1 023.7        | 997.4          |
| Surplus/(deficit)                       | 12.4           | (11.7)         |
| Total other comprehensive income/(loss) | 4.3            | 21.4           |
| Total comprehensive income/(loss)       | 16.7           | 9.7            |
| Total assets                            | 1 291.0        | 1 241.5        |
| Total liabilities                       | 277.2          | 252.9          |

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

**6.131** Other comprehensive income reduced predominantly due to a lower appreciation in the valuation of land and buildings, compared to that reported in 2011–12.

**6.132** Assets increased mainly due to an increase in inventory and the commissioning of new programs, and an increase in term deposits held at year end.

**6.133** Liabilities increased mainly due to an increase in payables at year end related to capital expenditure in May and June 2013. This increase was partly offset by a reduction in employee provisions as a result of an increase in the rate used to discount these liabilities to their present value.

**6.134** Fluctuations in other balances reflect normal business activities.

### **Areas of audit focus**

**6.135** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the ABC's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the valuation of land and buildings;
- the valuation of programs, including their amortisation and impairment;
- recognition of appropriations and commercial revenue; and
- reporting of payroll expenses and employee provisions.

### **Audit results**

#### *Summary of audit findings*

**6.136** Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.



## Australian Communications and Media Authority

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 109.7          | 111.2          |
| Revenue from government                 | 99.3           | 103.5          |
| Surplus/(deficit) *                     | (10.4)         | (7.6)          |
| Total other comprehensive income/(loss) | 0.4            | (0.6)          |
| Total comprehensive income/(loss)       | (10.0)         | (8.2)          |
| Total assets                            | 69.5           | 72.4           |
| Total liabilities                       | 28.9           | 29.9           |

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

6.138 The net cost of services decreased mainly due to a reduction in expenses associated with suppliers, contractors, and office repairs and maintenance. This was offset by a decrease in revenue from government that has resulted in an increase in the total comprehensive loss.

6.139 Fluctuations in other balances reflect normal business activities.

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

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 2 022.1        | 646.4          |
| Total expenses                  | 145.5          | 161.9          |
| Surplus/(deficit)               | 1 876.5        | 484.5          |
| Total assets                    | 213.9          | 247.0          |
| Total liabilities               | 62.4           | 6.5            |

6.140 The significant increase in own-source income was due to the renewal of spectrum licences during 2012–13. These licences authorise the licensee to use a particular frequency band within a geographical area for a period up to 15 years.

**6.141** Expenses decreased due to a change in arrangements for the payment of a subsidy to the National Relay Service. The subsidy is now paid by the Telecommunications Universal Service Management Agency that was established during 2012–13.

**6.142** Assets decreased due to a reduction in the amount of broadcasting licence fees due at year end. This decrease is in line with a reduction in broadcasting licence fees.

**6.143** Liabilities increased mainly due to an increase in unearned income arising from a change in the timing of the invoicing for radio communications licences in 2012–13, compared to 2011–12.

**6.144** Fluctuations in other balances reflect normal business activities.

### **Areas of audit focus**

**6.145** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Australian Communication and Media Authority's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- administered revenue, due to the uncertainty in the estimation of broadcasting licence fees expected to be collected;
- the renewal and auction of spectrum licences, given its material impact on the financial statements;
- non-financial assets, particularly the significant investment in internally generated software and the capitalisation of intangibles;
- the valuation of employee expenses and provisions;
- the completeness and accuracy of supplier expenses and payables; and
- legislative compliance, particularly the risk of breaches of section 83 of the Constitution in relation to payments from special accounts and special appropriations.

### **Audit results**

#### *Summary of audit findings*

**6.146** Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Australian Postal Corporation

### Summary of financial results

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

| Key financial measures for year                    | 2012–13<br>\$m | 2011–12<br>\$m |
|--|----------------|----------------|
| Total income                                       | 5 893.2        | 5 126.2        |
| Total expenses                                     | 5 458.6        | 4 739.0        |
| Profit/(loss) after income tax                     | 311.9          | 281.2          |
| Other comprehensive income/(loss) after income tax | 107.8          | (385.2)        |
| Total comprehensive income/(loss)                  | 419.7          | (104.0)        |
| Total assets                                       | 4 401.5        | 4 175.8        |
| Total liabilities                                  | 2 719.5        | 2 669.8        |

**6.148** The Australian Postal Corporation's (the Corporation) key financial measures were significantly affected by the acquisition of a 100% interest of AUX Investments Pty Ltd (AUXI) in November 2012. Prior to 2012-13, AUXI was a jointly controlled entity between the Corporation and Qantas. AUXI owns a 100% interest in StarTrack Express that operates as an express freight business. As a result of the acquisition, AUXI was consolidated into the Corporation's 2012–13 financial statements and this particularly contributed to an increase in the Corporation's income, expenses and assets.

**6.149** The increase in income also reflects the Corporation's revenue growth due to an increase in the volume of parcel deliveries, partially offset by a decrease in the volume of letters delivered.

**6.150** The increase in other comprehensive income was mainly due to favourable movements in the actuarial assessment of the Corporation's defined superannuation benefit plan. The movement also reflects that in 2011–12 the Corporation's defined superannuation benefit plan experienced a significant actuarial loss resulting in an increase in the defined benefit superannuation liability, due to a decline in the Commonwealth government bond rate.

### Areas of audit focus

**6.151** The Corporation has identified various initiatives that it expects will deliver benefits in the coming years. The strategy involves an investment to

assist in creating a self sustaining letters business including the ongoing development of Australia Post Digital MailBox, growing the parcels business through investment in the existing network, as well as the acquisition of AUXI, the e-Commerce program and new services in the Corporation's retail outlets.

**6.152** The ANAO's audit approach identified the following areas that are significant in terms of their potential impact on the 2012–13 financial statements:

- the purchase price accounting and disclosures in relation to the acquisition of AUXI, including StarTrack Express;
- an assessment of the capitalisation of costs associated with the Australia Post Digital MailBox and the e-Commerce Program;
- areas of significant judgement and estimates particularly those associated with the voluntary redundancy provision, long service leave, workers' compensation, the Corporation's defined superannuation benefit plan, make good provision, postage in the hands of the public (PIHOP), and the valuation of investment properties;
- contract management;
- tax effect accounting; and
- IT general and application controls as they relate to the financial statements.

## Audit results

### Summary of audit findings

**6.153** Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. The following table summarises the status of audit issues reported by the ANAO in 2011–12 and 2012–13.

| Category     | Opening position (at end of the 2011–12 final audit phase) | Issues resolved (during the 2012–13 interim audit phase) | New issues identified (during the 2012–13 interim audit phase) | Issues resolved (during the 2012–13 final audit phase) | New issues identified (during the 2012–13 final audit phase) | Closing position (at end of the 2012–13 final audit phase) |
|--------------|--|--|--|--|--|--|
| A            | 0  | 0  | 0  | 0  | 0  | 0  |
| B            | 1  | 0  | 0  | (1)  | 2  | 2  |
| L1           | 0  | 0  | 0  | 0  | 0  | 0  |
| <b>Total</b> | <b>1</b>   | <b>0</b>   | <b>0</b>   | <b>(1)</b>   | <b>2</b>   | <b>2</b>   |

### Resolved prior year audit issues

#### Inventory management

**6.154** During the 2011–12 final audit phase, the ANAO identified discrepancies between inventory records and the number of inventory items on hand at one of the Corporation’s warehouses. While the value of these assets were not material, these discrepancies increased the risk that inventory recorded may not exist and that the value reported was not at the correct carrying value in the Corporation’s financial statements. During the 2012–13 final audit phase, our testing identified that the Corporation had implemented procedures to strengthen the controls over the management and reporting of inventory on hand. As a result, this finding has been satisfactorily resolved.

### New audit issues

#### Privileged user access to the financial management information system

**6.155** Controls surrounding user access management to protect data and information from unauthorised and inappropriate access. Our testing results identified instances of user accounts that had inappropriate privileged access. 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. This weakness increases the risk of unauthorised or fraudulent transactions being processed, potentially compromising the integrity of financial data. The Corporation has advised that controls are being

strengthened over the review of these accounts. The ANAO will review the action taken by the Corporation during the 2013–14 audit.

#### User access management and monitoring controls

**6.156** During the 2012–13 final audit phase, the ANAO identified that there was a lack of documentation supporting the approval of new user access to the Corporation’s financial management information system. This increases the risk of unauthorised system access and may lead to the integrity of the data maintained in the financial management information system being compromised. The Corporation has acknowledged this issue and has commenced remedial action by improving storage of supporting documentation.

## NBN Co Limited

### Summary of financial results

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

| Key financial measures for year *       | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Total income                            | 78.4           | 62.1           |
| Total expenses                          | 1 010.1        | 589.1          |
| Profit/(loss) after income tax          | 931.7          | (520.2)        |
| Total other comprehensive income/(loss) | (903.1)        | (504.5)        |
| Total comprehensive income/(loss)       | 5 518.7        | (504.5)        |
| Total assets                            | 2 101.1        | 2 467.4        |
| Total liabilities                       | 78.4           | 543.1          |

\* The entity’s operating results are referred to in the ANAO’s analysis of entities’ operating results at paragraphs 4.8 to 4.12 of chapter 4 of this report.

**6.158** During 2012–13, NBN Co Limited (NBN) continued its expansion of the broadband network and the establishment of key financial processes to support the company’s level of business activity.

**6.159** Income mainly comprised interest earned on funds received as an equity injection<sup>70</sup>. Expenses continued to increase in line with the growth of NBN's business activities.

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

**6.161** Fluctuations in other balances reflect normal business activities.

### **Areas of audit focus**

**6.162** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the NBN's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- valuation of assets, primarily the broadband network and IT systems and including the capitalisation of costs of the significant expenditure on network construction and IT software development;
- procurement processes, specifically the accounting treatment for contracts particularly NBN construction and Telstra contracts;
- the IT general and application controls for key systems that support the preparation of NBN's financial statements; and
- employee and consultant related expenses.

**6.163** Audit coverage of these areas of audit focus were finalised with satisfactory results during the 2012–13 final audit phase.

### **Audit results**

#### *Summary of prior year audit findings*

**6.164** During the 2010–11 audit, the ANAO conducted a review of key IT security controls relevant to NBN's financial systems. The ANAO identified weaknesses in the areas of access controls, including a lack of consistent monitoring of users' access, notably with privileged access, together with instances where approval of new users was not documented. These weaknesses increased the risk of unauthorised system changes that could compromise the confidentiality, integrity and completeness of financial information.

---

<sup>70</sup> Up until 30 June 2013, the NBN has progressively received equity injections totalling \$5 228.4 million in the form of ordinary shares held by the Minister for Finance and Deregulation and the Minister for Broadband, Communications and the Digital Economy.

**6.165** During the 2011–12 and 2012–13 audits, the ANAO continued to identify issues associated with IT security controls. While improvements had been made to address these audit issues, a continued focus is required to fully embed the consistent execution of IT systems access monitoring controls across all financially significant applications. NBN has advised that procedures for regular monitoring of access have been enhanced to address these weaknesses. The ANAO will review these matters during the 2013–14 audit.

**6.166** The following table summarises the status of audit issues reported by the ANAO in 2011–12 and 2012–13.

| Category     | Opening position (at end of the 2011–12 final audit phase) | Issues resolved (during the 2012–13 interim audit phase) | New issues identified (during the 2012–13 interim audit phase) | Issues resolved (during the 2012–13 final audit phase) | New issues identified (during the 2012–13 final audit phase) | Closing position (at end of the 2012–13 final audit phase) |
|--------------|--|--|--|--|--|--|
| A            | 0  | 0  | 0  | 0  | 0  | 0  |
| B            | 2  | 0  | 0  | 0  | 0  | 2  |
| L1           | 0  | 0  | 0  | 0  | 0  | 0  |
| <b>Total</b> | <b>2</b>   | <b>0</b>   | <b>0</b>   | <b>0</b>   | <b>0</b>   | <b>2</b>   |



## Special Broadcasting Service Corporation

### Summary of financial results

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

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 246.4          | 227.2          |
| Revenue from government                 | 246.9          | 222.5          |
| Surplus/(deficit)                       | 0.5            | (4.7)          |
| Total other comprehensive income/(loss) | 0.0            | 1.6            |
| Total comprehensive income/(loss)       | 0.5            | (3.1)          |
| Total assets                            | 256.8          | 250.6          |
| Total liabilities                       | 69.6           | 66.8           |

6.168 The increase in revenue from government relates to additional funding for the integration of National Indigenous Television (NITV) into the Special Broadcasting Service Corporation (SBS).

6.169 Fluctuations in all balances reflect normal business activities.

### Areas of audit focus

6.170 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the SBS's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the valuation of land and buildings;
- the valuation of programs; and
- reporting of payroll expenses and employee provisions.

### Audit results

#### *Summary of audit findings*

6.171 Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Comments on non-material entities

### Audit results

#### *Summary of audit findings*

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

# Defence Portfolio

| Reporting Entity   | Material Entity | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit issues identified |
|--|-----------------|--------------------------|----------------------------------|------------------------------|-------------------------|
| Department of Defence                                      | Yes             | √L                       | 9 Oct 13                         | 9 Oct 13                     | ▲◆                      |
| AAF Company  | No              | ✓                        | 16 Oct 13                        | 18 Oct 13                    |                         |
| Army and Air Force Canteen Service                         | No              | ✓                        | 5 Sept 13                        | 5 Sept 13                    |                         |
| Australian Military Forces Relief Trust Fund               | No              | ✓                        | 4 Sept 13                        | 4 Sept 13                    |                         |
| Australian Strategic Policy Institute Ltd                  | No              | ✓                        | 9 Oct 13                         | 9 Oct 13                     |                         |
| Australian War Memorial                                    | Yes             | ✓                        | 14 Aug 13                        | 14 Aug 13                    |                         |
| Defence Housing Australia                                  | Yes             | ✓                        | 8 Aug 13                         | 8 Aug 13                     |                         |
| - DHA Investment Management Limited                        | No              | ✓                        | 7 Aug 13                         | 8 Aug 13                     |                         |
| Defence Materiel Organisation                              | Yes             | ✓                        | 25 Sept 13                       | 26 Sept 13                   | ▲□                      |
| Defence Service Homes Insurance Scheme                     | No              | ✓                        | 15 Oct 13                        | 17 Oct 13                    |                         |
| Department of Veterans' Affairs                            | Yes             | √L                       | 15 Oct 13                        | 17 Oct 13                    | ▲□                      |
| Royal Australian Air Force Veterans' Residences Trust Fund | No              | ✓                        | 19 Sept 13                       | 19 Sept 13                   |                         |
| Royal Australian Air Force Welfare Recreational Company    | No              | ✓                        | 16 Oct 13                        | 18 Oct 13                    |                         |
| Royal Australian Air Force Welfare Trust Fund              | No              | ✓                        | 29 Aug 13                        | 29 Aug 13                    |                         |
| Royal Australian Navy Central Canteens Board               | No              | ✓                        | 27 Sept 13                       | 27 Sept 13                   | □                       |
| Royal Australian Navy Relief Trust Fund                    | No              | ✓                        | 3 Oct 13                         | 3 Oct 13                     |                         |

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

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

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

□: significant or moderate issues and/or legislative matters identified in previous periods, or the 2012–13 interim audit phase, now downgraded or resolved

## Portfolio Overview

**6.173** The Defence portfolio consists of the Department of Defence (Defence), the Defence Materiel Organisation (DMO), the Department of Veterans' Affairs

(DVA), and a number of other statutory and non-statutory bodies. The portfolio is responsible for developing, implementing, and administering policies, programs and services to defend Australia and its national interests.

**6.174** The portfolio is also responsible for carrying out government policy and implementing programs to fulfil Australia’s obligations to war veterans and their dependents, as well as for providing compensation claims management services to present and former members of the Australian Defence Force (ADF).

## Department of Defence

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 22 427.4       | 23 025.4       |
| Revenue from government                 | 22 707.9       | 22 466.4       |
| Surplus/(deficit) *                     | 280.5          | (559.0)        |
| Total other comprehensive income/(loss) | 14.1           | 150.6          |
| Total comprehensive income/(loss)       | 294.7          | (408.4)        |
| Total assets                            | 71 868.8       | 70 631.4       |
| Total liabilities                       | 6 119.7        | 5 473.6        |

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

**6.176** The net cost of services decreased primarily due to a decrease in supplier expenses, partially offset by an increase in revenue.

**6.177** Supplier expenses decreased mainly due to decreases in the use of inventory, communication and information technology expenses and expenses associated with the maintenance of the Defence property portfolio. The decrease was partially offset by an increase in expenses relating to the sustainment of military capability. The increase in revenue is result of the recognition of the value of assets and services that will be received by Defence as a result of the settlement of contract disputes.

**6.178** Revenue from government increased slightly to support operational programs within Defence.

**6.179** The decrease in other comprehensive income is due to a smaller amount recognised as income in relation to the movement in the valuation of non-current assets.

**6.180** The movement from a deficit to a surplus is due to the lower net cost of services and the increased revenue received from government.

**6.181** Assets increased mainly due to the construction of new buildings, increased holdings of inventory and increases in amounts due to Defence at year end. The increase in buildings is largely related to the ongoing delivery of facilities under the Enhanced Land Force program at various military sites across Australia. The increase was partially offset by annual depreciation charges and disposals.

**6.182** Inventories increased due to a reduction in the use of general stores inventory (GSI) due to decreased operational and training requirements and the continued acquisition of explosive ordnance (EO) inventory consistent with Defence's strategic objective to increase reserve stock holdings of EO.

**6.183** The increase in amounts due to Defence at year end relates to the recognition of assets and services to be received in future years as a result of negotiated settlements for asset construction contract disputes. The majority of the settlements relate to future sustainment costs and the receipt of additional specialist military equipment (SME).

**6.184** Liabilities increased mainly due to increases in the amount owing to the Defence Materiel Organisation (DMO) at year end for acquisition and sustainment activities, and an increase in the number of finance leases relating to facilities delivered under the Enhanced Land Force program.

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

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 1 358.4        | 1 316.1        |
| Total expenses                  | 5 870.7        | 4 215.5        |
| Surplus/(deficit)               | (4 512.2)      | (2 899.4)      |
| Total assets                    | 3 092.7        | 3 019.0        |
| Total liabilities               | 68 181.8       | 85 795.3       |

**6.185** Administered expenses increased primarily due to increases in the superannuation benefits expense. The increase relates to the servicing costs for the Military Superannuation Benefits Scheme (MSBS), which increased as the result of a decrease in the interest rate used in the actuarial calculation of this balance.

**6.186** Administered liabilities decreased due to decreases in the military superannuation provisions. These provision balances are calculated by an actuary and the movement in the balance is primarily affected by an increase in the long term government bond rate and higher than expected investment returns for the MSBS. The 2012–13 liability was discounted using the 16 year government bond rate instead of the 10 year government bond rate used in 2011–12. The increase in the bond rate reduced the value of the provision<sup>1</sup>.

**6.187** Fluctuations in other balances reflect normal business activities.

### **Areas of audit focus**

**6.188** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on Defence's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- internal control mechanisms which may be affected by budgetary pressures and changes stemming from the Defence shared services program, in particular, the realignment of control and assurance processes relating to financial services across Defence's business groups and the Defence Materiel Organisation (DMO);
- inventory and asset management due to the material nature of the inventory and asset balances and issues noted in prior years. These issues relate to errors in the recording of the underlying financial

transactions that require sustained remediation by Defence and result in the need for continuing adjustments to inventory and asset balances;

- the valuation and classification of specialist military equipment (SME). These assets are a material asset balance and the assessment of asset values involves a high level of judgement and technical expertise. Whilst SME is initially recorded at cost, the valuation of SME assets involves the accurate and complete recording of operational and capitalised expenditure associated with specialist military assets under construction (AUC) and the impact of any impairment on SME values. The financial and operational management of AUC is dispersed across a wide variety of projects that have complex contractual arrangements and project management requirements; and
- legislative compliance, particularly focusing on special appropriations and special accounts which are governed by complex reporting requirements.

**6.189** In addition, the ANAO continued to provide audit coverage of the following areas which have previously been identified as significant to the financial statements including:

- the complex estimations involved in calculating a number of balances in Defence's financial statements, including provisions for decommissioning of SME, military superannuation, and decontamination and restoration in relation to a large number of Defence sites both nationally and overseas;
- the calculation and reporting of commitments and contingencies that are complex and highly dependent on devolved management activities across Defence and DMO;
- management of explosive ordnance, due to the sensitive and material nature of these assets;
- general asset purchases and capital works which are high in volume and have previously required adjustments. These assets are geographically dispersed, subject to large variations in value and require the engagement of a valuation expert;
- finance leases due to increases resulting from completion of the construction of live-in residential units located on Defence military bases as part of the Enhanced Land Force program;

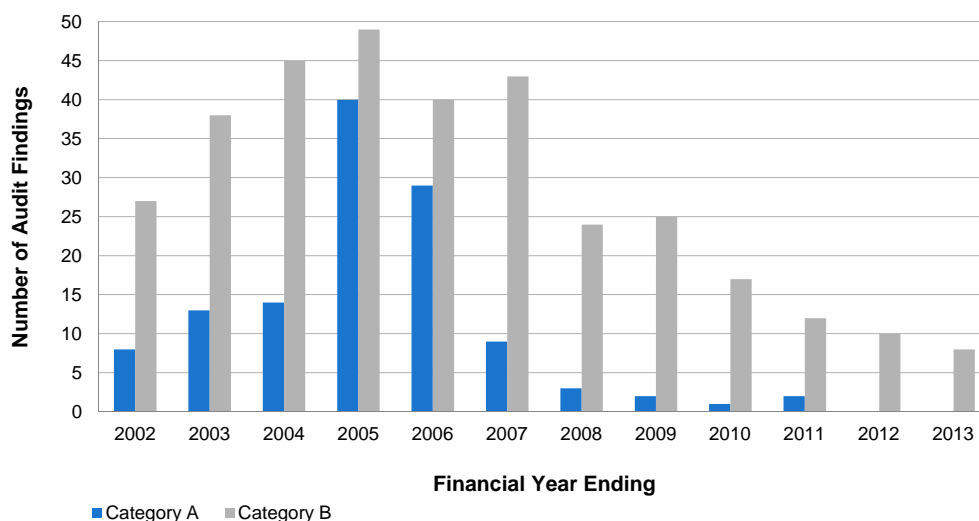
- IT general and application controls for key systems that support the preparation of Defence’s financial statements; and
- Defence’s management of complex and diversified human resource management systems.

## Audit results

### Summary of audit findings

**6.190** The following figure illustrates the number of significant and moderate findings reported at the end of each financial year over the last 12 years. The figure highlights the downward trend in the number and severity of findings since 2006–07 as a result of Defence’s ongoing remediation and management focus on its financial controls and inventory and asset management controls.

**Figure 6.1: Summary and severity of audit findings**



Source: ANAO analysis.

**6.191** During the 2012–13 final audit phase, Defence resolved six moderate audit issues previously reported. The resolved issues relate to asset reporting, revaluation and disposal processes; processes over Navy inventory returns; accounting for special public monies and the Defence Fraud Control Plan.

**6.192** Five moderate audit issues were identified during the 2012–13 final audit phase. These moderate audit issues relate to special account management, the inconsistent application of policy requirements for assessing specialist military equipment asset values, accounting for goods and services



received as a result of settlements for asset construction contract disputes, civilian employee leave recording and management of termination payments, and the recording and reporting processes associated with Military Support Items (MSI).

**6.193** The following table summarises the status of audit issues reported by the ANAO in 2011–12 and 2012–13.

| Category     | Opening position (at end of the 2011–12 final audit phase) | Issues resolved (during the 2012–13 interim audit phase) | New issues identified (during the 2012–13 interim audit phase) | Issues resolved (during the 2012–13 final audit phase) | New issues identified (during the 2012–13 final audit phase) | Closing position (at end of the 2012–13 final audit phase) |
|--------------|--|--|--|--|--|--|
| A            | 0  | 0  | 0  | 0  | 0  | 0  |
| B            | 10   | (4)  | 3  | (6)  | 5  | 8  |
| L1           | 1  | 0  | 0  | 0  | 0  | 1  |
| <b>Total</b> | <b>11</b>  | <b>(4)</b>   | <b>3</b>   | <b>(6)</b>   | <b>5</b>   | <b>9</b>   |

#### *Resolved audit issues*

##### Inventory and asset management

**6.194** Three moderate audit issues relating to inventory and asset management have been resolved.

**6.195** A moderate audit issue concerning the timely and accurate processing of inventory returns from Navy ships has been resolved. While the information technology systems solution to address a defect in the inventory system has yet to be implemented, significant remediation work has been undertaken to clear the backlog of unprocessed inventory returns. The ANAO will continue to monitor the processing of inventory returns and will undertake a review of the system solution, when implemented.

**6.196** The ANAO's review of asset management identified that the previously reported moderate audit issues relating to the retention of documentation for approval to dispose of certain Defence assets, and processes for ensuring the complete and accurate transfer of asset revaluation information to the fixed assets register, had been appropriately addressed. Audit testing identified improvements in these areas that satisfactorily addressed the issues raised and, as a result, these issues have been resolved.

## Internal control and financial reporting

**6.197** In 2011–12, a moderate audit issue was reported in relation to financial transactions expensed in previous periods but later identified as transactions that should have been capitalised. In 2012–13, Defence implemented a quarterly review function to confirm the correct accounting treatment for these transactions. The ANAO's review of this process identified it was operating effectively, and as a result the issue has been resolved.

**6.198** A moderate audit issue was reported in 2011–12 relating to amounts deposited in a special account that, if paid from the account, were likely to result in a legislative breach. Defence subsequently transferred the amounts at risk out of the special account and completed an analysis of the remaining funds within the account. The ANAO's review of the remaining funds in the account did not identify any further issues and, as a result, this issue has been resolved.

**6.199** During the 2012–13 interim audit phase, the ANAO reported a moderate audit issue regarding Defence's Fraud Control Plan (FCP). The ANAO's review of the FCP identified a number of deficiencies when compared to the required policy framework, including an absence of procedures for updating the FCP for emerging risks and identified control weaknesses, and the inclusion of appropriate controls for capturing key fraud and corruption exposures at the operational level.

**6.200** Defence's newly implemented FCP, underpinned by service group risk assessments, addresses the audit issues raised and, as a result, this issue has been resolved.

### *Outstanding audit issues*

#### Military Integrated Logistics Information System (MILIS)

**6.201** The moderate audit issue relating to the quality of MILIS data remains outstanding, as system defects continue to adversely affect data quality. Defence has advised that a Data Quality Framework (DQF) has been developed to provide oversight, accountability, and guidance on the issue of MILIS data quality. The DQF will be a focus area for the 2013–14 audit. In particular, the following matters will be reviewed:

- the assignment of responsibility for data quality across Defence's business groups for MILIS data quality;

- the basis and reliability of the data quality metrics developed and used to monitor the quality of MILIS data; and
- the management of system defects, including the assessment of any financial impact of defects identified and the required adjustments to the financial statements for outstanding system data defects.

#### General assets management

**6.202** Two moderate audit issues relating to the consistent application of Defence's impairment policy and the integrity of data within the asset register remain outstanding

**6.203** An audit issue was reported following the 2012–13 interim audit phase in relation to the requirement to annually assess whether there is any indication that assets may be impaired, taking into account the condition and use of the asset by Defence. The ANAO's review identified that the requirement was not consistently applied. Instances were noted where:

- an assets condition was not considered; and
- asset values reported in the fixed assets register had not been adjusted for known poor condition or discontinued use.

**6.204** Defence has advised that revised impairment assessment processes have been implemented for 2013–14. The ANAO will review these as part of the audit of the 2013–14 financial statements.

**6.205** The moderate audit issue relating to the integrity of data held in the financial management information system (ROMAN) asset register remains outstanding. The integrity of data within the asset register is important as it is used for stocktaking and asset revaluation purposes and underpins the asset balance reported in the financial statements. During the 2012–13 final audit phase, ongoing issues were noted with the integrity of data in the ROMAN asset register.

#### *New audit issues*

##### Internal control and financial reporting

**6.206** Special accounts are established for specific purposes and have particular conditions that must be met prior to payments being made. The ANAO's review of the special accounts identified deficiencies in the retention of key documentation supporting payments out of certain special accounts. Payments were identified where there was a risk that they did not comply with the required conditions for payment.

## Inventory and asset management

**6.207** Three moderate audit issues relating to inventory and asset management were identified during the 2012–13 final audit phase.

**6.208** Australian Accounting Standards require agencies to assess annually whether there is any indication that assets may be impaired. Factors to be taken into account include their condition and use by Defence. The ANAO identified a weakness in relation to the application of this requirement for specialist military equipment (SME). Weaknesses noted include:

- the requirement was not applied to all SME assets. An assessment process exists for key Defence platforms (for example ships, aircraft and submarines) and for Military Support Items (MSI) that are part of the logistics supply chain (for example repairable parts of Defence platforms that are managed through the warehouse system). However, the process was not consistently applied to complex Defence assets (for example aircraft simulators and specialised maintenance facility assets) held on the Military Integrated Logistics Information System (MILIS). The value of these assets are material to the financial statements;
- the requirements were not consistently applied, with the same events or conditions assessed differently and the Defence quality assurance processes did not identify or remedy these issues as part of their review; and
- existing processes did not capture additional information sources that provide impairment indicators.

**6.209** The incomplete and inconsistent application of SME impairment assessments has the potential to result in the asset balance being materially misstated.

**6.210** In addition, the ANAO's testing of transactions relating to Military Support Items (MSI) held on MILIS identified a number of weaknesses. These weaknesses included:

- errors in the value of MSI assets held on the MILIS asset register;
- errors in the useful life for MSI assets transferred to MILIS from asset construction projects;
- processes to record impairment for MSI assets having an unanticipated impact on the calculation of depreciation expense;

- the timing of remediation activities for known data integrity issues resulted in incorrect values being held in the asset register for an extended period of time; and
- issues concerning the quality and availability of evidence to support transactions processed within MILIS.

**6.211** These weaknesses resulted in adjustments to Defence's draft financial statements to correct identified errors and increased audit procedures to enable the required audit assurance to be gained over the MSI balances.

**6.212** A moderate audit issue was identified relating to the accounting for assets and services received as a result of the negotiated settlements of contract disputes. The accounting policies between the Defence Materiel Organisation (DMO), that initially records the outcomes of these settlements, and Defence were inconsistent; the register used to record the event that triggers recognition of a contract settlement was incomplete; and, in some cases, assets and services received in lieu of cash settlements had no value attributed to them and therefore were not reported in the financial statements. Defence adjusted the misstatements in the final 2012–13 financial statements and advised that the process will be reviewed in 2013–14.

#### Human resource management

**6.213** The ANAO's review of the controls supporting time and leave recording noted a number of deficiencies. Defence requires certain civilian employees to:

- maintain a record of their time and attendance through the use of an offline spreadsheet;
- have all leave approved; and
- process all leave in the human resources management information system (PMKeyS).

**6.214** There is no interface or link between the employee based attendance record and PMKeyS. Supervisors are required to approve leave recorded in PMKeyS and to approve the fortnightly attendance records held by the employee.

**6.215** The ANAO identified a number of discrepancies between records held by employees and PMKeyS, as well as a number of issues concerning the consistent application of policies governing the approval of employee attendance times. The identified issues included bulk time approvals,

approvals prior to the time being worked and failure to approve attendance records held by employees. While the calculated variance between PMKeyS and employee held records did not result in a material misstatement to the employee annual and long service leave provision balances in the financial statements, the level of non-compliance with approved policies increases the likelihood of employees taking additional types of leave (for example flexible leave) that they are not entitled to.

**6.216** In addition, the ANAO reviewed controls over the processes for final payments made to terminating employees. The review noted a number of instances where the documentation supporting the termination payment was not prepared, completed or authorised in accordance with Defence approved processes, increasing the risk that inaccurate or inappropriate payments may be made.

#### *Potential breaches of section 83 of the Constitution*

**6.217** During 2012–13, Defence undertook a further review to determine the risk of payments being made in breach of section 83 of the Constitution from the special appropriations and special accounts for which it is administratively responsible.

**6.218** In 2012–13, advice was received that indicated under certain circumstances payments for long service leave, goods and service tax and payments made under determinations of the Remuneration Tribunal would result in section 83 breaches. Defence advised that it intends to undertake a risk assessment in 2013–14 to determine the level of risk of non-compliance in the circumstances mentioned in this advice applying to the department.

**6.219** The risk assessment and subsequent analysis in 2012–13 identified 466 potential breaches of section 83 totalling approximately \$626 000 in relation to various payments under the *Defence Force (Home Loans Assistance) Act 1990* and the *Defence Home Ownership Assistance Scheme Act 2008*. Of these amounts, approximately \$578 000 has been recovered at 30 June 2013.

**6.220** In 2012–13 amendments were made to the *Defence Forces Retirement Benefits Act 1948*, the *Defence Forces Retirement and Death Benefits Act 1973*, the *Military Superannuation and Benefits Act 1991* and the *Military and Superannuation and Benefits Act 1991 – Retention Benefits* as part of the *Financial Framework Legislative Amendment Act No. 2 2013* that are designed to reduce the risk of future payments being made in breach of section 83 to low.

**6.221** The auditor's report on Defence's 2012–13 financial statements included a report on other legal and regulatory requirements referring to the potential breaches identified. This is not a qualification or modification to the audit opinion on Defence's financial statements, as the financial statements fairly presented the financial operations and position of Defence at year end.

**6.222** Defence has undertaken to continue to monitor its level of compliance with section 83 of the Constitution across all legislation for which it is administratively responsible. Defence expects that amendments to legislation will be progressed with the aim of reducing the risk of future section 83 breaches, where appropriate.

**6.223** Full details of the breaches identified during 2012–13 are outlined in Note 32 of Defence's 2012–13 financial statements, and a general discussion of this matter is at paragraphs 5.27 to 5.40 in chapter 5 of this report.

## Australian War Memorial

### Summary of financial results

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

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 46.3           | 41.3           |
| Revenue from government                 | 39.4           | 40.4           |
| Surplus/(deficit) *                     | (6.9)          | (0.9)          |
| Total other comprehensive income/(loss) | 0.4            | 70.1           |
| Total comprehensive income/(loss)       | (6.5)          | 69.2           |
| Total assets                            | 1 241.0        | 1 234.8        |
| Total liabilities                       | 10.8           | 9.2            |

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

**6.225** The net cost of services increased mainly due to an increase in employee expenses and supplier expenses. These increases were as a result of an increase in staff numbers and increased activities in the lead up to ANZAC centenary commemorations in 2015.

6.226 Other comprehensive income decreased mainly due to the value associated with the prior year's revaluation of heritage and cultural assets not occurring in 2012–13.

6.227 Fluctuations in other balances reflect normal business activities.

### Areas of audit focus

6.228 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the War Memorial's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

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

### Audit results

6.229 Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Defence Housing Australia

### Summary of financial results

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

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Total income                            | 1 042.5        | 929.3          |
| Total expenses                          | 957.4          | 846.5          |
| Profit/(loss) after income tax          | 85.1           | 82.8           |
| Total other comprehensive income/(loss) | –              | –              |
| Total comprehensive income/(loss)       | 85.1           | 82.8           |
| Total assets                            | 2 168.8        | 2 130.5        |
| Total liabilities                       | 775.9          | 771.7          |

6.231 Defence Housing Australia's (DHA) income increased primarily due to an increase in the number of land disposals and sale and lease back arrangements, a small increase in rental returns from Defence, and an increase



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

**6.232** Expenses increased mainly due to housing-related expenditure associated with DHA supporting Defence's operational requirements. Housing expenditure increased as a result of an increase in the number of properties managed by DHA, and in particular an increase in costs associated with general property expenditure, such as repairs and maintenance.

**6.233** DHA has a comprehensive construction and acquisition program to meet Defence housing requirements. As a result, new properties are continually constructed or purchased, with the majority being sold and then leased back under a sale and lease back program. The movement in assets is mainly due to an increase in the value of land and properties acquired by DHA for sale, in comparison to land and properties held for sale in 2011–12.

**6.234** Fluctuations in other balances reflect normal business activities.

### **Areas of audit focus**

**6.235** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on DHA's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

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

**6.236** Audit coverage of these areas of audit focus were finalised with satisfactory results during the 2012–13 final audit phase.

### **Audit results**

**6.237** There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Defence Materiel Organisation

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 878.5          | 884.0          |
| Revenue from government                 | 911.1          | 931.3          |
| Surplus/(deficit) *                     | 32.6           | 47.3           |
| Total other comprehensive income/(loss) | 0.1            | 0.2            |
| Total comprehensive income/(loss)       | 32.7           | 47.5           |
| Total assets                            | 2 511.6        | 2 081.9        |
| Total liabilities                       | 2 108.9        | 1 711.9        |

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

6.239 Under the business arrangements between the Defence Materiel Organisation (DMO) and Defence, DMO is funded for expenses incurred in undertaking acquisition and sustainment activities on behalf of Defence. The annual funding requirements and deliverables are defined and are required to be performed in accordance with the Materiel Acquisition Agreements (MAAs) and Materiel Sustainment Agreements (MSAs) established between the two agencies.

6.240 The net cost of services decreased slightly due to a decrease in DMO operational expenses relating to acquisition and sustainment activities, performed by DMO on behalf of Defence. DMO operational expenses were lower due to decreases in the acquisition program for assets under construction in comparison to 2011–12.

6.241 The small decrease in revenue from government is primarily due to a decrease in appropriation funding associated with the transfer of personnel to Defence under new shared service arrangements. This in turn contributed to the decrease in the surplus.

6.242 Assets increased as a result of an increase in monies owed by Defence in relation to acquisition and sustainment activities, and an increase in assets

and services to be provided by third party contractors as a result of negotiated settlements of asset construction contract disputes.

**6.243** The monies owed by Defence represent the difference between cash received from Defence and expenses incurred by DMO in relation to acquisition and sustainment activities.

**6.244** The monies owed by third party contractors represents assets and services to be received in future years as a result of negotiated settlements for contract disputes. The majority of the settlements relate to future sustainment costs and the receipt of additional specialist military equipment (SME). There is an offsetting amount owed to Defence, because these assets and services are to be delivered to Defence in future periods as they are received.

**6.245** The movement in liabilities is mainly due to the offsetting amounts owed to Defence mentioned above.

**6.246** Fluctuations in other balances reflect normal business activities.

*Items administered on behalf of the Australian Government*

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 0.3            | 0.6            |
| Total expenses *                | –              | (1.5)          |
| Surplus/(deficit) *             | 0.3            | (0.9)          |
| Total assets *                  | 2.1            | 3.6            |
| Total liabilities               | –              | –              |

\* The 2011–12 assets balance has been restated from \$4.3 million to \$3.6 million to correct an error in the calculation of the unrealised exchange loss at 30 June 2012.

**6.247** Administered income and assets comprise interest revenue and interest owing to DMO. The movement in administered assets is attributable to the decrease in the value of the balance as a result of foreign exchange movements.

**6.248** Fluctuations in other balances reflect normal business activities.

## Areas of audit focus

**6.249** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on DMO's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the accounting for, and recording of, cost of goods sold and repairs and overhaul expenses, which involves a high number of transactions and a

significant level of complexity in terms of contractual arrangements and project management requirements, given the wide variety of agreements involved;

- the accounting for, and disclosure of, prepayments which are complex in nature and subject to both material fluctuations as projects and contracts change and increase the risk of inaccurate and incomplete aggregation due to the decentralised manual recording process from which they are derived;
- the accounting for, and the reporting of, monies owed by Defence to DMO and unearned income, which comprises complex manual calculations and compilation;
- IT general and application controls for key systems that support the preparation of DMO's financial statements; and
- the aggregation of financial information from different operational areas, systems and processes. This includes financial statements disclosures that involve aggregation of data and information from several sources.

## **Audit results**

### *Summary of audit findings*

**6.250** At the conclusion of the 2012–13 audit, one moderate audit issue was outstanding. This issue was raised in 2010–11 and relates to the need to improve bureau service arrangements between Defence and DMO outlined below at paragraphs 6.254 to 6.257.

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

**6.252** The following table summarises the status of audit issues reported by the ANAO in 2011–12 and 2012–13.

| Category     | Opening position (at end of the 2011–12 final audit phase) | Issues resolved (during the 2012–13 interim audit phase) | New issues identified (during the 2012–13 interim audit phase) | Issues resolved (during the 2012–13 final audit phase) | New issues identified (during the 2012–13 final audit phase) | Closing position (at end of the 2012–13 final audit phase) |
|--------------|--|--|--|--|--|--|
| A            | 0  | 0  | 0  | 0  | 0  | 0  |
| B            | 2  | 0  | 0  | (1)  | 0  | 1  |
| L1           | 0  | 0  | 0  | 0  | 0  | 0  |
| <b>Total</b> | <b>2</b>   | <b>0</b>   | <b>0</b>   | <b>(1)</b>   | <b>0</b>   | <b>1</b>   |

### *Resolved audit issues*

Financial reporting of appropriation and cash management

**6.253** The moderate audit issue relating to DMO's financial reporting of appropriations and cash management has been satisfactorily resolved. The ANAO was able to confirm that a formal reconciliation had been implemented between the then Department of Finance and Deregulation Central Budget and Management System (CBMS) and the financial management information system (ROMAN); signed documentation supporting all drawing rights was completed; and details of electronic funds payments to suppliers were correctly reported in the 2012–13 financial statements.

### *Outstanding audit issues*

Bureau service arrangements between Defence and DMO

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

**6.255** DMO obtains high level assurance over the integrity of transactions processed by the systems managed by Defence, and the effectiveness of manual controls supporting these processes, as these transactions are included in the balances reported in DMO's financial statements. However, existing arrangements between Defence and DMO do not provide DMO with visibility over the issues that may impact on the assurance from Defence over the effectiveness of key IT application and general controls over financial reporting systems.

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

**6.257** DMO has advised that it was finalising its financial statements risk assessment, which would include DMO assurance activities in relation to the financial transactions processed by Defence. The risk assessment was being finalised in the context of new shared services arrangements. The ANAO will evaluate the risk assessment and related controls, including the testing of these controls, as part of the 2013–14 interim audit phase.

## Department of Veterans' Affairs

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 304.4          | 326.8          |
| Revenue from government                 | 285.2          | 296.3          |
| Surplus/(deficit) *                     | (19.2)         | (30.6)         |
| Total other comprehensive income/(loss) | 0.0            | (1.2)          |
| Total comprehensive income/(loss)       | (19.2)         | (31.8)         |
| Total assets                            | 219.6          | 227.7          |
| Total liabilities                       | 129.7          | 140.1          |

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

**6.259** The reduction in the net cost of services and the deficit largely relate to reductions in employee benefits and supplier expenses, partially offset by an increase in underwriting expenses relating to the insurance activities of the Defence Service Homes Insurance Scheme (DSHIS). The reduction in employee benefits is primarily due to a decrease in the average staffing level to 1 920, following a voluntary redundancy program in 2011–12 and reductions by

natural attrition in 2012–13. Supplier expenses reduced following the transition to new IT service providers and a lower level of IT project activity.

**6.260** Liabilities decreased primarily due to reduced employee liabilities as a result of a reduction in staff numbers and the effect of a higher government bond rate on employee provisions,<sup>71</sup> together with the settlement of amounts owing in relation to the 2011–12 voluntary redundancy program.

**6.261** Fluctuations in other balances reflect normal business activities.

*Items administered on behalf of the Australian Government*

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 9.0            | 7.0            |
| Total expenses                  | 11 703.0       | 13 722.0       |
| Surplus/(deficit)               | (11 694.0)     | (13 715.0)     |
| Total assets                    | 1 396.0        | 1 357.0        |
| Total liabilities               | 5 351.0        | 5 529.0        |

**6.262** In 2011–12, total expenses reflect a significant increase of \$1 714 million in the provision for military compensation. From 2011–12 to 2012–13 there was a minimal change in the balance of the provision. As a result, expenses decreased significantly between 2011–12 and 2012–13. A further reduction was due to a reduced veteran population accessing hospital services, partially offset by increasing medical costs.

**6.263** Administered liabilities reduced primarily due to a decrease in the state hospital provision, as a result of significant payments in 2012–13. The state hospital provision recognises liabilities to states and territories for health services provided to veterans.

**6.264** Fluctuations in other balances reflect normal business activities.

## Areas of audit focus

**6.265** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on DVA's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

71 Op cit (refer footnote 18 on p. 32).

- the significant number of high volume, low value transactions being processed on a regular basis by complex and ageing information systems;
- the quality assurance framework over payments for income support and rehabilitation and compensation for veterans and their dependants;
- the complexity of assumptions and calculations underpinning the actuarial assessment of the military compensation provision;
- IT general and application controls as they relate to the financial statements; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2011–12 financial statements.

## Audit results

### *Summary of audit findings*

**6.266** The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2011–12.

| Category     | Opening position (at end of the 2011–12 final audit phase) | Issues resolved (during the 2012–13 interim audit phase) | New issues identified (during the 2012–13 interim audit phase) | Issues resolved (during the 2012–13 final audit phase) | New issues identified (during the 2012–13 final audit phase) | Closing position (at end of the 2012–13 final audit phase) |
|--------------|--|--|--|--|--|--|
| A            | 0  | 0  | 0  | 0  | 0  | 0  |
| B            | 5  | (1)  | 0  | (2)  | 0  | 2  |
| L1           | 2  | 0  | 0  | 0  | 0  | 2  |
| <b>Total</b> | <b>7</b>   | <b>(1)</b>   | <b>0</b>   | <b>(2)</b>   | <b>0</b>   | <b>4</b>   |

### *Resolved audit issues*

#### Provision for payments to hospitals

**6.267** One moderate audit issue identified in previous years, relating to weaknesses in the quality and availability of data used to estimate DVA’s liability to the states and territories for health services that are provided by hospitals to veterans, has been satisfactorily resolved.

**6.268** During the 2012–13 final audit phase, the ANAO confirmed that DVA had further agreed prices with state and territory health departments,



continued to progress work with these departments regarding the quality of information being provided to DVA, and refined its own methodology for calculating the provision for payments to state hospitals.

#### Reconciliations

**6.269** The moderate audit issue relating to the timely completion and review between the general ledger and subsidiary systems for payroll, accounts receivable, and accounts payable, has been satisfactorily resolved.

**6.270** At the time of the 2012–13 final audit phase, reconciliations between the general ledger and the subsidiary systems for payroll, accounts receivable, and accounts payable, were completed and reviewed in a timely manner.

#### *Outstanding audit issues*

##### Management of user access

**6.271** The ANAO's 2011–12 interim audit phase identified a significant number of users who continued to have user access that resulted in inadequate segregation of duties within key payment systems. In addition, there was no monitoring of user access. While DVA had established a number of controls designed to address the resulting risks of providing extensive user access, the ANAO identified that these did not adequately address the risks involved. The 2011–12 audit concluded that this situation significantly increased the risk of incorrect payments being made through these systems.

**6.272** The 2011–12 audit also identified that inadequate segregation of duties existed within key payment systems, a number of officers held privileged user access to DVA's QA IT application (QUASARS), and there was no effective monitoring of this access.

**6.273** The 2011–12 audit concluded that while DVA had reduced the number of users with privileged access to QUASARS, remediation of the remaining issues continued to be progressively implemented.

**6.274** During 2012–13, DVA has continued to reduce the access that previously resulted in inadequate segregation of duties within key payment systems. However, the monitoring of access has not been adequately addressed and, as a result, the issue remains outstanding.

##### Quality assurance framework

**6.275** DVA has a quality assurance (QA) framework that is designed to provide assurance over the correctness of administrative decisions, the

achievement of program and policy outcomes, and the completeness and accuracy of financial statement reporting.

**6.276** During the 2011–12 audit, a number of weaknesses were identified in the QA framework relating to the Income Support and Rehabilitation and Compensation QA programs. In particular, the audit identified a lack of financial quantification of identified errors, inadequate segregation of duties within the IT application used for quality assurance, a lack of an audit trail for actions completed within this application, inadequate documentation of completed procedures, and the existence of errors not previously identified by the department.

**6.277** The ANAO's review of QUASARS (which is used for selecting samples of decisions and payments for quality assurance review, and the reporting of quality assurance activities in DVA) also identified a large number of users with privileged access, without the logging and monitoring of actions performed by users within the system. This access included the ability to amend underlying data, sample selections, and quality assurance results.

**6.278** The weaknesses and delayed implementation of ANAO's recommendations required DVA to adopt alternative assurance for the purpose of financial reporting in 2012–13. These mechanisms included: the mapping of administered payment controls; detailed transactional testing across DVA's eight significant administered expense areas; and management review of a range of other mitigating controls.

**6.279** DVA advised that a large number of ANAO's recommendations were implemented late in 2012–13, with the remaining recommendations to be implemented in early 2013–14. The ANAO will review the status of these actions as part of its 2013–14 interim audit phase.

### *Legislative breaches*

#### Management of waivers

**6.280** During the 2010–11 audit, the ANAO identified several instances where debts had been waived under provisions of the *Veterans' Entitlements Act 1986* (VE Act) without a determination by the Repatriation Commission. The VE Act requires all waivers to have such a determination, which serves as a control for the waiving of debts.

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

ANAO identified that these measures had not been effective in addressing the issue. This was due, for example, to waivers not being authorised by an appropriate delegate or not being supported by complete documentation. DVA has advised that a detailed project plan continues to be implemented with the objective of resolving this issue.

**6.282** This matter will be further reviewed as part of the interim phase of the 2013–14 audit.

#### Potential breaches of section 83 of the Constitution

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

**6.284** During 2012–13, DVA continued to monitor its level of compliance with section 83 of the Constitution across all legislation for which it is administratively responsible. A financial quantification of potential breaches of section 83 in 2012–13 identified that the potential breaches in respect to the *Veterans' Entitlements Act 1986* was \$59.7 million for the 2012–13 financial year. The potential breaches relate to the assessment of eligibility and subsequent payments made. DVA reported within its 2012–13 financial statements that \$2.2 million of overpayments had been recovered.

**6.285** The 2012–13 auditor's report included a report on other legal and regulatory requirements referring to these potential breaches. This is not a qualification or modification of the audit opinion on DVA's financial statements as the financial statements fairly presented the financial operations and position of DVA at year end.

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

**6.287** This matter will also be reviewed as part of the interim phase of the 2013–14 audit. A general discussion of this matter is at paragraphs 5.27 to 5.40 in chapter 5 of this report.

## Comments on non-material entities

### Audit results

#### *Summary of audit findings*

**6.288** There were no significant or moderate audit issues or significant legislative matters noted in non-material entities within the portfolio at year end. One moderate audit issue reported in 2011–12 in the Royal Australian Navy Central Canteens Board has been downgraded due to remedial action being taken.

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

**6.289** During 2011–12, the ANAO's testing of the Royal Australian Navy Central Canteens Board's (RANCCB) inventory management processes and controls identified a moderate audit issue in relation to:

- weaknesses in controls relating to the receipting of inventory and the transfer of inventories between various stores operated by RANCCB; and
- stocktake policies and procedures not adequately documented.

**6.290** RANCCB have strengthened the controls over the receipt and transfer of inventories and updated documentation to include stocktake policy and procedures. However, it was noted that the stocktake procedures were not consistently applied by RANCCB. Notwithstanding the above, the ANAO considers that this issue is substantially resolved and as a result the issue has been downgraded to a minor audit issue.

# Education, Employment and Workplace Relations Portfolio<sup>72</sup>

| Reporting Entity  | Material Entity | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit issues identified |
|---|-----------------|--------------------------|----------------------------------|------------------------------|-------------------------|
| Department of Education, Employment and Workplace Relations                     | Yes             | ✓L                       | 9 Sept 13                        | 9 Sept 13                    | ▲◆□                     |
| Australian Curriculum Assessment and Reporting Authority                        | No              | ✓                        | 30 Aug 13                        | 30 Aug 13                    |                         |
| Australian Institute for Teaching and School Leadership Limited                 | No              | ✓                        | 30 Aug 13                        | 30 Aug 13                    |                         |
| Coal Mining Industry (Long Service Leave Funding) Corporation                   | Yes             | ✓                        | 3 Oct 13                         | 3 Oct 13                     |                         |
| Comcare   | Yes             | ✓                        | 5 Sept 13                        | 5 Sept 13                    |                         |
| Fair Work Commission  | No              | ✓                        | 13 Sept 13                       | 13 Sept 13                   |                         |
| Office of the Fair Work Building Industry Inspectorate                          | No              | ✓                        | 2 Oct 13                         | 3 Oct 13                     |                         |
| Office of the Fair Work Ombudsman   | No              | ✓                        | 17 Sept 13                       | 18 Sept 13                   |                         |
| Safe Work Australia   | No              | ✓                        | 1 Oct 13                         | 1 Oct 13                     |                         |
| Seafarers Safety, Rehabilitation and Compensation Authority (Seacare Authority) | No              | ✓                        | 10 Sept 13                       | 10 Sept 13                   |                         |

- ✓: auditor's report not modified  
 auditor's report contains a reference to other legal and
- L: regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution
- ▲: significant or moderate issues and/or legislative matters reported previously not yet resolved

- ◆: new significant or moderate issues and/or legislative matters noted
- : significant or moderate issues and/or legislative matters identified in previous periods, or the 2012–13 interim audit phase, now downgraded or resolved

## Portfolio Overview

**6.291** The Australian Government takes a national leadership role in education and aims to maximise the ability of working age Australians to participate in the workforce and to improve the productive performance of

72 The portfolio was abolished as part of the MOG changes on 18 September 2013 and its responsibilities were transferred to the Employment and Education Portfolios.

enterprises in Australia. Through the Department of Education, Employment and Workplace Relations (DEEWR) and its portfolio agencies, the Government worked with State and Territory Governments, other government agencies, various industries, and a range of contracted service providers to provide high quality policy, advice and services for the benefit of Australia.

## Department of Education, Employment and Workplace Relations<sup>73</sup>

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 623.2          | 786.5          |
| Revenue from government                 | 563.9          | 712.8          |
| Surplus/(deficit) *                     | (59.3)         | (73.7)         |
| Total other comprehensive income/(loss) | 0.0            | (3.0)          |
| Total comprehensive income/(loss)       | (59.3)         | (76.6)         |
| Total assets                            | 383.1          | 424.8          |
| Total liabilities                       | 225.6          | 254.9          |

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

**6.293** The movement in the net cost of services is primarily due to a reduction in employee benefits and supplier expenses. Employee benefits reduced as a result of a full year of lower staff numbers following the MOG changes in 2011–12, which involved the Tertiary Education functions transferring to the former Department of Innovation, Industry, Science, Research and Tertiary Education (DIISRTE). Supplier expenses also decreased as a result of the 2011–12 MOG changes, with a reduced requirement for lease and property related expenses, information technology (IT) costs and consultants.

---

73 The department was abolished as part of the MOG changes on 18 September 2013 and its responsibilities were transferred to the Departments of Employment and Education. Certain functions were also transferred to the Department of the Prime Minister and Cabinet and the Department of Social Services.

**6.294** Revenue from government decreased, reflecting a full year of the 2011–12 MOG changes referred to above.

**6.295** Assets decreased primarily as a result of the transfer of unspent appropriations in 2011–12 that related to the Tertiary Education functions transferred to the former DIISRTE.

**6.296** Fluctuations in other balances reflect normal business activities.

*Items administered on behalf of the Australian Government*

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 288.7          | 313.3          |
| Total expenses                  | 32 070.8       | 35 930.3       |
| Surplus/(deficit)               | (31 782.1)     | (35 617.0)     |
| Total assets                    | 1 356.3        | 1 335.0        |
| Total liabilities               | 4 269.3        | 3 886.4        |

**6.297** Administered expenses decreased mainly due to a decrease in grants, subsidy and supplier expenses. Supplier expenses, grants and subsidies decreased reflecting a full year of the 2011–12 MOG changes. The additional decrease in supplier expenses is primarily due to a reduction in demand for employment services and budget saving measures.

**6.298** Administered liabilities increased mainly due to an increase in the amount payable to Comcare, representing the Commonwealth’s liability for workers compensation claims resulting from injuries.

**6.299** Fluctuations in other balances reflect normal business activities.

### Areas of audit focus

**6.300** The ANAO’s audit approach identified particular areas of audit focus that had the potential to impact on the department’s financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- compliance activities and assurance processes underpinning personal benefits, child care and working age related payments that rely on correct disclosure of personal circumstances by a diverse number of recipients;

- the financial management of grants, as the management of grants is dispersed across a wide variety of programs and different business systems;
- complex judgements and estimates in the department's financial statements including the accrual elements of administered programs required to be reported at year end; and
- legislative compliance, particularly the ongoing implementation of measures designed to address the risk of breaches of section 83 of the Constitution, referred to in the 2011–12 financial statements.

## Audit results

### Summary of audit findings

**6.301** The following table summarises the status of audit issues reported by the ANAO in 2011–12 and 2012–13.

| Category     | Opening position (at end of the 2011–12 final audit phase) | Issues resolved (during the 2012–13 interim audit phase) | New issues identified (during the 2012–13 interim audit phase) | Issues resolved (during the 2012–13 final audit phase) | New issues identified (during the 2012–13 final audit phase) | Closing position (at end of the 2012–13 final audit phase) |
|--------------|--|--|--|--|--|--|
| A            | 0  | 0  | 0  | 0  | 0  | 0  |
| B            | 0  | 0  | 1  | (1) *  | 1  | 1  |
| L1           | 1  | 0  | 0  | 0  | 0  | 1  |
| <b>Total</b> | <b>1</b>   | <b>0</b>   | <b>1</b>   | <b>(1)</b>   | <b>1</b>   | <b>2</b>   |

\* An issue relating to reconciliations of systems has been reclassified to a category C finding.

### Reclassified moderate audit issue

#### Reconciliations

**6.302** In 2012–13, over \$8 billion in grant payments were processed through a number of IT applications within the school education management information system (SEMIS), which is used to support the administration of numerous grant programs, and the department's financial management information system (FMIS).

**6.303** The 2012–13 interim audit phase identified that statistical information from schools, used to support the calculation of grants paid under the *Schools Assistance Act 2008*, was not reconciled to the original information provided by schools when being processed through the different IT applications within the SEMIS. In addition, the ANAO identified that until May 2013, reconciliations



of details of grant payments were not being performed between SEMIS and the FMIS.

**6.304** During the 2012–13 final audit phase, the department implemented reconciliations for the majority of the IT applications within the SEMIS to reduce the risk of incorrect recording of statistical information, incorrect payments and the misreporting of grant payments in the financial statements.

**6.305** As a result of progress made, the ANAO has reclassified this moderate audit issue to a category C finding.

**6.306** The department advised that the outstanding reconciliation was expected to be in place from October 2013. The ANAO will undertake additional audit procedures during the 2013–14 audit to obtain assurance that this control is in place and operating effectively.

#### *New audit issues*

##### Child care compliance framework

**6.307** During 2012–13, the department had responsibility for the provision of financial assistance to families for the cost of child care services, with over \$4 billion in personal benefit payments made annually.

**6.308** The child care compliance framework encompasses three strategies:

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

**6.309** In 2012–13, the ANAO identified that the department had changed its approach to undertaking compliance activities to more effectively utilise resources. The change in approach involved a reduction in the number of child care service provider inspections, compensated by an increase in the level of other monitoring activities, such as data analysis.

**6.310** The ANAO's review of the compliance and other monitoring activities undertaken by DEEWR identified that while the number of child care service provider inspections had reduced, the department had not fully implemented other monitoring activities to compensate for this reduction. In addition, not all

child care service provider inspections had been undertaken in a consistent manner, as required by the compliance framework.

**6.311** Reducing monitoring and compliance activities and the inconsistent application of the compliance inspections increases the risk of incorrect payments being identified, recorded and subsequently recovered.

*Actual and potential breaches of section 83 of the Constitution*

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

**6.313** In 2011–12, the department developed a plan to review the exposure to risks of non-compliance with statutory conditions on payments from special appropriations and special accounts. This plan involved assessing the difficulty of administering statutory conditions and assessing the extent to which existing payment systems and processes satisfy those conditions for each special appropriation and special account.

**6.314** As a result of the review undertaken in 2011–12, the department reported actual and potential breaches of section 83 of the Constitution in its 2011–12 financial statements.

**6.315** In 2012–13, the department reported payments totalling \$452 873 under the *Schools Assistance Act 2008*, payments totalling \$4 636 215 under the *Student Assistance Act 1973* and payments totalling \$101 297 849 under the *Social Security Administration Act 1999*, which were potentially in breach of section 83 of the Constitution.

**6.316** The auditor's report included a report on other legal and regulatory requirements referring to payments potentially in breach of section 83 of the Constitution. This is not a qualification or modification to the audit opinion on DEEWR's financial statements, as the financial statements fairly presented the financial operations and position of the department at year end.

**6.317** The department had undertaken to continue to monitor its level of compliance with section 83 of the Constitution across all legislation for which it was administratively responsible and to continue to progress legislative amendments and system changes to reduce the risk of future section 83 breaches, where appropriate. At the time of the 2012–13 final audit phase, the department advised that it intended to review its processes and controls over

payments for long service leave, goods and services tax and payments under determinations of the Remuneration Tribunal.

**6.318** The ANAO will continue to review progress in addressing this issue as part of the 2013–14 audit.

**6.319** Full details of actual and potential breaches identified during 2012–13 are outlined in Note 33 of the department's 2012–13 financial statements, and a general discussion of this matter is at paragraphs 5.27 to 5.40 in chapter 5 of this report.

## Coal Mining Industry (Long Service Leave Funding) Corporation

### Summary of financial results

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

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 123.9          | 61.8           |
| Revenue from government                 | 170.4          | 147.1          |
| Surplus/(deficit)                       | 46.5           | 85.2           |
| Total other comprehensive income/(loss) | 0.0            | 0.0            |
| Total comprehensive income/(loss)       | 46.5           | 85.2           |
| Total assets                            | 1 161.7        | 957.6          |
| Total liabilities                       | 1 081.2        | 923.6          |

**6.321** Net cost of services increased mainly due to the impact of an increase in the provision for reimbursements that resulted in a corresponding increase in expenses. This provision relates to the expected reimbursements that will be made to employers for long service leave payments in the Australian black coal industry.

**6.322** The Corporation collects levies on behalf of the Australian Government to fund the above provision. These levies are transferred to the Consolidated Revenue Fund and an amount equal to the levies collected is then paid to the Corporation as revenue from government. Revenue from government increased in 2012–13 due to higher levies being received by the Corporation, as

a result of additional employers providing contributions relating to current and prior years' service in the industry.

**6.323** Assets increased due to an increase in investments, as a result of increased levies being received during the year and gains on the fair value of investments.

**6.324** Liabilities increased mainly due to an increase in the provision for reimbursements. The provision increased due to changes in assumptions used in the calculation of the provision.

### **Areas of audit focus**

**6.325** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Corporation's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the valuation of unlisted unit trust assets that can be complex;
- reliance on outsourced administration and custodian functions; and
- the calculation of the long service leave provision.

### **Audit results**

#### *Summary of audit findings*

**6.326** Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Comcare

### Summary of financial results

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

| Key financial measures for year *       | 2012–13<br>\$m | 2011–12 **<br>\$m |
|---|----------------|-------------------|
| Net cost of services                    | 155.2          | 1 025.5           |
| Revenue from government                 | 56.9           | 338.2             |
| Surplus/(deficit) ***                   | (98.3)         | (687.3)           |
| Total other comprehensive income/(loss) | (0.2)          | 0.0               |
| Total comprehensive income/(loss)       | (98.5)         | (687.3)           |
| Total assets                            | 3 180.5        | 3 139.6           |
| Total liabilities                       | 4 109.1        | 3 969.8           |

\* The entity's operating results are referred to in the ANAO's analysis of entities' operating results at paragraphs 4.8 to 4.12 of chapter 4 of this report.

\*\* Prior year figures have been adjusted due to a change in accounting policy for provisions for outstanding claims liabilities.

\*\*\* Entities are not funded for depreciation expense which affects the reported surplus or deficit.

6.328 The movement in the net cost of services and the associated deficit is mainly due to a significant reduction in the expense associated with the 2012–13 workers compensation and common law asbestos claims provisions. This reduction also resulted in a corresponding reduction in revenue from government in comparison to 2011–12.

6.329 The increase in liabilities is mainly due to an increase in the workers compensation and common law asbestos claims provisions during the 2012–13 financial year. This was driven by claimants receiving benefits longer than previously forecast and changes in actuarial assumptions to reflect recent claims experience. This was partially offset by changes in economic factors impacting the measurement of provision balances.

6.330 Fluctuations in other balances reflect normal business activities.

### Areas of audit focus

6.331 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on Comcare's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the estimation and assumptions involved in the calculation of workers compensation and asbestos related disease claim provisions and related expense accounts; and
- the application of revenue recognition in relation to legislative requirements under which Comcare operate, particularly in relation to workers compensation and common law asbestos claims.

## **Audit results**

### *Summary of audit findings*

**6.332** Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

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

### **Audit results**

#### *Summary of audit findings*

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

# Families, Housing, Community Services and Indigenous Affairs Portfolio<sup>74</sup>

| Reporting Entity   | Material Entity | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit issues identified |
|--|-----------------|--------------------------|----------------------------------|------------------------------|-------------------------|
| Department of Families, Housing, Community Services and Indigenous Affairs | Yes             | ✓L                       | 30 Aug 13                        | 30 Aug 13                    | ▲                       |
| - Aboriginals Benefit Account  | No              | ✓L                       | 30 Aug 13                        | 30 Aug 13                    | ▲                       |
| Aboriginal Hostels Ltd   | No              | ✓                        | 27 Sept 13                       | 27 Sept 13                   |                         |
| Anindilyakwa Land Council  | No              | ✓                        | 11 Sept 13                       | 16 Sept 13                   | ◆□                      |
| Australian Institute of Family Studies                                     | No              | ✓                        | 28 Aug 13                        | 28 Aug 13                    |                         |
| Central Land Council   | No              | ✓                        | 27 Aug 13                        | 27 Aug 13                    |                         |
| Workplace Gender Equality Agency   | No              | ✓                        | 27 Aug 13                        | 27 Aug 13                    |                         |
| Indigenous Business Australia  | Yes             | ✓                        | 19 Sept 13                       | 19 Sept 13                   |                         |
| - Asset Leasing Trust  | No              | ✓                        | 8 Nov 13                         | 8 Nov 13                     |                         |
| - Consolidated Manufacturing Enterprise Pty Ltd                            | No              | ✓                        | 27 Nov 13                        | 27 Nov 13                    |                         |
| - Darwin Hotel Holdings Trust  | No              | ✓                        | 8 Nov 13                         | 8 Nov 13                     |                         |
| - Gagudju Crocodile Hotel Trust  | No              | ✓                        | 7 Nov 13                         | 7 Nov 13                     |                         |
| - Gagudju Lodge Cooinda Trust  | No              | ✓                        | 7 Nov 13                         | 7 Nov 13                     |                         |
| - Hotel Enterprises Pty Ltd  | No              | ✓                        | 28 Oct 13                        | 28 Oct 13                    |                         |
| - Hotel Holdings Trust   | No              | ✓                        | 7 Nov 13                         | 7 Nov 13                     |                         |
| - Ikara Wilpena Enterprises Pty Ltd  | No              | ⇒                        |                                  |                              |                         |
| - Ikara Wilpena Holdings Trust   | No              | ✓                        | 25 Nov 13                        | 26 Nov 13                    |                         |
| - Indigenous Economic Development Trust                                    | No              | ⇒                        |                                  |                              |                         |
| - Indigenous Fishing Trust   | No              | ✓                        | 7 Nov 13                         | 7 Nov 13                     |                         |

74 The portfolio became the Social Services Portfolio as part of MOG changes on 18 September 2013. Key changes involved the Department of Human Services transferring to the Portfolio and responsibility for Indigenous programs and a number of related entities being transferred to the Prime Minister and Cabinet Portfolio.

| Reporting Entity                                   | Material Entity | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit issues identified |
|--|-----------------|--------------------------|----------------------------------|------------------------------|-------------------------|
| - Indigenous Investment Trust                      | No              | ✓                        | 11 Nov 13                        | 11 Nov 13                    |                         |
| - Kakadu Tourism (GCH) Pty Ltd                     | No              | ✓                        | 29 Oct 13                        | 29 Oct 13                    |                         |
| - Kakadu Tourism (GLC) Pty Ltd                     | No              | ✓                        | 29 Oct 13                        | 29 Oct 13                    |                         |
| - Larrakia Darwin Hotel Partnership                | No              | ✓                        | 4 Nov 13                         | 4 Nov 13                     |                         |
| - Leonora Investment Trust                         | No              | ⇒                        |                                  |                              |                         |
| - Li Ar Yalug Land Holding Trust                   | No              | ✓                        | 7 Nov 13                         | 7 Nov 13                     |                         |
| - Minjerribah Camping Partnership                  | No              | ⇒                        |                                  |                              |                         |
| - National Indigenous Property Trust               | No              | ✓                        | 8 Nov 13                         | 8 Nov 13                     |                         |
| - North Stradbroke Enterprises Trust               | No              | ✓                        | 14 Nov 13                        | 14 Nov 13                    |                         |
| - Port Botany Transfer Station Trust               | No              | ✓                        | 8 Nov 13                         | 8 Nov 13                     |                         |
| - Scarborough House Investment Trust               | No              | ✓                        | 11 Nov 13                        | 11 Nov 13                    |                         |
| - Scarborough House Office Trust                   | No              | ✓                        | 11 Nov 13                        | 11 Nov 13                    |                         |
| - South Hedland Indigenous Property Trust          | No              | ✓                        | 25 Nov 13                        | 26 Nov 13                    |                         |
| - Swanbrook Road Holding Trust                     | No              | ✓                        | 7 Nov 13                         | 7 Nov 13                     |                         |
| - Tennant Creek Foodbarn Partnership               | No              | ✓                        | 3 Oct 13                         | 3 Oct 13                     |                         |
| - Tennant Creek Land Holding Trust                 | No              | ✓                        | 7 Nov 13                         | 7 Nov 13                     |                         |
| - Tjapukai Aboriginal Cultural Park Partnership    | No              | ✓                        | 19 Sept 13                       | 20 Sept 13                   |                         |
| - Wildman River Lodge Trust                        | No              | ✓                        | 27 Nov 13                        | 27 Nov 13                    |                         |
| - Wildman Wilderness Lodge Pty Ltd                 | No              | ✓                        | 25 Oct 13                        | 25 Oct 13                    |                         |
| - Wilpena Pound Aerodrome                          | No              | ⇒                        |                                  |                              |                         |
| Indigenous Land Corporation                        | No*             | ✓                        | 23 Sept 13                       | 23 Sept 13                   |                         |
| - National Centre of Indigenous Excellence Limited | No              | ✓                        | 25 Sept 13                       | 25 Sept 13                   |                         |



| Reporting Entity                                   | Material Entity | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit issues identified |
|--|-----------------|--------------------------|----------------------------------|------------------------------|-------------------------|
| - National Indigenous Pastoral Enterprises Pty Ltd | No              | ✓                        | 1 Oct 13                         | 1 Oct 13                     |                         |
| - The Owners - Strata Plan No. 86156               | No              | ⇒                        |                                  |                              |                         |
| - Voyages Indigenous Tourism Australia Pty Ltd     | Yes*            | ✓                        | 10 Sept 13                       | 10 Sept 13                   |                         |
| Northern Land Council                              | No              | ⇒                        |                                  |                              | ◆                       |
| Outback Stores Pty Ltd                             | No              | ✓                        | 22 Aug 13                        | 22 Aug 13                    |                         |
| Tiwi Land Council                                  | No              | ⇒                        |                                  |                              |                         |
| Torres Strait Regional Authority                   | No              | ✓                        | 11 Sept 13                       | 11 Sept 13                   |                         |
| Wreck Bay Aboriginal Community Council             | No              | ✓                        | 28 Nov 13                        | 29 Nov 13                    | ▲                       |
| Wreck Bay Enterprises Ltd                          | No              | ✓                        | 28 Nov 13                        | 29 Nov 13                    |                         |

✓: auditor's report not modified

⇒: signed financial statements not presented for audit at 30 November 2013

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

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

□: significant or moderate issues and/or legislative matters identified in previous periods, or the 2012–13 interim audit phase, now downgraded or resolved

\*Voyages Indigenous Tourism Australia Pty Ltd (Voyages) is a subsidiary of Indigenous Land Corporation (ILC) and is consolidated into ILC's financial statements. For the purposes of the Consolidated Financial Statements, Voyages is classified as a material entity. Voyages does not produce an annual report and is not included in the detailed analysis within this report.

## Portfolio Overview

**6.334** During 2012–13, the role of the Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) portfolio was to provide policy advice, income support and assistance to families and their children, senior citizens, carers, people with disabilities and community groups. The portfolio also provided policy advice on issues affecting women in Australia as well as a whole of government approach to programs and service delivery for Indigenous Australians.

# Department of Families, Housing, Community Services and Indigenous Affairs<sup>75</sup>

## Summary of financial results

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

### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 599.8          | 594.1          |
| Revenue from government                 | 549.1          | 532.4          |
| Surplus/(deficit) *                     | (50.6)         | (61.7)         |
| Total other comprehensive income/(loss) | 7.7            | 0.3            |
| Total comprehensive income/(loss)       | (42.9)         | (61.3)         |
| Total assets                            | 392.9          | 349.0          |
| Total liabilities                       | 174.2          | 147.0          |

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

**6.336** The net cost of services increased primarily due to an increase in employee expenses as a result of the establishment of the National Disability Insurance Scheme (NDIS) Launch Transition Agency, partially offset by a decrease in payments for service delivery arrangements with the Department of Human Services (DHS). DHS was funded through an appropriation for the provision of these services.

**6.337** Revenue from government increased due to additional funding for new government measures including the establishment of the NDIS Launch Transition Agency. The total comprehensive loss decreased as a result of the increase in revenue from government, partially offset by the increased net cost of services. In addition, the department acquired assets and recruited additional staff for use by the NDIS Launch Transition Agency, resulting in an increase in assets and employee and supplier liabilities.

---

75 The department became the Department of Social Services as part of MOG changes on 18 September 2013. The changes involved the transfer of a range of functions to or from the department with the main change being the transfer of responsibility for Indigenous programs to the Department of the Prime Minister and Cabinet and transfer of responsibility for aged care from then Department of Health and Ageing.

**6.338** Fluctuations in other balances reflect normal business activities.

*Items administered on behalf of the Australian Government*

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 322.7          | 638.5          |
| Total expenses                  | 82 667.4       | 80 081.0       |
| Surplus/(deficit)               | (82 344.7)     | (79 442.5)     |
| Total assets                    | 5 543.9        | 5 379.8        |
| Total liabilities               | 9 459.5        | 8 713.0        |

**6.339** Administered income decreased significantly primarily as a result of a reduction in personal benefit recoveries and a reduction in interest revenue received from investments due to a decrease in interest rates in 2012–13. In addition, 2011–12 income included a reversal of some family tax benefit (FTB) debts that were previously assessed as doubtful. A similar reversal did not re-occur in 2012–13.

**6.340** Administered expenses increased mainly due to an increase in: pension and FTB payments, primarily as a result of an increase in customer numbers and an increase in the average rates due to the indexation of payments; personal benefit payments related to the clean energy program in 2012–13; and paid parental leave (PPL) benefit payments, partially offset by a decrease in payments for the baby bonus. Administered expenses also increased as a result of the recognition of full year of expenses for the Affordable Housing programs. The department assumed responsibility for these programs in January 2012 from the then Department of Sustainability, Environment, Water, Population and Communities.

**6.341** Administered assets increased mainly due to an increase in the estimated FTB receivables following an actuarial assessment, an increase in the carrying value of investments in Commonwealth entities and an increase in investments as a result of the reinvestment of returns from term deposits and government securities.

**6.342** Administered liabilities increased due to an increase in personal benefits payable, relating to the second instalment of the Schoolkids Bonus for the six months to 30 June 2013.

## Areas of audit focus

**6.343** The ANAO's audit approach identified particular areas of audit focus that had the potential to impact on the department's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the department's controls over personal benefit payments, as it has ultimate responsibility for the administration, funding and reporting of personal benefit payments and related debts that are processed by DHS under a Bilateral Management Arrangement;
- the valuation of personal benefit related asset and liability balances due to the significance of actuarial estimates and judgements involved in the complex valuation process;
- the financial management of grants, including the adequacy of documentation to support grant acquittals. During 2012–13, the department administered a large number of grant payments to State and Territory Governments, other service providers and program recipients using different business systems; and
- legislative compliance, particularly the implementation of measures designed to address the risk of non-compliance with section 83 of the Constitution, referred to in the department's 2011–12 financial statements.

## Audit results

### *Summary of audit findings*

**6.344** The matters giving rise to the legislative breach raised in 2011–12 relating to section 83 of the Constitution that is discussed below, remains unresolved.

### *Actual and potential breaches of section 83 of the Constitution*

**6.345** During 2012–13, the department undertook a further review to determine the risk of payments being made in breach of section 83 of the Constitution from the special appropriations and special accounts for which it is administratively responsible. In 2012–13 additional advice was also received that indicated under certain circumstances payments for long service leave, goods and service tax and payments made under determinations of the Remuneration Tribunal would result in section 83 breaches. The risk

assessment and subsequent analysis identified the following actual or potential breaches:

- three payments totalling \$335 770 made under section 64(3) of the *Aboriginal Land Rights (Northern Territory) Act 1976*<sup>76</sup>, three payments totalling \$83 under a Remuneration Tribunal determination from the Aboriginal Benefits Accounts (ABA), and two payments totalling \$7 623 from the Social and Community Services Pay Equity Special Account breached section 83 of the Constitution. Of these amounts, approximately \$19 079 had been recovered or offset against a later payment and recovery or other action was in progress for the balance; and
- 516 712 personal benefit payments totalling approximately \$243.86 million were identified as potential breaches of section 83 of the Constitution. Even though it is expected that a portion of these payments would have been correctly paid, the department identified all overpayments as potential breaches due to the difficulties associated with investigating whether individual payments complied with legislative requirements. Breaches of section 83 can occur in circumstances where benefits are paid based on information provided by customers that is subsequently updated or found to be incorrect. The personal benefit payments in question were made pursuant to the following legislation:
  - *A New Tax System (Family Assistance ) Act 1999 and A New Tax System (Family Assistance) (Administration) Act 1999;*
  - *Paid Parental Leave Act 2010;* and
  - *Social Security Act 1991 and Social Security (Administration) Act 1999.*

As at 30 June 2013, overpayments of personal benefit payments recovered totalled approximately \$120.83 million and approximately \$40.32 million was subject to waiver or write-off action.

---

76 Payments are required to be made out of the ABA to Aboriginal land councils based on royalties received by the Northern Territory Government from mining companies. Where, subsequent to the payment of royalties to the Northern Territory Government, mining companies determine that they over estimated the royalties due, payments already made from the ABA that are higher than the revised royalty amount are in breach of section 83.

**6.346** As at date of signing the 2011–12 financial statements, the department was seeking legal advice on whether payments made in certain circumstances pursuant to *A New Tax System (Family Assistance) Act 1999* or *A New Tax System (Family Assistance) (Administration) Act 1999* resulted in payments being in breach of section 83. Legal advice received during 2012–13 indicated that the payments made pursuant to these Acts were not in breach of section 83.

**6.347** The auditor’s report included a report on other legal and regulatory requirements referring to the actual and potential breaches identified. This is not a qualification or modification to the audit opinion on the department’s financial statements, as the financial statements fairly presented the financial operations and position of the department at year end.

**6.348** The department had undertaken to continue to monitor its level of compliance with section 83 of the Constitution across all legislation for which it is administratively responsible and, where possible, amendments to legislation would be progressed with the aim of reducing the risk of future section 83 breaches.

**6.349** Full details of actual and potential breaches identified during 2012–13 are outlined in Note 29 of the department’s 2012–13 financial statements, and a general discussion of this matter is at paragraphs 5.27 to 5.40 in chapter 5 of this report.

## Indigenous Business Australia

### Summary of financial results

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

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 26.6           | 11.3           |
| Revenue from government                 | 34.2           | 38.9           |
| Surplus/(deficit) *                     | 5.4            | 25.2           |
| Total other comprehensive income/(loss) | (4.7)          | (0.4)          |
| Total comprehensive income/(loss) **    | 0.6            | 24.1           |
| Total assets                            | 1 129.4        | 1 084.7        |
| Total liabilities                       | 36.9           | 32.7           |

\* The surplus/(deficit) also reflects income tax expenses of \$1.1 million (2011–12 \$0.08 million), the share of the operating surplus of associates of \$1.51 million (2011–12 \$0.02 million) and excludes the share of the surplus attributable to non-controlling interests \$2.55 million (2011–12 \$2.34 million).

\*\* The figures exclude the share of total comprehensive income attributable to non-controlling interests.

6.351 The increase in the net cost of service was largely attributable to: the recognition of expenses as a result of a decrease in the value of loans to Aboriginal and Torres Strait Islander people, and a decrease in the value of investment assets.

6.352 These factors also explain the decreased surplus and corresponding decrease in total comprehensive income.

6.353 Fluctuations in other balances reflect normal business activities.

### Areas of audit focus

6.354 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on Indigenous Business Australia's (IBA) financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the value of the loan portfolio and the investments given these are material balances and are subject to judgement and estimates; and
- own source revenue as there are a number of streams of commercial income.

## Audit results

### *Summary of audit findings*

6.355 Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Comments on non-material entities

### Audit results

#### *Summary of audit findings*

6.356 There were no significant or moderate audit issues or significant legislative matters noted in non-material entities within the portfolio, except in relation to the Aboriginals Benefits Account, Anindilyakwa Land Council, Northern Land Council and Wreck Bay Aboriginal Community Council.

#### *Aboriginals Benefits Account*

6.357 The actual breaches of section 83 of the Constitution relating to payments made from the Aboriginals Benefit Account are discussed at paragraph 6.345 above.

#### *Anindilyakwa Land Council*

6.358 The 2011–12 financial statements were signed on 24 April 2013 with an unmodified audit report issued on 24 April 2013. In 2011–12 the ANAO reported one significant audit matter and two instances of non-compliance with legislation. The significant audit matter related to weaknesses in financial management and financial statement preparation processes. In particular, the audit identified the need for improvements in relation to: loans to directors and employees; controls over payments; and transactions with commercial entities. The 2012–13 audit identified that the Council had implemented measures to address these matters.

6.359 The following two instances of non-compliance with legislation were identified in 2011–12:

- Section 64(3) of the *Aboriginal Land Rights (Northern Territory) Act 1976*, requires the Council to distribute certain receipts to Aboriginal and Torres Strait Islander corporations whose members live in, or are the traditional Aboriginal owners of, certain areas affected by mining operations. This Act does not permit the use of these monies to meet



the administrative costs of the Council. In 2011–12, the Council withdrew monies received under this section of the Act and used the monies for operational purposes. In 2011–12 the Council identified this incorrect payment and transferred the monies to the eligible recipients.

- Section 32 of the *Commonwealth Authorities and Companies Act 1997* requires the directors to establish and maintain an audit committee. The Land Council did not maintain an audit committee in 2011–12. The Council addressed this by re-establishing the committee in 2012–13.

**6.360** As a result of the actions taken by the Council these issues are resolved.

**6.361** In 2012–13 the ANAO reported one instance of non-compliance with the *Aboriginal Land Rights (Northern Territory) Act 1976*. This Act establishes the Council's responsibilities for payments in respect of Aboriginal land, requiring payment of an amount equal to amounts received to, or for the benefit of, the traditional Aboriginal owners of the land within 6 months after that amount is received. In 2012–13 receipts totalling \$144 271 were not distributed for the benefit of the traditional Aboriginal owners of the land within six months as required by the Act. The ANAO recommended that the Council establish controls to govern the distribution of monies to ensure compliance with these requirements. The Council advised that the delay in distribution was a result of a need to disaggregate receipts, as entitlements to these amounts vary, and to ensure the accurate distribution of entitlements.

#### *Northern Land Council*

**6.362** The 2011–12 financial statements were signed on 10 April 2013 and an unmodified audit report was issued on 16 April 2013. In 2011–12 the ANAO reported one moderate issue in relation to weaknesses in financial management. Weaknesses were observed in relation to reconciliation and acquittal processes and the need to improve the management of monies due to the Council. The Council advised of remedial action to address this matter. This matter will be reviewed as part of the finalisation of the 2012–13 financial statements audit.

#### *Wreck Bay Aboriginal Community Council*

**6.363** During the 2012–13 audit, the ANAO identified that deficiencies in the Council's corporate governance framework reported in 2011–12 had not been fully addressed. While the Council has commenced action to address some deficiencies, more work was required in establishing internal controls over key business processes and the introduction of regular monitoring and reporting of

activities to the Board. The audit identified that although the Board had approved a number of policies and procedures in June 2013, these had not been communicated to all relevant staff within the Council and a number of important policies and procedures were only expressed in broad terms and did not provide specific guidance to staff. During the 2013–14 audit, the ANAO will review the Council’s progress in addressing these issues.

# Finance and Deregulation Portfolio<sup>77</sup>

| Reporting Entity   | Material Entity | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit issues identified |
|--|-----------------|--------------------------|----------------------------------|------------------------------|-------------------------|
| Department of Finance and Deregulation                   | Yes             | ✓L                       | 26 Aug 13                        | 27 Aug 13                    | ▲◆                      |
| Albury-Wodonga Development Corporation                   | Yes             | ✓                        | 18 Sept 13                       | 18 Sept 13                   |                         |
| ASC Pty Ltd  | Yes             | ✓                        | 5 Sept 13                        | 5 Sept 13                    |                         |
| Australian Electoral Commission                          | Yes             | ✓                        | 4 Sept 13                        | 4 Sept 13                    | □                       |
| Australian River Co Limited *                            | Yes **          | ✓                        | 6 Feb 13                         | 6 Feb 13                     |                         |
| Commonwealth Superannuation Corporation                  | No              | ✓                        | 13 Sept 13                       | 13 Sept 13                   |                         |
| Commonwealth Superannuation Scheme                       | No              | ✓                        | 13 Sept 13                       | 13 Sept 13                   | □                       |
| ComSuper   | No              | ✓L                       | 23 Aug 13                        | 23 Aug 13                    | ▲                       |
| Future Fund Management Agency and the Board of Guardians | Yes             | ✓                        | 24 Sept 13                       | 24 Sept 13                   |                         |
| Medibank Private Limited                                 | Yes             | ✓                        | 30 Aug 13                        | 30 Aug 13                    |                         |
| - Australian Health Management Group Pty Ltd             | No              | ✓                        | 21 Aug 13                        | 21 Aug 13                    |                         |
| - Medibank Health Solutions Pty Ltd                      | No              | ✓                        | 21 Aug 13                        | 21 Aug 13                    |                         |
| Military Superannuation and Benefits Fund                | No              | ✓                        | 13 Sept 13                       | 13 Sept 13                   |                         |
| Public Sector Superannuation Accumulation Plan (PSSap)   | No              | ✓                        | 13 Sept 13                       | 13 Sept 13                   |                         |
| Public Sector Superannuation Scheme (PSS)                | No              | ✓                        | 13 Sept 13                       | 13 Sept 13                   |                         |

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

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

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

□: significant or moderate issues and/or legislative matters identified in previous periods, or the 2012–13 interim audit phase, now downgraded or resolved

\* 30 November 2012 year end.

\*\* The Australian River Co Ltd (ARCo) is a public non-financial corporation and is classified as a material entity for the purposes of the Consolidated Financial Statements. ARCo does not produce an annual report and has not been included in the detailed analysis within this report.

77 The portfolio was renamed the Finance Portfolio as a result of the MOG changes of 18 September 2013.

## Portfolio Overview

**6.364** During 2012–13, the Finance and Deregulation portfolio provided a broad range of support and services to government. These include the provision of budget and financial management services and advice; electoral services and support; government on-line delivery and information and communication technology (ICT) management; non-defence asset management; asset sales; the administration of the government's general insurance fund, investment funds and superannuation schemes; Commonwealth land policy; discretionary compensation mechanisms and the administration of Parliamentarians' entitlements. The portfolio was also responsible for promoting best practice government regulation.

## Department of Finance and Deregulation<sup>78</sup>

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 206.3          | 184.2          |
| Revenue from government                 | 274.4          | 235.5          |
| Surplus/(deficit) *                     | 62.6           | 42.2           |
| Total other comprehensive income/(loss) | 4.6            | (58.5)         |
| Total comprehensive income/(loss)       | 67.2           | (16.3)         |
| Total assets                            | 2 434.7        | 2 276.2        |
| Total liabilities                       | 446.5          | 457.1          |

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

**6.366** The net cost of services increased due to: an increase in the provision for larger insurance claims; a change in funding arrangements whereby rental for the law courts is now funded by revenue from government, leading to a decrease in income; and a decrease in insurance premium revenue due to the fire levy no longer being charged through Comcover insurance premiums.

---

78 The department was renamed the Department of Finance and its deregulation functions transferred to the Department of the Prime Minister and Cabinet as part of the MOG changes of 18 September 2013.

These movements were partially offset by an increase in the fair value of the Commonwealth Law Courts.

**6.367** Revenue from government increased as a result of the change in funding arrangements in relation to rent for the law courts mentioned above.

**6.368** Assets increased due to the construction of the Villawood Immigration Centre and Moorebank Intermodal facilities, which are being managed by Finance, valuation increments on land and buildings and investment properties, and system development costs incurred as part of the Cash Budget Management System Redevelopment project.

**6.369** Liabilities decreased slightly due to Microsoft license fees for 2013–14 not being invoiced prior to 30 June, unlike in 2011–12, with a resulting decrease in unearned revenue. This decrease was partially offset by an increase in the Outstanding Insurance Claims liability, as a result of an increased allowance for larger claims.

**6.370** Total other comprehensive income increased as a large revaluation decrement that occurred in 2011–12 did not re-occur in 2012–13.

**6.371** Fluctuations in other balances reflect normal business activities.

*Items administered on behalf of the Australian Government*

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 3 123.7        | 2 915.4        |
| Total expenses                  | 11 059.2       | 12 082.3       |
| Surplus/(deficit)               | (7 935.6)      | (9 166.9)      |
| Total assets                    | 17 018.1       | 18 571.2       |
| Total liabilities               | 127 002.2      | 151 472.0      |

**6.372** Own-source income increased due to a special dividend received from Medibank Private Limited and an increase in superannuation contributions due to the introduction of higher Notional Employer Contribution Rates in 2012–13 following the finalisation of the 2011 Long Term Cost Report. This increase was partially offset by a decrease in returns on the Nation Building Funds as the fund balances decreased in 2012–13.

**6.373** Administered expenses decreased as payments out of the Nation Building Funds were less in 2012–13 compared to 2011–12, partially offset by an increase in superannuation expenses due to higher servicing costs. The

service cost represents the increase in the superannuation liability that results from employee service in the reporting period. As the calculation of the amount is based on the present value of the liability, it is sensitive to changes in the discount rate used in the calculation. The longer the length of service, the greater the impact of discount rate changes. Under the relevant accounting standard, AASB 119 *Employee Benefits*, the discount rate used in the calculation of the service cost is based on the interest rate at the start of financial year.

**6.374** The reduction in administered assets is a result of disbursements out of the Nation Building Funds mainly for the Victoria Regional Rail Link and the National Broadband Network, partially offset by an increase in the value of those Government Business Enterprises that is reported as an investment in Finance's financial statements.

**6.375** Administered liabilities decreased mainly due to a decrease in the superannuation liability as a result of an increase in the discount rate reflecting an increase in the long term government bond rate. Further, in 2012–13 the liability was discounted using the 16 year government bond rate instead of the 10 year government bond rate that was used in 2011–12.

### **Areas of audit focus**

**6.376** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the department's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the complexity of the assumptions and calculations underpinning the actuarial assessment of the public sector unfunded superannuation liability;
- the consistency of the valuation methods and assumptions applied to the numerous properties in the Australian Government's domestic portfolio;
- accounting for the major claims and complex assumptions underpinning the valuation of outstanding claims under the Australian Government's self-managed general insurance fund (Comcover);
- the control regime in relation to entitlements paid to Parliamentarians and their staff due to the complexity of these entitlement arrangements; and

- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the department’s 2011–12 financial statements.

**Audit results**

*Summary of audit findings*

6.377 The following table summarises the status of audit issues reported by the ANAO in 2011–12 and 2012–13.

| Category     | Opening position (at end of the 2011–12 final audit phase) | Issues resolved (during the 2012–13 interim audit phase) | New issues identified (during the 2012–13 interim audit phase) | Issues resolved (during the 2012–13 final audit phase) | New issues identified (during the 2012–13 final audit phase) | Closing position (at end of the 2012–13 final audit phase) |
|--------------|--|--|--|--|--|--|
| A            | 0  | 0  | 0  | 0  | 0  | 0  |
| B            | 0  | 0  | 0  | 0  | 1  | 1  |
| L1           | 1  | 0  | 0  | 0  | 0  | 1  |
| <b>Total</b> | <b>1</b>   | <b>0</b>   | <b>0</b>   | <b>0</b>   | <b>1</b>   | <b>2</b>   |

*New audit issues*

Quality Review of the valuation of the Intragovernment Communications Network (ICON)

6.378 Finance re-valued ICON during 2012–13 and provided the initial valuation to the ANAO in June 2013 and included this valuation amount in the draft financial statements provided to the ANAO. This revaluation approximately doubled the value of ICON compared to the 2011–12 valuation. Following the ANAO examination, Finance developed a new model for the valuation of ICON, including new sources of information to support the significant assumptions used in the model. The revised valuation for ICON included in the final 2012–13 financial statements was approximately \$52 million.

6.379 The ANAO’s examination identified that a large number of assumptions and information used in the calculation of the value were either not correct or had no supporting information. If a quality review of the ICON valuation had been performed by Finance, these issues would likely have been identified and addressed before audit review. Finance agreed to implement a quality review of the ICON valuation in future years.

## *Legislative breaches*

Actual and potential breaches of section 83 of the Constitution

**6.380** During 2012–13, Finance undertook a further review to determine the risk of payments being made in breach of section 83 of the Constitution from the special appropriations and special accounts for which it is administratively responsible.

**6.381** In 2012–13 additional advice was received that indicated under certain circumstances payments for long service leave, goods and service tax and payments made under determinations of the Remuneration Tribunal would result in section 83 breaches. Finance intends to undertake risk assessments to determine the level of risk of non-compliance in the circumstances mentioned in this additional legal advice applying to the department in 2013–14.

**6.382** The risk assessment and subsequent analysis for 2012–13 identified 48 breaches of section 83 totalling approximately \$42 000 in relation to payments under the *Judges Pensions Act 1968*, *Parliamentary Entitlements Act 1990* and the *Long Service Leave (Commonwealth Employee) Act 1976*, which have all been recovered.

**6.383** In 2012–13 amendments were made to the *Judges Pension Act 1968* as part of the *Financial Framework Legislative Amendment Act No. 2 2013* that are designed to reduce the risk of future pension payments being made in breach of section 83 to low.

**6.384** The auditor's report on Finance's 2012–13 financial statements included a report on other legal and regulatory requirements referring to the breaches identified. This is not a qualification or modification to the audit opinion on Finance's financial statements, as the financial statements fairly presented the financial operations and position of Finance at year end.

**6.385** Finance has undertaken to continue to monitor its level of compliance with section 83 of the Constitution across all legislation for which it is administratively responsible. Amendments to legislation will be progressed with the aim of reducing the risk of future section 83 breaches, where appropriate.

**6.386** Full details of the breaches identified during 2012–13 are outlined in Note 34 of Finance's 2012–13 financial statements, and a general discussion of this matter is at paragraphs 5.27 to 5.40 in chapter 5 of this report.



## Albury-Wodonga Development Corporation

### Summary of financial results

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

| Key financial measures for year  | 2012–13<br>\$m | 2011–12<br>\$m |
|----------------------------------|----------------|----------------|
| Net cost of services             | 0.9            | 0.1            |
| Revenue from government          | –              | –              |
| Surplus/(deficit) *              | (0.9)          | (0.1)          |
| Total other comprehensive income | (3.2)          | (6.0)          |
| Total comprehensive income       | (4.1)          | (6.2)          |
| Total assets                     | 78.6           | 91.0           |
| Total liabilities                | 0.8            | 5.2            |

\* The surplus also includes the Corporation's share of surpluses in associates and joint ventures of \$46 000 (2011–12: \$16 000).

6.388 The decrease in net cost of services is due mainly to a reduction in the number of developed residential land sales and a decline in net gains from the disposal of other land assets.

6.389 The increase in total other comprehensive income relates to the change in land valuation during 2012–13.

6.390 Assets decreased due to an ongoing land disposal program and a reduction in the net value of joint ventures.

6.391 The 2011–12 liabilities balance included a provision for a dividend. In 2012–13 liabilities decreased mainly because no dividend was provided for.

### Areas of audit focus

6.392 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Corporation's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- revenue recognition relating to land sales;
- accounting for joint ventures; and
- valuations of land and buildings and assets held for sale.

## Audit results

### *Summary of audit findings*

**6.393** Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

### **ASC Pty Ltd**

**6.394** ASC Consolidated Group (ASC) built Australia's fleet of Collins Class submarines for the Royal Australian Navy (RAN) and is now responsible for the ongoing design enhancements, maintenance and support of the Collins Class submarines (CCSM) through the In-Service Support Contract (ISSC).

**6.395** ASC is part of the alliance based contract arrangement to deliver three Air Warfare Destroyers (AWD) for the RAN. The AWD Alliance is made up of the Defence Materiel Organisation, representing the Australian Government, ASC as the lead shipbuilder and Raytheon Australia as the mission systems integrator.

**6.396** ASC is a proprietary company limited by shares registered under the *Corporations Act 2001* and is subject to the *Commonwealth Authorities and Companies Act 1997*. The Minister for Finance owns all ASC shares on behalf of the Commonwealth of Australia.

## Summary of financial results

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

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Total income                            | 920.6          | 803.8          |
| Total expenses                          | 910.7          | 789.1          |
| Profit/(loss) after income tax          | 9.9            | 14.7           |
| Total other comprehensive income/(loss) | 3.4            | 4.7            |
| Total comprehensive income/(loss)       | 13.3           | 19.3           |
| Total assets                            | 619.6          | 616.8          |
| Total liabilities                       | 385.1          | 386.6          |

6.398 Income and expenses increased primarily as a result of acquisition activities associated with the construction of the AWDs and variations in normal business activities involved in supporting the Collins Class submarines, mentioned in paragraph 6.394.

6.399 The increased construction activity was mainly associated with the advanced stage of construction of the first AWD, HMAS Hobart. In turn, this reflects the income received from the AWD Alliance for these construction activities.

6.400 The decrease in other comprehensive income is due to a smaller amount recognised as income in relation to the movement in the valuation of non-current assets. This decrease was partially offset by an increase in the actuarial gains in ASC's defined benefit superannuation plan (the plan). The actuarial gains are the result of the difference between expected parameters and actual parameters used in calculating the value of the plan. The gains are the result of: an increase in the discount rate used; fewer than expected exits of members from the plan; and a greater than expected investment return on the assets held by the plan.

6.401 Fluctuations in other balances reflect normal business activities.

## Areas of audit focus

**6.402** The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2012–13 financial statements:

- revenue and profit recognition under the AWD project and the ISSC project due to the material nature of the projects. The accounting for revenue, and profit recognition, in relation to these contracts is complex and subject to significant estimation and judgement;
- the transition from the previous contract, the Through Life Support Agreement (TLSA), to the ISSC performance-based contract for the maintenance of the Collins Class submarines. The ISSC commenced on 1 July 2012;
- accounting for employee provision, including the valuation of the defined benefit superannuation plan and self insurance for workers compensation. These provisions are subject to significant estimation and judgement.

## Audit results

### *Summary of audit findings*

**6.403** Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Australian Electoral Commission

### Summary of financial results

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

*Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 116.4          | 115.4          |
| Revenue from government                 | 114.3          | 106.2          |
| Surplus/(deficit) *                     | 2.1            | (9.2)          |
| Total other comprehensive income/(loss) | 2.0            | 0.2            |
| Total comprehensive income/(loss)       | 0.1            | (8.9)          |
| Total assets                            | 62.0           | 55.4           |
| Total liabilities                       | 38.3           | 42.5           |

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

**6.405** Revenue from government increased largely due to increased funding for 2013 pre-election expenditure.

**6.406** The increase in other comprehensive income is primarily due to the impact of the revaluation of property, plant and equipment and leasehold improvements that were undertaken during 2012–13.

**6.407** Assets increased mainly due to the acquisition and revaluation of property, plant and equipment, software and inventories relating to the 2013 election.

**6.408** Liabilities decreased mainly due to the timing of payments to suppliers.

**6.409** Fluctuations in other balances reflect normal business activities.

*Items administered on behalf of the Australian Government*

| Key financial measures for year | 2012–13<br>\$'000 | 2011–12<br>\$'000 |
|---------------------------------|-------------------|-------------------|
| Total own-source income         | 32                | 41                |
| Total expenses                  | 1                 | –                 |
| Surplus/(deficit)               | 31                | 41                |
| Total assets                    | –                 | –                 |
| Total liabilities               | –                 | –                 |

**6.410** In non-election years there is minimal administered income and expenses as these items relate to fines for not voting and funding payments to political parties in an election year.

## Areas of audit focus

6.411 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the AEC's financial statements. Areas highlighted for specific audit coverage in 2012–13 were in relation to the:

- accounting for the capitalisation of intangible assets;
- accounting and reporting of commitments; and
- accounting treatment for recognising revenue for AusAID funded programs for services to foreign countries not provided at year end.

## Audit results

### *Summary of audit findings*

6.412 A moderate audit issue relating to business continuity management that is discussed below has been resolved.

### *Resolved audit issue*

#### Business continuity management

6.413 The 2009–10 audit identified a moderate audit finding relating to business continuity management. The AEC had not undertaken testing of the business continuity plan, which increased the risk that in the event of an interruption to business operations, an accident, or disaster, the AEC would be unable to restore critical business systems within acceptable timeframes. During the 2012–13 final audit phase the ANAO reviewed the results of business continuity testing which indicated that the Commission could operate and recover financial systems in the event of a major business disruption.

## Future Fund Management Agency and the Board of Guardians

### Summary of financial results

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

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Total income                            | 12 564.4       | 2 103.6        |
| Total expenses                          | 666.8          | 427.6          |
| Profit/(loss) after income tax          | 11 897.6       | 1676.0         |
| Total other comprehensive income/(loss) | (39.7)         | (36.4)         |
| Total comprehensive income/(loss)       | 11 857.9       | 1 639.6        |
| Total assets                            | 94 893.7       | 78 250.5       |
| Total liabilities                       | 6 089.4        | 1 304.1        |

**6.415** Income increased as a result of improved investment performance.

**6.416** The increase in expenses primarily reflects an increase in performance fees as a result of higher investment performance returns.

**6.417** Profit after income tax and total comprehensive income increased in line with the above-mentioned factors.

**6.418** The value of assets increased in line with greater investment activity and improved investment performance.

**6.419** Liabilities increased due to an increase in the value of currency contracts and swaps which are used by the Board to manage its exposure to foreign exchange risk.

**6.420** Fluctuations in other balances reflect normal business activities.

### Areas of audit focus

**6.421** The ANAO’s audit approach identified particular areas of audit focus that have the potential to impact on the Future Fund Management Agency and the Board of Guardians’ (FFMA) financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the valuation of investments from the perspectives of governance, financial accuracy and regulatory oversight;
- the compliance function that reinforces internal assurance procedures;
- the processes for monitoring external service providers, including the custodian;
- group consolidation and tax implications relating to wholly owned subsidiaries; and

- reviewing the FFMA operations, as reflected in its special accounts, against constitutional requirements.

## Audit results

### *Summary of audit findings*

**6.422** Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Medibank Private Limited

### Summary of financial results

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

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Total income                            | 6 007.2        | 5 401.3        |
| Total expenses                          | 5 774.5        | 5 274.7        |
| Profit/(loss) after income tax          | 232.7          | 126.6          |
| Total other comprehensive income/(loss) | 1.1            | (1.4)          |
| Total comprehensive income/(loss)       | 233.9          | 125.2          |
| Total assets                            | 3 114.9        | 3 114.4        |
| Total liabilities                       | 1 712.2        | 1 495.2        |

**6.424** Income increased due to an increase in private health insurance premiums, and revenue from a new Australian Defence Force contract that came into effect during 2012–13.

**6.425** Expenses increased due mainly to an increase in the private health insurance benefits drawn by the members and an increase in medical service costs associated with the Australian Defence Force contract.

**6.426** Liabilities increased due to a special dividend payable to the Government, partially offset by a reduction in the unearned premium liability, as the prior year included a one off increase due to changes in the Federal Government rebate scheme.

**6.427** Fluctuations in other balances reflect normal business activities.



## Areas of audit focus

**6.428** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on Medibank's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- complex actuarial assessments of the outstanding claims provision, package bonus provision and associated disclosures;
- recognition of contribution revenue and the unearned premium liability;
- the valuation of identifiable intangibles and goodwill relating to Medibank;
- key assumptions relating to the valuation of software; and
- the cut-off and recognition of revenue and expenses regarding new customer contracts.

## Audit results

**6.429** Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Comments on non-material entities

### Audit results

#### *Summary of audit findings*

**6.430** There were no significant or moderate audit issues or significant legislative matters noted in non-material entities within the portfolio except in relation to the Commonwealth Superannuation Corporation and ComSuper.

#### *Commonwealth Superannuation Corporation*

**6.431** The Commonwealth Superannuation Corporation (CSC) is a statutory corporation and is the trustee of five regulated superannuation entities: the Commonwealth Superannuation Scheme (CSS); the Public Sector Superannuation Scheme (PSS); the PSS Accumulation Plan (PSSap); the ARIA Investments Trust (AIT) and the Military Superannuation and Benefits Scheme (MSBS).

**6.432** In 2011–12 two moderate audit issues were identified in relation to:

- the reporting by outsourced providers of significant actual and/or potential breaches of superannuation requirements; and
- PSSap transition reconciliations.

**6.433** During 2012–13, the first issue above was resolved as appropriate information was being received from the outsourced providers. As a result of progress made on addressing the recommendation, the second issue above was downgraded from a moderate audit issue to a minor issue.

### *ComSuper*

**6.434** ComSuper is the Australian Government agency responsible for the day-to-day management of the CSS, PSS, MSBS and other superannuation schemes for members of the Australian Public Service, participating employees, and members of the Australian Defence Force.

### Actual and potential breaches of section 83 of the Constitution

**6.435** During 2012–13, ComSuper undertook a further review to determine the risk of payments being made in breach of section 83 of the Constitution from the special appropriations and special accounts for which it is administratively responsible.

**6.436** The risk assessment and subsequent analysis for 2012–13 identified six breaches of section 83 totalling approximately \$6 000 in relation to payments under the *Papua New Guinea (Staffing Assistance) Act 1973*, which have all been recovered. The *Financial Framework Legislative Amendment Act No. 1 2013*, enacted on 14 March 2013, includes provisions designed to address the risk of any subsequent overpayments being in breach of section 83.

**6.437** The auditor's report on ComSuper's 2012–13 financial statements included a report on other legal and regulatory requirements referring to the breaches identified. This is not a qualification or modification to the audit opinion on ComSuper's financial statements, as the financial statements fairly presented the financial operations and position of ComSuper at year end.

**6.438** Full details of the breaches identified during 2012–13 are outlined in Note 15D of ComSuper's 2012–13 financial statements, and a general discussion of this matter is at paragraphs 5.27 to 5.40 in chapter 5 of this report.

# Foreign Affairs and Trade Portfolio

| Reporting Entity  | Material Entity | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit issues identified |
|---|-----------------|--------------------------|----------------------------------|------------------------------|-------------------------|
| Department of Foreign Affairs and Trade                   | Yes             | ✓L                       | 6 Sept 13                        | 6 Sept 13                    |                         |
| Australian Agency for International Development (AusAID)  | Yes             | ✓L                       | 11 Sept 13                       | 11 Sept 13                   |                         |
| Australian Centre for International Agricultural Research | No              | ✓                        | 12 Sept 13                       | 12 Sept 13                   |                         |
| Australian Secret Intelligence Service                    | No              | ✓                        | 27 Nov 13                        | 27 Nov 13                    |                         |
| Australian Trade Commission (Austrade)                    | Yes             | ✓                        | 13 Aug 13                        | 13 Aug 13                    |                         |
| Export Finance and Insurance Corporation                  | Yes             | ✓                        | 22 Aug 13                        | 22 Aug 13                    |                         |

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

## Portfolio Overview

**6.439** As at 30 June 2013, the Foreign Affairs and Trade portfolio comprised the Department of Foreign Affairs and Trade (DFAT), the Australian Agency for International Development (AusAID), the Australian Centre for International Agricultural Research (ACIAR), Australian Secret Intelligence Service (ASIS), the Australian Trade Commission (Austrade), and the Export Finance and Insurance Corporation (EFIC). During 2012–13, the portfolio supported Ministers in the conduct of Australia's foreign and trade policy. The overarching objective of Australia's foreign and trade policy is to advance Australia's national interest – the security and prosperity of Australians – by contributing to improvements in international security, national economic and trade performance and global cooperation.

**6.440** The Foreign Affairs and Trade portfolio contributes to:

- the development and promotion of Australia's foreign and trade policies;

- the management and support of Australia's overseas diplomatic network;
- providing consular and passport services to Australians;
- the management of the Australian Government overseas owned estate;
- national and international security;
- national economic and trade performance and global cooperation;
- supporting Australian business by providing market access and export advice and assistance;
- promoting trade, investment and a positive image of Australia internationally;
- the management of Australia's overseas aid program to developing countries to reduce poverty and achieve sustainable development, in line with Australia's national interest;
- poverty reduction and sustainable development in the Asia-Pacific region and Southern Africa by facilitating and funding collaborative agricultural research and development programs with developing countries; and
- providing assistance to developing countries to improve economic performance and governance.

## Department of Foreign Affairs and Trade<sup>79</sup>

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 934.1          | 876.4          |
| Revenue from government                 | 885.7          | 821.5          |
| Surplus/(deficit) *                     | (48.4)         | (54.9)         |
| Total other comprehensive income/(loss) | 264.2          | 63.0           |
| Total comprehensive income/(loss)       | 215.8          | 8.1            |
| Total assets                            | 3 442.0        | 3 093.7        |
| Total liabilities                       | 286.3          | 270.1          |

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

**6.442** The net cost of services increased mainly due to higher employee expenses following a pay increase and an increase in depreciation expenses following a revaluation of assets. This was partially offset by a decrease in revenue from services provided to agencies co-located at overseas posts due to foreign exchange movements.

**6.443** Revenue from government increased as the result of new policy proposals to fund Australia's diplomatic presence in Afghanistan, Australia's chair on the United Nations Security Council and security for the Baghdad embassy.

**6.444** Total other comprehensive income increased due to increases in the fair value of the Department of Foreign Affairs and Trade's (DFAT) overseas property as a result of a revaluation performed during 2012–13. Total comprehensive income increased for the same reason.

**6.445** Assets increased mainly due to: an increase of \$40 million in unspent appropriations relating to slippages in several construction projects (the new Jakarta and Bangkok embassies); an increase of \$264 million in the value of

79 As a result of the MOG changes on 18 September 2013, the responsibilities of AusAID were integrated into the Department.

overseas property; an increase of \$37 million in prepayments relating to monies paid for the construction of the Jakarta embassy; and an increase in rent prepaid under overseas lease contracts.

**6.446** Fluctuations in other balances reflect normal business activities.

*Items administered on behalf of the Australian Government*

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 631.7          | 433.4          |
| Total expenses                  | 278.3          | 279.5          |
| Surplus/(deficit)               | 353.4          | 153.9          |
| Total assets                    | 219.5          | 453.6          |
| Total liabilities               | 60.3           | 61.0           |

**6.447** Own-source income increased mainly due to a \$200 million dividend received from the Export Finance and Insurance Corporation (EFIC).

**6.448** Administered assets decreased significantly due to a reduction in the fair value of the Australian Government’s investment in EFIC. The investment is valued based on the net asset position of EFIC at 30 June 2013. The value of the investment decreased as a result of the payment of the dividend mentioned above.

**6.449** Fluctuations in other balances reflect normal business activities.

**Areas of audit focus**

**6.450** The ANAO’s audit approach identified particular areas of audit focus that have the potential to impact on DFAT’s financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- revenue generated from passport operations. Most passport revenue collections were outsourced to the Australian Postal Corporation;
- the completeness of departmental revenue for rental accommodation and services provided to other government agencies at overseas posts due to the significance of these functions to DFAT’s financial statements;
- valuation of the Australian Government’s overseas property due to the significance of the balance to the financial statements and the impact of global economic conditions on fair value estimation processes; and

- overseas post operations, as a significant component of DFAT's departmental financial statements relate to financial operations performed at overseas locations.

**6.451** The ANAO continued to provide audit coverage of the following areas which have previously been identified as having a significant impact on the financial statements:

- the accounting treatment and disclosure of the transactions in the National Interest Account (NIA) that are reported by the Commonwealth where the recovery of loans made by the Australian Government to overseas governments is considered less than probable. The NIA is used to process transactions undertaken by the Export Finance and Insurance Corporation, after consideration by the Minister of whether they are in the national interest; and
- executive remuneration and appropriation note disclosures due to the complexity of these disclosures.

## **Audit results**

### *Summary of audit findings*

**6.452** Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

### *Report on Other Legal and Regulatory Requirements*

**6.453** During 2011–12, the department became aware of the possibility of potential breaches of section 83 and undertook a review to determine the risk of potential breaches. This review did not identify any issues of non-compliance with section 83. In 2012–13, additional advice was received that indicated that in certain circumstances payments for long service leave, goods and service tax and payments made under determinations of the Remuneration Tribunal could be in breach of section 83. The department has undertaken to review in 2013–14 its processes and controls over payments for these items, to minimise the possibility for future breaches as a result of these payments.

**6.454** The auditor's report included a report on other legal and regulatory requirements referring to the disclosure in the financial statements. This is not a qualification or modification to the audit opinion on the department's

financial statements, as the financial statements presented the financial operations and position of the department at year end.

**6.455** Details of this matter are outlined in Note 1 of the department’s financial statements, and a general discussion of this matter is at paragraphs 5.27 to 5.40 in chapter 5 of this report.

## Australian Agency for International Development<sup>80</sup>

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 325.4          | 286.6          |
| Revenue from government                 | 316.8          | 274.7          |
| Surplus/(deficit) *                     | (8.6)          | (11.9)         |
| Total other comprehensive income/(loss) | 1.1            | –              |
| Total comprehensive income/(loss)       | (7.5)          | (11.9)         |
| Total assets                            | 168.4          | 131.8          |
| Total liabilities                       | 91.1           | 69.5           |

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

**6.457** The increase in the net cost of services is mainly due to higher employee expenses resulting from an increase in staff numbers to meet increased operational requirements under Australian Government initiatives to promote aid to international communities. An annual salary increase under the Agency’s enterprise agreement also contributed to the increase.

**6.458** Revenue from government increased as a result of increased appropriations in line with an increase in Australia’s contribution to international development.

80 The agency was abolished and its functions integrated into the Department of Foreign Affairs and Trade as part of the MOG changes on 18 September 2013.



**6.459** In 2012–13, a revaluation of property, plant and equipment was undertaken. This resulted in a small revaluation increment that was recognised as total other comprehensive income.

**6.460** Assets increased mainly due to the 2012–13 asset revaluation and asset acquisitions relating to the refurbishment work and additional fittings purchased for a number of office sites in Australia and overseas. There was also an increase in the appropriation receivable, reflecting unspent appropriation revenue at year end resulting from a delay in the commencement of certain overseas initiatives.

**6.461** Liabilities increased reflecting higher employee provisions as a result of an increase in staff numbers and an annual salary increase mentioned above. Suppliers and other payables also increased in 2012–13 due to the finalisation of a number of projects at year end and the recognition of unearned revenue in relation to secretariat services to be performed for the Australian Award Funds.

**6.462** Fluctuations in other balances reflect normal business activities.

*Items administered on behalf of the Australian Government*

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 267.5          | 332.7          |
| Total expenses                  | 4 259.1        | 4 014.2        |
| Surplus/(deficit)               | (3 991.5)      | (3 681.6)      |
| Total assets                    | 1 647.7        | 1 414.7        |
| Total liabilities               | 1 647.2        | 1 455.2        |

**6.463** During 2012–13, AusAID administered a range of financial assets and financial liabilities, the most significant of which are subscription assets and multilateral grant liabilities. The subscription assets represent membership rights AusAID held on behalf of the Australian Government in various international organisations, including the International Development Association (IDA) and the Asian Development Fund (ADF). The multilateral grant liabilities represent the Australian Government's obligations in relation to fulfilling its aid responsibilities with international organisations.

**6.464** Subscription assets and multilateral grant liabilities are valued on an annual basis. The discount rate used to calculate the present value of subscription assets and multilateral grant liabilities includes a number of

variables that reflect global economic conditions. In 2012–13 the discount rate decreased largely due to a fall in the 30 year United States of America Government bond rate.

**6.465** Administered own-source income decreased mainly due to the reversal of previous asset write-downs for subscription assets which were valued in 2012–13. As mentioned above, the discount rate used to calculate the present value of subscription assets fell in 2012–13, resulting in an increase in the value of subscription assets at 30 June 2013. The increase in the present value of subscription assets is recorded as a reversal of previous asset write-downs.

**6.466** Administered expenses increased primarily due to the re-measurement of multilateral liabilities in 2012–13. The discount rate used to calculate the present value of multilateral liabilities fell in 2012–13 resulting in an increase in the present value of multilateral liabilities as at 30 June 2013. The increase in the present value of multilateral liabilities is recorded as an administered expense.

**6.467** Administered assets increased mainly as a result of the valuation of subscription assets in 2012–13 mentioned above.

**6.468** Administered liabilities increased mainly due to the Australian Government entering into a new multilateral liability with the ADF. A significant portion of the new multilateral liability was unpaid at 30 June 2013. The increase also reflected the re-measurement of multilateral liabilities as a result of a fall in the discount rate mentioned above. The increase in 2012–13 was partially offset by the early payment of a number of multilateral liabilities, as a result of an Australian Government decision to bring forward these payments.

**6.469** Fluctuations in other balances reflect normal business activities.

## **Areas of audit focus**

**6.470** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on AusAID's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- valuation, accounting and reporting disclosures associated with loans and subscriptions and multilateral liabilities;

- grant financial management arrangements, given the diverse range of administered grant payments to international, United Nations and Commonwealth organisations; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2011–12 financial statements.

## Audit results

### *Summary of audit findings*

**6.471** Audit coverage of the key areas of audit focus did not identify any new significant or moderate audit issues.

**6.472** The matters giving rise to the legislative breach relating to section 83 of the Constitution that is discussed below have been resolved.

### *Actual and potential breaches of section 83 of the Constitution*

**6.473** The notes to AusAID's 2011–12 financial statements referred to 13 breaches of section 83 of the Constitution totalling \$29 000 in relation to various payments made by ComSuper on behalf of AusAID under the *Papua New Guinea (Staffing Assistance) Act 1973* (PNG Super Act).<sup>81</sup>

**6.474** In 2012–13 the *Financial Framework Legislation Amendment Act (No.1) 2013* was passed. The amendment took effect from 14 March 2013 and was enacted to reduce the risk of non-compliance in relation the PNG Super Act. The amendment allows Comsuper to continue making payments under the PNG Super Act until ComSuper is notified of a benefit recipient's death, without resulting in a section 83 breach.

**6.475** During 2012–13, AusAID reported six breaches of section 83 of the Constitution totalling \$6 000. As at 30 June 2013, \$4 000 of the overpaid amounts had been recovered. All breaches occurred prior to the effective date of the amendment referred to above.

**6.476** The auditor's report on the 2012–13 financial statements included a report on other legal and regulatory requirements referring to the breaches identified. This is not a qualification or modification to the audit opinion on AusAID's financial statements, as the financial statements fairly presented the financial operations and position of the agency at year end.

---

81 The breaches related to superannuation overpayments made to deceased beneficiaries prior to ComSuper being notified of the beneficiary's death.

6.477 Full details of actual section 83 breaches identified during 2012–13 are outlined in Note 26 of AusAID’s 2012–13 financial statements, and a general discussion of this matter is at paragraphs 5.27 to 5.40 in chapter 5 of this report.

## Australian Trade Commission

### Summary of financial results

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

#### Departmental items

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 174.6          | 181.8          |
| Revenue from government                 | 160.0          | 167.2          |
| Surplus/(deficit) *                     | (14.6)         | (14.6)         |
| Total other comprehensive income/(loss) | 4.5            | 0.2            |
| Total comprehensive income/(loss)       | (10.1)         | (14.4)         |
| Total assets                            | 117.6          | 104.3          |
| Total liabilities                       | 54.1           | 49.2           |

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

6.479 Revenues from government and the net cost of services decreased due to reduced government funding. Key spending reductions were made in lease expenses, consultancy fees and the Brand Australia program.

6.480 Other comprehensive income increased due to a revaluation of leasehold improvements and infrastructure plant and equipment.

6.481 Assets increased due to the acquisition of infrastructure and IT equipment for a new data centre and a lease prepayment to DFAT.

6.482 Liabilities increased due to obligations associated with costs incurred on the data centre relocation project near the year end.

6.483 Fluctuations in other balances reflect normal business activities.

*Items administered on behalf of the Australian Government*

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 0.0            | 0.0            |
| Total expenses                  | 125.9          | 135.1          |
| Surplus/(deficit)               | (125.9)        | (135.1)        |
| Total assets                    | 0.1            | 0.1            |
| Total liabilities               | 9.0            | 11.0           |

**6.484** Expenses decreased primarily due to a reduction in export market development grants.

**6.485** Fluctuations in other balances reflect normal business activities.

### Areas of audit focus

**6.486** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Australian Trade Commission's (Austrade) financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the administration costs for the export market development grants scheme; and
- the accuracy of reported employee benefits expenses and the estimation of employee provisions.

### Audit results

#### *Summary of audit findings*

**6.487** Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Export Finance and Insurance Corporation

### Summary of financial results

**6.488** The financial statements of the Export Finance and Insurance Corporation (EFIC) reports the results of two accounts – the Commercial Account and the National Interest Account. The Commercial Account is used to account for the transactions for which EFIC is directly accountable. EFIC

retains the profits and accounts for the losses arising from these transactions. The National Interest Account is used for transactions that are entered into in the national interest. The Australian Government receives the net income from this account and EFIC is reimbursed for any losses incurred.

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

*Commercial Account*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Total income                            | 181.4          | 263.6          |
| Total expenses                          | 158.8          | 236.8          |
| Total profit/(loss)                     | 22.6           | 26.8           |
| Total other comprehensive income/(loss) | 2.4            | 13.4           |
| Total comprehensive income/(loss)       | 25.0           | 40.2           |
| Total assets                            | 2 706.7        | 3 273.9        |
| Total liabilities                       | 2 490.4        | 2 855.8        |

**6.490** Income and expenses reduced primarily due to a reduction in both interest income and expenses as a result of the depreciation of the Australian dollar and lower interest rates in most markets, in particular, the United States of America and Europe.

**6.491** Assets and liabilities decreased largely due to the maturing of \$500 million of borrowings in August 2012; the settlement of these borrowings being primarily funded by a reduction in short term investments. A sale of investments to fund a \$200 million special dividend also resulted in a reduction in assets.

**6.492** Fluctuations in other balances reflect normal business activities.

*National Interest Account*

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 51.1           | 59.0           |
| Total expenses                  | 37.1           | 42.4           |
| Surplus/(deficit)               | 14.0           | 16.6           |
| Total assets                    | 707.9          | 640.7          |
| Total liabilities               | 707.9          | 640.7          |

**6.493** Administered assets increased primarily due to loan drawdowns exceeding repayments. In particular, a \$88 million extension of an existing loan facility was made at the end of the 2012–13 financial year. This required a higher borrowing from the Commercial Account, compared with borrowings in 2011–12.

**6.494** Own-source income and expenses reduced primarily due to the impact of the movement in foreign exchange rates during the year, particularly the depreciation of the Australian dollar in comparison to the United States dollar and the Euro. Due to the timing of the \$88 million loan facility extension at year end, this did not significantly impact own-source income or total expenses.

**6.495** Fluctuations in other balances reflect normal business activities.

**Areas of audit focus**

**6.496** The ANAO's audit approach identifies particular areas of audit focus that have the potential to impact on the EFIC's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- funding and liquidity management;
- complex treasury activities involving highly structured and complex financial transactions;
- the valuation of loans, guarantees, and available-for-sale investments; and
- compliance with applicable accounting standards, including the valuation of derivatives and hedge accounting.

## **Audit results**

### *Summary of audit findings*

**6.497** Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

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

### **Audit results**

#### *Summary of audit findings*

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



# Health and Ageing Portfolio<sup>82</sup>

| Reporting Entity   | Material Entity | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit issues identified |
|--|-----------------|--------------------------|----------------------------------|------------------------------|-------------------------|
| Department of Health and Ageing                                    | <b>Yes</b>      | ✓L                       | 13 Sept 13                       | 13 Sept 13                   | ▲                       |
| - Therapeutic Goods Administration                                 | No              | ✓                        | 13 Sept 13                       | 13 Sept 13                   | ◆                       |
| Aged Care Standards and Accreditation Agency Ltd                   | No              | ✓E                       | 16 Sept 13                       | 16 Sept 13                   |                         |
| Australian Commission on Safety and Quality in Health Care         | No              | ✓                        | 18 Sept 13                       | 18 Sept 13                   |                         |
| Australian Institute of Health and Welfare                         | No              | ✓                        | 26 Sept 13                       | 26 Sept 13                   |                         |
| Australian National Preventive Health Agency                       | No              | ✓                        | 8 Oct 13                         | 8 Oct 13                     |                         |
| Australian Organ and Tissue Donation and Transplantation Authority | No              | ✓                        | 23 Sept 13                       | 23 Sept 13                   |                         |
| Australian Radiation Protection and Nuclear Safety Agency          | No              | ✓                        | 11 Sept 13                       | 17 Sept 13                   |                         |
| Cancer Australia   | No              | ✓                        | 11 Sept 13                       | 11 Sept 13                   |                         |
| Food Standards Australia New Zealand                               | No              | ✓                        | 19 Sept 13                       | 19 Sept 13                   |                         |
| General Practice Education and Training Limited                    | No              | ✓                        | 11 Oct 13                        | 11 Oct 13                    |                         |
| Health Workforce Australia   | No              | ✓                        | 6 Sept 13                        | 6 Sept 13                    |                         |
| Independent Hospital Pricing Authority                             | No              | ✓                        | 1 Oct 13                         | 1 Oct 13                     |                         |
| National Blood Authority   | <b>Yes</b>      | ✓L                       | 7 Aug 13                         | 7 Aug 13                     |                         |
| National Health Funding Body                                       | No              | ✓                        | 9 Oct 13                         | 9 Oct 13                     |                         |
| National Health and Medical Research Council                       | <b>Yes</b>      | ✓                        | 16 Sept 13                       | 16 Sept 13                   |                         |
| National Health Performance Authority                              | No              | ✓                        | 26 Sept 13                       | 26 Sept 13                   |                         |
| Private Health Insurance Administration Council                    | No              | ✓                        | 6 Sept 13                        | 6 Sept 13                    |                         |

82 The portfolio was renamed the Health Portfolio as part of the MOG changes that took effect on 18 September 2013.

| Reporting Entity                   | Material Entity | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit issues identified |
|------------------------------------|-----------------|--------------------------|----------------------------------|------------------------------|-------------------------|
| Private Health Insurance Ombudsman | No              | ✓                        | 29 Aug 13                        | 29 Aug 13                    |                         |
| Professional Services Review       | No              | ✓                        | 9 Oct 13                         | 9 Oct 13                     |                         |

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

▲: 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

**6.499** During 2012–13, the Health and Ageing portfolio consisted of the Department of Health and Ageing (the department) and a number of statutory and non-statutory bodies that were responsible for contributing to achieving a health care system that meets the health care and ageing needs of all Australians. Each portfolio entity had developed performance information to determine its effectiveness in achieving entity-specific outcomes.

**6.500** Portfolio entities work towards the whole-of-portfolio targets over time in relation to the health status of Australians.

## Department of Health and Ageing<sup>83</sup>

### Summary of financial results

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

83 The department was renamed the Department of Health as part of the MOG changes that took effect on 18 September 2013.

*Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 676.9          | 667.3          |
| Revenue from government                 | 624.8          | 636.1          |
| Surplus/(deficit) *                     | (52.1)         | (31.1)         |
| Total other comprehensive income/(loss) | –              | 2.6            |
| Total comprehensive income/(loss)       | (52.1)         | (28.6)         |
| Total assets                            | 499.9          | 524.4          |
| Total liabilities                       | 325.0          | 328.6          |

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

**6.502** The increase in the deficit and the associated total comprehensive loss was mainly due to an increase in employee, depreciation expenses and a reduction in appropriation funding for two of the department's outcomes, Population Health and Pharmaceutical Services.

**6.503** Fluctuations in other balances reflect normal business activities.

*Items administered on behalf of the Australian Government*

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income *       | 1 943.1        | 2 218.3        |
| Total expenses *                | 51 210.0       | 49 726.2       |
| Surplus/(deficit) *             | (49 266.9)     | (47 507.9)     |
| Total assets                    | 1 030.1        | 1 009.1        |
| Total liabilities               | 2 894.0        | 3 418.4        |

\* The income and expense figures reported in the 2011–12 financial statements have been adjusted to reflect the recognition of transactions in the administered special accounts for the first time.

**6.504** Administered income decreased primarily due to a reduction in revenue in the Health and Hospital Fund Special Account. Less funding was received into this Special Account, as the corresponding grant payments were reduced in 2012–13, in line with a budget measure. This decrease was partially offset by an increase in recoveries from pharmaceutical companies under the High Cost Drugs Recoveries program.

**6.505** Administered expenses increased mainly as a result of higher expenditure associated with the Medicare Benefits Scheme, Pharmaceutical Benefits Scheme and Aged Care subsidies.

**6.506** Administered liabilities decreased primarily due to a decrease in the estimate of the medical indemnity liability. In addition, there was a decrease in grant payments to not-for-profit organisations outstanding as at 30 June 2013.

**6.507** The movement in administered assets was not significant and reflects fluctuations in normal business activities.

### **Areas of audit focus**

**6.508** The ANAO's audit approach identified particular areas of audit focus that had the potential to impact on the department's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the high volume and complex administered personal benefits and subsidies processed by the Department of Human Services (DHS) on behalf of the department;
- a complex valuation methodology used to estimate the administered liabilities under the medical indemnity program;
- the diverse range of administered grant payments to State and Territory Governments, other service providers and program recipients;
- the valuation of internally generated software that involves significant judgement;
- the management, accounting and disclosure of the National Medical Stockpile for slow moving and expired inventory;
- the complexity of appropriations reporting and disclosure covering 14 outcomes; and
- legislative compliance, particularly the implementation of measures designed to address the risk of non-compliance with section 83 of the Constitution, referred to in the 2011–12 financial statements.

**6.509** Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. The calculation of liabilities for medical indemnity program was of particular audit interest in view of the complexity of the underlying calculation of this liability. The calculation was supported by an actuarial assessment. The ANAO reviewed the assessment and the underlying data used in the calculation to gain assurance over the balance included in the financial statements.

## Audit results

### *Summary of audit findings*

**6.510** Audit coverage of the key areas of audit focus did not identify any new significant or moderate audit issues.

**6.511** The matters that gave rise to a legislative breach in 2011–12 relating to section 83 of the Constitution that is discussed below remain unresolved.

### *Actual and potential breaches of section 83 of the Constitution*

**6.512** In 2011–12, the department undertook a review to determine the risk of payments being made in breach of section 83 of the Constitution from the special appropriations and special accounts for which it is administratively responsible. The risk assessment and subsequent analysis identified a number of actual and potential breaches.

**6.513** In 2012–13, the department developed an approach to reduce the risk of section 83 breaches that involved:

- ongoing review of new legislation and payment processes in relation to special appropriations;
- proposing minor amendments to legislation identified through a legislative review;
- ongoing reviews of the department's programs through internal audit activity and various compliance programs; and
- receiving assurance from DHS over the error rates in relation to the payments made on behalf of the department.

**6.514** The approach undertaken by the department identified the following actual and potential breaches in 2012–13:

- Medicare payments under the *Health Insurance Act 1973*: the department identified payments totalling \$12.177 million which were actual breaches of section 83 of the Constitution. These breaches related to Medicare payments and payments under the Chronic Disease Dental Scheme being made without legal authority. Recoveries relating to these breaches have been waived by the relevant delegate. The department also identified potential section 83 breaches in relation to other payments made pursuant to the *Health Insurance Act 1973*, totalling \$11.273 million, which were expected to be recovered.

- Payments made under the *Private Health Insurance Act 2007*: the department identified potential breaches totalling \$3.793 million in relation to payments made to health insurers prior to a registration of an application from a claimant. Changes are being introduced by DHS to its internal processes, as well as seeking legislative remedies, to reduce the risk of further potential breaches.
- Payments made under the *National Health Act 1953*: the department identified potential breaches totalling \$0.692 million in relation to overpayments made by DHS that were identified through DHS's compliance processes.
- Payments made under the *Aged Care Act 1997*: potential breaches totalling \$1.198 million were identified by DHS as overpayments made for a number of residential aged care facilities as a result of system error.

**6.515** As at 30 June 2013, \$13.349 million of the potential breaches referred to above had been recovered.

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

**6.517** Full details of actual and potential breaches identified in 2012–13 are outlined in Note 25B of the 2012–13 financial statements, and a general discussion of this matter is at paragraphs 5.27 to 5.40 in chapter 5 of this report.

## National Blood Authority

### Summary of financial results

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

*Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 6.8            | 6.4            |
| Revenue from government                 | 6.2            | 5.7            |
| Surplus/(deficit) *                     | (0.6)          | (0.7)          |
| Total other comprehensive income/(loss) | –              | –              |
| Total comprehensive income/(loss)       | (0.6)          | (0.7)          |
| Total assets                            | 10.3           | 9.3            |
| Total liabilities                       | 2.5            | 1.9            |

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

**6.519** Assets increased mainly as a result of the acquisition of leasehold improvements as part of the relocation of National Blood Authority (NBA) to new premises in 2012–13.

**6.520** Fluctuations in other balances reflect normal business activities.

*Items administered on behalf of the Australian Government*

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 1 058.3        | 1 034.9        |
| Total expenses                  | 1 012.4        | 955.9          |
| Surplus/(deficit)               | 45.9           | 79.0           |
| Total assets                    | 499.7          | 439.8          |
| Total liabilities               | 67.2           | 61.6           |

**6.521** Administered assets increased mainly due to an increase in the balance of the NBA's special account, resulting from the demand for blood products being less than expected.

**6.522** Fluctuations in other balances reflect normal business activities.

**Areas of audit focus**

**6.523** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the NBA's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the recognition and measurement of the NBA's blood product inventories due to the nature of these items; and

- the accounting treatment of leasing arrangements resulting from the relocation of the NBA to new premises.

## **Audit results**

### *Summary of audit findings*

**6.524** Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

### *Report on Other Legal and Regulatory Requirements*

**6.525** During 2011–12, the NBA became aware of the possibility of potential breaches of section 83 and undertook a review to determine the risks of potential breaches. This review did not identify any issues of non-compliance with section 83. In 2012–13 additional advice was received that indicated that in certain circumstances payments for long service leave, goods and service tax and payments made under determinations of the Remuneration Tribunal could be in breach of section 83. The NBA has undertaken to review its processes and controls over payments for these items in 2013–14 to minimise the possibility for future breaches as a result of these payments.

**6.526** The auditor's report included a report on other legal and regulatory requirements referring to the disclosure in the financial statements. This is not a qualification or modification to the audit opinion on the NBA's financial statements, as the financial statements presented the financial operations and position of the NBA at year end.

**6.527** Details of this matter are outlined in Note 28 of the NBA's financial statements, and a general discussion of this matter is at paragraphs 5.27 to 5.40 in chapter 5 of this report.



## National Health and Medical Research Council

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 42.9           | 44.3           |
| Revenue from government                 | 39.9           | 41.5           |
| Surplus/(deficit) *                     | (3.0)          | (2.8)          |
| Total other comprehensive income/(loss) | –              | –              |
| Total comprehensive income/(loss)       | (3.0)          | (2.8)          |
| Total assets                            | 26.3           | 28.9           |
| Total liabilities                       | 13.2           | 12.8           |

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

**6.529** Fluctuations in all balances reflect normal business activities.

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

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 19.8           | 18.6           |
| Total expenses                  | 841.2          | 842.9          |
| Surplus/(deficit)               | (821.4)        | (824.3)        |
| Total assets                    | 4.0            | 4.0            |
| Total liabilities               | 103.1          | 32.7           |

**6.530** Liabilities increased significantly due to a change in the timing of grant payments by National Health and Medical Research Council (NHMRC). In 2011–12 the payments were made three months in advance while in 2012–13 payments were made one month in arrears, with significant payments outstanding at 30 June 2013. This change reflects NHMRC's alignment of grant payment practices with the Commonwealth Grant Guidelines.

**6.531** Fluctuations in other balances reflect normal business activities.

## Areas of audit focus

6.532 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on NHMRC's financial statements. An area highlighted for specific audit coverage in 2012–13 was the management of the administered grants program given the significance of these payments to the NHMRC's financial statements.

## Audit results

### *Summary of audit findings*

6.533 There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Comments on non-material entities

## Audit results

### *Summary of audit findings*

6.534 There were no significant or moderate audit issues identified in non-material entities within the portfolio except in relation to the Therapeutic Goods Administration. The auditor's report on the 2012–13 financial statements of Aged Care Standards and Accreditation Agency Ltd contained an emphasis of matter that is discussed below.

### *Therapeutic Goods Administration*

6.535 The ANAO identified a moderate audit issue in relation to the management of user access to the IT network, and the Human Resource and Financial Management Information Systems of the Therapeutic Goods Administration. The activities of privileged users were not monitored consistently, user access of some terminated employees had not been revoked in a timely manner, and there was inadequate documentation of the oversight over change management process. The Therapeutic Goods Administration has advised that action has been taken to strengthen the controls relating to user access management to these systems and the IT network. The remedial action taken will be reviewed by the ANAO during the 2013–14 audit.

*Aged Care Standards and Accreditation Agency Ltd*

## Emphasis of Matter

**6.536** The auditor's report on the financial report of the Aged Care Standards and Accreditation Agency Ltd (ACSAA) contained an emphasis of matter that drew attention to Note 1 of the 2012–13 financial report. Note 1 stated that the *Australian Aged Care Quality Agency Act 2013* and the *Australian Aged Care Quality Agency (Transitional Provisions) Act 2013* (the Acts) received Royal Assent on 28 June 2013; established the Australian Aged Care Quality Agency (Quality Agency) as a statutory agency; and made transitional provisions for the transfer of assets and liabilities of the ACSAA to the Quality Agency on 1 January 2014. Accordingly, the ACSAA is not a going concern.

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

# Human Services Portfolio

| Reporting Entity             | Material Entity | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit issues identified |
|------------------------------|-----------------|--------------------------|----------------------------------|------------------------------|-------------------------|
| Department of Human Services | Yes             | ✓L                       | 6 Sept 13                        | 6 Sept 13                    | ▲◆□                     |
| Australian Hearing           | Yes             | ✓                        | 23 Aug 13                        | 23 Aug 13                    |                         |

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

▲: significant or moderate issues reported previously not yet resolved

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

□: significant or moderate issues and/or legislative matters identified in previous periods, or the 2012–13 interim audit phase, now downgraded or resolved

## Portfolio Overview

**6.538** As at 30 June 2013, the Human Services portfolio comprised the Department of Human Services (DHS) and Australian Hearing.

**6.539** DHS provides policy advice on service delivery matters to government aimed at ensuring effective, innovative and efficient implementation of government service delivery.

**6.540** DHS delivers a range of government and other payments and services to Australians through its three main programs:

- *Centrelink*: which delivers a range of government payments and services for retirees, the unemployed, families, carers, parents, people with disabilities, Indigenous Australians, and people from diverse cultural and linguistic backgrounds, and provides services at times of major change;
- *Medicare*: which looks after the health of Australians through services and payments such as Medicare, the Pharmaceutical Benefits Scheme, the Australian Childhood Immunisation Register and the Australian Organ Donor Register; and
- *Child Support*: which provides support to separated parents so they have the financial and emotional support necessary for their children's wellbeing.

## Department of Human Services

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 4 172.0        | 4 237.0        |
| Revenue from government                 | 3 908.4        | 3 938.3        |
| Surplus/(deficit) *                     | (263.9)        | (299.4)        |
| Total other comprehensive income/(loss) | 22.8           | 18.5           |
| Total comprehensive income/(loss)       | (241.1)        | (280.9)        |
| Total assets **                         | 1 854.5        | 2 027.6        |
| Total liabilities                       | 1 292.1        | 1 400.1        |

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

\*\* The asset balance reported in the 2011–12 financial statements has been adjusted to account for the appropriation funding which was not transferred to DHS from Medicare Australia at the time of integration.

**6.542** The decrease in the net cost of services is mainly attributable to the reduction of employee training costs, IT maintenance and contract related costs as a result of the first full year of operation after the integration of Medicare Australia and Centrelink into DHS. In 2011–12, DHS's financial operations were managed on three separate IT systems for part of the financial year, increasing the overall cost of running the department during that year.

**6.543** Assets decreased primarily due to a reduction in prepayments following the discontinuation of the IBM contract relating to IT services, and a decrease in unspent appropriations.

**6.544** Liabilities decreased mainly due to a reduction in the surplus lease provision, and a decrease in outstanding IT maintenance and contractor payments at year end. These decreases were partially offset by an increase in the employee benefit provision, as a result of an increase in salary rates.

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

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income *       | 1 529.4        | 1 505.0        |
| Total expenses *                | 1 523.3        | 1 490.0        |
| Surplus/(deficit)               | 6.1            | 15.1           |
| Total assets                    | 766.1          | 747.7          |
| Total liabilities               | 762.1          | 741.5          |

\* The income and expenses figures reported in the 2011–12 financial statements have been adjusted to reflect the reclassification of \$92 million write off of child support debt as expense. This amount was previously netted off against income.

**6.545** The movements in income, expenses, assets and liabilities are primarily due to movements in the receipts of child support payments from the non-custodial parents for payments to the custodial parents.

### **Areas of audit focus**

**6.546** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on DHS' financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- programs and related payments delivered by DHS that are complex in nature and of substantial value. Generally, these programs are delivered on behalf of other agencies, including the former Departments of: Health and Ageing; Families, Housing, Community Services and Indigenous Affairs; Agriculture, Fisheries and Forestry; Education, Employment and Workplace Relations; and Industry, Innovation, Climate Change, Science, Research and Tertiary Education, and the Department of Veterans' Affairs.
- child support transactions, specifically focusing on complexities associated with IT system controls, as well as the valuation methodology used to determine child support debts that DHS may not be able to collect from the paying parent;
- intangible assets due to the complexities associated with the valuation and measurement of these assets and the significance of the carrying value of the assets in the financial statements; and

- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution prior to making benefit payments on behalf of other agencies.

## Audit results

### Summary of audit findings

**6.547** Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. The following table summarises the status of audit issues reported by the ANAO in 2011–12 and 2012–13.

| Category     | Opening position (at end of the 2011–12 final audit phase) | Issues resolved (during the 2012–13 interim audit phase) | New issues identified (during the 2012–13 interim audit phase) | Issues resolved (during the 2012–13 final audit phase) | New issues identified (during the 2012–13 final audit phase) | Closing position (at end of the 2012–13 final audit phase) |
|--------------|--|--|--|--|--|--|
| A            | 0  | 0  | 0  | 0  | 0  | 0  |
| B            | 2  | (2) *  | 2  | (2)  | 1  | 1  |
| L1           | 1  | 0  | 0  | 0  | 0  | 1  |
| <b>Total</b> | <b>3</b>   | <b>(2)</b>   | <b>2</b>   | <b>(2)</b>   | <b>1</b>   | <b>2</b>   |

\* These findings are discussed in the ANAO's Audit Report No. 49 *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2013*. This report indicates that one audit finding relating to IT network user access management and monitoring was downgraded to a category C finding during the 2012–13 interim phase.

### Resolved audit issues

Privileged user access to the financial management information system

**6.548** During the 2012–13 interim audit phase, the ANAO identified that DHS had a number of user accounts in the financial management information system (FMIS) that provided privileged access. 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. Access to these user accounts were logged but not monitored. During the 2012–13 final audit phase, the ANAO identified that DHS had implemented system changes and strengthened controls over the use of these accounts. As a result, this finding has been satisfactorily resolved.

The financial management information system control environment

**6.549** During the 2012–13 interim audit phase, the ANAO identified that the functionality to test changes in the FMIS system was operating in the production environment, which exposed financial data held in the FMIS to

deliberate or inadvertent modification. During the 2012–13 final audit phase, the ANAO identified that DHS had implemented appropriate processes to remove the testing functionality from the production environment and, as a result, this finding has been satisfactorily resolved.

### *New audit issue*

Withholding of overpayments from social welfare payments made to the customers

**6.550** DHS makes social welfare payments to its customers in excess of \$140 billion a year on behalf of a range of other Commonwealth agencies, as mentioned in paragraph 6.546 above. Details of payments made by DHS are reported in relevant agencies' annual financial statements. In some instances, overpayments may be made to the customers due to changes in the customer's circumstances not being reported to DHS in a timely way or the payments are based on estimation of the customer's income that can only be confirmed after submission of a tax return.

**6.551** One method of collection of the overpayments is to withhold an agreed amount from future social welfare payments. A debt raised by the Australian Taxation Office (ATO) can also be withheld from the social welfare payments made by DHS and overpayments made by DHS can be recovered by withholding income tax refunds that are payable to a DHS customer by the ATO. Information relating to social welfare payments, overpayments, cash recoveries and amounts withheld by DHS, are provided to relevant agencies for reporting in their respective financial statements.

**6.552** During the 2012–13 final audit phase, the ANAO identified that financial information sourced from DHS's general ledger and provided to relevant agencies was incomplete. This was caused primarily due to incorrect mapping of transactions from DHS's payment system to the general ledger. The ANAO also identified that the data from the payment system were not reconciled to the general ledger. These weaknesses led to the incorrect reporting of the details of social welfare payments made by DHS, in the financial statements of relevant agencies. DHS has acknowledged these issues and has commenced remedial action, in consultation with the then Department of Finance and Deregulation and other responsible agencies.

### *Legislative breaches*

Breaches of section 83 of the Constitution

**6.553** During 2011–12, DHS undertook a review to determine the risk of payments being made in breach of section 83 of the Constitution from the



special appropriations and special accounts for which it is responsible. The risk assessment and subsequent analysis identified a number of actual breaches.

**6.554** A similar approach undertaken by DHS in 2012–13 identified the following actual breaches:

- payments totalling \$29 495 from the Superannuation Clearing House Special Account; and
- payments totalling \$12 182 from the Recovery of Compensation for Health Care and Other Services Special Account.

**6.555** At 30 June 2013 \$26 306 of these payments had been recovered or offset against later payments.

**6.556** The auditor’s report included a report on other legal and regulatory requirements referring to the actual breaches identified. This is not a qualification or modification to the audit opinion on DHS financial statements, as the financial statements fairly presented the financial operations and position of DHS at year end.

**6.557** Full details of actual breaches identified during 2012–13 are outlined in Note 35 of DHS’s 2012–13 financial statements, and a general discussion of this matter is at paragraphs 5.27 to 5.40 in chapter 5 of this report.

## Australian Hearing

### Summary of financial results

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

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | (4.2)          | (9.7)          |
| Revenue from government                 | –              | –              |
| Surplus/(deficit)                       | 4.2            | 9.7            |
| Total other comprehensive income/(loss) | –              | –              |
| Total comprehensive income/(loss)       | 2.9            | 6.8            |
| Total assets                            | 103.5          | 96.8           |
| Total liabilities                       | 64.9           | 59.5           |

**6.559** The reduction in the net cost of services and the corresponding reduction in the surplus were primarily due to a change in voucher funding introduced in 2012–13 by the Office of Hearing Services, impacting all hearing service providers.

**6.560** Assets increased as a result of an increase in fitout costs following the relocation of Australian Hearing in 2012–13 to a new building.

**6.561** Fluctuations in other balances reflect normal business activities.

### **Areas of audit focus**

**6.562** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Australian Hearing's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- revenue recognition, as revenue is a significant balance in the financial statements;
- property, plant and equipment and intangibles given the valuation of these items is subject to judgement; and
- the use of management estimates relating to various liability balances.

### **Audit results**

#### *Summary of audit findings*

**6.563** Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

# Immigration and Citizenship Portfolio<sup>84</sup>

| Reporting Entity                                      | Material Entity | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit issues identified |
|---|-----------------|--------------------------|----------------------------------|------------------------------|-------------------------|
| Department of Immigration and Citizenship             | Yes             | ✓L                       | 20 Aug 13                        | 20 Aug 13                    | ◆                       |
| Migration Review Tribunal and Refugee Review Tribunal | No              | ✓                        | 17 Sept 13                       | 17 Sept 13                   |                         |

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

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

## Portfolio Overview

**6.564** As at 30 June 2013, the Department of Immigration and Citizenship (DIAC) was responsible for the delivery of a range of programs and services for the purpose of building Australia's future through the well-managed entry and settlement of people into Australia.

**6.565** During 2012–13, DIAC's business was to:

- contribute to Australia's future through managed migration;
- protect refugees and contribute to humanitarian policy internationally;
- contribute to Australia's security through border management and traveller facilitation;
- make fair and reasonable decisions for people entering or leaving Australia, ensuring compliance with Australia's immigration laws and integrity in decision making;
- support migrants and refugees to settle in the community and participate in Australian society; and
- promote Australian citizenship and a multicultural Australia.

**6.566** The Migration Review Tribunal and Refugee Review Tribunal provide independent merit reviews of general visa decisions and protection visa decisions made by the department.

84 The portfolio became the Immigration and Border Protection Portfolio as part of the MOG changes on 18 September 2013. The main MOG change was the transfer of the Australian Customs and Border Protection Service to the new Portfolio.

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 1 520.9        | 1 429.2        |
| Revenue from government                 | 1 429.6        | 1 330.6        |
| Surplus/(deficit) *                     | (91.2)         | (98.5)         |
| Total other comprehensive income/(loss) | 3.5            | –              |
| Total comprehensive income/(loss)       | (87.7)         | (98.5)         |
| Total assets                            | 826.4          | 797.0          |
| Total liabilities                       | 430.8          | 414.8          |

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

**6.568** The net cost of services increased mainly due to an increase in asylum seeker activities during the year, resulting in higher supplier, rental and employee expenses.

**6.569** Revenue from government has increased to meet increased operational costs in accordance with the department's no-win no-loss funding arrangements.<sup>86</sup>

**6.570** Assets increased primarily due an increase in unspent appropriations at year end due to an increase in funding under the no-win no-loss arrangements mentioned above.

**6.571** Liabilities increased mainly due to increased staff numbers, resulting in higher employee leave provisions.

**6.572** Fluctuations in other balances reflect normal business activities.

85 The department became the Department of Immigration and Border Protection as part of the MOG changes on 18 September 2013.

86 No-win no-loss arrangements refer to funding provided by the Australian Government to fund all expenditure incurred relating to the department's handling of asylum seekers.

*Items administered on behalf of the Australian Government*

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 1 212.7        | 1 082.5        |
| Total expenses                  | 2 379.6        | 1 539.7        |
| Surplus/(deficit)               | (1 166.9)      | (457.1)        |
| Total assets                    | 1 173.9        | 961.5          |
| Total liabilities               | 432.8          | 388.9          |

**6.573** Administered income increased due to increases in Visa application fees, the number of visa applications, and the number of citizenship conferrals during the year.

**6.574** Administered expenses increased significantly due to several factors, including an increase in detention centre costs due to an increase in the number of asylum seekers, and increased expenses associated with refugee settlement, including the cost of living allowances and adult English programs.

**6.575** Assets increased mainly due to increased expenditure on facilities in the Yongah Hill and Nauru detention centres, and increases in prepayments to suppliers for the management of refugees and asylum seekers in community detention.

**6.576** Liabilities increased due to increases in supplier unpaid expenses at year end as a result of the increase in asylum seeker arrivals, as well as increases in community grants and visitor visa bonds.

### **Areas of audit focus**

**6.577** The ANAO's audit approach identified particular areas of audit focus that had the potential to impact on the department's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the accuracy and completeness of asset records given the increased funding for administered assets, as a result of the recommendations of the Report of the Expert Panel on Asylum Seekers, which included the establishment of regional processing centres in Nauru and Papua New Guinea;
- the revaluation of administered and departmental non-financial assets, given their significance and the expansion of the detention services network;

- increased administered expenses in relation to detention services, primarily in relation to implementing the recommendations included in the Report of the Expert Panel on Asylum Seekers;
- completeness of visa revenues due to the varying types of revenues collected by the department;
- appropriation revenue recognised under the department's work load and no-win no-loss agreements; and
- the follow up of the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2011–12 financial statements.

## Audit results

### Summary of audit findings

6.578 The following table summarises the status of audit issues reported by the ANAO in 2012–13 and 2011–12.

| Category     | Opening position (at end of the 2011–12 final audit phase) | Issues resolved (during the 2012–13 interim audit phase) | New issues identified (during the 2012–13 interim audit phase) | Issues resolved (during the 2012–13 final audit phase) | New issues identified (during the 2012–13 final audit phase) | Closing position (at end of the 2012–13 final audit phase) |
|--------------|--|--|--|--|--|--|
| A            | 0  | 0  | 0  | 0  | 0  | 0  |
| B            | 0  | 0  | 0  | 0  | 0  | 0  |
| L1           | 0  | 0  | 0  | 0  | 2  | 2  |
| <b>Total</b> | <b>0</b>   | <b>0</b>   | <b>0</b>   | <b>0</b>   | <b>2</b>   | <b>2</b>   |

### New audit issues

#### Non-compliance with banking requirements

6.579 A legislative breach was reported in relation to arrangements with post offices in an overseas post whereby money orders are purchased for the purposes of paying for visa applications. These monies were held in a foreign bank account until they are matched with visa applications and ultimately transferred and banked in the Commonwealth's official bank account. These banking arrangements were in contravention of section 11 of the *Financial Management and Accountability Act 1997* (FMA Act), whereby public money must not be deposited in any account other than an official account, unless otherwise authorised.

**6.580** The department was reviewing the arrangements for the receipt and custody of public money at the overseas post and advised it would either modify the existing arrangements to ensure compliance with section 11 of the FMA Act, or otherwise obtain the proper authority for these arrangements.

Actual breaches of section 83 of the Constitution

**6.581** In 2011–12, DIAC undertook a review of the risk of a breach of section 83 of the Constitution in relation to payments from special accounts and special appropriations. DIAC concluded that a risk of section 83 breaches in one special appropriation existed; however, no breaches or potential breaches of section 83 were identified. As a result, no reference to this matter was made in the auditor’s report on the 2011–12 financial statements.

**6.582** In 2012–13, DIAC undertook a further review and identified payments totalling \$150 071 made under the *Migration Act 1958*, and payments totalling \$3 261 made under the *Long Service Leave (Commonwealth Employees) Act 1976*, that were in breach of section 83 of the Constitution. As at 30 June 2013, \$147 832 of the overpaid amounts had been recovered.

**6.583** The 2012–13 auditor’s report included a report on other legal and regulatory requirements referring to payments made that were identified as breaching section 83 of the Constitution. This is not a qualification or modification of the audit opinion on DIAC’s financial statements, as the financial statements fairly presented the financial operations and position of DIAC at year end.

**6.584** Full details of actual breaches identified during 2012–13 are outlined in Note 31 of DIAC’s 2012–13 financial statements, and a general discussion of this matter is at paragraphs 5.27 to 5.40 in chapter 5 of this report.

## Comments on non-material entities

### Audit results

#### *Summary of audit findings*

**6.585** There were no significant or moderate audit issues or significant legislative matters noted in the non-material entity within the portfolio.

# Industry, Innovation, Climate Change, Science, Research and Tertiary Education Portfolio <sup>87</sup>

| Reporting Entity   | Material Entity | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit issues identified |
|--|-----------------|--------------------------|----------------------------------|------------------------------|-------------------------|
| Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education | Yes             | ✓L                       | 3 Sept 13                        | 4 Sept 13                    | ▲□                      |
| Australian Institute of Aboriginal and Torres Strait Islander Studies                        | No              | ✓                        | 13 Sept 13                       | 13 Sept 13                   | □                       |
| Australian Institute of Marine Science   | No              | ✓                        | 21 Aug 13                        | 21 Aug 13                    |                         |
| Australian National University*  | No              | ✓                        | 28 Mar 13                        | 28 Mar 13                    |                         |
| - ANU Enterprise Ltd*  | No              | ✓                        | 27 Mar 13                        | 27 Mar 13                    |                         |
| - Australian Scientific Instruments Pty Ltd (subsidiary of ANU Enterprise Ltd)*              | No              | ✓                        | 27 Mar 13                        | 27 Mar 13                    |                         |
| - BRU Holdings Pty Ltd*  | No              | ✓                        | 28 Mar 13                        | 28 Mar 13                    |                         |
| - SA2 Holdings Pty Ltd*  | No              | ✓                        | 28 Mar 13                        | 28 Mar 13                    |                         |
| - ANU Section 68 Pty Ltd*  | No              | ✓E                       | 28 Mar 13                        | 28 Mar 13                    |                         |
| Australian Nuclear Science and Technology Organisation                                       | Yes             | ✓                        | 15 Aug 13                        | 15 Aug 13                    | □                       |
| - PETNET Australia Pty Ltd   | No              | ✓                        | 15 Aug 13                        | 15 Aug 13                    |                         |
| - Synchrotron Light Source Australia Pty Ltd   | No              | ✓                        | 15 Aug 13                        | 15 Aug 13                    |                         |
| Australian Research Council  | Yes             | ✓                        | 4 Sept 13                        | 4 Sept 13                    |                         |
| Australian Skills Quality Authority  | No              | ✓                        | 4 Sept 13                        | 6 Sept 13                    |                         |
| Clean Energy Regulator   | Yes             | ✓                        | 20 Sept 13                       | 20 Sept 13                   | □                       |
| Climate Change Authority   | No              | ✓                        | 9 Sept 13                        | 9 Sept 13                    |                         |
| Commonwealth Scientific and Industrial Research Organisation                                 | Yes             | ✓                        | 22 Aug 13                        | 22 Aug 13                    |                         |

87 The portfolio became the Industry Portfolio as part of the MOG changes on 18 September 2013. A number of the former Portfolio's functions were transferred to other portfolios.



| Reporting Entity                                | Material Entity | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit issues identified |
|---|-----------------|--------------------------|----------------------------------|------------------------------|-------------------------|
| - Science and Industry Endowment Fund           | No              | ✓                        | 21 Aug 13                        | 21 Aug 13                    |                         |
| - WLAN Services Pty Limited                     | No              | ✓                        | 21 Aug 13                        | 21 Aug 13                    |                         |
| IIF Investments Pty Limited                     | No              | ✓                        | 28 Oct 13                        | 28 Oct 13                    |                         |
| IP Australia                                    | No              | ✓                        | 2 Oct 13                         | 2 Oct 13                     | ◆□                      |
| Low Carbon Australia Ltd                        | No              | ✓E                       | 3 Sept 13                        | 3 Sept 13                    |                         |
| Tertiary Education Quality and Standards Agency | No              | ✓                        | 28 Aug 13                        | 28 Aug 13                    |                         |

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

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

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

□: significant or moderate issues and/or legislative matters identified in previous periods, or the 2012–13 interim audit phase, now downgraded or resolved

\* 31 December 2012 year end.

## Portfolio Overview

**6.586** During 2012–13, the key priorities for the portfolio were:

- the sustainable development and growth of Australian industry by encouraging businesses to innovate, collaborate and commercialise ideas and by delivering business advice, assistance and services;
- the production, use and awareness of science and research knowledge, by supporting research activity, training and infrastructure, science communication, skill development and collaboration within the research sector and between researchers and industry, domestically and internationally;
- the growth in skills, qualifications and productivity through funding to improve teaching quality, learning, and tertiary sector infrastructure, international promotion of Australia's education and training sectors, and partnerships with industry; and
- to reduce Australia's greenhouse gas emissions, adaption to the impacts of climate change, and negotiation of an effective global solution, through the development and implementation of a national response to climate change including bilateral, regional and multilateral engagement internationally.

**6.587** The Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (the department) and the portfolio were the subject of two significant MOG changes in the last two years. The first took effect on 14 December 2011, and involved the transfer of the tertiary education functions, which included over 1 000 staff from the then Department of Education, Employment and Workplace Relations. The second, on 25 March 2013, involved the transfer of the climate change functions and over 300 staff from the then Department of Climate Change and Energy Efficiency (DCCEE).

## Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education <sup>88</sup>

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 539.5          | 402.3          |
| Revenue from government                 | 503.3          | 358.9          |
| Surplus/(deficit) *                     | (36.2)         | (43.5)         |
| Total other comprehensive income/(loss) | (3.9)          | 1.8            |
| Total comprehensive income/(loss)       | (40.1)         | (41.7)         |
| Total assets                            | 531.3          | 413.1          |
| Total liabilities                       | 226.5          | 184.0          |

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

**6.589** The increases in the net cost of services, revenue from government, assets and liabilities are mainly due to the MOG changes referred to above, with the 2012–13 balances reflecting a full year of operations of the tertiary education function in the department.

**6.590** Fluctuations in other balances reflect normal business activities.

---

88 The department became the Department of Industry as part of the MOG changes on 18 September 2013. A number of the former department's functions were transferred to other departments.

*Items administered on behalf of the Australian Government*

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 1 604.4        | 2 663.1        |
| Total expenses                  | 17 169.0       | 13 377.9       |
| Surplus/(deficit)               | (15 564.6)     | (10 714.8)     |
| Total assets                    | 28 514.2       | 26 160.3       |
| Total liabilities               | 7 035.3        | 7 740.8        |

**6.591** The increase in administered expenses is also mainly due to the MOG changes referred to above, with the 2012–13 balances reflecting a full year of expenses relating to the tertiary education function.

**6.592** Own-source income decreased due to lower receipts from the nation-building fund special account in relation to payments made under the Education Investment Fund and the effects of a revaluation of loans under the Higher Education Loans Program (HELP), partially offset by a reduction in the value of the unfunded university superannuation provision.

**6.593** HELP loans are reported as an administered asset. These loans are revalued each year with the assistance of an actuary and the results of the revaluation are recognised as an increase in income or an increase in expenses. In 2012–13, an increase in the government bond rate resulted in a decrease in the value of HELP loans, contributing to a significant increase in expenses.

**6.594** Although, as mentioned above, there was a significant downwards revaluation in the value of HELP loans overall, assets increased as a result of an increase in new loans made in 2012–13.

**6.595** Liabilities decreased due mainly to a reduction in the value of the unfunded university superannuation provision.

### **Areas of audit focus**

**6.596** The ANAO's audit approach identified particular areas of audit focus that had the potential to impact on the department's 2012–13 financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the actuarial valuation of HELP receivables due to the complexity involved in projecting future payments and/or potential non repayment of loans;

- the actuarial valuation of the provision for grants relating to unfunded superannuation commitments for Australian universities. These estimates are complex due to calculation timings and different actuarial assumptions used for each relevant state;
- the tertiary education systems transferred to the department in 2011–12, as responsibility for these systems was shared between the department and DEEWR;
- the transitional arrangements in place relating to the climate change functions transferred to the department; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2011–12 financial statements.

## Audit results

### *Summary of audit findings*

**6.597** Audit coverage of the key areas of audit focus did not identify any new significant or moderate audit issues.

**6.598** The following table summarises the status of audit issues reported by the ANAO in 2011–12 and 2012–13.

| Category     | Opening position (at end of the 2011–12 final audit phase) | Issues resolved (during the 2012–13 interim audit phase) | New issues identified (during the 2012–13 interim audit phase) | Issues resolved (during the 2012–13 final audit phase) | New issues identified (during the 2012–13 final audit phase) | Closing position (at end of the 2012–13 final audit phase) |
|--------------|--|--|--|--|--|--|
| A            | 0  | 0  | 0  | 0  | 0  | 0  |
| B            | 1  | 0  | 0  | (1)  | 0  | 0  |
| L1           | 1  | 0  | 0  | 0  | 0  | 1  |
| <b>Total</b> | <b>2</b>   | <b>0</b>   | <b>0</b>   | <b>(1)</b>   | <b>0</b>   | <b>1</b>   |

### *Resolved audit issue*

#### Privileged user access

**6.599** During the 2011–12 audit of the former DCCEE, the ANAO identified the need for improvements in monitoring privileged user access to that department’s FMIS. On 1 July 2013, the department ceased utilising this system. As a result this finding is resolved.

*Actual and potential breaches of section 83 of the Constitution*

**6.600** The notes to the department's 2012–13 financial statements referred to potential and actual breaches of section 83 of the Constitution for payments made from special appropriations, special accounts and annual appropriations which fund statutory payments, particularly in circumstances where the payments do not accord with conditions included in the relevant legislation.

**6.601** The department undertook a review of section 83 to determine the risks of potential breaches. A review of payments under the *Social Security Act 1991* and the *Social Security (Administration) Act 1999* (Social Security Acts) was not completed due to the scale and complexity of the pre-conditions embedded in the legislation. Even though it is expected that a portion of these payments would have been correctly paid, the department identified all overpayments as potential breaches due to the difficulties associated with investigating whether individual payments complied with the legislative requirements.

**6.602** As a result, potential breaches have been reported in the 2012–13 financial statements for the Social Security Acts payments. The potential breaches represent the number of debts raised during the year to recover overpayments. There were 110 066 potential breaches totalling \$109 613 059 identified in 2012–13. The department was of the view that there were comprehensive administrative processes and controls in place to identify and recover overpayments.

**6.603** The department also identified two actual breaches during 2012–13 relating to:

- the *Higher Education Support Act 2003* – a payment run was inadvertently processed by both the department and DEEWR with \$1.1 million identified as a breach of section 83 of the Constitution. The overpayments were subsequently repaid; and
- the *Nation-building Funds Act 2008* – a payment of \$16.5 million was made to an incorrect recipient. The incorrect payment was subsequently recovered, and the amount was then paid to the correct recipient.

**6.604** In 2012–13, additional advice was received that indicated that in certain circumstances payments for long service leave, goods and service tax and payments made under determinations of the Remuneration Tribunal could be in breach of section 83. The department did not undertake a risk assessment, nor review payments relating to payments for long service leave, goods and

service tax and payments made under determinations of the Remuneration Tribunal. The department intends to review its processes and controls over payments for these items to minimise the possibility of future breaches in relation to these payments in 2013–14.

**6.605** The auditor’s report included a report on other legal and regulatory requirements referring to the actual and potential breaches identified. This is not a qualification or modification to the audit opinion on the department’s financial statements, as the financial statements presented the financial operations and position of the department at year end.

**6.606** Full details of potential and actual breaches identified during 2012–13 are outlined in Note 28 of the department’s financial statements, and a general discussion of this matter is at paragraphs 5.27 to 5.40 in chapter 5 of this report.

## Australian Nuclear Science and Technology Organisation

### Summary of financial results

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

| Key financial measures for year *       | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 189.5          | 194.2          |
| Revenue from government                 | 157.6          | 157.7          |
| Surplus/(deficit)*                      | (32.1)         | (35.3)         |
| Total other comprehensive income/(loss) | 0.1            | 129.0          |
| Total comprehensive income/(loss)       | (32.0)         | 93.7           |
| Total assets                            | 1 284.5        | 1 155.5        |
| Total liabilities                       | 406.3          | 316.8          |

\* The entity’s operating results are referred to in the ANAO’s analysis of entities’ operating results at paragraphs 4.8 to 4.12 of chapter 4 of this report.

**6.608** Comprehensive income decreased due to the 2011–12 balance reflecting the results of a revaluation of assets that was conducted during 2011–12. No revaluation was undertaken in 2012–13.

**6.609** Assets increased due to the purchase of assets as part of an upgrade of site facilities, the capitalisation of intangible assets relating to intellectual

property rights acquired during the period, and an increase in investments held.

**6.610** Liabilities increased as a result of the initial recognition of a liability relating to future royalty payments owing in exchange for intangible assets acquired, and an increase in the provision for the decommissioning of the nuclear reactor, reflecting changes in assumptions and expected higher costs.

**6.611** Fluctuations in other balances reflect normal business activities.

### **Areas of audit focus**

**6.612** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Australian Nuclear Science and Technology Organisation's (ANSTO) financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the carrying value of investments in related entities and the recoverability of intercompany loans;
- the first year of operations of ANSTO's subsidiary Synchrotron Light Source Australia Pty Ltd;
- the estimation of the decommissioning provision (including waste);
- the classification and depreciation of assets;
- the accounting treatment of new and continues business development opportunities (including joint ventures);
- the recognition and recording of numerous streams of commercial revenue;
- management override of controls; and
- compliance with a complex regulatory environment.

### **Audit results**

#### *Summary of audit findings*

**6.613** Audit coverage of the key areas of audit focus did not identify any new significant or moderate audit issues.

**6.614** A moderate audit issue raised during the 2012–13 interim audit phase relating to the recognition of non-capital expenses was resolved during the 2012–13 final audit phase. This issue is discussed below.

### *New and resolved audit issue*

#### Recognition of non-capital expenses

**6.615** During the 2012–13 interim audit phase, the ANAO identified a number of instances where non-capital expenses had been capitalised. ANSTO re-issued internal guidance over the expenses that are able to be capitalised and increased its oversight over the capitalisation of expenses. As a result, this finding is resolved.

## Australian Research Council

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 20.0           | 19.2           |
| Revenue from government                 | 19.1           | 18.8           |
| Surplus/(deficit) *                     | (0.9)          | (0.4)          |
| Total other comprehensive income/(loss) | –              | –              |
| Total comprehensive income/(loss)       | (0.9)          | (0.4)          |
| Total assets                            | 31.7           | 29.6           |
| Total liabilities                       | 6.5            | 6.4            |

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

**6.617** Fluctuations in all balances reflect normal business activities.



*Items administered on behalf of the Australian Government*

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 11.9           | 3.9            |
| Total expenses                  | 877.6          | 827.0          |
| Surplus/(deficit)               | (865.7)        | (823.1)        |
| Total assets                    | 1.0            | 1.6            |
| Total liabilities               | 339.8          | 324.3          |

**6.618** Own-source income increased due to an increase in the level of grants repaid in 2012–13.

**6.619** The increase in administered expenses relates to additional funding for grants under the National Competitive Grants Program.

**6.620** Fluctuations in other balances reflect normal business activities.

### Areas of audit focus

**6.621** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Australian Research Council's (ARC) financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the accounting and internal controls over administered grant expenditure; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2011–12 financial statements.

### Audit results

#### *Summary of audit findings*

**6.622** Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Clean Energy Regulator

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 93.5           | 29.7           |
| Revenue from government                 | 78.8           | 28.4           |
| Surplus/(deficit) *                     | (14.7)         | (1.3)          |
| Total other comprehensive income/(loss) | 3.6            | –              |
| Total comprehensive income/(loss)       | (11.1)         | (1.3)          |
| Total assets                            | 76.9           | 75.6           |
| Total liabilities                       | 23.3           | 30.7           |

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

6.624 The Clean Energy Regulator (CER) was established in April 2012 to administer the carbon pricing mechanism. The significant differences in these balances are mainly due to the 2012–13 balances reflecting a full year of operations of the Regulator.

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

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 5 067.6        | 6.0            |
| Total expenses                  | 942.2          | 2.4            |
| Surplus/(deficit)               | 4 125.4        | 3.6            |
| Total assets                    | 1 419.1        | 2.7            |
| Total liabilities               | 235.1          | 2.5            |

6.625 The 2012–13 results reflect a full year of operations of the Regulator, with the legislation enabling the collection of carbon revenue commencing on 1 July 2012.

6.626 Own-source income predominantly consisted of \$5 047 million in carbon revenue earned during 2012–13. The Regulator expected \$1 417 million

of this revenue to be received on the final surrender of carbon permits by relevant emitters on 3 February 2014. Assets mainly comprised the amounts due and receivable in respect of this revenue at 30 June 2013.

**6.627** During 2012–13, CER’s administered expenses mainly reflected the accounting for the buy-back of some \$937 million free carbon units. The liabilities balance at year end reflects a provision of \$231 million in respect of carbon units expected to be bought back in 2013–14.

## **Areas of audit focus**

**6.628** The ANAO’s audit approach identified particular areas of audit focus that have the potential to impact on CER’s financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- CER’s compliance with administering the carbon pricing legislative requirements;
- IT controls relating to carbon pricing systems;
- accounting for the carbon pricing mechanism in accordance with Australian Accounting Standards;
- the accounting for the fair value of CER’s non-financial assets;
- CER’s financial statements preparation process; and
- the further development of CER’s governance, internal control, and risk management activities.

## **Audit results**

### *Summary of audit findings*

**6.629** Audit coverage of the key areas of audit focus did not identify any new significant or moderate audit issues.

**6.630** A moderate audit issue relating to the financial statements quality assurance process that is discussed below has been resolved.

### *Resolved audit issue*

#### Financial statements quality assurance processes

**6.631** In 2011–12, a moderate audit issue was raised in relation to the preparation of the regulator’s 2011–12 financial statements. The ANAO identified a number of errors that resulted in considerable adjustments to the financial statements. During the 2012–13 audit, the ANAO noted significant

improvements in the financial statement preparation process, including more robust quality assurance procedures as part of a more structured timetable. As a result, this finding is resolved.

## Commonwealth Scientific and Industrial Research Organisation

### Summary of financial results

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

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 774.9          | 531.4          |
| Revenue from government                 | 733.8          | 724.9          |
| Surplus/(deficit)                       | (41.1)         | 193.5          |
| Total other comprehensive income/(loss) | (2.1)          | 1.3            |
| Total comprehensive income/(loss)       | (43.2)         | 194.8          |
| Total assets                            | 2 811.4        | 2 814.0        |
| Total liabilities                       | 574.4          | 558.2          |

**6.633** In 2011–12, the Commonwealth Scientific and Industrial Research Organisation (CSIRO) was successful in gaining revenue from patent litigation legal settlements relating to licence agreements for wireless networking technology, resulting in an increase in own sourced revenue in 2011–12. This mainly accounts for the increase in the net cost of services in 2012–13, as no settlements revenue was received during 2012–13.

**6.634** Fluctuations in other balances reflect normal business activities.

### Areas of audit focus

**6.635** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on CSIRO's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the accounting treatment and calculations applied to research project income, work-in-progress and deferred revenue balances;

- the valuation of listed and unlisted equity investments and compliance with disclosure requirements for financial instruments;
- the valuation of significant ongoing capital projects; and
- the valuation of CSIRO's non-financial assets, which include: land and buildings; property, plant and equipment; investment properties; and held-for-sale properties.

## **Audit results**

### *Summary of audit findings*

**6.636** Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

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

### **Audit results**

#### *Summary of audit findings*

**6.637** There were no significant or moderate audit issues or significant legislative matters noted in non-material entities within the portfolio except in relation to IP Australia and the Australian Institute of Aboriginal and Torres Strait Islander Studies. The auditor's report on the financial statements of Low Carbon Australia Ltd and ANU Section 68 Pty Ltd contained an emphasis of matter that is discussed below.

#### *IP Australia*

**6.638** During the 2012–13 interim audit phase, the ANAO identified that IP Australia had a number of user accounts in its financial management information system (FMIS) that provided privileged access. 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. Access to these user accounts was logged but not monitored effectively. This weakness increased the risk of unauthorised or fraudulent transactions being processed, potentially compromising the integrity of financial data. During the 2012–13 final audit phase the ANAO identified that IP Australia had strengthened controls over the use of these accounts. As a result this finding is resolved.

### *Australian Institute of Aboriginal and Torres Strait Islander Studies*

**6.639** As part of the 2012–13 interim audit phase, two moderate rated issues were identified which have subsequently been resolved. These were:

- bank reconciliation's were not performed in a timely fashion and were not reviewed by a second person; and
- there was no evidence of review or authorisation of manual journal entries that were processed, increasing the risk of erroneous or unsupported transactions. Consequently, there was limited evidence that journals had been processed correctly or had been appropriately authorised.

**6.640** The ANAO identified that the Institute subsequently implemented remedial action to address these matters. As a result, these findings are resolved.

### *Low Carbon Australia Ltd*

#### Emphasis of Matter

**6.641** The auditor's report on the 2012–13 financial statements of Low Carbon Australia Ltd contained an emphasis of matter that draws attention to the fact that the financial report has not been prepared on a going concern basis due to Low Carbon Australia Ltd ceasing trading from 1 July 2013 with the operations being integrated into the Clean Energy Finance Corporation.

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

### *ANU Section 68 Pty Ltd*

#### Emphasis of Matter

**6.643** The auditor's report on the 2012 financial statements of ANU Section 68 Pty Ltd contained an emphasis of matter that draws attention to the fact that the financial statements has been prepared on a liquidation basis as it was the expectation of the company that it would be wound up within a 12 month period.

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

# Infrastructure and Transport Portfolio<sup>89</sup>

| Reporting Entity                           | Material Entity | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit issues identified  |
|--|-----------------|--------------------------|----------------------------------|------------------------------|--------------------------|
| Department of Infrastructure and Transport | Yes             | ✓                        | 30 Aug 13                        | 30 Aug 13                    | <input type="checkbox"/> |
| Airservices Australia                      | Yes             | ✓                        | 28 Aug 13                        | 28 Aug 13                    |                          |
| Australian Maritime Safety Authority       | No              | ✓                        | 19 Sept 13                       | 19 Sept 13                   |                          |
| Australian Rail Track Corporation Limited  | Yes             | ✓                        | 29 Aug 13                        | 29 Aug 13                    | <input type="checkbox"/> |
| Australian Transport Safety Bureau         | No              | ✓                        | 27 Sept 13                       | 27 Sept 13                   |                          |
| Civil Aviation Safety Authority            | No *            | ✓                        | 29 Aug 13                        | 29 Aug 13                    |                          |
| Moorebank Intermodal Company Limited       | No              | ✓                        | 25 Sept 13                       | 25 Sept 13                   |                          |
| National Transport Commission              | No              | ✓                        | 21 Aug 13                        | 21 Aug 13                    |                          |

✓: auditor's report not modified

: significant or moderate issues and/or legislative matters identified in previous periods, or the 2012–13 interim audit phase, now downgraded or resolved

\* The Civil Aviation Safety Authority was not considered material to the 2012–13 Consolidated Financial Statements.

## Portfolio Overview

**6.645** As at 30 June 2013, the Infrastructure and Transport portfolio comprised the Department of Infrastructure and Transport (Infrastructure) and a number of statutory authorities. The portfolio was responsible for:

- advancing improvements in infrastructure across Australia through investment in, and coordination of, transport and other infrastructure; and
- promoting an efficient, sustainable, competitive, safe and secure transport system for all transport users through regulation, financial assistance and safety investigations.

89 The portfolio became the Infrastructure and Regional Development Portfolio as part of the MOG changes on 18 September 2013.

## Department of Infrastructure and Transport<sup>90</sup>

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 186.8          | 204.8          |
| Revenue from government                 | 180.7          | 192.5          |
| Surplus/(deficit) *                     | (6.1)          | (12.3)         |
| Total other comprehensive income/(loss) | (2.5)          | 0.1            |
| Total comprehensive income/(loss)       | (8.6)          | (12.2)         |
| Total assets                            | 128.0          | 138.5          |
| Total liabilities                       | 68.9           | 80.4           |

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

**6.647** The reduction in the net cost of services reflects a decrease in project consultancy costs, including in relation to the High-Speed Rail Feasibility Study. Expenses also decreased as a result of additional savings made by reducing the need for contractors to fill resourcing gaps across work areas, particularly corporate services, through the recruitment of skilled staff.

**6.648** Assets decreased mainly due to a decrease in the balance of land and buildings at 30 June 2013.

**6.649** Liabilities decreased mainly due to a reduction in supplier expenses and reduced provision for building lease obligations at 30 June 2013.

---

90 The department became the Department of Infrastructure and Regional Development as part of the MOG changes of 18 September 2013, assuming responsibility for Territories and Regional Development.



*Items administered on behalf of the Australian Government*

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 1 266.2        | 2 485.8        |
| Total expenses                  | 1 997.8        | 3 305.7        |
| Surplus/(deficit)               | (731.6)        | (819.9)        |
| Total assets                    | 4 561.9        | 4 411.7        |
| Total liabilities               | 25.3           | 27.4           |

**6.650** Administered income and expenses both decreased substantially as a result of significant decreases in Building Australia Fund (BAF) grants for road and rail projects. This mainly resulted from the early achievement of a number of prescheduled milestones for individual BAF projects and the completion of expressway and bypass projects during 2012–13.

**6.651** Administered assets increased mainly due to a net increase in the value of the investment in the Australian Rail Track Corporation, the Australian Maritime Safety Authority, and Moorebank Intermodal Company Limited, reported in the department's financial statements.

**6.652** Other movements were not significant and reflect fluctuations in normal business activities.

### Areas of audit focus

**6.653** The ANAO's audit approach identified particular areas of audit focus that had the potential to impact on the department's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the financial management and reporting of grant and subsidy programs which represent a significant portion of the department's administered expenses;
- significant judgements and estimates used in determining the value of administered investments, employee provisions, leasehold improvements and associated make good obligations; and
- progress in implementing improved quality assurance review processes relating to the financial statements, in view of audit findings raised in previous years.

## **Audit results**

### *Summary of audit findings*

**6.654** Audit coverage of the key areas of audit focus did not identify any new significant or moderate audit issues.

**6.655** The matters giving rise to a legislative breach relating to section 83 of the Constitution that is discussed below have been resolved.

### *Potential breaches of section 83 of the Constitution*

**6.656** At the conclusion of the 2011–12 final audit phase, Infrastructure reported potential breaches of section 83 of the Constitution in relation to one special appropriation relating to the *Australian Maritime Safety Authority Act 1990* (AMSA Act), with a high risk of non-compliance with statutory conditions for payments.

**6.657** Under arrangements that existed in 2011–12, the department received levies from ship owners that were subsequently paid to AMSA in accordance with section 48 of the AMSA Act. The department's review of these payments in 2011–12 identified potential breaches of section 83 relating to situations where levies received from ship owners were paid in error, and subsequently paid to AMSA. These payments by the department may not have been made in accordance with the available appropriation under section 48 of the AMSA Act and therefore were potentially in breach of section 83 of the Constitution, even though AMSA subsequently refunded any amounts received in error to ship owners. The total value of these potential breaches was \$1 079 285, representing 120 payments.

**6.658** Legislative amendments contained in the *Financial Framework Legislation Amendment Act (No. 2) 2012* were subsequently made to ensure that future transfers of payments to AMSA will be in accordance with the appropriation made under section 48 of the AMSA Act. The department also implemented procedures to continue to monitor its level of compliance across all legislation for which it is administratively responsible. A general discussion of this matter is at paragraphs 5.27 to 5.40 in chapter 5 of this report.

## Airservices Australia

### Summary of financial results

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

| Key financial measures for year                          | 2012–13<br>\$m | 2011–12<br>\$m |
|--|----------------|----------------|
| Total income   | 955.1          | 898.0          |
| Total expenses   | 892.0          | 852.5          |
| Profit/(loss) after income tax                           | 63.1           | 45.5           |
| Total other comprehensive income/(loss) after income tax | 109.0          | (82.8)         |
| Total comprehensive income/(loss) after income tax       | 172.1          | (37.3)         |
| Total assets   | 1 354.0        | 1 338.1        |
| Total liabilities  | 853.0          | 988.6          |

**6.660** Income increased due to an increase in international and domestic airline activity.

**6.661** Expenses increased mainly as a result of additional costs related to the termination of leasing arrangements, increased depreciation costs on newly commissioned assets, and an increase in income tax expense commensurate with the increased level of income.

**6.662** The movement in other comprehensive income was mainly due to actuarial gains related to superannuation obligations.

**6.663** Assets increased mainly due to the commissioning of buildings for new air traffic control tower projects, and the development of internally developed software assets.

**6.664** Liabilities decreased mainly due to lower superannuation liabilities as a result of higher discount rates applicable to the actuarial calculations used in estimating the defined benefit fund liability at year end.

### Areas of audit focus

**6.665** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on Airservices Australia's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- recognition and valuation of assets under construction;
- completeness and accuracy of airways revenue;
- dependence on IT for critical business systems;
- provision for legal obligations and associated contingencies;
- accounting and classification of financial instruments;
- classification and presentation of liabilities;
- valuation of defined benefit superannuation liabilities; and
- impairment of infrastructure assets.

## Audit results

**6.666** Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Australian Rail Track Corporation Limited

### Summary of financial results

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

| Key financial measures for year *                        | 2012–13<br>\$m | 2011–12<br>\$m |
|--|----------------|----------------|
| Total income   | 728.8          | 690.1          |
| Total expenses   | 930.6          | 910.0          |
| Profit/(loss) after income tax                           | (201.8)        | (219.9)        |
| Total other comprehensive income/(loss) after income tax | 112.9          | (224.4)        |
| Total comprehensive income/(loss) after income tax       | (88.9)         | (444.3)        |
| Total assets   | 5 433.7        | 4 701.5        |
| Total liabilities  | 1 972.9        | 1 363.5        |

\* The entity's operating results are referred to in the ANAO's analysis of entities' operating results at paragraphs 4.8 to 4.12 of chapter 4 of this report.

**6.668** Income increased mainly due to increased rail traffic volumes relating to Hunter Valley coal transport, and associated increases in rail access revenue on ARTC's interstate network.

**6.669** Expenses increased mainly due to the write down in the value of assets associated with the North South Corridor of the Australian Rail Track Corporation's (ARTC) operations, and increased depreciation expenses relating to assets that were completed and capitalised in 2012–13.

**6.670** The movement in other comprehensive income was mainly the result of asset revaluations concerning the East West Corridor which did not impact profit and loss for the year as Australian Accounting Standards require these to be adjusted directly against asset revaluation reserves in the balance sheet.

**6.671** Assets increased mainly due to a \$212 million equity injection from government, the raising of \$560 million from a bond issue and the drawdown of debt facilities, increased deferred tax assets, and a net increase in the fair value of infrastructure assets.

**6.672** Liabilities increased as a result of the new bonds and debt facilities mentioned above, together with an increase in deferred tax liabilities.

### **Areas of audit focus**

**6.673** The ANAO's audit approach identified particular areas of audit focus that had the potential to impact on ARTC's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- impairment of infrastructure assets, particularly the judgemental nature of the assumptions;
- taxation related balances, in that judgement is required related to the recognition of deferred tax assets;
- revenue recognition for a variety of income streams;
- estimates of provisions where significant judgements are required; and
- the appropriate recognition of bond issuance.

### **Audit results**

#### *Summary of audit findings*

**6.674** Audit coverage of the key areas of audit focus did not identify any new significant or moderate audit issues.

**6.675** A moderate audit issue raised during 2011–12 relating to the impairment of infrastructure assets that is discussed below has been resolved.

### *Resolved audit issue*

#### Impairment of infrastructure assets

**6.676** The ANAO's 2011–12 audit identified a number of errors in the methodology underpinning ARTC's impairment and revaluation model in respect of infrastructure assets. ARTC agreed to undertake a comprehensive review of the methodology, including developing additional checks, both mathematical and reasonableness-based, strengthening the documentation and review process, and introducing processes to assess the reasonableness of the model inputs.

**6.677** During 2012–13, the ANAO reviewed the work undertaken by ARTC. This review confirmed that ARTC had introduced a well documented approach to the assumptions and calculations used within the model. The revised approach also provides for appropriate levels of management review. As a result this issue is considered to be resolved.

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

### **Audit results**

#### *Summary of audit findings*

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

# Parliamentary Departments

| Reporting Entity                           | Material Entity | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit issues identified |
|--|-----------------|--------------------------|----------------------------------|------------------------------|-------------------------|
| Department of Parliamentary Services       | Yes             | ✓                        | 9 Oct 13                         | 10 Oct 13                    |                         |
| Department of the House of Representatives | No              | ✓                        | 27 Sept 13                       | 2 Oct 13                     |                         |
| Department of the Senate                   | No              | ✓                        | 14 Oct 13                        | 14 Oct 13                    |                         |
| Parliamentary Budget Office                | No              | ✓                        | 10 Oct 13                        | 10 Oct 13                    |                         |

✓: auditor's report not modified

## Portfolio Overview

**6.679** The parliamentary departments are responsible for supporting the Australian Parliament.

**6.680** The Department of Parliamentary Services is responsible for ensuring the occupants of Parliament House are supported by integrated services and facilities, that Parliament functions effectively, and that its work and building are accessible to the public.

**6.681** The Department of the House of Representatives (DHoR) provides services to support the efficient conduct of the House of Representatives, its committees and certain joint committees, as well as a range of services for Members in Parliament House. DHoR also undertakes activities to promote the work of the House in the community and is responsible for the conduct of the Parliament's international and regional relations.

**6.682** The Department of the Senate (DoS) provides advisory and administrative support services to the Senate, its committees and Senators. DoS also conducts education programs and prepares publications to promote an understanding of the Senate and of parliamentary processes.

**6.683** The main function of the Parliamentary Budget Office is to provide independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of budget proposals.

## Department of Parliamentary Services

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 129.9          | 125.8          |
| Revenue from government                 | 101.2          | 103.6          |
| Surplus/(deficit) *                     | (28.8)         | (22.2)         |
| Total other comprehensive income/(loss) | 3.3            | 0.4            |
| Total comprehensive income/(loss)       | (25.5)         | (21.8)         |
| Total assets                            | 131.1          | 144.1          |
| Total liabilities                       | 29.0           | 26.2           |

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

**6.685** Assets largely decreased due to annual depreciation charges for non-financial assets.

**6.686** Fluctuations in other balances reflect normal business activities.

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

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 0.0            | 0.0            |
| Total expenses                  | 27.1           | 27.2           |
| Surplus/(deficit)               | (27.0)         | (27.1)         |
| Total assets                    | 2 226.1        | 2 155.5        |
| Total liabilities               | 0.7            | 1.1            |

**6.687** Assets increased mainly as a result of the revaluation of buildings and heritage and cultural assets.

**6.688** Fluctuations in other balances reflect normal business activities.



## Areas of audit focus

6.689 The ANAO's audit approach identified the following areas that were significant in terms of their potential impact on the 2012–13 financial statements:

- the valuation of administered land, buildings and heritage and cultural assets; and
- employee expenses and related provisions in light of the outsourcing arrangements of this function.

## Audit results

### *Summary of audit findings*

6.690 There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Comments on non-material entities

## Audit results

### *Summary of audit findings*

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

# Prime Minister and Cabinet Portfolio<sup>91</sup>

| Reporting Entity   | Material Entity | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit issues identified |
|--|-----------------|--------------------------|----------------------------------|------------------------------|-------------------------|
| Department of the Prime Minister and Cabinet                 | Yes             | ✓                        | 22 Aug 13                        | 22 Aug 13                    |                         |
| Australian Public Service Commission                         | No              | ✓L                       | 17 Sept 13                       | 18 Sept 13                   | ▲                       |
| National Australia Day Council Limited                       | No              | ✓                        | 23 Oct 13                        | 23 Oct 13                    |                         |
| National Mental Health Commission                            | No              | ✓                        | 27 Sept 13                       | 27 Sept 13                   |                         |
| Office of National Assessments                               | No              | ✓                        | 8 Oct 13                         | 8 Oct 13                     |                         |
| Office of the Commonwealth Ombudsman                         | No              | ✓                        | 13 Sept 13                       | 13 Sept 13                   |                         |
| Office of the Inspector-General of Intelligence and Security | No              | ✓                        | 3 Oct 13                         | 3 Oct 13                     |                         |
| Office of the Official Secretary to the Governor-General     | No              | ✓                        | 24 Sept 13                       | 24 Sept 13                   |                         |

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

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

## Portfolio Overview

**6.692** As at 30 June 2013, the primary responsibilities of the Prime Minister and Cabinet (PM&C) portfolio comprised:

- advice to the Prime Minister across government on policy and implementation;
- work and family policy co-ordination;
- assistance to the Prime Minister in managing the Cabinet program;
- national security, counter terrorism and cyber policy;

91 As part of the MOG changes on 18 September 2013, the responsibilities of the Portfolio have changed.

- intergovernmental relations and communications with State and Territory Governments;
- providing policy advice on social inclusion, the non-profit sector and volunteering activities;
- coordination of government administration;
- Australian Government employment workplace relations policy, including equal employment opportunity and administration of the framework for agreement making and remuneration and conditions;
- Australian honours and symbols policy; and
- government ceremonial and hospitality.

## Department of the Prime Minister and Cabinet

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 128.6          | 181.9          |
| Revenue from government                 | 121.0          | 171.4          |
| Surplus/(deficit) *                     | (7.6)          | (10.5)         |
| Total other comprehensive income/(loss) | 0.1            | 0.0            |
| Total comprehensive income/(loss)       | (7.5)          | (10.5)         |
| Total assets                            | 59.8           | 66.5           |
| Total liabilities                       | 39.7           | 39.2           |

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

**6.694** The reduction in the net cost of services and revenue from government is as result of: the transfer in December 2011 of the arts and culture and sport and recreation functions to the then Department of Regional Australia, Local Government, Arts and Sports; and the cessation of the Commonwealth Heads of Government Meeting (CHOGM) taskforce at the conclusion of the CHOGM meeting held in 2011–12.

6.695 Fluctuations in other balances reflect normal business activities.

*Items administered on behalf of the Australian Government*

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 0.1            | 2.7            |
| Total expenses                  | 15.9           | 616.5          |
| Surplus/(deficit)               | (15.8)         | (613.8)        |
| Total assets                    | 3.0            | 2.9            |
| Total liabilities               | 13.9           | 14.9           |

6.696 The reduction in expenses was mainly due to the Machinery of Government changes referred to above. The transfer of functions resulted in a \$451.9 million reduction in payments to *Commonwealth Authorities and Companies Act 1997* bodies and a \$142.9 million reduction in grants.

6.697 Fluctuations in other balances reflect normal business activities.

### Areas of audit focus

6.698 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on PM&C's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the management and financial reporting of human resource expenditure, given it is material to the financial statements and some minor issues have been reported in the past; and
- the recognition of commitments relating to Australia's hosting of the Group of 20 meeting in 2014.

### Audit results

#### *Summary of audit findings*

6.699 Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Comments on non-material entities

### Audit results

#### *Summary of audit findings*

**6.700** There were no significant or moderate audit issues or significant legislative matters noted in non-material entities within the portfolio except in relation to the Australian Public Service Commission.

#### *Australian Public Service Commission*

Actual and potential breaches of section 83 of the Constitution

**6.701** During 2012–13, the Australian Public Service Commission (APSC) undertook a further review to determine the risk of payments being made in breach of section 83 of the Constitution from the special appropriations and special accounts for which it is administratively responsible.

**6.702** In 2012–13 additional advice was also received that indicated that under certain circumstances payments of long service leave, goods and service tax and payments made under determinations of the Remuneration Tribunal would result in section 83 breaches. The APSC has advised it intends to undertake a risk assessment to determine the level of risk of non-compliance in the circumstances mentioned in this additional advice in 2013–14.

**6.703** The risk assessment and subsequent analysis undertaken in 2012–13 identified one breach of section 83 totalling \$3 278 in relation to payments under the *Remuneration Tribunal Act 1973*. This amount has been recovered.

**6.704** In 2012–13 amendments were made to the *Remuneration Tribunal Act 1973* as part of the *Financial Framework Legislative Amendment Act No. 2 2013* that are designed to reduce the risk of future payments being made in breach of section 83 to low.

**6.705** The auditor's report on the APSC's 2012–13 financial statements included a report on other legal and regulatory requirements referring to the breaches identified. This is not a qualification or modification to the audit opinion on the APSC's financial statements, as the financial statements fairly presented the financial operations and position of the APSC at year end.

**6.706** The APSC has undertaken to continue to monitor its level of compliance with section 83 of the Constitution across all legislation for which it is administratively responsible.

**6.707** Full details of the breaches identified during 2012–13 are outlined in Note 20 of the APSC’s 2012–13 financial statements, and a general discussion of this matter is at paragraphs 5.27 to 5.40 in chapter 5 of this report.

# Regional Australia, Local Government, Arts and Sport Portfolio<sup>92</sup>

| Reporting Entity   | Material Entity | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit issues identified |
|--|-----------------|--------------------------|----------------------------------|------------------------------|-------------------------|
| Department of Regional Australia, Local Government, Arts and Sport | Yes             | ✓                        | 30 Aug 13                        | 30 Aug 13                    |                         |
| Australia Business Arts Foundation Limited                         | No              | ✓                        | 28 Oct 13                        | 28 Oct 13                    |                         |
| Australia Council  | No              | ✓                        | 23 Aug 13                        | 23 Aug 13                    |                         |
| Australian Film, Television and Radio School                       | No              | ✓                        | 30 Aug 13                        | 30 Aug 13                    |                         |
| Australian National Maritime Foundation                            | No              | ✓                        | 28 Aug 13                        | 28 Aug 13                    |                         |
| Australian National Maritime Museum                                | No              | ✓                        | 28 Aug 13                        | 28 Aug 13                    | ▲                       |
| Australian Sports Anti-Doping Authority                            | No              | ✓L                       | 9 Sept 13                        | 9 Sept 13                    | ◆                       |
| Australian Sports Commission                                       | Yes             | ✓                        | 15 Aug 13                        | 15 Aug 13                    |                         |
| Australian Sports Foundation Limited                               | No              | ✓                        | 15 Aug 13                        | 15 Aug 13                    |                         |
| Bundanon Trust   | No              | ✓                        | 24 Sept 13                       | 24 Sept 13                   |                         |
| National Archives of Australia                                     | Yes             | ✓                        | 6 Sept 13                        | 6 Sept 13                    |                         |
| National Capital Authority   | Yes             | ✓                        | 2 Sept 13                        | 2 Sept 13                    |                         |
| National Film and Sound Archive of Australia                       | No              | ✓                        | 27 Sept 13                       | 28 Sept 13                   | ◆                       |
| National Gallery of Australia                                      | Yes             | ✓                        | 28 Aug 13                        | 29 Aug 13                    | □                       |
| National Gallery of Australia Foundation                           | No              | ✓                        | 28 Aug 13                        | 29 Aug 13                    |                         |
| National Library of Australia                                      | Yes             | ✓                        | 2 Aug 13                         | 5 Aug 13                     |                         |
| National Museum of Australia                                       | Yes             | ✓                        | 29 Aug 13                        | 29 Aug 13                    |                         |
| Old Parliament House   | No              | ✓                        | 16 Aug 13                        | 16 Aug 13                    |                         |
| Screen Australia   | No              | ✓                        | 3 Sept 13                        | 3 Sept 13                    |                         |

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

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

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

□: significant or moderate issues and/or legislative matters identified in previous periods, or the 2012–13 interim audit phase, now downgraded or resolved

92 The portfolio was abolished and portfolio entities, except the Department of Regional Australia, Local Government, Arts and Sport, were transferred to other portfolios as part of the MOG changes of 18 September 2013.

## Portfolio Overview

6.708 During 2012–13, the portfolio supported the Government's commitment to improve the social, economic and environmental outcomes for Australia's regions and to provide oversight and management of the sport and recreation and arts and culture functions. As at 30 June 2013, the portfolio was responsible for:

- regional Australia policy and coordination;
- delivery of regional and territory specific services and programs;
- matters relating to local government, including financial assistance grants to councils and shires;
- planning and land management in the Australian Capital Territory;
- administration of the Jervis Bay Territory, the Territory of Cocos (Keeling) Islands, the Territory of Christmas Island, the Coral Sea Islands Territory, the Territory of Ashmore and Cartier Islands, and the Commonwealth responsibilities on Norfolk Island;
- constitutional development of the Northern Territory and the Australian Capital Territory;
- sports and recreation;
- cultural affairs, including movable cultural heritage and support for the arts; and
- management of government records.



## Department of Regional Australia, Local Government, Arts and Sport<sup>93</sup>

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 102.5          | 90.2           |
| Revenue from government                 | 99.7           | 84.6           |
| Surplus/(deficit) *                     | (2.8)          | (5.6)          |
| Total other comprehensive income/(loss) | 1.7            | 2.5            |
| Total comprehensive income/(loss)       | (1.1)          | (3.1)          |
| Total assets                            | 208.5          | 207.7          |
| Total liabilities                       | 41.0           | 49.3           |

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

**6.710** The increase in the net cost of services and revenue from government reflects that 2012–13 was the first full year of operation of the Arts and Sport functions within the department. The functions were transferred to the Department of Regional Australia, Local Government, Arts and Sport (the department) in February 2012.

**6.711** Liabilities decreased due to a reduction in trade and other payables at year end related to shared service arrangements provided by other agencies.

**6.712** Fluctuations in other balances reflect normal business activities.

93 The department was abolished and its functions transferred to other entities as part of the MOG changes of 18 September 2013.

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

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 60.0           | 41.2           |
| Total expenses                  | 3 514.7        | 3 611.8        |
| Surplus/(deficit)               | (3 454.7)      | (3 570.6)      |
| Total assets                    | 8 974.6        | 8 927.9        |
| Total liabilities               | 60.8           | 25.9           |

**6.713** Own-source income increased mainly due to; contributions from the states and territories for the hosting of the Asian Cup, increased activity within the regional territories for provision of services during the year and refunds received in respect of grants paid by the department in prior years, in situations where recipients did not adequately acquit their grant responsibilities.

**6.714** Administered expenses decreased primarily due to a \$560 million reduction in financial assistance grants as a result of payments being brought forward and paid in 2011–12, compared to 2012–13. This decrease was partially offset by a \$440 million increase in payments to CAC Act bodies reflecting the departments' responsibility for administered entities transferred to the portfolio during 2012–13.

**6.715** Fluctuations in other balances reflect normal business activities.

### **Areas of audit focus**

**6.716** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the department's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the effectiveness of internal controls designed to ensure the accurate and complete processing of transactions undertaken on behalf of the department by the then Department of Infrastructure and Transport, and the Department of the Prime Minister and Cabinet, in accordance with shared services arrangements;
- control activities and financial reporting arrangements in respect of areas which are particularly significant to the financial statements including large grant programs administered by the department and non-financial assets held in dispersed locations; and

- the completeness of administered revenue in view of the decentralised activities administered by the department across regional Australia.

## Audit results

### *Summary of audit findings*

6.717 Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Australian Sports Commission

### Summary of financial results

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

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 272.9          | 276.8          |
| Revenue from government                 | 267.7          | 268.7          |
| Surplus/(deficit)                       | (5.2)          | (8.1)          |
| Total other comprehensive income/(loss) | 15.8           | 34.1           |
| Total comprehensive income/(loss)       | 10.7           | 26.0           |
| Total assets                            | 343.8          | 331.6          |
| Total liabilities                       | 29.7           | 28.2           |

6.719 The movements in total other comprehensive income, total comprehensive income and assets are largely attributable to the annual valuation of assets undertaken in 2012–13 that resulted in the increase in the value of the assets not being as significant as in 2011–12.

6.720 Fluctuations in other balances reflect normal business activities.

### Areas of audit focus

6.721 The ANAO’s audit approach identified particular areas of audit focus that have the potential to impact on the commission’s financial statements. The approach to assessing the value of land and buildings, and property, plant and equipment was highlighted for specific audit coverage in 2012–13.

## Audit results

### Summary of audit findings

6.722 Audit coverage of this key area of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## National Archives of Australia

### Summary of financial results

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

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 56.6           | 70.0           |
| Revenue from government                 | 57.0           | 55.5           |
| Surplus/(deficit) *                     | 0.4            | (14.5)         |
| Total other comprehensive income/(loss) | (2.2)          | 60.8           |
| Total comprehensive income/(loss)       | (1.7)          | 46.3           |
| Total assets                            | 1 486.4        | 1 483.0        |
| Total liabilities                       | 20.8           | 21.3           |

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

6.724 The National Archives of Australia's (NAA) surplus for the 2012–13 year was an improvement on the previous year, mainly due to increased revenue associated with heritage and cultural assets acquired at no cost, and decreased depreciation charges in respect of revalued heritage and cultural assets.

6.725 Other comprehensive income decreased as a result of the impairment of collection assets in 2012–13, compared to a revaluation increment in the previous year.

### Areas of audit focus

6.726 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the NAA's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- valuation of heritage and cultural assets;
- capitalisation, classification and valuation of non financial assets; and
- the useful life of computer software and the digitised collection.

## Audit results

### Summary of audit findings

6.727 Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## National Capital Authority

### Summary of financial results

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

#### Departmental items

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 16.1           | 15.1           |
| Revenue from government                 | 15.5           | 13.3           |
| Surplus/(deficit) *                     | (0.6)          | (1.8)          |
| Total other comprehensive income/(loss) | 0.2            | 0.4            |
| Total comprehensive income/(loss)       | (0.4)          | (1.4)          |
| Total assets                            | 19.2           | 21.9           |
| Total liabilities                       | 4.5            | 7.3            |

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

6.729 Liabilities decreased mainly due to decreased funds received in advance for the construction of memorials in Canberra.

6.730 Fluctuations in other balances reflect normal business activities.

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

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 4.3            | 2.3            |
| Total expenses                  | 21.0           | 23.0           |
| Surplus/(deficit)               | (16.7)         | (20.7)         |
| Total assets                    | 798.9          | 801.3          |
| Total liabilities               | 19.3           | 17.7           |

**6.731** Fluctuations in other balances reflect normal business activities.

### **Areas of audit focus**

**6.732** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Authority's financial statements. Areas highlighted for specific audit coverage in 2012–13 were non-financial assets, employee benefits and contingent liabilities as they were material to the administered accounts.

### **Audit results**

#### *Summary of audit findings*

**6.733** Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## National Gallery of Australia

### Summary of financial results

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

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 41.8           | 33.0           |
| Revenue from government                 | 32.8           | 32.6           |
| Surplus/(deficit) *                     | (9.0)          | (0.4)          |
| Total other comprehensive income/(loss) | 32.7           | 403.8          |
| Total comprehensive income/(loss)       | 23.7           | 403.4          |
| Total assets                            | 4 969.0        | 4 927.0        |
| Total liabilities                       | 13.8           | 11.8           |

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

6.735 The net cost of services increased due to a reduction in own source income as a result of reduced sponsorship and donations to the Gallery.

6.736 The National Gallery's heritage and cultural assets were subject to a full valuation in 2011–12. A partial valuation was undertaken in 2012–13, resulting in decreases in total other comprehensive income and total comprehensive income.

6.737 Fluctuations in other balances reflect normal business activities.

### Areas of audit focus

6.738 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Gallery's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- valuation of the Gallery's art collection; and
- valuation of land and building due to the complexity of the valuation process.

## Audit results

### Summary of audit findings

**6.739** Audit coverage of the key areas of audit focus did not identify any new significant or moderate audit issues.

**6.740** A moderate audit issue raised during 2011–12 relating to the valuation of heritage and cultural assets that is discussed below has been resolved.

### Resolved audit issue

#### Valuation of heritage and cultural assets

**6.741** The 2011–12 audit identified deficiencies in the quality assurance process performed by the Gallery over the independent valuation of heritage and cultural assets. During 2012–13, the Gallery developed and implemented a robust quality assurance process, resolving this issue.

## National Library of Australia

### Summary of financial results

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

| Key financial measures for year (consolidated) | 2012–13<br>\$m | 2011–12<br>\$m |
|--|----------------|----------------|
| Net cost of services                           | 59.2           | 58.8           |
| Revenue from government                        | 49.7           | 49.0           |
| Surplus/(deficit) *                            | (9.6)          | (9.8)          |
| Total other comprehensive income/(loss)        | 5.4            | 86.8           |
| Total comprehensive income/(loss)              | (4.2)          | 77.0           |
| Total assets                                   | 1 800.3        | 1 793.7        |
| Total liabilities                              | 18.1           | 17.2           |

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

**6.743** The National Library of Australia (the Library) is responsible for the National Collection (the collection). The collection was valued in 2011–12 and the increase in the value of the collection resulted in significant increases in the balances of total other comprehensive income. Total comprehensive income also increased significantly in 2011–12. The collection was not valued in



2012–13, and accordingly, there were no valuation adjustments associated with the collection that affected these balances in 2012–13.

**6.744** Fluctuations in other balances reflect normal business activities.

### **Areas of audit focus**

**6.745** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Library's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the National Collection— this is a significant balance in the financial statements and requires judgement in assessing the value;
- revenue—the Library has a number of revenue streams that are material to the financial statements;
- property, plant and equipment—given the balance is subject to estimates and judgements; and
- intangible non-financial assets—considering the application of AASB 138 *Intangible Assets* as the Library is undertaking a project to replace their digital infrastructure.

### **Audit results**

#### *Summary of audit findings*

**6.746** Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## National Museum of Australia

### Summary of financial results

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

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 42.6           | 41.1           |
| Revenue from government                 | 40.9           | 40.3           |
| Surplus/(deficit) *                     | (1.7)          | (0.8)          |
| Total other comprehensive income/(loss) | 10.3           | 12.5           |
| Total comprehensive income/(loss)       | 8.5            | 11.8           |
| Total assets                            | 452.5          | 441.6          |
| Total liabilities                       | 10.3           | 9.9            |

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

6.748 During 2012–13, interest revenue decreased due to lower interest rates and a reduction in the balance of term deposits. The National Museum of Australia (the Museum) accessed some of the funds held in term deposits for a number of asset construction projects. These factors resulted in an increase in the deficit in 2012–13.

6.749 Fluctuations in other balances reflect normal business activities.

### Areas of audit focus

6.750 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Museum's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the value of land and buildings and heritage and cultural assets – as these balances are significant to the financial statements and subject to estimates and judgements; and
- accounting for capital projects – to assess compliance with AASB 116 *Property, Plant and Equipment* given the nature of the Museum's display projects.

## Audit results

### *Summary of audit findings*

**6.751** Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Comments on non-material entities

### Audit results

#### *Summary of audit findings.*

**6.752** There were no other significant or moderate audit issues or significant legislative matters noted in non-material entities within the portfolio except in relation to the Australian Sports Anti-Doping Authority, Australian National Maritime Museum and National Film and Sound Archive.

#### *Australian Sports Anti-Doping Authority*

**6.753** The notes to the Australian Sports Anti-Doping Authority's (ASADA's) 2012–13 financial statements referred to a breach of section 83 of the Constitution in relation to payments made pursuant to the *Remuneration Tribunal Act 1973*.

**6.754** ASADA provides secretarial services to the Australian Sports Drug Medical Advisory Committee (ASDMAC) including making payments to committee members under the *Remuneration Tribunal Act 1973*. During 2012–13, ASADA processed overpayments of \$6 934 resulting from a delay in being advised about the resignation of a committee member. The overpayments were recovered in full.

**6.755** As a result, the auditor's report included a report on other legal and regulatory requirements referring to the breach identified. This is not a qualification or modification to the audit opinion on ASADA's financial statements, as the financial statements presented the financial operations and position of ASADA at year end.

#### *Australian National Maritime Museum*

**6.756** During the 2011–12 audit, the ANAO identified weaknesses in the process for assessing the useful life of the Australian National Maritime Museum's non-financial assets. During the 2012–13 audit, the ANAO identified that the Australian National Maritime Museum had taken steps to

address this matter, including the development of a draft policy. The policy had not been finalised at the time of the 2012–13 final audit phase and the ANAO will review progress in finalising this matter as part of the 2013–14 audit.

*National Film and Sound Archive*

**6.757** The National Film and Sound Archive (NFSA) is responsible for the national audiovisual collection that comprises more than 1.9 million items, with a value of approximately \$222 million. During 2010–11, NFSA transitioned to a new collection management system. In 2012–13, NFSA implemented a new collection reporting module within this system to simplify and streamline its financial reporting and valuation processes. During the 2012–13 audit, the ANAO identified weaknesses in NFSA’s change management and quality assurance processes during the implementation of this module that resulted in errors in the preparation of the financial statements. NFSA advised that corrective action would be taken to resolve this issue. The ANAO will review progress in finalising this matter as part of the 2013–14 audit.

# Resources, Energy and Tourism Portfolio<sup>94</sup>

| Reporting Entity  | Material Entity | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit issues identified |
|---|-----------------|--------------------------|----------------------------------|------------------------------|-------------------------|
| Department of Resources, Energy and Tourism                               | Yes             | ✓                        | 13 Sept 13                       | 13 Sept 13                   | □                       |
| Australian Renewable Energy Agency  | Yes             | ✓                        | 25 Sept 13                       | 25 Sept 13                   |                         |
| Australian Solar Institute Limited *                                      | No              | ✓                        | 22 Mar 13                        | 22 Mar 13                    |                         |
| Geoscience Australia  | No              | ✓                        | 30 Aug 13                        | 30 Aug 13                    |                         |
| National Offshore Petroleum Safety and Environmental Management Authority | No              | ✓                        | 9 Oct 13                         | 10 Oct 13                    | ◆                       |
| Tourism Australia   | No **           | ✓                        | 8 Aug 13                         | 8 Aug 13                     |                         |

✓: auditor's report not modified

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

□: significant or moderate issues and/or legislative matters identified in previous periods, or the 2012–13 interim audit phase, now downgraded or resolved

\* 31 December 2012 year end.

\*\* Tourism Australia is no longer considered material to the Consolidated Financial Statements.

## Portfolio Overview

**6.758** As at 30 June 2013, the Resources, Energy and Tourism portfolio consisted of the Department of Resources, Energy and Tourism (the department) and a range of statutory and non-statutory bodies. During 2012–13, the portfolio was responsible for improving the strength, competitiveness and sustainability of the resources, energy and tourism sectors.

**6.759** The Machinery of Government (MOG) changes of 25 March 2013 involved the transfer of the energy efficiency functions from the then Department of Climate Change and Energy Efficiency (DCCEE).

94 The portfolio was abolished as part of the MOG changes on 18 September 2013 and its responsibilities were transferred to other portfolios.

## Department of Resources, Energy and Tourism<sup>95</sup>

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 117.2          | 119.7          |
| Revenue from government                 | 116.7          | 114.5          |
| Surplus/(deficit) *                     | (0.5)          | (5.1)          |
| Total other comprehensive income/(loss) | 4.9            | 0.0            |
| Total comprehensive income/(loss)       | 4.4            | (5.1)          |
| Total assets                            | 82.8           | 41.1           |
| Total liabilities                       | 57.9           | 38.6           |

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

**6.761** The increase in assets and liabilities is mainly due to the MOG changes referred to in paragraph 6.759 above. The department received computer hardware and software and unspent funding from the former DCCEE as a result of these MOG changes. A revaluation of fit out assets in 2012–13 also contributed to the increase in assets and other comprehensive income.

**6.762** Liabilities increased primarily due to the result of increased information technology and corporate services costs associated with the transfer of the energy efficiency functions, and the costs of transition to a new ICT network.

**6.763** Fluctuations in other balances reflect normal business activities.

---

95 The department was abolished as part of the MOG changes on 18 September 2013 and its responsibilities transferred to other departments.

*Items administered on behalf of the Australian Government*

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 2 007.4        | 1 701.6        |
| Total expenses                  | 472.1          | 700.3          |
| Surplus/(deficit)               | 1 535.2        | 1 001.3        |
| Total assets                    | 876.4          | 983.8          |
| Total liabilities               | 53.6           | 6.3            |

**6.764** Administered own-sourced income increased due to higher petroleum royalties as a result of movements in exchange rates and the price of oil. There was also an increase in fees collected for petroleum exploration, retention leases and production licences in 2012–13.

**6.765** Administered expenses decreased as a result of the transfer of a number of grant programs to the Australian Renewable Energy Agency (ARENA), established on 1 July 2012, and the Coal Sector Jobs Package grant program that had no activity in 2012–13.

**6.766** Administered assets decreased with the closure of the Australian Solar Institute (ASI) in 2012–13 with its responsibilities transferred to ARENA. There was also a reduction in the value of the Commonwealth's investment in Snowy Hydro Limited (SHL).

**6.767** Administered liabilities increased as a result of the recognition of costs for home insulation inspections outstanding at 30 June 2013.

### **Areas of audit focus**

**6.768** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the department's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the valuation of the Commonwealth's investment in SHL that is recognised as an administered investment in the department's financial statements, in light of the complexity and volatility of the valuation and its material impact on the financial statements;
- revenue relating to petroleum royalties, given the volatility of the revenue streams that are generally managed by other government jurisdictions on behalf of the department and their material impact on the financial statements; and

- the accounting for MOG changes by the department with the transfer of the energy efficiency function from the former DCCEE.

## **Audit results**

### *Summary of audit findings*

**6.769** Audit coverage of the key areas of audit focus did not identify any new significant or moderate audit issues.

**6.770** The matters giving rise to the legislative breach relating to section 83 of the Constitution reported in 2011–12 has been resolved on the basis that the risk of breaches in 2012–13 has been assessed as low.

## **Australian Renewable Energy Agency**

**6.771** The Australian Renewable Energy Agency was established on 1 July 2012 under the *Australian Renewable Energy Agency Act 2011*. ARENA's key objectives are to improve the competitiveness of renewable energy technologies and increase the supply of renewable energy in Australia.

**6.772** ARENA's responsibilities include providing financial assistance for:

- the research, development, demonstration, deployment and commercialisation of renewable energy and related technologies; and
- the storage and sharing of knowledge and information about renewable energy technologies.



## Summary of financial results

6.773 The following table provides key financial statement balances. The accompanying commentary explains the key balances in the first year of operations.

| Key financial measures for year         | 2012–13<br>\$m |
|---|----------------|
| Net cost of services                    | 57.3           |
| Revenue from government                 | 59.6           |
| Surplus/(deficit)                       | 2.3            |
| Total other comprehensive income/(loss) | 0.0            |
| Total comprehensive income/(loss)       | 2.3            |
| Total assets                            | 8.3            |
| Total liabilities                       | 6.0            |

6.774 The 2012–13 balances mainly reflect ARENA's establishment costs and grant activities. Grant functions previously administered by the Australian Centre for Renewable Energy and RET were transferred to ARENA on its establishment whilst the Australian Solar Institute grant functions were transferred to ARENA on 1 January 2013.

## Areas of audit focus

6.775 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on ARENA's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the establishment of ARENA's governance arrangements, as a new entity; and
- grant transactions given their material impact to ARENA's financial statements.

## Audit results

### *Summary of audit findings*

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

## Comments on non-material entities

### Audit results

#### *Summary of audit findings*

**6.777** There were no significant or moderate audit issues or significant legislative matters noted in non-material entities within the portfolio except for the National Offshore Petroleum Safety and Environmental Management Authority.

#### *National Offshore Petroleum Safety and Environmental Management Authority*

**6.778** The 2012–13 final audit phase identified one moderate audit issue relating to deficiencies in the National Offshore Petroleum Safety and Environmental Management Authority's (the Authority's) Fraud Control Plan, and one instance of non-compliance with the *Financial Management and Accountability Act 1997*.

**6.779** The 2011 Commonwealth Fraud Control Guidelines (the Guidelines) establish the Commonwealth's fraud control policy framework. The development of a robust Fraud Control Plan should involve an integrated risk assessment process that includes the consideration of fraud risk factors at the strategic, operational and tactical level. The ANAO identified that the Authority's Risk Management Plan was not compliant with all requirements of the Guidelines, including the documentation of the approach to mitigating fraud at the various levels referred to above. This situation increased the risk of fraud factors not being identified and appropriate fraud mitigation strategies being effectively implemented.

**6.780** Section 46 of the *Financial Management and Accountability Act 1997* requires a Chief Executive to establish and maintain an audit committee. Following the departure of the independent member of the committee in 2011–12, the Authority did not re-establish the audit committee during 2012–13.

**6.781** The Authority has advised that action has commenced to address both these issues and progress will be reviewed as part of the 2013–14 audit.

# Sustainability, Environment, Water, Population and Communities Portfolio<sup>96</sup>

| Reporting Entity   | Material Entity | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit issues identified |
|--|-----------------|--------------------------|----------------------------------|------------------------------|-------------------------|
| Department of Sustainability, Environment, Water, Population and Communities | Yes             | ✓                        | 29 Aug 13                        | 31 Aug 13                    |                         |
| Bureau of Meteorology  | Yes             | ✓                        | 22 Aug 13                        | 23 Aug 13                    |                         |
| Director of National Parks   | No              | ✓                        | 27 Sept 13                       | 28 Sept 13                   |                         |
| Great Barrier Reef Marine Park Authority                                     | No              | ✓                        | 2 Sept 13                        | 2 Sept 13                    |                         |
| Murray-Darling Basin Authority   | No              | ✓                        | 30 Oct 13                        | 1 Nov 13                     |                         |
| National Environment Protection Council Service Corporation                  | No              | ✓                        | 11 Sept 13                       | 12 Sept 13                   |                         |
| National Water Commission  | No              | ✓                        | 16 Aug 13                        | 16 Aug 13                    |                         |
| Natural Heritage Trust of Australia Account                                  | No              | ✓                        | 29 Aug 13                        | 31 Aug 13                    |                         |
| Sydney Harbour Conservancy Limited   | No              | ✓                        | 16 Sept 13                       | 17 Sept 13                   |                         |
| Sydney Harbour Federation Trust  | No              | ✓                        | 16 Sept 13                       | 17 Sept 13                   |                         |

✓: auditor's report not modified

## Portfolio Overview

6.782 As at 30 June 2013, the portfolio consisted of the Department of Sustainability, Environment, Water, Population and Communities (the department) and a range of statutory and non-statutory bodies. During 2012–13, the department provided leadership on environment, water, heritage and sustainability matters with a national focus. The portfolio was also responsible for advancing Australia's interests in the Antarctic, the provision of meteorological services to the Australian community and supporting the Government's sustainable population strategy.

96 The portfolio became the Environment Portfolio as part of the MOG changes on 18 September 2013. The new portfolio assumed a number of functions from other portfolios as part of the MOG changes.

# Department of Sustainability, Environment, Water, Population and Communities <sup>97</sup>

## Summary of financial results

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

### *Departmental items*

| Key financial measures for year *       | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 478.9          | 595.1          |
| Revenue from government                 | 434.9          | 466.3          |
| Surplus/(deficit) *                     | (44.0)         | (128.8)        |
| Total other comprehensive income/(loss) | 29.4           | (36.9)         |
| Total comprehensive income/(loss)       | (14.6)         | (165.7)        |
| Total assets                            | 498.4          | 510.4          |
| Total liabilities                       | 529.9          | 552.5          |

\* The department's balance sheet position is referred to in the ANAO's analysis of entities' balance sheets at paragraphs 4.13 to 4.21 of chapter 4 of this report.

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

**6.784** The decrease in the net cost of services is largely due to a reduction in restoration expenses associated with Australian bases in Antarctica and a reduction in supplier expenses resulting from savings measures. The reduction in restoration expenses in Antarctica is largely attributable to an increase in the long term government bond rate, decreasing the value of the restoration provision.

**6.785** Fluctuations in other balances reflect normal business activities.

---

97 The department became the Department of the Environment and assumed responsibility for a number of additional functions as part of the MOG changes on 18 September 2013.

*Items administered on behalf of the Australian Government*

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 161.8          | 78.3           |
| Total expenses                  | 968.2          | 888.3          |
| Surplus/(deficit)               | (806.4)        | (810.0)        |
| Total assets                    | 2 993.1        | 3 044.9        |
| Total liabilities               | 30.2           | 42.0           |

**6.786** Own-source income increased significantly due to the introduction, from 1 July 2012, of a carbon price equivalent on the importation and manufacturing of synthetic greenhouse gases. The increase in expenses largely reflects the costs incurred in managing the new program on synthetic greenhouse gases and a write down in the value of water entitlements held by the department on behalf of the Commonwealth as at 30 June 2013.

**6.787** Fluctuations in other balances reflect normal business activities.

### Areas of audit focus

**6.788** The ANAO's audit approach identified particular areas of audit focus that had the potential to impact on the department's 2012–13 financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the methodology used by the department to value the water assets it holds on behalf of the Commonwealth;
- the model adopted by the department to estimate their obligation to restore the Antarctic bases, particularly the appropriateness of assumptions used;
- the financial management and reporting of grants, including those related to the Caring for Our Country program and the Sustainable Rural Water Use and Infrastructure program; and
- the revenue collections associated with the recently introduced carbon price equivalent on the importation and manufacturing of synthetic greenhouse gases.

## Audit results

### Summary of audit findings

6.789 There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Bureau of Meteorology

### Summary of financial results

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

#### Departmental items

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 279.3          | 277.7          |
| Revenue from government                 | 209.9          | 208.6          |
| Surplus/(deficit) *                     | (69.4)         | (69.1)         |
| Total other comprehensive income/(loss) | 0.0            | 0.0            |
| Total comprehensive income/(loss)       | (69.4)         | (69.1)         |
| Total assets                            | 497.7          | 516.9          |
| Total liabilities                       | 143.0          | 143.6          |

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

6.791 Fluctuations in all balances reflect normal business activities.

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

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 0.7            | 0.0            |
| Total expenses                  | 0.0            | 10.0           |
| Surplus/(deficit)               | 0.7            | (10.0)         |
| Total assets                    | 0.5            | 0.4            |
| Total liabilities               | 0.0            | 0.0            |

6.792 Expenses decreased due to the completion of the Improving Water Information program.

6.793 Fluctuations in other balances reflect normal business activities.

## Areas of audit focus

6.794 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Bureau of Meteorology's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- accounting for intangibles, in view of the complexity surrounding the capitalisation of internally generated software;
- accounting for inventory, including the determination of the account classification of spare parts and servicing equipment; and
- legislative compliance, particularly the implementation of measures designed to address the risk of a breach of section 83 of the Constitution.

## Audit results

### *Summary of audit findings*

6.795 Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Comments on non-material entities

## Audit results

### *Summary of audit findings*

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

# Treasury Portfolio

| Reporting Entity  | Material Entity | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit issues identified |
|---|-----------------|--------------------------|----------------------------------|------------------------------|-------------------------|
| Department of the Treasury                              | Yes             | ✓L                       | 3 Oct 13                         | 3 Oct 13                     | ▲                       |
| Australian Bureau of Statistics                         | Yes             | ✓                        | 9 Aug 13                         | 9 Aug 13                     | ◆                       |
| Australian Competition and Consumer Commission          | No              | ✓                        | 26 Aug 13                        | 26 Aug 13                    |                         |
| Australian Office of Financial Management               | Yes             | ✓                        | 26 Aug 13                        | 26 Aug 13                    |                         |
| Australian Prudential Regulation Authority              | No              | ✓                        | 3 Sept 13                        | 3 Sept 13                    |                         |
| Australian Reinsurance Pool Corporation                 | Yes             | ✓                        | 17 Sept 13                       | 17 Sept 13                   |                         |
| Australian Securities and Investments Commission        | Yes             | ✓L                       | 15 Aug 13                        | 15 Aug 13                    | ◆                       |
| Australian Taxation Office                              | Yes             | ✓                        | 18 Sept 13                       | 18 Sept 13                   |                         |
| Clean Energy Finance Corporation                        | Yes             | ✓                        | 20 Aug 13                        | 21 Aug 13                    |                         |
| Commonwealth Grants Commission                          | No              | ✓                        | 23 Sept 13                       | 23 Sept 13                   |                         |
| Corporations and Markets Advisory Committee             | No              | ✓                        | 2 Sept 13                        | 2 Sept 13                    |                         |
| Inspector-General of Taxation                           | No              | ✓                        | 2 Sept 13                        | 2 Sept 13                    |                         |
| National Competition Council                            | No              | ✓                        | 27 Aug 13                        | 27 Aug 13                    |                         |
| Office of the Auditing and Assurance Standards Board    | No              | ✓                        | 2 Sept 13                        | 2 Sept 13                    |                         |
| Office of the Australian Accounting Standards Board     | No              | ✓                        | 2 Sept 13                        | 2 Sept 13                    |                         |
| Productivity Commission                                 | No              | ✓L                       | 22 Aug 13                        | 23 Aug 13                    |                         |
| Reserve Bank of Australia                               | Yes             | ✓                        | 2 Sept 13                        | 2 Sept 13                    |                         |
| - Reserve Bank of Australia Note Printing Australia Ltd | No              | ✓                        | 25 July 13                       | 25 July 13                   |                         |
| Royal Australian Mint                                   | No              | ✓                        | 25 Oct 13                        | 25 Oct 13                    | ▲□                      |

✓: auditor's report not modified

L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

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

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

□: significant or moderate issues and/or legislative matters identified in previous periods, or the 2012–13 interim audit phase, now downgraded or resolved



## Portfolio Overview

**6.797** The Treasury portfolio consists of the Department of the Treasury and a range of statutory and non-statutory bodies. The portfolio undertakes a range of activities aimed at achieving strong sustainable economic growth and the improved wellbeing of Australians. This entails the provision of policy advice to portfolio Ministers and the effective implementation and administration of policies that fall within the portfolio Ministers' responsibilities.

## Department of the Treasury

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 185.3          | 183.1          |
| Revenue from government                 | 174.6          | 158.1          |
| Surplus/(deficit) *                     | (10.7)         | (25.0)         |
| Total other comprehensive income/(loss) | –              | 0.0            |
| Total comprehensive income/(loss)       | (10.7)         | (25.0)         |
| Total assets                            | 90.9           | 104.4          |
| Total liabilities                       | 53.8           | 49.5           |

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

**6.799** Revenue from government increased mainly as a result of additional funding received for the Clean Energy Finance Corporation, which commenced operation on 1 July 2013.

**6.800** Assets decreased due to the transfer of the Standard Business Reporting software to the Australian Taxation Office due to changed administrative arrangements effective from 11 April 2013.

**6.801** Fluctuations in other balances reflect normal business activities.

### Items administered on behalf of the Australian Government

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 3 089.2        | 5 758.1        |
| Total expenses                  | 81 436.6       | 86 868.5       |
| Surplus/(deficit)               | (78 347.3)     | (81 110.3)     |
| Total assets                    | 18 339.8       | 15 245.3       |
| Total liabilities               | 15 224.5       | 13 577.7       |

**6.802** Own-source income decreased significantly mainly due to one-off dividends from the Reserve Bank of Australia and the Australian Reinsurance Pool Corporation accrued during 2011–12 that were not accrued in 2012–13. There was also a decrease in monies received from other government agencies for payments under the Building Australia Fund and the Health and Hospitals Fund.

**6.803** Expenses decreased due to a reduction in monies paid to State and Territory Governments under the *Federal Financial Relations Act 2009* and a decrease in expenses under the Nation Building program.

**6.804** Assets increased mainly due to an increase in the value of the Australian Government's investment in the Reserve Bank of Australia.

**6.805** Liabilities increased due to an increase in the National Disaster Relief and Recovery Arrangements (NDRRA) provision for monies expected to be paid to States and Territories affected by natural disasters.

**6.806** Fluctuations in other balances reflect normal business activities.

### Areas of audit focus

**6.807** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Treasury's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the recognition and measurement of grant payments under the federal financial relations framework, as reflected in the *Federal Financial Relations Act 2009*, due to the Treasury's reliance on information provided by third parties, particularly other agencies;
- the methodology used to estimate the provision for the NDRRA due to the complex estimation process; and

- compliance with relevant aspects of the Commonwealth's financial framework and the implementation of measures designed to address the risk of a breach of section 83 of the Constitution, referred to in the 2011–12 financial statements.

**6.808** The ANAO continued to provide audit coverage of the following areas which have previously been identified as having a significant impact on the financial statements:

- the Treasury's administration of the guarantees of deposits and wholesale funding and the temporary and voluntary guarantees over State and Territory Government borrowings; and
- the valuation of the Treasury's financial investment in international financial institutions, in light of increased volatility experienced in overseas markets.

## **Audit results**

### *Summary of audit findings*

**6.809** The matters giving rise to the legislative breach raised in 2011–12 relating to section 83 of the Constitution that is discussed below remain unresolved.

### *Actual and potential breaches of section 83 of the Constitution*

**6.810** The 2011–12 financial statements included commentary on three groups of payments potentially in breach of section 83 of the Constitution. In 2012–13, the Treasury sought legal advice that confirmed the payments concerned breached section 83 of the Constitution. The Treasury has disclosed the breaches in Note 29 of the 2012–13 financial statements.

**6.811** During 2012–13, the Treasury also sought advice in respect of payments made to State and Territory Governments where National Partnership agreements contained specific terms and conditions that needed to be met prior to a payment being made. Section 7(2) of the *COAG Reform Fund Act 2008* requires that financial assistance is provided (and therefore that monies are debited from the COAG Reform Fund Special Account) in accordance with terms and conditions contained within the written agreements between the States and Territories and the Commonwealth. The advice confirmed that where monies were paid from the special account and terms and conditions had not been met, the payment could be in breach of section 83 of the

Constitution due to the specific wording of the COAG Reform Fund Special Account.

**6.812** The Treasury disclosed the risk of potential breaches of section 83 in relation to terms and conditions not being met under National Partnership agreements in Note 29 of the 2012–13 financial statements. A general discussion of this matter is at paragraphs 5.27 to 5.40 in chapter 5 of this report.

## Australian Bureau of Statistics

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year *       | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 355.1          | 584.6          |
| Revenue from government                 | 312.5          | 548.6          |
| Surplus/(deficit) **                    | (42.6)         | (35.9)         |
| Total other comprehensive income/(loss) | –              | 5.5            |
| Total comprehensive income/(loss)       | (42.6)         | (30.4)         |
| Total assets                            | 166.1          | 216.3          |
| Total liabilities                       | 139.5          | 165.7          |

\* The agency's balance sheet position is referred to in the ANAO's analysis of entities' balance sheets at paragraphs 4.13 to 4.21 of chapter 4 of this report.

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

**6.814** There was a significant reduction in operational activity in 2012–13 following the peak workload in 2011–12 relating to the August 2011 Census. As a result, there were significant decreases in the net cost of services, revenue from government, assets and liabilities.

**6.815** Fluctuations in other balances reflect normal business activities.

### Areas of audit focus

**6.816** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Australian Bureau of Statistics' (ABS)

financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the capitalisation of internally-generated software; and
- controls over the payroll processes, particularly in view of findings in previous years and the implementation of a new human resource management information system (HRMIS) in November 2012.

## **Audit results**

### *Summary of audit findings*

**6.817** One new moderate audit issue identified during 2012–13 relating to the monitoring of user access controls remains unresolved.

### *New audit issue*

HRMIS implementation — monitoring user access

**6.818** In November 2012, the ABS migrated its HRMIS system from an in-house system to a commercially available system, recognising that there were some processing issues that had not been resolved prior to the implementation date. As the new system went into production before all the issues were resolved, a significant number of manual processes had to be implemented. At year end, a number of issues remained unresolved relating to: the reconciliation of payroll disbursements to payments recorded in the bank account; and the need to make manual adjustments to correct errors in the leave liability reports produced by the HRMIS. This resulted in additional work being undertaken to ensure that the payroll data was complete and correctly recorded.

**6.819** In addition, the ABS designed user access privileges in the new system to allow duties to be properly segregated. The new system has the functionality to log user access, however, there was no formal process for monitoring access to detect any instances of unauthorised use. The ABS has advised that a formal process for monitoring user access for key roles was being implemented.

## Australian Office of Financial Management

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 8.9            | 9.3            |
| Revenue from government                 | 11.4           | 12.4           |
| Surplus/(deficit) *                     | 2.5            | 3.1            |
| Total other comprehensive income/(loss) | –              | –              |
| Total comprehensive income/(loss)       | 2.5            | 3.1            |
| Total assets                            | 29.6           | 26.7           |
| Total liabilities                       | 2.4            | 2.5            |

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

**6.821** Fluctuations in all balances reflect normal business activities.

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

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 1 121.5        | 1 412.7        |
| Total expenses                  | 12 237.3       | 11 420.9       |
| Surplus/(deficit)               | (11 115.8)     | (10 008.2)     |
| Total assets                    | 31 450.3       | 28 118.1       |
| Total liabilities               | 285 755.0      | 269 785.4      |

The AOFM also recognise a loss of \$297.0 million (2011–12 \$8.5 million) and a re-measurement gain of \$11 668.0 million (2011–12 re-measurement loss of \$20 565.8 million).

**6.822** Own-source income decreased due mainly to a decrease in interest revenue as a result of lower interest levels of residential mortgage backed securities and term deposits.

**6.823** Expenses increased due to more interest being paid during the year on a higher balance of commonwealth government securities.

**6.824** The increase in the deficit was due to the decrease in own-source income and the increase in expenses mentioned above.

**6.825** Assets increased as a result of an increase in the utilisation of short term deposits with the Reserve Bank of Australia.

**6.826** Liabilities increased due to an increase in commonwealth government securities issued during 2012–13.

**6.827** Fluctuations in other balances reflect normal business activities.

### **Areas of audit focus**

**6.828** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Australian Office of Financial Management's (AOFM) financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the complex fair value measurement of financial assets and liability securities;
- financial instrument presentation and disclosures, including the impact of AASB 7 *Financial Instruments: Disclosures* fair-value hierarchy and changes to AASB 139 *Financial Instruments: Recognition and Measurement*; and
- legislative compliance, particularly the implementation of measures designed to address the risk of breaches of section 83 of the Constitution.

**6.829** The ANAO continued to provide audit coverage of the following areas which have previously been identified as having a significant impact on the financial statements:

- the control environment and the establishment of adequate controls to enable compliance with aspects of relevant financial management legislation;
- the AOFM's management and control framework around the issuance of debt instruments including treasury bonds, treasury indexed bonds and treasury notes; and
- internal assurance activities, including the Certificate of Compliance process, and fraud prevention activities.

## Audit results

### Summary of audit findings

6.830 Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Australian Reinsurance Pool Corporation

### Summary of financial results

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

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total income                    | 166.5          | 173.2          |
| Total expenses                  | 94.0           | 89.7           |
| Operating result                | 72.5           | 83.5           |
| Total assets                    | 762.3          | 852.0          |
| Total liabilities               | 329.7          | 491.8          |

6.832 In 2011–12 the Australian Reinsurance Pool Corporation (the Corporation) recognised a liability for the dividend obligation of \$400 million to the Australian Government, payable over four years. In 2012–13, the Corporation paid the first dividend payment of \$175 million to the Australian Government. This has resulted in a reduction in the cash and liability balances.

6.833 Fluctuations in other balances reflect normal business activities.

### Areas of audit focus

6.834 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Corporation's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- exposure to the underwriting and claims handling risk associated with the occurrence of a declared terrorism incident;
- the recognition of accurate premium revenue and unearned premium revenues;



- investment activities being undertaken in accordance with legislative requirements; and
- reinsurance arrangements with third parties.

## Audit results

### *Summary of audit findings*

**6.835** Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Australian Securities and Investments Commission

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year         | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 394.2          | 349.7          |
| Revenue from government                 | 350.0          | 304.3          |
| Surplus/(deficit) *                     | (44.2)         | (45.5)         |
| Total other comprehensive income/(loss) | 0.0            | 2.7            |
| Total comprehensive income/(loss)       | (44.2)         | (42.7)         |
| Total assets                            | 305.0          | 320.1          |
| Total liabilities                       | 164.7          | 165.3          |

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

**6.837** The net cost of services increased as a result of reduced funding from the Companies Unclaimed Monies Special Account, which was abolished in December 2012. The Australian Securities and Investments Commission (ASIC) previously received funding from this special account for use on projects to improve regulation and reduce business costs. This funding is now received through an appropriation from government, which has shown a corresponding increase.

**6.838** Fluctuations in other balances reflect normal business activities.

## Items administered on behalf of the Australian Government

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 1 600.2        | 746.5          |
| Total expenses                  | 547.5          | 148.0          |
| Surplus/(deficit)               | 1 052.8        | 598.5          |
| Total assets                    | 111.4          | 106.1          |
| Total liabilities               | 521.3          | 79.6           |

**6.839** Own-source income increased as a result of changes to the *Banking Act 1959* and *Life Insurance Act 1995*, which have reduced the time period before monies are considered unclaimed and returned to the Consolidated Revenue Fund (CRF). In addition, monies previously held in the Companies and Unclaimed Monies Special Account, which was abolished on 5 December 2012, have been recognised as income on receipt into the CRF.

**6.840** Expenses and liabilities increased as a result of movements in the provision for unclaimed monies to recognise the likely increase in claims following the legislative changes mentioned above.

**6.841** Fluctuations in other balances reflect normal business activities.

### Areas of audit focus

**6.842** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on ASIC's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- administered revenues and receivables, to take into consideration the legislative changes mentioned above and the abolition of the Companies and Unclaimed Monies Special Account; and
- the capitalisation and valuation of intangible assets, as ASIC have a number of internally developed IT systems under development or being enhanced.

### Audit results

#### *Summary of audit findings*

**6.843** Audit coverage of the key areas of audit focus did not identify any new significant or moderate audit issues.

**6.844** A legislative breach identified during 2012–13 final audit phase relating to section 83 of the Constitution is discussed below.

*Actual breaches of section 83 of the Constitution*

**6.845** In 2012–13, the then Department of Finance and Deregulation issued guidance to agencies that indicated that in certain circumstances payments of long service leave, goods and services tax and payments under determinations of the Remuneration Tribunal would be in breach of section 83 of the Constitution.

**6.846** As at 30 June 2013, ASIC had identified one instance of a payment made in excess of amounts prescribed under determinations issued pursuant to the *Remuneration Tribunal Act 1973*. The 2012–13 payment made from the *Appropriation Act (No 1) 2012–13* totalled \$20 484 and breached section 83 of the Constitution. ASIC has implemented plans to recover the overpayment within the next 12 months.

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

**6.848** Full details of the breach identified during 2012–13 are outlined in Note 35 of ASIC's 2012–13 financial statements, and a general discussion of this matter is at paragraphs 5.27 to 5.40 in chapter 5 of this report.

## Australian Taxation Office

### Summary of financial results

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

#### *Departmental items*

| Key financial measures for year *       | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Net cost of services                    | 3 351.7        | 3 342.7        |
| Revenue from government                 | 3 248.1        | 3 131.0        |
| Surplus/(deficit) **                    | (103.9)        | (212.3)        |
| Total other comprehensive income/(loss) | 3.6            | 7.5            |
| Total comprehensive income/(loss)       | (100.3)        | (204.8)        |
| Total assets                            | 1 349.7        | 1 244.6        |
| Total liabilities                       | 1 228.1        | 1 212.1        |

\* The agency's balance sheet position is referred to in the ANAO's analysis of entities' balance sheets at paragraphs 4.13 to 4.21 of chapter 4 of this report.

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

**6.850** The small increase in the net cost of services is primarily due to an increase in supplier expenses as a result of increases in lease payments, contractors and legal costs, partially offset by a decrease in employee expenses due to reduced staff levels.

**6.851** Revenue from government increased due to increased funding for budget measures for tax compliance and superannuation reform advertising.

**6.852** The reduced deficit and associated total comprehensive loss is due to the increase in revenue from government mentioned above.

**6.853** Assets increased due to additional internally developed software, new leasehold improvements, the revaluation of plant and equipment, and an increase in appropriations unspent at year end, partially offset by a decrease in cash held at year end.

**6.854** Liabilities increased due to additional interest bearing liabilities of new properties, partially offset by a decrease in employee provisions.

*Items administered on behalf of the Australian Government*

| Key financial measures for year | 2012–13<br>\$m | 2011–12<br>\$m |
|---------------------------------|----------------|----------------|
| Total own-source income         | 320 244.0      | 307 440.0      |
| Total expenses                  | 17 487.0       | 15 084.0       |
| Surplus/(deficit)               | 303 501.0      | 292 453.0      |
| Total assets                    | 29 271.0       | 28 416.0       |
| Total liabilities               | 9 136.0        | 7 451.0        |

**6.855** Income tax revenue increased mainly due to larger collections in relation to income tax withholding due to increased employment in the mining and construction industries, as well as increases in company tax and goods and services tax collections.

**6.856** Administered expenses increased due to the write-down and impairment of assets, increases in personal benefits and subsidies.

**6.857** Administered assets increased due to increases in tax receivables and accrued GST revenues.

**6.858** Administered liabilities increased due to an increase in accrued personal benefits expenses and the initial provision for payment of unclaimed superannuation.

**6.859** Fluctuations in other balances reflect normal business activities.

### **Areas of audit focus**

**6.860** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the Australian Taxation Office's (ATO) financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the compliance programs in relation to the collection of taxation revenues, especially the ATO's risk management approach to compliance activities in a self-assessment and voluntary compliance regime;
- complex estimation and allocation processes associated with the reporting of taxation revenue, that involve the application of significant judgement and specialist knowledge;

- processes for estimating the impact of tax debt collectability on the amount included as taxation receivable balance at year end; and
- the ATO's reliance on IT business systems and associated processes, particularly in relation to system interfaces.

## **Audit results**

### *Summary of audit findings*

**6.861** Audit coverage of the key areas of audit focus did not identify any new significant or moderate audit issues.

**6.862** The matters giving rise to the legislative breach relating to section 83 of the Constitution that is discussed below have been resolved.

### *Actual and potential breaches of section 83 of the Constitution*

**6.863** The 2011–12 auditor's report on the ATO's financial statements referred to the notes to the financial statements that included a reference to 290 incorrect payments totalling \$4.9 million which were not fully supported by section 16 of the *Taxation Administration Act 1953*.

**6.864** The audit opinion on the financial statements was unmodified as the financial statements fairly presented the financial operations and position of the ATO at year end. However, the opinion did include a reference to the breach of section 83 of the Constitution under other legal and regulatory requirements.

**6.865** To address the risk of further breaches the *Financial Framework Legislation Amendments Act (No.2) 2012* made amendments to relevant taxation legislation with effect from 29 June 2012 which enables the Commissioner of Taxation to make overpayments in certain circumstances. No reference to this matter was made in the auditor's report on the 2012–13 financial statements. A general discussion of this matter is at paragraphs 5.27 to 5.40 in chapter 5 of this report.

## Clean Energy Finance Corporation

**6.866** The Clean Energy Finance Corporation (CEFC) was established on 3 August 2012 under the *Clean Energy Finance Corporation Act 2012*.

### Summary of financial results

**6.867** The following table provides key financial statement balances. The accompanying commentary explains key balances in the first year of operation.

| Key financial measures for year                   | 2012–13<br>\$m |
|---|----------------|
| Total income                                      | 18.5           |
| Total expenses                                    | 12.3           |
| Profit/(loss) after income tax                    | 6.2            |
| Total other comprehensive income after income tax | –              |
| Total comprehensive income                        | 6.2            |
| Total assets                                      | 65.0           |
| Total liabilities                                 | 58.5           |

**6.868** Initial Board appointments for the CEFC were made with effect from August 2012, while the Chief Executive Officer was appointed in November 2012. The Department of the Treasury provided assistance to the CEFC during the establishment phase and prior to the majority of staff appointments that were made in April 2013. The timing of staff appointments reflected increasing levels of activity in advance of the receipt of initial investment funding on 1 July 2013.

**6.869** Income is predominantly related to revenue from government for the establishment of the CEFC. Expenses include employee and supplier expenditure as well as concessional loan charges relating to three loan facilities established prior to 30 June 2013. Assets mainly consisted of a loan made late in 2012–13. Liabilities consisted mainly of a short-term promissory note issued as part of a delayed settlement arrangement in relation to the loan made in 2012–13.

### Areas of audit focus

**6.870** The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the CEFC's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- the expected integration of Low Carbon Australia Limited (LCAL) into CEFC together with the accounting treatment used by the Corporation to take on transferred balances and the relevant financial statement disclosures related to the integration of LCAL;
- the recognition, valuation and classification of the CEFC's investments and loans including the concessional components of any non-market rate loans entered into;
- the development of CEFC's governance framework; and
- legislative compliance.

**6.871** While the integration with LCAL did not eventuate during 2012–13, the transactions between the two entities were subject to specific audit focus. This included services provided by LCAL to the CEFC during the year, and the transfer of employees and the initial recognition of related employee provisions that occurred in April 2013.

**6.872** The ANAO concluded that appropriate disclosures had been made within the financial statements, and the preparation of the financial statements on a going concern basis was appropriate.

## **Audit results**

### *Summary of audit findings*

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



## Reserve Bank of Australia

### Summary of financial results

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

| Key financial measures for year                   | 2012–13<br>\$m | 2011–12<br>\$m |
|---|----------------|----------------|
| Total income                                      | 5 475.0        | 2 386.0        |
| Total expenses                                    | 1 162.0        | 1 310.0        |
| Profit/(loss) after income tax                    | 4 313.0        | 1 076.0        |
| Total other comprehensive income after income tax | (670.0)        | 454.0          |
| Total comprehensive income                        | 3 643.0        | 1 530.0        |
| Total assets                                      | 98 527.0       | 81 079.0       |
| Total liabilities                                 | 88 515.0       | 74 710.0       |

**6.875** Income increased significantly due to valuation gains on the holding of foreign currencies, partially offset by losses on the sale of domestic investments.

**6.876** Expenses decreased due to a decrease in interest paid, mainly reflecting the lower average domestic cash rate throughout the year.

**6.877** The above factors contributed to a significant profit in 2012–13.

**6.878** Total other comprehensive decreased largely as a result of a decline in the price of gold.

**6.879** Assets increased mainly due to the increase in the number of domestic securities held under repurchase agreements and valuation gains on foreign currency holdings.

**6.880** Liabilities increased due to an increase in Australian notes on issue and deposits held by the Reserve Bank of Australia (RBA) on behalf of the Australian Government.

**6.881** Fluctuations in other balances reflect normal business activities.

## Areas of audit focus

6.882 The ANAO's audit approach identified particular areas of audit focus that have the potential to impact on the RBA's financial statements. Areas highlighted for specific audit coverage in 2012–13 were:

- domestic operations, including overnight settlement accounts and holdings of bonds and securities, including under repurchase agreements, issued by the Australian Government, state central borrowing authorities, and banks;
- international foreign exchange operations including holdings of securities issued by governments including the USA, Germany, France, the Netherlands, Canada and Japan, and deposits with the Bank for International Settlements and other central banks;
- accounting for holdings of gold and gold lending operations to financial institutions participating in the gold market;
- accounting for the issuing and redeeming of currency notes in circulation;
- financial administration including the management and payment of suppliers and employees; and
- IT general and application controls as they relate to the financial statements.

6.883 Given the substantial movement in the value of the Australian dollar, the valuation of foreign investments and currency holdings has had a significant impact on the RBA's financial statements in recent years.

## Audit results

### *Summary of audit findings*

6.884 Audit coverage of the key areas of audit focus was finalised during the 2012–13 final audit phase. There were no significant or moderate audit issues arising from the 2011–12 or 2012–13 audits.

## Comments on non-material entities

### Audit results

#### *Summary of audit findings*

**6.885** There were no significant or moderate audit issues or significant legislative matters noted in non-material entities within the portfolio except in relation to the Royal Australian Mint (the Mint). The auditor's report on the financial statements of the Productivity Commission contained a report on other legal and regulatory requirements that is discussed below.

#### *Royal Australian Mint*

##### Resolved audit issue

**6.886** The ANAO identified a moderate audit finding during the 2012–13 interim audit phase regarding the calculation of labour rates and the incorrect application of these rates to the value of inventory. The Mint corrected this error during the final phase of the audit and as a result the issue has been resolved.

##### Outstanding audit issue

**6.887** During 2011–12, the ANAO identified a moderate audit finding in relation to the allocation of overhead costs in determining the value of inventory.

**6.888** The ANAO reviewed the costing model underpinning the Mint's inventory balances as part of the 2012–13 financial statement audit. The ANAO concluded that while some action had been taken to address the issue raised in 2011–12, there remained a number of weaknesses in the supporting documentation relating to key assumptions used in the model. In addition, the audit identified that improvements in the detailed policies and procedures supporting the costing model were required.

**6.889** These weaknesses resulted in a significant number of manual adjustments to the financial statements during the 2012–13 final audit phase. As a result, the finding remains outstanding.

**6.890** The Mint advised that it was actively working to resolve this issue.

## *Productivity Commission*

### Report on Other Legal and Regulatory Requirements

**6.891** During 2012–13, the Productivity Commission (the Commission) received advice that indicated in certain circumstances, payments for long service leave, goods and service tax and payments made under determinations of the Remuneration Tribunal could be in breach of section 83. The Commission has undertaken to review, in 2013–14, its processes and controls over payments for these items, to minimise the possibility for future breaches as a result of these payments.

**6.892** The auditor's report included a report on other legal and regulatory requirements referring to the disclosure in the financial statements. This is not a qualification or modification to the audit opinion on the Commission's financial statements, as the financial statements presented the financial operations and position of the Commission at year end.

**6.893** Details of this matter are outlined in Note 1 of the Commission's financial statements, and a general discussion of this matter is at paragraphs 5.27 to 5.40 in chapter 5 of this report.

---



Ian McPhee  
Auditor-General

Canberra ACT  
18 December 2013

# Appendices



## Appendix 1: Revised administrative arrangements as at 18 September 2013

The following table provides details of revised administrative arrangements for material entities contained in this report that took effect on 18 September 2013.

| Portfolio and departmental arrangements as at 30 June 2013  | Arrangements with effect from 18 September 2013  |
|---|--|
| <p><u>Agriculture, Fisheries and Forestry Portfolio</u></p> <ul style="list-style-type: none"> <li>• Department of Agriculture, Fisheries and Forestry</li> <li>• Grains Research and Development Corporation</li> </ul>  | <p><u>Agriculture Portfolio</u></p> <ul style="list-style-type: none"> <li>• Department of Agriculture</li> <li>• Grains Research and Development Corporation</li> </ul>   |
| <p><u>Attorney-General's Portfolio</u></p> <ul style="list-style-type: none"> <li>• Attorney-General's Department</li> <li>• Australian Customs and Border Protection Service (<i>to Immigration and Border Protection portfolio</i>)</li> <li>• Australian Federal Police</li> <li>• Australian Government Solicitor</li> <li>• Australian Security Intelligence Organisation</li> <li>• Family Court of Australia</li> <li>• High Court of Australia</li> </ul> | <p><u>Attorney-General's Portfolio</u></p> <ul style="list-style-type: none"> <li>• Attorney-General's Department</li> <li>• Australian Federal Police</li> <li>• Australian Government Solicitor</li> <li>• Australian Security Intelligence Organisation</li> <li>• Family Court and Federal Circuit Court</li> <li>• High Court of Australia</li> <li>• National Archives of Australia</li> <li>• National Gallery of Australia</li> <li>• National Library of Australia</li> <li>• National Museum of Australia</li> </ul> |
| <p><u>Broadband, Communications and the Digital Economy Portfolio</u></p> <ul style="list-style-type: none"> <li>• Department of Broadband, Communications and the Digital Economy</li> <li>• Australian Broadcasting Corporation</li> <li>• Australian Communications and Media Authority</li> <li>• Australian Postal Corporation</li> <li>• NBN Co Limited</li> <li>• Special Broadcasting Service Corporation</li> </ul>                                      | <p><u>Communications Portfolio</u></p> <ul style="list-style-type: none"> <li>• Department of Communications</li> <li>• Australian Broadcasting Corporation</li> <li>• Australian Communications and Media Authority</li> <li>• Australian Postal Corporation</li> <li>• NBN Co Limited</li> <li>• Special Broadcasting Service Corporation</li> </ul>   |
| <p><u>Defence Portfolio</u></p> <ul style="list-style-type: none"> <li>• Department of Defence</li> <li>• Department of Veterans' Affairs</li> <li>• Defence Materiel Organisation</li> <li>• Defence Housing Australia</li> <li>• Australian War Memorial</li> </ul>   | <p><u>Defence Portfolio</u></p> <ul style="list-style-type: none"> <li>• Department of Defence</li> <li>• Department of Veterans' Affairs</li> <li>• Defence Materiel Organisation</li> <li>• Defence Housing Australia</li> <li>• Australian War Memorial</li> </ul>  |

| Portfolio and departmental arrangements as at 30 June 2013  | Arrangements with effect from 18 September 2013  |
|---|--|
| <p><u>Education, Employment and Workplace Relations Portfolio</u></p> <ul style="list-style-type: none"> <li>• Department of Education, Employment and Workplace Relations (<i>abolished</i>)</li> <li>• Coal Mining Industry (Long Service Leave Funding) Corporation</li> <li>• Comcare</li> </ul>  | <p>Portfolio and department abolished</p> <p><u>Education Portfolio</u></p> <ul style="list-style-type: none"> <li>• Department of Education</li> <li>• Australian Research Council</li> </ul> <p><u>Employment Portfolio</u></p> <ul style="list-style-type: none"> <li>• Department of Employment</li> <li>• Coal Mining Industry (Long Service Leave Funding) Corporation</li> <li>• Comcare</li> </ul> |
| <p><u>Families, Housing, Communities Services and Indigenous Affairs Portfolio</u></p> <ul style="list-style-type: none"> <li>• Department of Families, Housing, Communities Services and Indigenous Affairs</li> <li>• Indigenous Business Australia (<i>to Prime Minister and Cabinet portfolio</i>)</li> </ul>   | <p><u>Social Services Portfolio</u></p> <ul style="list-style-type: none"> <li>• Department of Social Services</li> <li>• Department of Human Services</li> <li>• Australian Hearing</li> </ul>  |
| <p><u>Finance and Deregulation Portfolio</u></p> <ul style="list-style-type: none"> <li>• Department of Finance and Deregulation</li> <li>• Albury-Wodonga Development Corporation</li> <li>• ASC Pty Ltd</li> <li>• Australian Electoral Commission</li> <li>• Future Fund Management Agency and the Board of Guardians</li> <li>• Medibank Private Limited</li> </ul> | <p><u>Finance Portfolio</u></p> <ul style="list-style-type: none"> <li>• Department of Finance</li> <li>• Albury-Wodonga Development Corporation</li> <li>• ASC Pty Ltd</li> <li>• Australian Electoral Commission</li> <li>• Future Fund Management Agency and the Board of Guardians</li> <li>• Medibank Private Limited</li> </ul>  |
| <p><u>Foreign Affairs and Trade Portfolio</u></p> <ul style="list-style-type: none"> <li>• Department of Foreign Affairs and Trade</li> <li>• Australian Agency for International Development (AusAID) (<i>abolished</i>)</li> <li>• Australian Trade Commission (Austrade)</li> <li>• Export Finance and Insurance Corporation</li> </ul>                              | <p><u>Foreign Affairs and Trade Portfolio</u></p> <ul style="list-style-type: none"> <li>• Department of Foreign Affairs and Trade</li> <li>• Australian Trade Commission (Austrade)</li> <li>• Export Finance and Insurance Corporation</li> </ul>  |
| <p><u>Health and Ageing Portfolio</u></p> <ul style="list-style-type: none"> <li>• Department of Health and Ageing</li> <li>• National Blood Authority</li> <li>• National Health and Medical Research Council</li> </ul>   | <p><u>Health Portfolio</u></p> <ul style="list-style-type: none"> <li>• Department of Health</li> <li>• Australian Sports Commission</li> <li>• National Blood Authority</li> <li>• National Health and Medical Research Council</li> </ul>  |



| Portfolio and departmental arrangements as at 30 June 2013   | Arrangements with effect from 18 September 2013  |
|--|--|
| <u>Human Services Portfolio</u> <ul style="list-style-type: none"> <li>• Department of Human Services (<i>to Social Services portfolio</i>)</li> <li>• Australian Hearing (<i>to Social Services portfolio</i>)</li> </ul>   | Portfolio abolished  |
| <u>Immigration Portfolio</u> <ul style="list-style-type: none"> <li>• Department of Immigration and Citizenship</li> </ul>   | <u>Immigration and Border Protection Portfolio</u> <ul style="list-style-type: none"> <li>• Department of Immigration and Border Protection</li> <li>• Australian Customs and Border Protection Service</li> </ul>   |
| <u>Industry, Innovation, Climate Change, Science, Research and Tertiary Education Portfolio</u> <ul style="list-style-type: none"> <li>• Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education</li> <li>• Australian Nuclear Science and Technology Organisation</li> <li>• Australian Research Council (<i>to Employment portfolio</i>)</li> <li>• Clean Energy Regulator (<i>to Environment portfolio</i>)</li> <li>• Commonwealth Scientific and Industrial Research Organisation</li> </ul> | <u>Industry Portfolio</u> <ul style="list-style-type: none"> <li>• Department of Industry</li> <li>• Australian Nuclear Science and Technology Organisation</li> <li>• Australian Renewable Energy Agency</li> <li>• Commonwealth Scientific and Industrial Research Organisation</li> </ul>   |
| <u>Infrastructure and Transport Portfolio</u> <ul style="list-style-type: none"> <li>• Department of Infrastructure and Transport</li> <li>• Airservices Australia</li> <li>• Australian Rail Track Corporation Limited</li> </ul>   | <u>Infrastructure and Regional Development Portfolio</u> <ul style="list-style-type: none"> <li>• Department of Infrastructure and Regional Development</li> <li>• Airservices Australia</li> <li>• Australian Rail Track Corporation Limited</li> <li>• National Capital Authority</li> </ul> |
| <u>Parliamentary Departments</u> <ul style="list-style-type: none"> <li>• Department of Parliamentary Services</li> </ul>  | <u>Parliamentary Departments</u> <ul style="list-style-type: none"> <li>• Department of Parliamentary Services</li> </ul>  |
| <u>Prime Minister and Cabinet Portfolio</u> <ul style="list-style-type: none"> <li>• Department of Prime Minister and Cabinet</li> </ul>   | <u>Prime Minister and Cabinet Portfolio</u> <ul style="list-style-type: none"> <li>• Department of Prime Minister and Cabinet</li> <li>• Indigenous Business Australia</li> </ul>  |

| Portfolio and departmental arrangements as at 30 June 2013  | Arrangements with effect from 18 September 2013   |
|---|---|
| <p><u>Regional Australia, Local Government, Arts and Sport Portfolio</u></p> <ul style="list-style-type: none"> <li>• Department of Regional Australia, Local Government, Arts and Sport (<i>abolished</i>)</li> <li>• Australian Sports Commission (<i>to Health portfolio</i>)</li> <li>• National Archives of Australia (<i>to Attorney-General's portfolio</i>)</li> <li>• National Capital Authority (<i>to Infrastructure and Regional Development portfolio</i>)</li> <li>• National Gallery of Australia (<i>to Attorney-General's portfolio</i>)</li> <li>• National Library of Australia (<i>to Attorney-General's portfolio</i>)</li> <li>• National Museum of Australia (<i>to Attorney-General's portfolio</i>)</li> </ul> | Portfolio and department abolished  |
| <p><u>Resources, Energy and Tourism Portfolio</u></p> <ul style="list-style-type: none"> <li>• Department of Resources, Energy and Tourism (<i>abolished</i>)</li> <li>• Australian Renewable Energy Agency (<i>to Industry portfolio</i>)</li> </ul>   | Portfolio and department abolished  |
| <p><u>Sustainability, Environment, Water, Population and Communities Portfolio</u></p> <ul style="list-style-type: none"> <li>• Department of Sustainability, Environment, Water, Population and Communities</li> <li>• Bureau of Meteorology</li> </ul>  | <p><u>Environment Portfolio</u></p> <ul style="list-style-type: none"> <li>• Department of Environment</li> <li>• Bureau of Meteorology</li> <li>• Clean Energy Regulator</li> </ul>  |
| <p><u>Treasury Portfolio</u></p> <ul style="list-style-type: none"> <li>• Department of the Treasury</li> <li>• Australian Bureau of Statistics</li> <li>• Australian Office of Financial Management</li> <li>• Australian Reinsurance Pool Corporation</li> <li>• Australian Securities and Investments Commission</li> <li>• Australian Taxation Office</li> <li>• Clean Energy Finance Corporation</li> <li>• Reserve Bank of Australia</li> </ul>   | <p><u>Treasury Portfolio</u></p> <ul style="list-style-type: none"> <li>• Department of the Treasury</li> <li>• Australian Bureau of Statistics</li> <li>• Australian Office of Financial Management</li> <li>• Australian Reinsurance Pool Corporation</li> <li>• Australian Securities and Investments Commission</li> <li>• Australian Taxation Office</li> <li>• Clean Energy Finance Corporation</li> <li>• Reserve Bank of Australia</li> </ul> |

Source: ANAO analysis.

## Appendix 2: Changes in audit responsibilities in 2012–13

The following is a listing of new entities in 2012–13 and entities that ceased to be audited by the Auditor-General in 2012–13.

### **New entities audited in 2012–13**

Australia Post Transaction Services Pty Ltd<sup>98</sup>  
Australian Renewable Energy Agency  
Clean Energy Finance Corporation  
Climate Change Authority  
Ikara Wilpena Enterprises Pty Ltd  
Ikara Wilpena Holdings Trust  
Indigenous Economic Development Trust  
Li Ar Yalug Land Holding Trust  
Minjerribah Camping Partnership  
Moorebank Intermodal Company Limited  
National Health Funding Body  
North Stradbroke Enterprises Trust  
Parliamentary Budget Office  
Synchrotron Light Source Australia Pty Ltd  
Telecommunications Universal Service Management Agency  
Wilpena Pound Aerodrome Services Pty Ltd

### **Entities that ceased to be audited by the Auditor-General**

Anderleigh Enterprises Pty Ltd  
Anderleigh Holdings Trust

---

98 In 2012–13, the Australian Postal Corporation (APC) obtained a class order which allowed the subsidiaries of APC (Decipha Pty Ltd, Post Logistics Australasia Pty Ltd, SecurePay Pty Ltd, AUX Investments Pty Ltd and Australia Post Digital Mailbox Pty Ltd) to be consolidated into the reporting entity, Australia Post Transaction Services Pty Ltd.

Army Amenities Fund<sup>99</sup>  
Decipha Pty Ltd  
Department of Climate Change and Energy Efficiency  
HIH Claims Support Limited  
HIH Claims Support Trust  
Messses Trust Fund<sup>100</sup>  
Mungo Lodge Pty Ltd  
National Native Title Tribunal  
Office of the Australian Building and Construction Commissioner  
Office of the Renewable Energy Regulator  
Post Logistics Australasia Pty Ltd  
Royal Australian Air Force Central Welfare Trust Fund<sup>101</sup>  
SBS Subscription TV Ltd  
SecurePay Pty Ltd

---

99 The entity has adopted AASB 127 *Consolidated and Separate Financial Statements* for the first time, which requires the Army Amenities Fund and the Messses Trust Fund to be consolidated into the reporting entity, AAF Company.

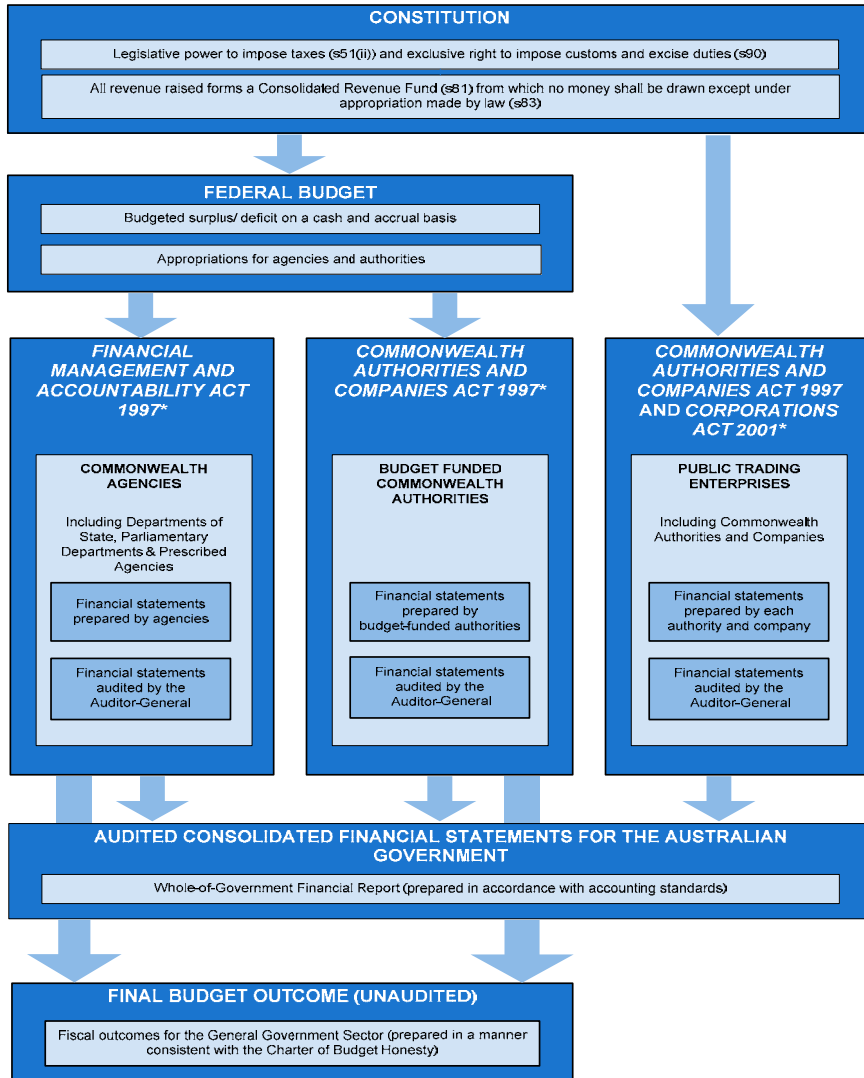
100 *ibid.*

101 The entity has adopted AASB 127 *Consolidated and Separate Financial Statements* for the first time, which requires the Royal Australian Air Force Central Welfare Trust Fund to be consolidated into the reporting entity, Royal Australian Air Force Welfare.

## Appendix 3: The Financial Reporting Framework

Key elements of the Australian Government’s financial reporting framework are outlined in the diagram below. An overview of the financial reporting requirements for the various types of Australian Government entities covered by the framework and the audit approach for the financial statements of these entities is also described below.

### Key Elements of the Financial Reporting Framework



Source: ANAO.

\* Australian Government entities, other than Corporations Act companies, reported their 2012–13 financial statements under the *Financial Management and Accountability Act 1997* or the *Commonwealth Authorities and Companies Act 1997*. These two Acts will be replaced by the *Public Governance Performance and Accountability 2013*, which was passed by the Parliament in June 2013, and will come into substantive effect on or before 1 July 2014.

## **Commonwealth Government of Australia**

Section 55 of the FMA Act requires the Finance Minister to prepare annual financial statements for the Commonwealth Government of Australia. These financial statements are a general purpose financial report consolidating the financial activities and financial position of all agencies, authorities and other entities controlled by the Commonwealth Government.

### **Australian Government agencies**

Australian Government agencies, comprising departments of state, parliamentary departments and prescribed agencies, are subject to the provisions of the FMA Act.

The FMA Act prescribes the FMOs as the applicable financial reporting framework for agencies. The FMOs include a requirement that the financial statements comply with the Australian Accounting Standards (AASs) issued by the AASB.

### **Commonwealth authorities and subsidiaries**

Commonwealth authorities are bodies corporate that hold money on their own account and have been created by the Parliament to perform specific functions. Commonwealth authorities operate under their own enabling legislation and also must comply with relevant provisions of the CAC Act.

The CAC Act prescribes the FMOs as the applicable financial reporting framework for Commonwealth authorities. The financial reporting framework applicable to subsidiaries of Commonwealth authorities depends on the nature of the subsidiary.

### **Commonwealth companies and subsidiaries**

Commonwealth companies are companies that are controlled by the Australian Government through majority share holdings or voting rights, or via control over the composition of the company's board. Commonwealth companies operate and prepare financial statements under the Corporations Act.

The applicable financial reporting framework for Commonwealth companies is the Corporations Act, including the AASs and the Corporations Regulations.

The financial reporting framework applicable to subsidiaries of Commonwealth companies depends on the nature of the subsidiary.

## Other bodies

The ANAO also audits the financial statements of other bodies under 'by arrangement' provisions in section 20 of the *Auditor-General Act 1997*. These bodies consist primarily of trusts or joint ventures entered into by Commonwealth bodies.

## Audit of Australian Government entity financial statements

### Audit scope

The Chief Executives of agencies, and the directors of authorities and companies, are responsible for the preparation and presentation of the financial statements and for maintaining records, internal controls, procedures and processes that support the preparation of those statements. The ANAO's independent audits of financial statements are undertaken to form an opinion whether the financial statements are free from material misstatement.

The audits are conducted in accordance with the ANAO Auditing Standards, which incorporate the Australian Auditing Standards (ASAs), to provide reasonable assurance as to whether the financial statements are free of material misstatement.

Audit procedures include examination of the entity's records and its internal control, information systems, control procedures and statutory disclosure requirements. Evidence supporting the amounts and other information in the statements is examined on a test basis, and accounting policies and significant accounting estimates are evaluated.

The entity's internal control relevant to the entity's preparation and fair presentation of the financial statements is considered in order to design audit procedures that are appropriate in the circumstances. In some audits, audit procedures concentrate primarily on substantiating the amounts appearing in the financial statements and do not include detailed testing of systems and internal controls.

The primary responsibility for the prevention and detection of fraud and error rests with both those charged with the governance and the management of an entity. An audit conducted in accordance with ASAs is designed to provide reasonable assurance that the financial statements, taken as a whole, is free from material misstatement, whether due to fraud or error. The fact that an

audit is carried out may act as a deterrent to fraud. However, the auditor is not responsible for the prevention of fraud and error.

## **The auditor's report on financial statements**

The ANAO auditor's report on the financial statements includes a statement of the auditor's opinion as to whether the financial statements give a true and fair view of the entity's financial position, the results of its financial operations and its cash flows in accordance with the applicable financial reporting framework.

If the auditor is not satisfied that the financial statements are true and fair, the auditor's opinion is modified, with the reasons being indicated.

The auditor's report on the financial statements will include the auditor's opinion and may include an 'emphasis of matter' or 'other matters' paragraphs. A report on other legal and regulatory requirements may accompany the auditor's report on the financial statements.

### *Form of auditor's opinion*

An auditor's opinion is described as 'unmodified' when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

An auditor's opinion may be 'modified' in one of three ways.

- A 'modified opinion' is expressed when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in aggregate, are material but not pervasive to the financial statements. A 'modified opinion' is also expressed when the auditor, having been unable to obtain sufficient appropriate audit evidence, concludes that the possible effects on the financial statements of undetected misstatements could be material but not pervasive.
- A 'disclaimer of opinion' is expressed when the auditor, having been unable to obtain sufficient appropriate audit evidence on which to base the opinion, concludes that the possible effects on the financial statements of undetected misstatements could be both material and pervasive.
- An 'adverse opinion' is expressed when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements individually or in aggregate, are both material and pervasive to the financial statements.



### *Emphasis of matter*

An 'emphasis of matter' paragraph is included in the auditor's report when the auditor considers it necessary to draw to users' attention a matter presented in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to the users' understanding of the financial statements. The auditor's opinion is not modified in respect of the matter emphasised. The circumstances in which an emphasis of matter is used include:

- when material uncertainty exists relating to an event or condition that may cast significant doubt on an entity's ability to continue as a going concern;
- when financial statements and the auditor's report have been issued and a fact is discovered that leads to revised financial statements and a new auditor's report being prepared; and
- when financial statements have been prepared in accordance with a special purpose framework, and as a result the financial statements may not be suitable for another purpose.<sup>102</sup>

### *Other matters*

The auditor's report on the financial statements may also include a reference to 'other matters'. This allows the auditor to communicate a matter other than a matter that is presented or disclosed in the financial statements that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

### *Report on other legal and regulatory requirements*

The auditor's report on the financial statements may also include a report on other legal and regulatory requirements. This report covers matters that the Auditor-General is required by law to report on in conjunction with the financial statements audit that do not affect the truth and fairness of the financial statements.

For example, section 57 of the FMA Act requires that, where the Auditor-General is of the opinion that a Chief Executive has contravened

---

102 Under the ASAs, the Auditor-General is required to include an emphasis of matter where a special purpose framework is adopted. Auditor's reports which include this mandatory requirement have not been included in this report.

section 48<sup>103</sup> of the FMA Act, the Auditor-General must state in the auditor's report, the particulars of the contravention.

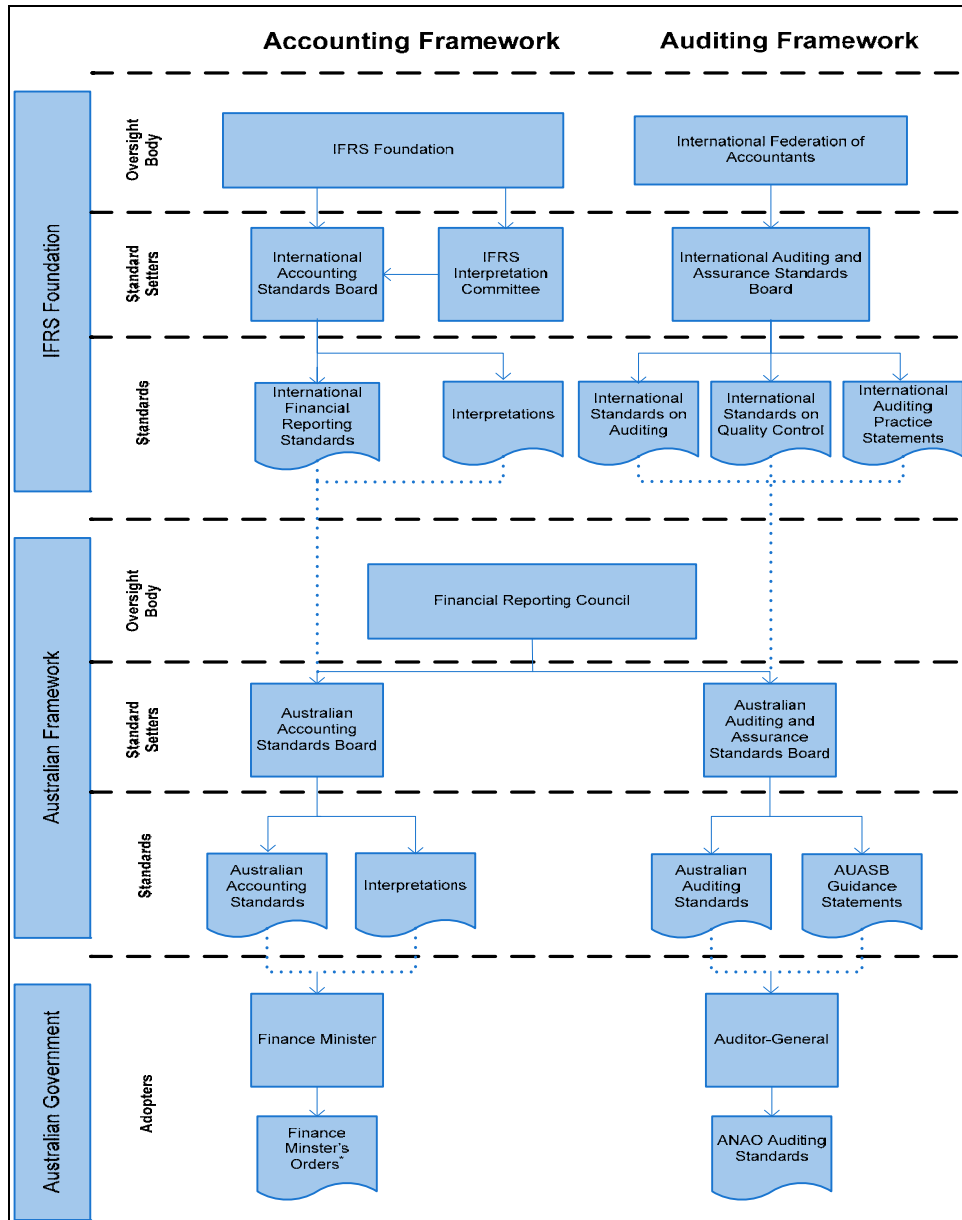
A report on other legal and regulatory requirements may also be used to draw attention to other legislative issues such as issues relating to agencies' compliance with section 83 of the Constitution.

---

103 Section 48 of the FMA Act requires the Chief Executive to keep proper accounts and records.

## Appendix 4: The Financial Reporting and Auditing Standards Frameworks

The figure below depicts the standard setting framework, for financial reporting and auditing, in the Australian Government context.



Source: ANAO.

\* Finance Minister's Orders applied to financial reporting by most Australian Government entities for 2012–13. In future years, financial reporting by these entities is expected to be governed instead by rules made under the *Public Governance, Performance and Accountability Act 2013*.

## Appendix 5: Number of Audit Findings

**Table A.1: Results reported in ANAO Audit Report No. 49 2012–13**

Significant, moderate and L1 findings, at the conclusion of the 2012–13 interim phase, for agencies included in the interim audit report, ANAO Audit Report No. 49 2012–13. This report covers the following 24 agencies that represent some 95 per cent of total GGS revenues and expenses.

| Entity  | 2012–13 Rating |     |    | 2011–12 Rating |    |    |
|---|----------------|-----|----|----------------|----|----|
|   | A              | B   | L1 | A              | B  | L1 |
| Department of Agriculture, Fisheries and Forestry   | –              | –   | –  | –              | –  | –  |
| Attorney–General's Department   | –              | 1   | 1  | –              | –  | –  |
| Australian Customs and Border Protection Service  | –              | 3   | –  | 1              | 3  | –  |
| Department of Broadband, Communications and the Digital Economy                               | –              | –   | –  | –              | –  | –  |
| Department of Defence   | –              | 9   | 1  | –              | 13 | –  |
| Defence Materiel Organisation   | –              | 2   | –  | –              | 1  | –  |
| Department of Veterans' Affairs   | –              | 4   | 2  | –              | 6  | –  |
| Department of Education, Employment and Workplace Relations                                   | –              | 1   | 1  | –              | 1  | –  |
| Department of Families, Housing, Community Services and Indigenous Affairs                    | –              | –   | 1  | –              | –  | –  |
| Department of Finance and Deregulation  | –              | –   | 1  | –              | –  | –  |
| Future Fund Management Agency and the Board of Guardians                                      | –              | –   | –  | –              | –  | –  |
| Department of Foreign Affairs and Trade   | –              | –   | –  | –              | –  | –  |
| Department of Health and Ageing   | –              | –   | 1  | –              | –  | –  |
| Department of Human Services  | –              | 2   | 1  | –              | 2  | –  |
| Department of Immigration and Citizenship   | –              | –   | –  | –              | 1  | –  |
| Department of Infrastructure and Transport  | –              | –   | –  | –              | 1  | –  |
| Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education* | –              | 1** | 1  | –              | –  | –  |
| Department of the Prime Minister and Cabinet  | –              | –   | –  | –              | –  | –  |
| Department of Regional Australia, Local Government, Arts and Sport                            | –              | –   | –  | –              | –  | –  |
| Department of Resources, Energy and Tourism   | –              | –   | –  | –              | –  | –  |
| Department of Sustainability, Environment, Water, Population and Communities                  | –              | –   | –  | –              | –  | –  |
| Department of the Treasury  | –              | –   | 1  | –              | 3  | –  |
| Australian Office of Financial Management   | –              | –   | –  | –              | –  | –  |
| Australian Taxation Office  | –              | –   | –  | –              | –  | 1  |
| <b>Total</b>  | –              | 23  | 11 | 1              | 31 | 1  |

Source: ANAO.

\* Formerly the Department of Industry, Innovation, Science, Research and Tertiary Education.

\*\* A category B finding was raised for the Department of Climate Change and Energy Efficiency which remained unresolved at the closing of the 2011–12 final audit phase. Climate Change functions were transferred to the Department of Industry, Innovation, Science, Research and Tertiary Education as a result of MOG changes on 25 March 2013.

**Table A.2: Results reported for all material entities in 2012–13**

Significant, moderate and L1 findings of material entities, grouped by portfolio, at the conclusion of the final audit phase of the 2012–13 audits.

| Entity   | 2012–13 Rating |          |          | 2011–12 Rating |           |          |
|--|----------------|----------|----------|----------------|-----------|----------|
|  | A              | B        | L1*      | A              | B         | L1*      |
| Department of Agriculture, Fisheries and Forestry                          | –              | –        | –        | –              | –         | <b>1</b> |
| Grains Research and Development Corporation                                | –              | –        | –        | –              | –         | –        |
| Attorney–General's Department  | –              | –        | <b>1</b> | –              | –         | <b>1</b> |
| Australian Customs and Border Protection Service                           | –              | <b>1</b> | <b>1</b> | –              | <b>3</b>  | <b>1</b> |
| Australian Federal Police  | –              | –        | –        | –              | –         | –        |
| Australian Government Solicitor  | –              | –        | –        | –              | –         | –        |
| Australian Security Intelligence Organisation                              | –              | –        | –        | –              | –         | –        |
| Family Court of Australia  | –              | <b>1</b> | –        | –              | –         | –        |
| High Court of Australia  | –              | –        | –        | –              | –         | –        |
| Department of Broadband, Communications and the Digital Economy            | –              | –        | –        | –              | <b>1</b>  | –        |
| Australian Broadcasting Corporation  | –              | –        | –        | –              | –         | –        |
| Australian Communications and Media Authority                              | –              | –        | –        | –              | –         | –        |
| Australian Postal Corporation  | –              | <b>2</b> | –        | –              | <b>1</b>  | –        |
| NBN Co Limited   | –              | <b>2</b> | –        | –              | <b>2</b>  | –        |
| Special Broadcasting Service Corporation                                   | –              | –        | –        | –              | –         | –        |
| Department of Defence  | –              | <b>8</b> | <b>1</b> | –              | <b>10</b> | <b>1</b> |
| Australian War Memorial  | –              | –        | –        | –              | –         | –        |
| Defence Housing Australia  | –              | –        | –        | –              | –         | –        |
| Defence Materiel Organisation  | –              | <b>1</b> | –        | –              | <b>2</b>  | –        |
| Department of Veterans' Affairs  | –              | <b>2</b> | <b>2</b> | –              | <b>5</b>  | <b>2</b> |
| Department of Education, Employment and Workplace Relations                | –              | <b>1</b> | <b>1</b> | –              | –         | <b>1</b> |
| Coal Mining Industry (Long Service Leave Funding) Corporation              | –              | –        | –        | –              | –         | –        |
| Comcare  | –              | –        | –        | –              | –         | –        |
| Department of Families, Housing, Community Services and Indigenous Affairs | –              | –        | <b>1</b> | –              | –         | <b>1</b> |
| Indigenous Business Australia  | –              | –        | –        | –              | –         | –        |
| Department of Finance and Deregulation                                     | –              | <b>1</b> | <b>1</b> | –              | –         | <b>1</b> |
| Albury-Wodonga Development Corporation                                     | –              | –        | –        | –              | –         | –        |
| ASC Pty Ltd  | –              | –        | –        | –              | –         | –        |
| Australian Electoral Commission  | –              | –        | –        | –              | <b>1</b>  | –        |
| Future Fund Management Agency and the Board of Guardians                   | –              | –        | –        | –              | –         | –        |
| Medibank Private Limited   | –              | –        | –        | –              | –         | –        |
| Department of Foreign Affairs and Trade                                    | –              | –        | –        | –              | –         | –        |
| Australian Agency for International Development (AusAID)                   | –              | –        | –        | –              | –         | <b>1</b> |
| Australian Trade Commission (Austrade)                                     | –              | –        | –        | –              | –         | –        |
| Export Finance and Insurance Corporation                                   | –              | –        | –        | –              | –         | –        |
| Department of Health and Ageing  | –              | –        | <b>1</b> | –              | –         | <b>1</b> |
| National Blood Authority   | –              | –        | –        | –              | –         | –        |

| Entity   | 2012–13 Rating |           |           | 2011–12 Rating |           |           |
|--|----------------|-----------|-----------|----------------|-----------|-----------|
|  | A              | B         | L1*       | A              | B         | L1*       |
| National Health and Medical Research Council   | –              | –         | –         | –              | –         | –         |
| Department of Human Services   | –              | 1         | 1         | –              | 2         | 1         |
| Australian Hearing   | –              | –         | –         | –              | –         | –         |
| Department of Immigration and Citizenship  | –              | –         | 2         | –              | –         | –         |
| Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education | –              | –         | 1         | –              | 1**       | 1         |
| Australian Nuclear Science and Technology Organisation                                       | –              | –         | –         | –              | –         | –         |
| Australian Research Council  | –              | –         | –         | –              | –         | –         |
| Clean Energy Regulator   | –              | –         | –         | –              | –         | –         |
| Commonwealth Scientific and Industrial Research Organisation                                 | –              | –         | –         | –              | –         | –         |
| Department of Infrastructure and Transport   | –              | –         | –         | –              | –         | 1         |
| Airservices Australia  | –              | –         | –         | –              | –         | –         |
| Australian Rail Track Corporation Limited  | –              | –         | –         | –              | 1         | –         |
| Department of Parliamentary Services   | –              | –         | –         | –              | –         | –         |
| Department of the Prime Minister and Cabinet   | –              | –         | –         | –              | –         | –         |
| Department of Regional Australia, Local Government, Arts and Sport                           | –              | –         | –         | –              | –         | –         |
| Australian Sports Commission   | –              | –         | –         | –              | –         | –         |
| National Archives of Australia   | –              | –         | –         | –              | –         | –         |
| National Capital Authority   | –              | –         | –         | –              | –         | –         |
| National Gallery of Australia  | –              | –         | –         | –              | 1         | –         |
| National Library of Australia  | –              | –         | –         | –              | –         | –         |
| National Museum of Australia   | –              | –         | –         | –              | –         | –         |
| Department of Resources, Energy and Tourism  | –              | –         | –         | –              | –         | 1         |
| Australian Renewable Energy Agency   | –              | –         | –         | –              | –         | –         |
| Department of Sustainability, Environment, Water, Population and Communities                 | –              | –         | –         | –              | –         | –         |
| Bureau of Meteorology  | –              | –         | –         | –              | –         | –         |
| Department of the Treasury   | –              | –         | 1         | –              | –         | 1         |
| Australian Bureau of Statistics  | –              | 1         | –         | –              | –         | –         |
| Australian Office of Financial Management  | –              | –         | –         | –              | –         | –         |
| Australian Reinsurance Pool Corporation  | –              | –         | –         | –              | –         | –         |
| Australian Securities and Investments Commission   | –              | –         | 1         | –              | –         | –         |
| Australian Taxation Office   | –              | –         | –         | –              | –         | 1         |
| Clean Energy Finance Corporation   | –              | –         | –         | –              | –         | –         |
| Reserve Bank of Australia  | –              | –         | –         | –              | –         | –         |
| <b>Total</b>   | –              | <b>21</b> | <b>15</b> | –              | <b>30</b> | <b>17</b> |

\* In 2012–13 there were 13 L1 findings (2011–12: 16) relating to actual and potential breaches of section 83 of the Constitution.

\*\* The issue relates to a finding transferred from the former DCCEE in relation to privileged user access.

**Table A.3: Findings reported for all non-material entities in 2012–13**

Significant, moderate and L1 findings of non-material entities grouped by portfolio at the conclusion of the final audit phase of the 2012–13 audits.

| Entity  | 2012–13 Rating |          |          | 2011–12 Rating |          |          |
|---|----------------|----------|----------|----------------|----------|----------|
|   | A              | B        | L1*      | A              | B        | L1*      |
| Attorney–General's Portfolio  |                |          |          |                |          |          |
| Federal Circuit Court of Australia  | –              | 1        | –        | –              | –        | –        |
| Federal Court of Australia  | –              | 2        | –        | –              | 2        | –        |
| Insolvency and Trustee Service Australia                                  | –              | –        | –        | –              | –        | 2        |
| Defence Portfolio   |                |          |          |                |          |          |
| Royal Australian Navy Canteen Board                                       | –              | –        | –        | –              | 1        | –        |
| Families, Housing, Community Services and Indigenous Affairs Portfolio    |                |          |          |                |          |          |
| Aboriginals Benefit Account   | –              | –        | 1        | –              | –        | 1        |
| Anindilyakwa Land Council   | –              | –        | 1        | –              | –        | –        |
| Northern Land Council   | –              | 1        | –        | –              | –        | –        |
| Wreck Bay Aboriginal Community Council                                    | –              | 1        | –        | –              | 1        | –        |
| Finance and Deregulation Portfolio  |                |          |          |                |          |          |
| Commonwealth Superannuation Corporation                                   | –              | –        | –        | –              | 2        | –        |
| ComSuper  | –              | –        | 1        | –              | –        | 1        |
| Prime Minister and Cabinet Portfolio                                      |                |          |          |                |          |          |
| Australian Public Service Commission                                      | –              | –        | 1        | –              | –        | 1        |
| Regional Australia, Local Government Arts and Sport Portfolio             |                |          |          |                |          |          |
| Australian National Maritime Museum                                       | –              | 1        | –        | –              | 1        | –        |
| Australian Sports Anti-Doping Authority                                   | –              | –        | 1        | –              | –        | –        |
| National Film and Sound Archive   | –              | 1        | –        | –              | –        | –        |
| Resources, Energy and Tourism Portfolio                                   |                |          |          |                |          |          |
| National Offshore Petroleum Safety and Environmental Management Authority | –              | 1        | 1        | –              | –        | –        |
| Treasury Portfolio  |                |          |          |                |          |          |
| Royal Australian Mint   | –              | 1        | –        | –              | 1        | –        |
| <b>Total</b>  | <b>–</b>       | <b>9</b> | <b>6</b> | <b>–</b>       | <b>8</b> | <b>5</b> |

\* In 2012–13 there were four L1 findings (2011–12: four) relating to actual and potential breaches of section 83 of the Constitution.

## Series Titles

---

### **ANAO Audit Report No.1 2013–14**

*Design and Implementation of the Liveable Cities Program*

Department of Infrastructure and Transport

### **ANAO Audit Report No.2 2013–14**

*Administration of the Agreements for the Management, Operation and Funding of the Mersey Community Hospital*

Department of Health and Ageing

Department of Health and Human Services, Tasmania

Tasmanian Health Organisation – North West

### **ANAO Audit Report No.3 2013–14**

*AIR 8000 Phase 2 – C-27J Spartan Battlefield Airlift Aircraft*

Department of Defence

### **ANAO Audit Report No.4 2013–14**

*Confidentiality in Government Contracts: Senate Order for Departmental and Agency Contracts (Calendar Year 2012 Compliance)*

Across Agencies

### **ANAO Audit Report No.5 2013–14**

*Administration of the Taxation of Personal Services Income*

Australian Taxation Office

### **ANAO Audit Report No.6 2013–14**

*Capability Development Reform*

Department of Defence

### **ANAO Audit Report No.7 2013–14**

*Agency Management of Arrangements to Meet Australia's International Obligations*

Across Agencies

### **ANAO Audit Report No.8 2013–14**

*The Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland*

Department of Infrastructure and Regional Development

ANAO Audit Report No.13 2013–14

Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2013



**ANAO Audit Report No.9 2013–14**

*Determination and Collection of Financial Industry Levies*  
Australian Prudential Regulation Authority  
Department of the Treasury

**ANAO Audit Report No.10 2013–14**

*Torres Strait Regional Authority – Service Delivery*  
Torres Strait Regional Authority

**ANAO Audit Report No.11 2013–14**

*Delivery of the Filling the Research Gap under the Carbon Farming Futures Program*  
Department of Agriculture

**ANAO Report No.12 2013–14**

*2012–13 Major Projects Report*  
Defence Materiel Organisation

**ANAO Audit Report No.13 2013–14**

*Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2013*  
Across Agencies

## Current Better Practice Guides

---

The following Better Practice Guides are available on the ANAO website.

|   |            |
|---|------------|
| Implementing Better Practice Grants Administration  | Dec. 2013  |
| Preparation of Financial Statements by Public Sector Entities   | June 2013  |
| Human Resource Management Information Systems – Risks and Controls  | June 2013  |
| Public Sector Internal Audit  | Sept. 2012 |
| Public Sector Environmental Management  | Apr. 2012  |
| Developing and Managing Contracts – Getting the right outcome, achieving value for money  | Feb. 2012  |
| Public Sector Audit Committees  | Aug. 2011  |
| Fraud Control in Australian Government Entities   | Mar. 2011  |
| Strategic and Operational Management of Assets by Public Sector Entities – Delivering agreed outcomes through an efficient and optimal asset base | Sept. 2010 |
| Planning and Approving Projects – an Executive Perspective  | June 2010  |
| Innovation in the Public Sector – Enabling Better Performance, Driving New Directions   | Dec. 2009  |
| SAP ECC 6.0 – Security and Control  | June 2009  |
| Business Continuity Management – Building resilience in public sector entities  | June 2009  |
| Developing and Managing Internal Budgets  | June 2008  |
| Agency Management of Parliamentary Workflow   | May 2008   |
| Fairness and Transparency in Purchasing Decisions – Probity in Australian Government Procurement  | Aug. 2007  |
| Administering Regulation  | Mar. 2007  |
| Implementation of Program and Policy Initiatives – Making implementation matter   | Oct. 2006  |



