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Financial Statements Audit

Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2018

Australian National Audit Office

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Australian National
Audit Office

Canberra ACT

17 December 2018

Dear Mr President
Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1997*, I have undertaken the audits of the financial statements of Australian Government entities and examinations and inspections of the accounts and records of those entities. The report is titled *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2018*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

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

Yours sincerely

Grant Hehir
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT 2600

AUDITING FOR AUSTRALIA

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

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Auditor-General reports and information about the ANAO are available on our website: http://www.anao.gov.au

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Executive summary

1. The primary purpose of financial statements is to provide relevant and reliable information to users about a reporting entity's financial position. In the public sector, the users of financial statements include ministers, the Parliament and the community. 'The objectives of a financial statements audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework. The audit mandate, or obligations for public sector entities, arising from legislation, regulation, ministerial directives, or government policy requirements may result in additional objectives'.[1]

2. The ANAO applies these objectives in undertaking financial statements audits and considers areas that may give rise to risks of non-compliance with reporting obligations or risks relating to effectiveness of internal control when planning and performing the audit.

3. The preparation of timely and accurate audited financial statements is also an important indicator of the effectiveness of an entity's financial management, which fosters confidence in an entity on the part of users.

4. This report provides a summary of the results of the final audits of the financial statements of Australian Government entities and the consolidated financial statements (CFS) as at 30 November 2018. These audit results have been reported to the responsible minister(s) and those charged with governance of each entity.

Consolidated financial statements

5. The CFS present the whole of government and the general government sector financial statements. The 2017–18 CFS were signed by the Minister for Finance and the Public Service on 15 November 2018 and an unmodified auditor's report was issued on 16 November 2018.

Financial audit results and other matters

Quality and timeliness of financial reporting

6. A quality financial statements preparation process will reduce the risk of untimely, inaccurate or unreliable reporting. Eighty-two per cent of entities delivered their financial statements in line with their financial statement preparation timetable. In addition the number of unadjusted audit differences reported to material entities decreased from 127 in 2016–17 to 57 in 2017–18.

7. The Auditor-General and senior staff under delegation issued auditors' reports on 240 entities' 2017–18 financial statements up until 30 November 2018. All auditors' reports were unmodified. The financial statements were finalised and auditors' reports issued for 90 per cent of entities within three months of the financial year end. The average time taken for entities to table annual reports from the date the auditor's report was issued was 43 days.

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

8. Sixty-four per cent of entities tabled their annual reports before the date of their portfolio's Senate supplementary budget estimates hearing. This is in line with guidance issued by the Department of Finance which sets out that best practice is to table annual reports prior to the date of Senate supplementary budget estimates. There was an average of 28 days between the accountable authority approving the annual report and tabling of the annual report.

Key audit matter reporting

9. The ANAO has applied ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* for the 26 entities included in Auditor-General Report No. 47 *Interim Report on Key Financial Controls of Major Entities* and the Australian Government's CFS. In 2017–18 a total of 59 key audit matters (KAM) were reported across the 26 entities and five KAM were reported in the CFS auditor's report.

Financial sustainability

10. An analysis of the factors that influence an entity's financial sustainability can provide an indication of financial management issues or point to an increased risk that entities may require additional government funding. Our analysis concluded that the financial sustainability of the majority of entities was not at risk. Nevertheless, there would be benefit in the government developing performance targets or benchmarks.[2] This would enable entities to assess their own financial sustainability against agreed parameters over time, and against like entities.

Summary of audit findings

11. A total of 159 findings were reported to entities as a result of the 2017–18 financial statements audits. These comprised one significant, 18 moderate and 140 minor findings. One significant legislative breach was also reported during 2017–18.

12. Eighty-five per cent of significant and moderate findings were in the areas of: management of IT controls, particularly the management of privileged users; compliance and quality assurance frameworks supporting program payments; and the management of non-financial assets.

Executive remuneration reporting

13. In 2016–17 the then Minister for Finance and the Secretary of the Department of the Prime Minister and Cabinet (PM&C) respectively requested government business enterprises (GBEs) and government entities to provide additional information relating to senior management personnel remuneration on their websites.

14. All GBEs complied with the request. The request from the Secretary of PM&C was made to 159 government entities. Of these entities, 145 published the information and 54 published within the requested timeframe.

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

Developments in financial reporting and auditing frameworks

Changes to the Australian public sector reporting framework

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

16. The *Independent Review into the operation of the Public Governance, Performance and Accountability Act 2013 and Rule* has made a number of recommendations to the Minister for Finance and the Public Service including: bringing forward the date for the tabling of annual reports; removing duplication and improving linkages between accountability documents; and increasing disclosures around remuneration paid to executives and highly paid staff.

Cost of this report

17. The cost to the ANAO of producing this report is approximately $470 000.

1. The consolidated financial statements

Chapter coverage

This chapter outlines the results of the audit of the consolidated financial statements of the Australian Government, which includes the whole of government and the general government sector financial statements for the year ended 30 June 2018, and the Australian Government's financial outcome for 2017–18.

Audit results

The 2017–18 Consolidated Financial Statements were signed by the Minister for Finance and the Public Service on 15 November 2018 and the Auditor-General's unmodified auditor's report was issued on 16 November 2018.

Background

1.1 Government accountability and transparency is supported by the preparation and audit of the Australian Government's consolidated financial statements (CFS). The CFS and the associated financial analysis provide information to assist users in assessing the financial performance and position of the Australian Government. The CFS is prepared by the Department of Finance (Finance) and issued by the Minister for Finance and the Public Service.

1.2 The CFS presents the consolidated whole of government financial results inclusive of all Australian Government controlled entities, as well as the general government sector (GGS) financial statements. The 2017–18 CFS is prepared in accordance with section 48 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the requirements of the Australian accounting standards, including AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

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

Key areas of financial statements risk

1.4 The ANAO's 2017–18 audit approach identified key areas of financial statements risk that had the potential to impact the CFS.

Table 1.1: Key areas of financial statements risk

Relevant financial statement item[a]	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Taxation revenue $427.2 billion *Australian Taxation Office*	Completeness and accuracy of taxation revenue KAM	**Higher**	• completeness, relevance and accuracy of source data; • complex estimation processes, involving significant judgement and specialist knowledge; and • volatility in economic conditions increases the uncertainty of factors used in estimating taxation revenue.	No significant or moderate audit findings identified.
Superannuation liabilities[b] $313.9 billion *Department of Defence* *Department of Finance*	Valuation of superannuation liabilities KAM	**Higher**	• completeness and accuracy of data provided to the actuary; and • complexity of the calculation and the nature of the economic and demographic assumptions used in valuing the liabilities.	No significant or moderate audit findings identified.
Advances paid $51.8 billion Other receivables and accrued revenue $50.7 billion *Numerous entities*	Valuation of loans and receivables KAM	**Moderate**	• complexity and uncertainty in estimating fair value, including recoverability and impairment; and • sensitivity of these balances to changes in assumptions.	No significant or moderate audit findings identified.
Investments, loans and placements: Collective investments $67.9 billion Equity investments: Investments in public corporations $55.3 billion *Numerous entities*	Valuation of financial assets KAM	**Moderate**	• inherent subjectivity and significant judgements and estimates required where market data is not available to determine the fair value of these investments; and • complexity of valuation techniques and assumptions required in determining fair value.	No significant or moderate audit findings identified.

Relevant financial statement item[(a)]	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Property, plant and equipment $54.7 billion *Numerous entities* Specialist military equipment (SME) $62.0 billion *Department of Defence*	Valuation of non-financial assets KAM	**Moderate**	• differences in accounting policies applied by Government businesses such as NBN Co Limited (NBN) and Australian Postal Corporation compared to those applied in the preparation of the CFS; • complex valuation process and judgement involved in valuing assets such as the NBN network; and • high degree of management judgement due to the highly specialised nature of the SME, including judgements required to determine appropriate useful lives and assess the financial impact of indicators of impairment.	No significant or moderate audit findings identified. Refer to the Department of Defence's detailed results in Chapter 4.

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

Note b: These are the main government entities responsible for administration and reporting of Australian Government superannuation liabilities. Liabilities also include schemes managed by other entities, such as the Australian Postal Corporation.

Source: ANAO 2017–18 audit results, and the CFS for the year ended 30 June 2018.

Audit results

1.5 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits of the CFS.

Australian Government's financial outcome for 2017–18

Operating result

1.6 The following key financial measures were reported for 2017–18:

- net operating balance was a deficit of $8.4 billion (2016–17: deficit of $36.9 billion);
- operating result was a deficit of $4.1 billion (2016–17: deficit of $25.5 billion); and
- comprehensive result (change in net worth) was a total decrease in net worth of $26.1 billion compared to an increase of $22.1 billion in 2016–17.

1.7 The deficits in net operating balance and operating result decreased due to revenue growth (10 per cent), particularly taxation revenues, exceeding the growth in expenses (3.1 per cent).

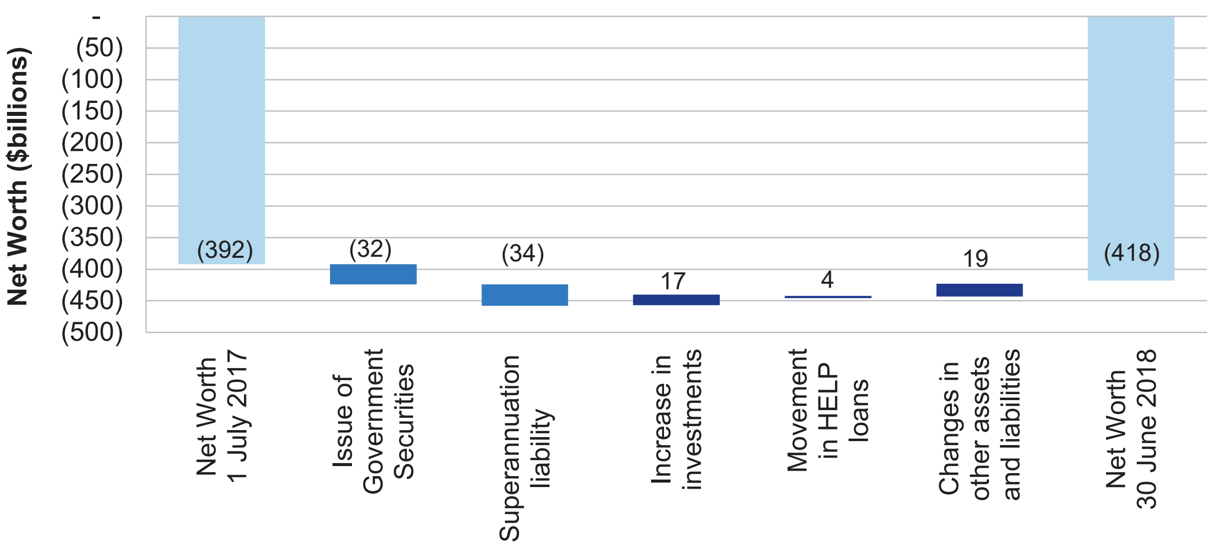
1.8 The comprehensive result (change in net worth) changed from a surplus to a deficit due mainly to the valuation adjustment on superannuation liabilities, which increased by $25.3 billion in 2017–18 compared to a decrease of $45.9 billion in 2016–17. The movement in the valuation of the superannuation liability is largely due to movements in discount rates and is further discussed at paragraphs 1.15 to 1.22.

Net worth

1.9 The Australian Government's net worth has changed from a net asset deficiency of $391.7 billion in 2016–17 to $417.8 billion in 2017–18.

1.10 Figure 1.1 provides an analysis of the movement in net worth from 1 July 2017 to 30 June 2018.

Figure 1.1: Total changes in the Australian Government's net worth in 2017–18



Source: ANAO analysis of 2017–18 CFS.

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

Table 1.2: Explanation of key movements in net worth

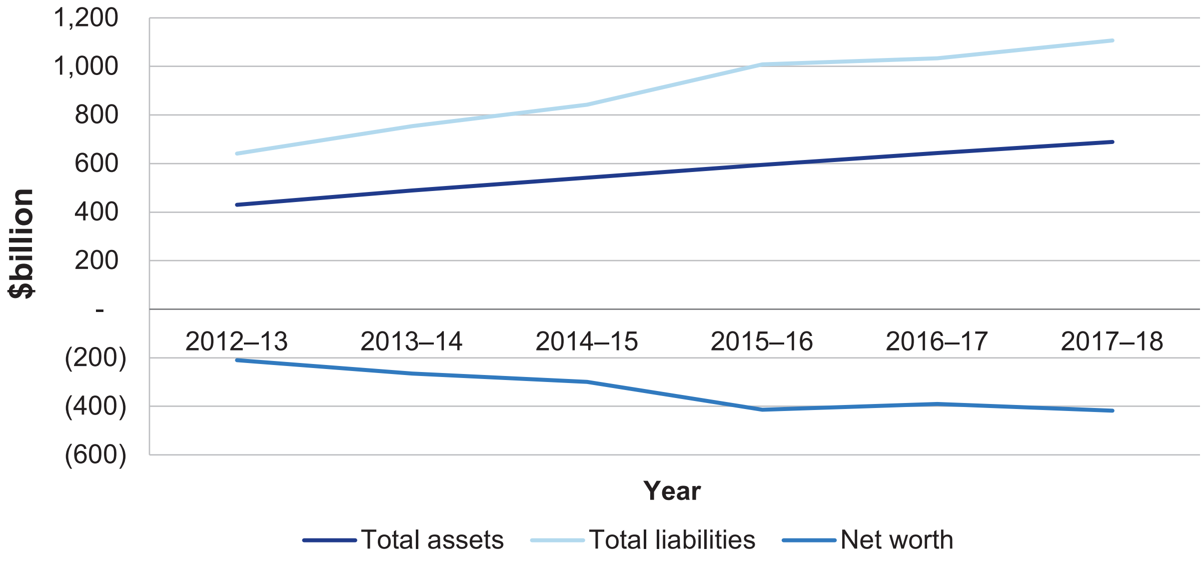
Relevant financial statement item	Primary reason for movement in net worth
Issue of Government securities	The Australian Office of Financial Management, on behalf of the Australian Government, undertakes debt management activities including the issuance of Government securities, such as, Treasury Bonds and Treasury Indexed Bonds. Government securities have increased by $32.2 billion. This is predominately driven by a gross Treasury Bonds issuance of $75.5 billion (2016–17: $103.0 billion), which is offset by buybacks, repayments and maturity of securities during the year.

Relevant financial statement item	Primary reason for movement in net worth
Superannuation liability	The Australian Government's defined benefit superannuation liabilities increased by $34.1 billion mainly due to actuarial revaluation losses of $25.3 billion. The increase in the liability in 2017–18 is due to the changing demographic factors and the change in the discount rate applied to determine the fair value of the liability. The liability is sensitive to discount rate movements and the majority of the fluctuation is a result of this. The discount rates are based on the effective yield of government bonds rates of the relevant superannuation fund.
Increase in investments	The $17.4 billion increase in investments consists mainly of: increases of $12.9 billion in re-investment of returns made by the Future Fund; and a $3.3 billion increase in deposits held by Reserve Bank of Australia.
Movement in HELP loans	The Higher Education Loan Program (HELP) provides loans for student tuition that are repayable to the Commonwealth when the student reaches a prescribed level of personal income. The loans are paid to the relevant university. The increase in loans is due to $6.9 billion in new loans provided in 2017–18. This was offset by $2.7 billion in repayments of loans.
Changes in other assets and liabilities	Significant changes in assets and liabilities that impacted on net worth, were: • an increase of approximately $18.7 billion in non-financial assets, predominantly comprising the acquisition of Snowy Hydro Limited ($6.9 billion), assets purchased by the Department of Defence for specialist military equipment of $3.4 billion; • an increase in advances paid (other than HELP loans) of $1.6 billion and other receivables and accrued revenue of $4.5 billion; and • offset by an increase in the liabilities for Australian currency on issue ($1.9 billion) recognised by the RBA, other provisions ($1.9 billion) and other employee benefits ($1.7 billion).

Source: ANAO analysis of 2017–18 CFS.

1.12 Total liabilities increased during the year as a result of an increase in net debt. Figure 1.2 illustrates the total liabilities and assets of the Australian Government since 2012–13. Three significant components that impact the Australian Government's total liabilities and total assets are the issue of Government securities, the value of defined benefit superannuation liabilities and investments for policy purposes. These components are discussed in more detail below.

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

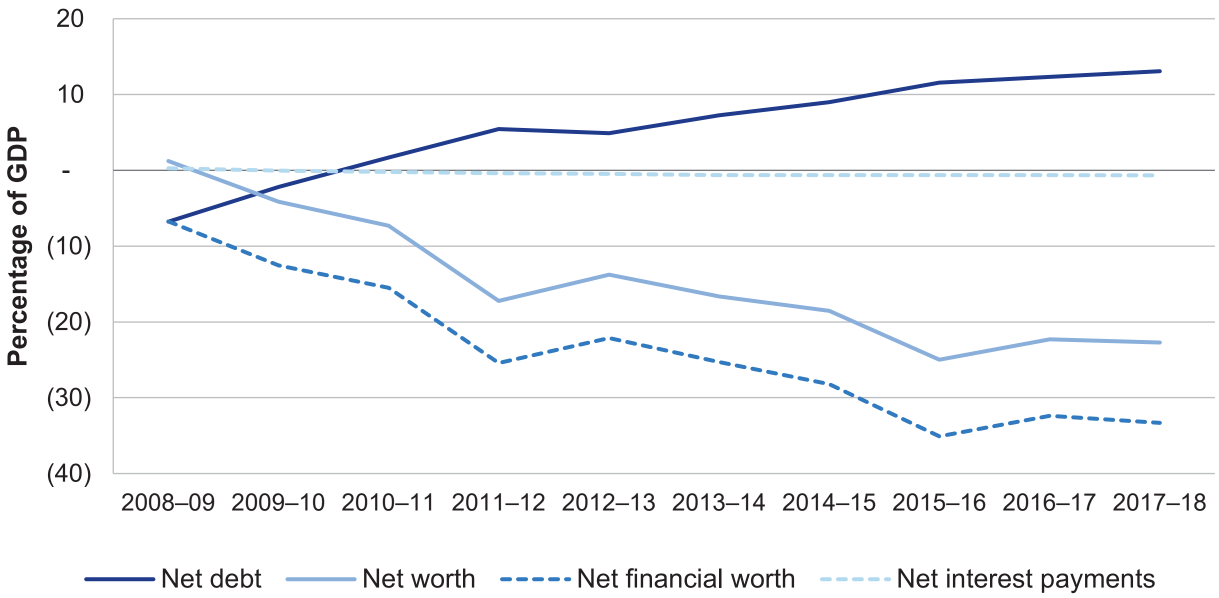


Source: ANAO analysis of 2017–18 CFS.

Government securities

1.13 There has been a steady growth in net debt as a percentage of gross domestic product (GDP). Figure 1.3 illustrates the change in the indicators of the net financial positon of the Australian Government since 2008–09 as a per cent of GDP.

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



Source: ANAO analysis of 2017–18 CFS.

1.14 The level of net debt held in Government Securities has grown by $32.2 billion during the year. The growth in net debt has led to increases in net interest payments. Net interest payments increased from $11.4 billion in 2016–17 to $12.2 billion in 2017–18. The low interest rate environment continues to keep the level of increases in net interest payments low as the level of net debt increases.

Superannuation liabilities

1.15 The Australian Government has superannuation liabilities arising from obligations to employees for defined benefit superannuation schemes. Note 10C of the CFS provides information on the nature of these schemes. The total superannuation liability for these schemes was $313.9 billion as at 30 June 2018 ($279.8 billion as at 30 June 2017). The significant balances of the reported liability relate to the following schemes that are closed to new members:

- Commonwealth Superannuation Scheme ($82.9 billion);
- Public Sector Superannuation Scheme ($97.5 billion);
- Military Superannuation Benefits Scheme ($83.3 billion); and
- Defence Force Retirement and Death Benefits Scheme ($46.7 billion).

1.16 The primary reason for the increase in the liability is the fall in the discount rate; between 30 June 2017 and 30 June 2018. The long term nature of the superannuation liability means that small changes to the discount rate can have a large impact on the liability.

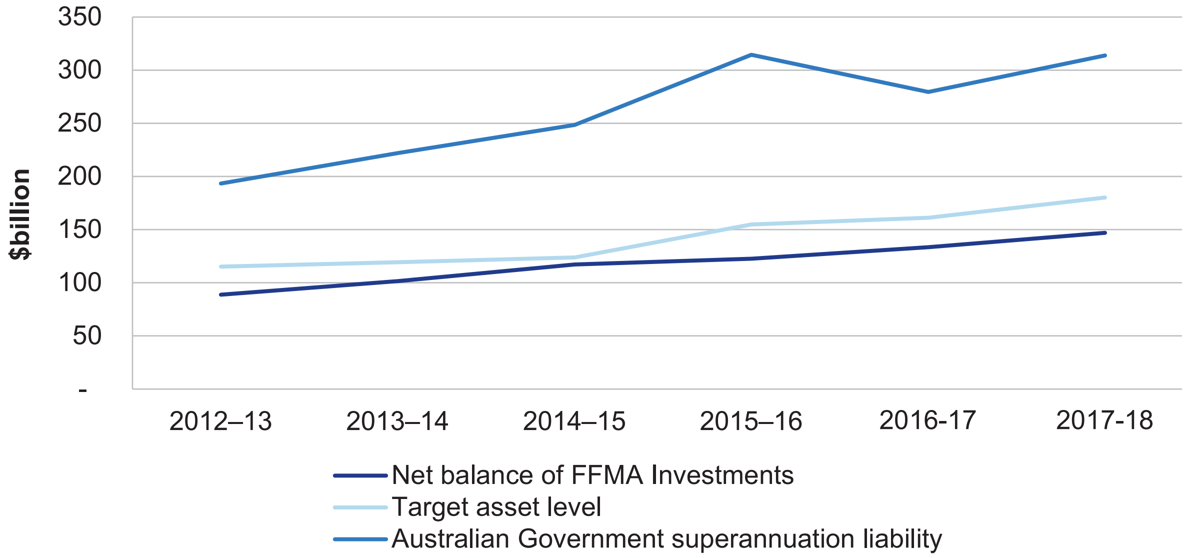
1.17 The Future Fund was established by the *Future Fund Act 2006* to strengthen the Australian Government's long-term financial position through the acquisition of financial assets and investments to assist in the discharge of the Australian Government's superannuation liabilities.

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

1.19 As at 1 July 2017, the then Minister for Finance determined the benchmark rate of return on investments of the rate of the consumer price index (CPI) plus 4 to 5 per cent per annum over the long term (2016–17: CPI plus 4.5 to 5.5 per cent). Over the last ten years the returns of the Future Fund have exceeded the benchmark return.

1.20 Figure 1.4 provides an overview of the balances of the Australian Government superannuation liabilities, the net investment balance of the Future Fund and the target asset level (TAL) from 2012–13 to 2017–18.

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



Source: ANAO analysis of 2017–18 CFS.

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

1.22 Figure 1.4 shows that the 2017–18 estimate of the TAL is $180.2 billion[3], which is above the current Future Fund net asset balance of $145.8 billion. It should be noted that similar to the superannuation liabilities, the TAL is sensitive to the assumed rate of return for the Future Fund. The *Future Fund Act 2006* permits drawdowns, to fund superannuation payments, from 1 July 2020 or when the balance of the Future Fund equals or exceeds the TAL. However, in 2017, the Government announced it would delay drawdowns from the Future Fund until at least 2026–27.

3 Designated Actuary's Report: Target Asset Level Declaration of 6 July 2018.

2. Financial audit results and other matters

Chapter coverage

This chapter provides:

- a summary of the 2017–18 auditors' reports issued by the ANAO;
- a summary of observations regarding entities' internal control environments;
- an analysis of the timeliness and quality of entities' financial reporting;
- a summary of the reporting of key audit matters;
- an analysis of the financial sustainability of material entities;
- a summary of executive remuneration; and
- a summary of findings identified during the course of the 2017–18 financial statements audits of entities.

Conclusion

The ANAO issued 240 (including the consolidated financial statements) unmodified auditors' reports as at 30 November 2018. A quality financial statements preparation process will reduce the risk of untimely, inaccurate or unreliable reporting. Eighty-two per cent of entities delivered their financial statements in line with their financial statement preparation timetable. In addition, the number of unadjusted audit differences reported to material entities decreased from 127 in 2016–17 to 57 in 2017–18.

The financial statements were finalised and auditors' reports issued for 90 per cent of entities within three months of the financial year end. On average it took entities 43 days to table their annual report in Parliament following the signing of financial statements and auditors' reports. Sixty-four per cent of entities that are required to table an annual report in Parliament tabled prior to the commencement of their portfolio's Senate supplementary budget estimates hearing. Twenty-eight per cent of entities tabled after the hearing date and a further three per cent of entities had not tabled an annual report as at 30 November 2018.

The ANAO has applied ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* for the 26 entities included in Auditor-General Report No. 47 *Interim Report on Key Financial Controls of Major Entities* and the Australian Government's consolidated financial statements (CFS). In 2017–18 a total of 59 key audit matters (KAM) were reported across the 26 entities and five KAM were reported in the CFS auditor's report.

An analysis of the operating results and balance sheet positions for material entities concluded that the financial sustainability for the majority of those entities was not at risk. Nevertheless, there would be benefit in the Government developing performance targets or benchmarks.[a] This would enable entities to assess their own financial sustainability against agreed parameters over time, and against like entities.

Following requests in 2016–17 from the then Minister for Finance and the Secretary of the Department of the Prime Minister and Cabinet, all GBEs and 145 of 159 entities published additional information relating to senior management remuneration as requested.

The ANAO reported one significant, 18 moderate and 140 minor audit findings to entities at the completion of the final audits. One significant legislative breach was also reported during 2017–18. The highest number of findings continue to be in the categories of:

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

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

Introduction

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

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

2.3 This report presents the final results of the 2017–18 audits of the CFS and 240 Australian Government entities. Auditor-General Report No.47 2017–18 *Interim Report on Key Financial Controls of Major Entities* (Auditor-General Report No.47), focused on the interim results of the audits of 26 entities. This included a review of the governance arrangements related to entities' financial reporting responsibilities and an examination of the relevant internal controls, including information technology system controls, that supported the preparation of financial statements that are free from material misstatement.

Summary of 2017–18 auditors' reports

2.4 The Auditor-General is required to complete the financial statements audits of all Australian Government entities and their controlled subsidiaries on an annual basis.[4]

4 The Commonwealth acquired 100 per cent ownership of Snowy Hydro Limited (SHL) on 29 June 2018. In accordance with the *Public Governance Performance and Accountability Act 2013* (PGPA Act) the Public Governance, Performance and Accountability Rule 2014 was amended to prescribe Snowy Hydro Limited as a government business enterprise and amend the first reporting period as the period commencing on 29 June 2018 and ending on 30 June 2019. In addition, National Housing, Finance and Investment Corporation (NHFIC) was created on 30 June 2018. As at 30 November NHFIC was awaiting advice in relation to its financial reporting obligations for 2017–18. As a result no audit reports were issued by the ANAO in 2017–18 for these entities.

2.5 Table 2.1 is a comparison of the number and type of auditors' reports issued by the Auditor-General and his delegates in 2016–17 and 2017–18 (as at 30 November 2018), including the CFS. Appendices 3 and 4 explain in more detail the financial reporting frameworks applicable to the Australian Government and the form and content of auditors' reports.

Table 2.1: Summary of auditors' reports issued and outstanding

Auditors' reports	2017–18	2016–17
Unmodified	240	234
Included an emphasis of matter	3	6
Included a report on other legal and regulatory requirements	0	0
Modified	0	0
Auditors' reports issued	**240**	**234**
Not yet issued	1(a)	5(b)
Total number of financial statements audits	**241**	**239**

Note a: As at 30 November 2018 IBA Tourism Asset Management Pty Ltd had not finalised the 2017–18 financial statements.

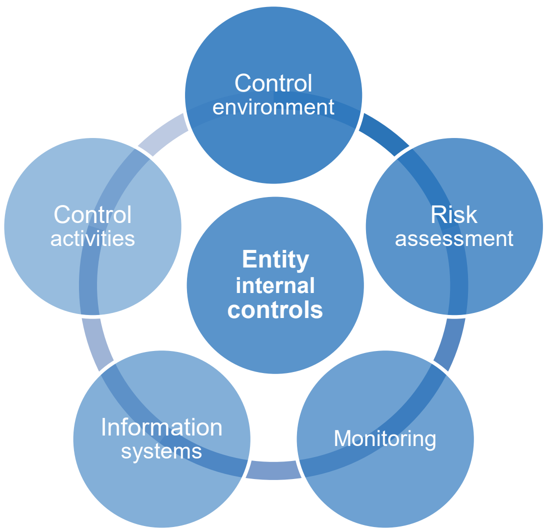
Note b: As at 30 November 2018 the Minjerribah Camping Partnership was the only entity which had not finalised their 2016–17 financial statements. All other entities have finalised their financial statements for 2016–17.

Source: 2016–17 and 2017–18 ANAO auditors' reports.

Internal control environment

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

Figure 2.1: Elements of entity internal controls



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

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

2.8 An effective internal control framework provides a level of assurance that entities are able to prepare financial statements that are free from material misstatement. At the completion of the final audits, for the majority of entities, key elements of internal control were operating effectively to provide reasonable assurance that the entities were able to prepare financial statements that are free from material misstatement. For thirteen entities[5], except for particular finding(s) outlined in chapter 4, the key elements of internal control were operating effectively to support the preparation of financial statements that are free from material misstatement.

2.9 Information and communication includes the processes and policies that support the provision of relevant and timely internal and external information supporting reliable financial reporting and decision making. Entities establish and monitor budgets throughout the financial year to assist in decision making at the entity level with budgets consolidated at the whole of government level. The publication of the budgetary information provides details of forecast financial performance and the government's fiscal policy for the forward years.

2.10 AASB 1055 *Budgetary Reporting* requires not-for-profit entities within the general government sector to disclose the original budgeted financial statements presented to Parliament together with explanations of major variances between the actual amounts reported in the financial statements and the corresponding original budget figures.

2.11 When providing explanations regarding budget variances, the Department of Finance has provided entities with the following guidance relating to what is considered a material or major variance:

- more than +/- 10% of the line item for both departmental and administered; or
- more than +/- 2% of total expenses or total own-source revenue for departmental only; and
- more than +/- 2% of the relevant sub-total for total expenses, revenue, assets or liabilities for administered only.[6]

2.12 The ANAO has reviewed the budgetary reporting requirements of material entities for 2017–18. The Department of Finances guidance in relation to variance thresholds was applied by all entities with the exception of five entities. These five entities applied a more conservative variance threshold when identifying major variances for explanation.

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5 Airservices Australia; Australian Federal Police; Australian National University; Australian Nuclear, Science and Technology Organisation; Clean Energy Regulator; departments of: Communications and the Arts; Defence; Industry, Innovation and Science; Director of National Parks; Moorebank Intermodal Company Limited; National Disability Insurance Agency; National Health and Medical Research Council; and the Royal Australian Mint.

6 Resource Management Guide 125 *Commonwealth Entities Financial Statements Guide* (RMG 125), P 99.

2.13 The ANAO audits the appropriateness of explanations provided for major variances however, is not required to audit budgetary values. The review noted that there are a number of items that entities generally do not budget for as part of the annual government budget process. These typically include costs associated with assets (asset write-down and impairment of assets and changes in the asset revaluation reserve). The variance explanations generally provided a high level analysis of the movements.

Quality and timeliness of financial reporting

2.14 The primary purpose of financial statements is to provide relevant and reliable information to users about a reporting entity's financial position. In the public sector, the users of financial statements include ministers, the Parliament and the community. 'The objectives of a financial statements audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework. The audit mandate, or obligations for public sector entities, arising from legislation, regulation, ministerial directives, or government policy requirements may result in additional objectives'.[7]

2.15 The ANAO applies these objectives in undertaking financial statements audits and considers areas that may give rise to risks of non-compliance with mandatory reporting requirements or risks relating to effectiveness of internal control when planning and performing the audit. Financial statements preparation is often a complex task, involving compliance with a large number of requirements established by Australian accounting standards and the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (the FRRs).

2.16 In order to provide relevant and reliable financial information to the users, entities should prepare quality financial statements in a timely manner supporting entities ability to meet legislative reporting obligations including tabling of annual reports. The preparation of quality financial statements will be evidenced by adherence to a well-defined financial statements preparation timetable with minimal adjustments required to their financial statements throughout the audit process.

Quality of financial statements preparation

2.17 A quality financial statements preparation process will reduce the risk of untimely, inaccurate or unreliable reporting. Poor project management or processes, coupled with tight timeframes, heightens the risk of error in the financial statements.

2.18 In 2017–18, the ANAO analysed the timeliness of financial statements preparation and the number of unadjusted audit differences. A timeframe was established by entities and agreed with audit teams for the delivery of financial statements.

2.19 Financial statements were delivered in line with the agreed timeframes for 82 per cent of entities, with a further nine per cent delivered within one week. The remaining nine per cent of entities delivered their financial statements on average within 14 days of the agreed timeframe.

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

Unadjusted audit differences

2.20 Throughout the financial statements audit process all audit differences other than those considered to be clearly trivial are communicated to entities. In the ANAO's view all audit differences accumulated during the course of the audit should be adjusted.

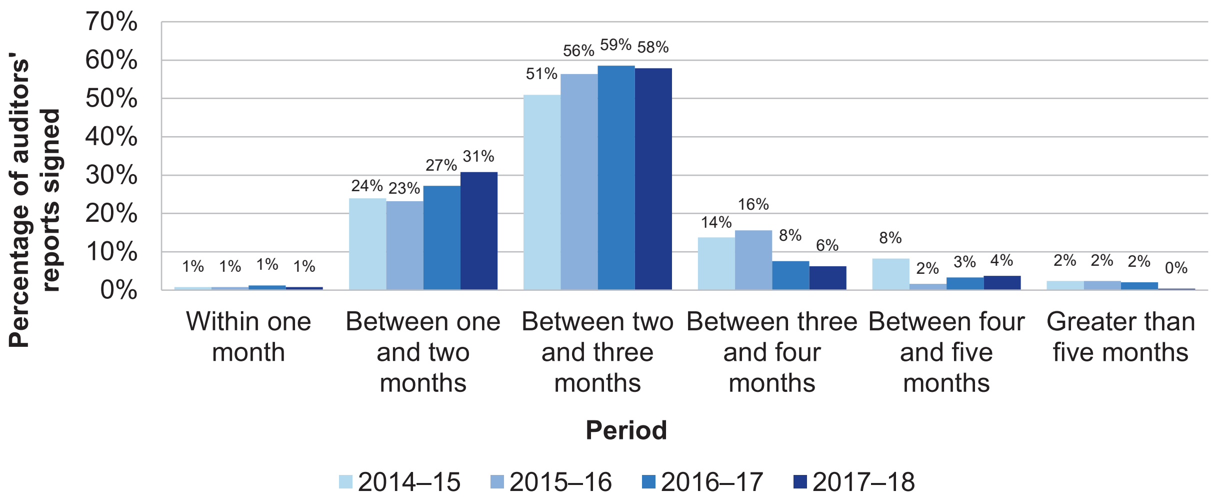
2.21 At the completion of the 2017–18 financial statements audits there were a total of 91 unadjusted audit differences reported to entities. Of these unadjusted differences, 57 related to material entities. In 2016–17, material entities had 127 unadjusted differences. The ANAO considered the unadjusted audit differences, individually and in aggregate, did not result in a material misstatement to the financial statements of entities.

2.22 Overall, financial statements were prepared to a high standard. 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. Financial statements project management will be increasingly important if there is a move to bring forward annual report tabling timeframes in the future.

Timeliness of financial reporting

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

Figure 2.2: Timeframes for financial statements signing from end of financial year.



Source: ANAO analysis of issued auditors' reports

2.24 As shown in Figure 2.2, there has been improvement in the percentage of financial statements signed and associated auditor's report issued within two months of the reporting year end (2017–18: 32 per cent compared to 2016–17: 28 per cent). The percentage of financial statements signed and associated auditor's report issued within three months also improved from 87 per cent to 90 per cent. The ANAO issued 99 per cent (2016–17: 100 per cent) of auditors' reports within two business days of the signing of the financial statements by the accountable authority.

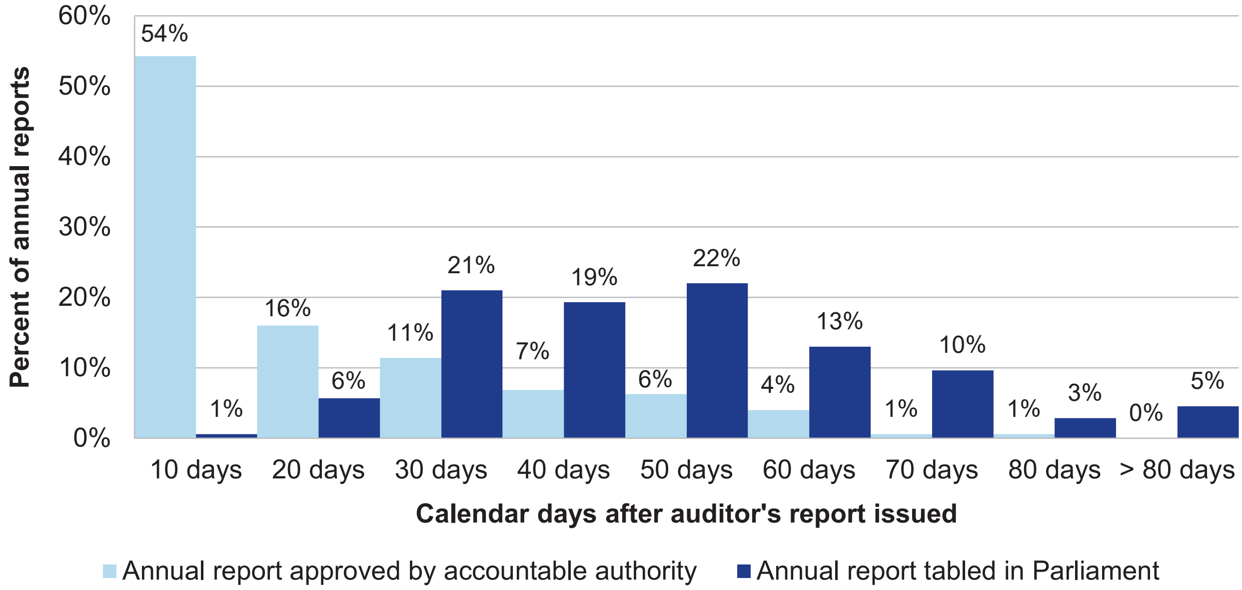
2.25 Annual reports inform the Parliament, other stakeholders and the community about the performance of entities. Of the 241 mandated financial statements audits, 181 entities are required to present annual reports to the responsible minister for tabling in the Parliament.

2.26 The PGPA review[8] is proposing earlier tabling of annual reports. If this is introduced entities may need to bring forward their preparation of financial statements.

2.27 Figure 2.3[9] shows the time in days from the date the auditor's report was issued to the:

- approval of the annual report by the accountable authority; and
- tabling of the annual report in Parliament.

Figure 2.3: Timeframe for tabling annual reports from issuance of auditor's report



Source: ANAO analysis

2.28 The Resource Management Guide 135 A*nnual report for non-corporate Commonwealth entities* (RMG 135) section 14[10] states that annual reports are to be provided to the relevant minister by the 15th day of the fourth month after the end of the reporting period. Annual reports are approved by the entity's accountable authority prior to being provided to the minister and tabled in Parliament.[11]

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8 *Independent Review into the operation of the Public Governance, Performance and Accountability Act 2013 and Rule,* September 2018.

9 The analysis presented in Figure 2.3 was undertaken as at 30 November 2018. The following five entities had not tabled annual reports at this date. Anindilyakwa Land Council; High Court of Australia; Wine Australia; Workplace Gender Equality Agency; and Wreck Bay Aboriginal Community Council.

10 Similar provisions apply to Corporate Commonwealth Entities refer to Resource Management Guide 136 *Annual report for Corporate Commonwealth entities* and Commonwealth Companies refer to Resource Management Guide No. 137 *Annual reports for Commonwealth companies*.

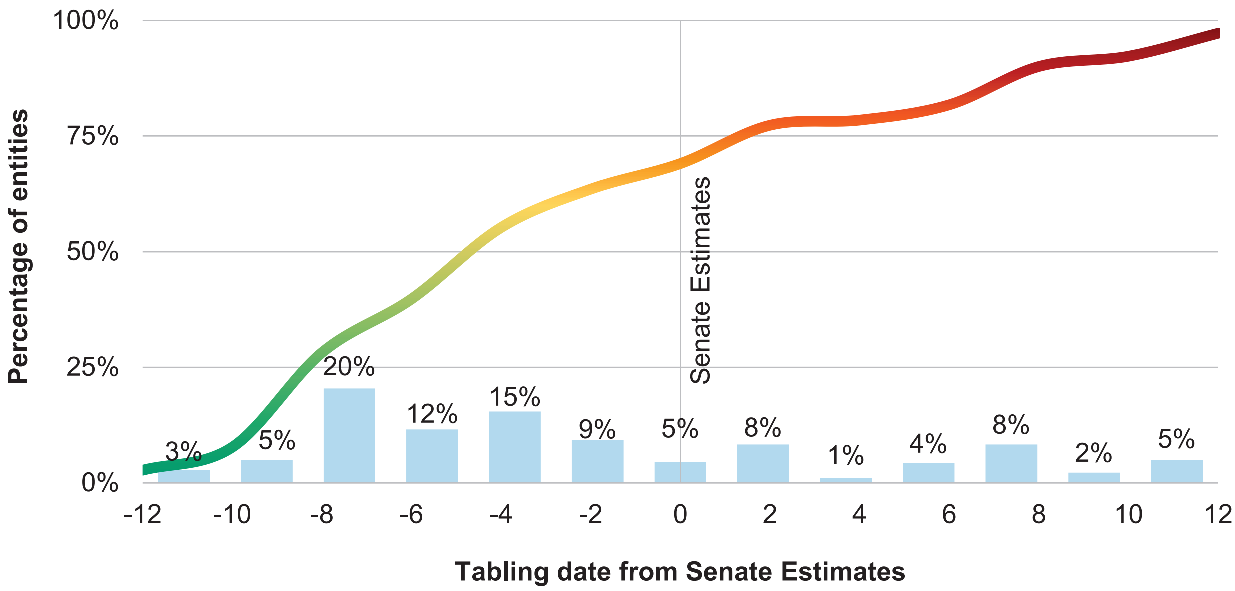
11 The date of the accountable authority's approval of the annual report is taken as either the date on the transmittal letter or the date the board approved the annual report.

2.29 The analysis shows that 54 per cent of the annual reports were approved by the accountable authority within 10 days of the auditor's report being issued compared to one per cent of annual reports tabled. On average the time between issuance of the auditor's report and the approval of the annual report by the accountable authority was 15 days. The average days between the accountable authority's approval of the annual report and tabling in Parliament was 28 days.

2.30 Twenty eight per cent of annual reports were tabled within 30 calendar days of the auditor's report being issued. The average time taken to table annual reports was 43 days after the issuance of the auditor's report. There were seven entities that tabled their annual reports between 81 and 110 days after their auditor's report was issued.[12]

2.31 Annual reports should be tabled in Parliament early enough to allow sufficient time for review prior to Senate supplementary budget estimates hearings. RMG 135 section 18 provides guidance that it is best practice for annual reports to be tabled prior to supplementary budget estimates hearings if they occur prior to 31 October.

Figure 2.4: Annual report tabling date in relation to Senate supplementary budget estimates hearing



Source: ANAO analysis

2.32 Figure 2.4 shows that, in line with best practice, 64 per cent of entities tabled their annual report prior to the date of the relevant supplementary budget estimates hearing date. A further five per cent tabled on the date of their portfolio's hearing. There were 13 material entities across five portfolios which tabled annual reports after the portfolio's Senate supplementary budget estimate hearing date as listed in Table 2.2.

12 These entities along with the number of days between the signing of the auditor's opinion and tabling of the annual report include: Australian National University (83 days); Australian Broadcasting Corporation (82 days); Cotton Research and Development Corporation (95 days); Fisheries Research and Development Corporation (105 days); Grains Research and Development Corporation (109 days); NBN Co Limited (83 days); and Torres Strait Regional Authority (82 days).

Table 2.2: Annual reports tabled after the portfolio's Senate supplementary budget estimate hearing

Reporting entities	Date auditor's report issued	Approval of annual report[a]	Annual report tabling date	Senate estimates date[b]
Agriculture and Water Resources portfolio				
Grains Research and Development Corporation	10 Aug 18	15 Oct 18	27 Nov 18	23 Oct 18
Communications and the Arts portfolio				
Department of Communications and the Arts	20 Sep 18	22 Sep 18	31 Oct 18	23 Oct 18
Australian Broadcasting Corporation	10 Aug 18	20 Sep 18	31 Oct 18	
NBN Co Limited	9 Aug 18	9 Aug 18	31 Oct 18	
National Library of Australia	16 Aug 18	13 Aug 18	30 Oct 18	
Special Broadcasting Service Corporation	30 Aug 18	30 Aug 18	29 Oct 18	
Environment and Energy portfolio				
Department of the Environment and Energy	30 Aug 18	22 Oct 18	31 Oct 18	22 Oct 18
Bureau of Meteorology	29 Aug 18	2 Oct 18	24 Oct 18	
Clean Energy Finance Corporation	23 Aug 18	26 Sep 18	31 Oct 18	
Infrastructure, Regional Development and Cities portfolio				
Moorebank Intermodal Company Limited	19 Sep 18	19 Sep 18	31 Oct 18	22 Oct 18
National Capital Authority	31 Aug 18	11 Oct 18	26 Oct 18	
Treasury portfolio				
Australian Securities and Investments Commission	14 Aug 18	12 Oct 18	31 Oct 18	24 Oct 18
Australian Taxation Office	13 Sep 18	11 Oct 18	26 Oct 18	

Note a: The date of the accountable authority's approval of the annual report is taken as either the date on the transmittal letter or the date the board approved the annual report.

Note b: This is the first appearance for the portfolio at the 2018–19 Supplementary Budget Estimates hearing.

Key audit matters

2.33 ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* (ASA 701) was applicable from 2016–17. While ASA 701 only requires key audit matters (KAM) reporting for listed entities, the Auditor-General considers KAM reporting to be better practice for financial statements auditing. The Auditor-General adopted KAM reporting in 2016–17 and has continued to report KAM in 2017–18 for the 26 entities included in Auditor-General Report No. 47 and from 2017–18, the CFS.

2.34 The entities for which KAM reporting was adopted in addition to the Consolidated financial statements are:

- Attorney-General's Department;
- Australian Office of Financial Management;
- Australian Postal Corporation;
- Australian Taxation Office;
- Departments of: Agriculture and Water Resources; Communications and the Arts; Defence; Education and Training; the Environment and Energy; Finance; Foreign Affairs and Trade; Health; Human Services; Home Affairs; Industry, Innovation and Science; Infrastructure, Regional Development and Cities; Jobs and Small Business; Parliamentary Services; Prime Minister and the Cabinet; Social Services; the Treasury; and Veterans' Affairs;
- Future Fund Management Agency and the Board of Guardians;
- National Disability Insurance Agency;
- NBN Co Limited; and
- Reserve Bank of Australia.

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

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

2.37 In 2017–18 a total of 59 KAM were reported across the 26 entities. The number of KAM per entity ranged from one to four. A number of factors were considered in determining KAM including reliance on third parties for data and balances that are underpinned by significant judgements and assumptions.

2.38 The majority of KAM reported in 2017–18 related to the valuation assertion in respect of assets and liabilities such as:

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

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

2.40 The ANAO also reported on KAM in the auditor's report for the CFS. There were five KAM identified which have been reported in Table 1.1.

2.41 Auditors' reports are made public through their inclusion in Commonwealth entities' annual reports. Through the use of KAM the ANAO is able to draw the reader's attention to those matters, which in our professional judgement, were of the most significance in the audit of the financial report of the current period. Key audit matters, do not of themselves, provide a separate opinion on items in the financial report. The auditor's report does however include a summary of how the key audit matter was addressed.

2.42 The benefits of KAM reporting to users of the financial statements was demonstrated during 2018 following a request from two parliamentarians for the ANAO to undertake an assurance review of NBN Co Limited (NBN). A number of requests are received annually from parliamentarians to undertake audits or reviews into particular matters. In this instance the request was to undertake an assurance review of the financial assumptions underpinning the long term economics of the NBN. As the matter had been considered and incorporated into a reported KAM, in responding to the request the ANAO was able to refer the parliamentarians to our opinion on NBN's 2016–17 financial report which provided detail of work that had been undertaken and considered in reaching our conclusion.

Financial Sustainability

2.43 Integral to an audit is an understanding of an entity and its environment, including an entity's financial sustainability. Financial sustainability measures the ability of an entity to manage its financial resources so it can meet present and future spending commitments. This can provide an indication of financial management issues or can point to an increased risk that entities may require additional government funding.

2.44 The ANAO developed parameters based on generally accepted concepts of financial sustainability and applied these to the operating results and balance sheets of the 65 material entities. These parameters[13] are described in Table 2.3 and Table 2.4 below.

Analysis of operating results

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

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

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

2.47 Similarly in the case of for-profit entities and those with quasi-commercial operations, there is an expectation that financial management focuses on meeting expected returns.[14] As a result, any entity in this category averaging a large deficit should be considered more closely.

2.48 Against this background, the ANAO analysed the operating results of all material entities over a five year period: 2013–14 to 2017–18. This analysis is based on reported surpluses or deficits after adjusting for unfunded expenses[15], where relevant, highlighting the full cost of operations. Of the 65 entities considered in this analysis, 43 are not-for-profit and 22 are for-profit or not-for-profit entities which have quasi-commercial operations or departmental functions operating on a for-profit basis.

2.49 Material entities are grouped into three operating result categories as part of this analysis, outlined in Table 2.3 below.

Table 2.3: Operating result categories

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

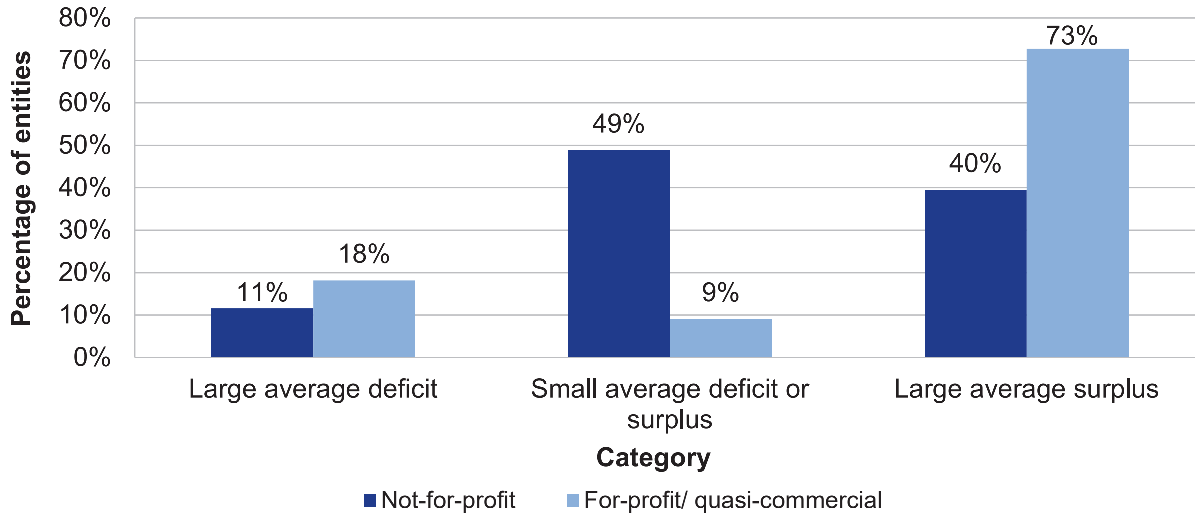
Source: ANAO developed parameters.

2.50 Figure 2.5 demonstrates 49 per cent material not-for-profit entities were classified as achieving small deficits or surpluses and managing within their breakeven mandate. Seventy-three per cent for-profit/quasi-commercial entities recorded average large surpluses.

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

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

Figure 2.5: Operating results analysis



Source: ANAO analysis of material entities' operating results.

2.51 Eighteen per cent of for-profit and 11 per cent of not-for-profit entities have averaged large deficits and 40 per cent of not-for-profit entities have averaged large surpluses. The following discussion focuses on the common drivers for these entities' large average surpluses and large average deficits.

Large average deficit

2.52 For the period 2013–14 to 2017–18 the following for-profit entities recorded large deficits: Moorebank Intermodal Company Limited; NBN Co Limited; Australian Naval Infrastructure Pty Ltd, and WSA Co Ltd. All four entities are in the build phase of large infrastructure projects, requiring significant investment which has led to their operating losses.

2.53 Five not-for-profit entities being the Australian Broadcasting Corporation, Australian Federal Police, Department of Industry, Innovation and Science, the High Court of Australia and the National Capital Authority also recorded a large average deficit during the period.

2.54 The large average deficits of the Department of Industry, Innovation and Science and the High Court of Australia (High Court) were driven by asset write-offs and transfers. In 2013–14, the High Court wrote-off a significant component of their library collection which resulted in a large average deficit for the period. The High Court's operating result from 2014–15 to 2017–18 reflected an average surplus of two per cent driven by the transfer of assets from the Law Courts Ltd in 2016–17. As part of the '*Maintaining Australia's Optical Astronomy Capability'* measure announced in the 2017–18 budget, the Department of Industry, Innovation and Science transferred the Australian Astronomical Observatory functions to the Australian National University and Macquarie University resulting in significant asset write-offs.

2.55 The Australian Federal Police reported a significant deficit in 2017–18 which contributed to a higher average deficit overall. The significant deficit was due to: the impact of increases in staff costs arising from the 2017–18 enterprise agreement; additional operational costs to address security threats; and a technical accounting adjustment in relation to the recognition of appropriations.

2.56 Other one-off factors have resulted in significant deficits in 2017–18 contributing to a higher average over the five year period. In 2017–18, the operating result of the Australian Broadcasting Corporation was affected by the initial recognition of a building maintenance provision of $30.7 million as a result of a Building Code of Australia Fire Safety Standards review. The operating loss for the National Capital Authority largely related to works on the National Police Memorial, where insurance funds were received (and recognised in the financial statements) in 2015–16 but the majority of the work was undertaken in 2017–18.

Large average surpluses

2.57 As outlined in Figure 2.5, 40 per cent of material not-for-profit entities reported average surpluses of more than one per cent of total expenses over the period of analysis. The following discussion focuses on the common drivers for these entities' large average surpluses.

2.58 Cultural institutions represented approximately a quarter of the entities in the large average surplus category.[16] The receipt of goods or donations for no or nominal consideration and bequests of cash are factors impacting the average surplus. Cultural institutions frequently receive gifts of heritage and/or cultural items for their collections. The accounting recognition of these items results in revenue being recorded in the period they are received without a corresponding expense. The outcome is that the receiving entity records a significant surplus in those years, affecting the average over the longer term.

2.59 The Department of Communications and the Arts' operating result was impacted by the transfer of a leasehold fit-out asset from the Department of Industry, Innovation and Science on 1 July 2017. The accounting recognition of these items results in revenue being recorded in the period they are received without a corresponding expense affecting the average over the longer term.

2.60 Machinery of government changes can significantly impact the operating result of an entity in any year, including the periods immediately following the changes. Three entities were in this category in 2017–18 as they were impacted by transfers of functions and associated funding due to machinery of government changes during the five year period. Those entities were: the departments of: Infrastructure, Regional Development and Cities; Jobs and Small Business; and the Federal Court of Australia. For these entities the timing of the machinery of government changes and the transfer of funding associated with those functions did not align with the related expenditure.

2.61 The timing of events or project milestones may also affect the operating result of an entity in a particular year. This has been a factor impacting the average operating result of the Australian Electoral Commission, the Australian Research Council and the Department of Human Services. These entities have recognised significant surpluses over the period due to the timing and recognition of revenue due to events or project milestones not aligning with the related expenditure.

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16 Cultural institutions falling into this category were: Australian War Memorial; National Archives of Australia; National Gallery of Australia; and the National Library of Australia.

2.62 The Australian Prudential Regulation Authority's (APRA) significant surplus was a result of levies in excess of costs in 2017–18. The relevant minister determines the levy rates for each regulated industry prior to the beginning of each financial year. The increase in levies payable to APRA for 2017–18 for its operations was to coincide with expected increases in staff numbers and depreciation expenses attributable to acquiring assets. In 2017–18 the increased employee numbers and acquisition of assets did not materialise as anticipated.

2.63 The Department of Agriculture and Water Resources also reported a significant surplus in 2017–18 due to increased collections from cost recovery arrangements. The department operates a number of cost recovery arrangements across the biosecurity, export certification and other business services areas. The department maintains a separate industry reserve for each cost recovered program. Where the costs from these programs exceed revenue, the shortfall is first met from the individual industry reserve.[17]

2.64 The Australian Office of Financial Management (AOFM) has reported in each of their last five annual reports that their surpluses over the past five years are largely due to the AOFM incurring lower than anticipated operating expenses.[18]

2.65 The transition of participants to the National Disability Insurance Scheme (NDIS) and the utilisation of supports has impacted the operating result of the National Disability Insurance Agency over the period. There has been a slower phasing of participants than anticipated and lower utilisation of funds by participants which resulted in expenses incurred in 2017–18 being less than was budgeted for. The cost of the scheme will increase as the utilisation of committed supports within the scheme increases.[19]

2.66 Other one-off factors have resulted in significant surpluses in 2017–18 resulting in a higher average over the five year period. The Australian Securities and Investments Commission (ASIC) recorded a surplus driven mainly by court cost recoveries arising from settlements with the Australia and New Zealand Bank and National Australia Bank over unconscionable conduct[20] in respect of the Bank Bill Swap Rate. This led to ASIC recognising revenue associated with court cost recoveries of approximately $34.1 million in 2017–18, compared to $2.4 million in 2016–17. The Bureau of Meteorology also recorded a surplus in relation to the accounting treatment of the initial recognition of heritage assets and plant and equipment assets relating to the Bureau of Meteorology's National Meteorological Library collection.

Balance sheet analysis

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

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17 Department of Agriculture and Water Resources, *Annual Report 2017–18*, Agriculture, Canberra, p. 164.

18 Australian Office of Financial Management, *Annual Report, 2013–14*, p. 38; *Annual Report 2014–15,* p. 40*; Annual Report 2015–16,* p. 131*; Annual Report 2016–17*, p. 119; *Annual Report 2017–18,* p. 121*, Canberra.*

19 National Disability Insurance Agency, *Annual Report 2017–18*, NDIA, Geelong, p. 58.

20 Australian Securities and Investments Commission, *Annual Report 2017–18*, ASIC, Sydney, p. 43

2.68 The ANAO analysed the balance sheet positions of material Australian Government entities as at 30 June 2018. While it is necessary to have regard to the public sector context, the following two measures are generally accepted indicators of the soundness of entities' balance sheets:

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

2.69 Material entities have been grouped into the following categories:

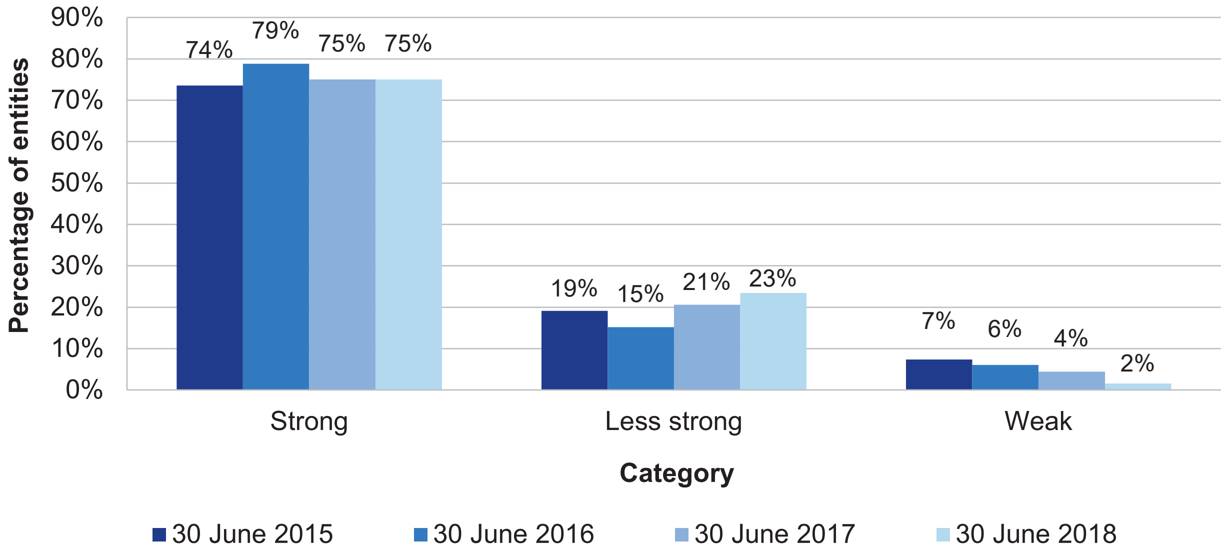
Table 2.4: Balance sheet categories

Category	Parameters
Strong	Entities where financial assets were at least 50 per cent of total liabilities and where equity was at least 25 per cent of total assets. These entities have the strongest balance sheets.
Less strong	Entities where financial assets were less than 50 per cent of liabilities **OR** where equity was less than 25 per cent of total assets. These entities had weaker balance sheets, either in liquidity or gearing terms.
Weak	Entities where financial assets were less than 50 per cent of liabilities **AND** where equity was less than 25 per cent of total assets. These entities are the most likely to need additional funding in the future.

Source: ANAO balance sheet categories.

2.70 Figure 2.6 presents the number of entities in each balance sheet category from 2014–15 to 2017–18.

Figure 2.6: Balance sheet analysis



Source: ANAO analysis of entity balance sheets.

2.71 Seventy-five per cent (2016–17: 75 per cent) of material entities had strong balance sheets in 2017–18. This indicates that the balance sheet positions of the large majority of material entities remain sound.

2.72 The entities with weak balance sheets are those whose operations are dependent on government policy and on continued funding by the Parliament. On this basis, and provided that appropriate attention is given to liquidity issues in the future, these entities are not at high risk of experiencing liquidity problems. From the period 2014–15 to 2017–18, one entity, the Australian Taxation Office (ATO), had a weak balance sheet over the period.

2.73 The ATO's liquidity ratio has remained relatively stable, averaging 42 per cent, for the past four years. The gearing ratio declined in the current year due to the operating loss which was offset against existing reserves. This decline in the gearing ratio was also attributed to the lapsing of annual appropriations.

2.74 In 2016–17 the Department of Health was also in a weak balance sheet category. The department experienced a significant loss in 2016–17 which significantly impacted the gearing ratio as the loss was required to be offset against existing reserves. In 2017–18, the department reported a surplus driven by additional revenues in the form of inspections, applications, conformity assessment and evaluations in the Therapeutic Goods Administration and higher revenue from new chemicals assessments in the National Industrial Chemicals Notification and Assessment Scheme. The department also recorded a reduction in employee expenses. These factors have resulted in an improvement in the department's gearing ratio in the current year, which increased to 21 per cent.

2.75 The Department of the Environment and Energy consistently reported a weak balance sheet arising from the unfunded provision for restoration obligations in the Antarctic in prior years. In 2017–18, the department's gearing ratio improved to 28 per cent due to increases in asset values as a result of the department's revaluation of non-financial assets. The revaluation surplus, coupled with equity injection funding by the Government to build a new science and resupply icebreaker ship for Antarctic operations, has also resulted in an improvement to the gearing ratio in 2017–18.

Executive remuneration reporting

2.76 Entities have been requested to continue reporting executive remuneration in 2017–18 consistent with requests made in 2017. In February 2017, the then Minister for Finance wrote to the boards of government business enterprises (GBE) and the Future Fund Management Agency and the Board of Guardians (FFMA) requesting the entities to make public remuneration packages of individuals who constitute the executive management for the 2015–16 reporting period. These entities were requested to continue this reporting in future annual reports. All entities complied with this request in 2017–18.

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

2.78 The ANAO examined[21] the executive remuneration reporting of 159 entities[22] in light of these requests. The ANAO considered whether the entity had published the requested information and when it was published.[23] Table 2.5 provides a summary of the results.

Table 2.5: ANAO analysis of entities' 2017–18 executive remuneration reporting

	Total number of entities		Entities that did not publish requested information		Entities that did not publish by 31 July	
	2018	2017	2018	2017	2018	2017
Material entities	54	58	1	3	35	30
Non-material entities	105	99	13	20	56	36
Total	**159**	**157**	**14**	**23**	**91**	**66**

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

2.79 Table 2.5 shows that one material and 13 non-material entities did not publish executive remuneration information. These entities advised that this was due to:

- privacy considerations;[24] and
- current reporting in the financial statements which is separately provided on the website, was considered adequate.[25]

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

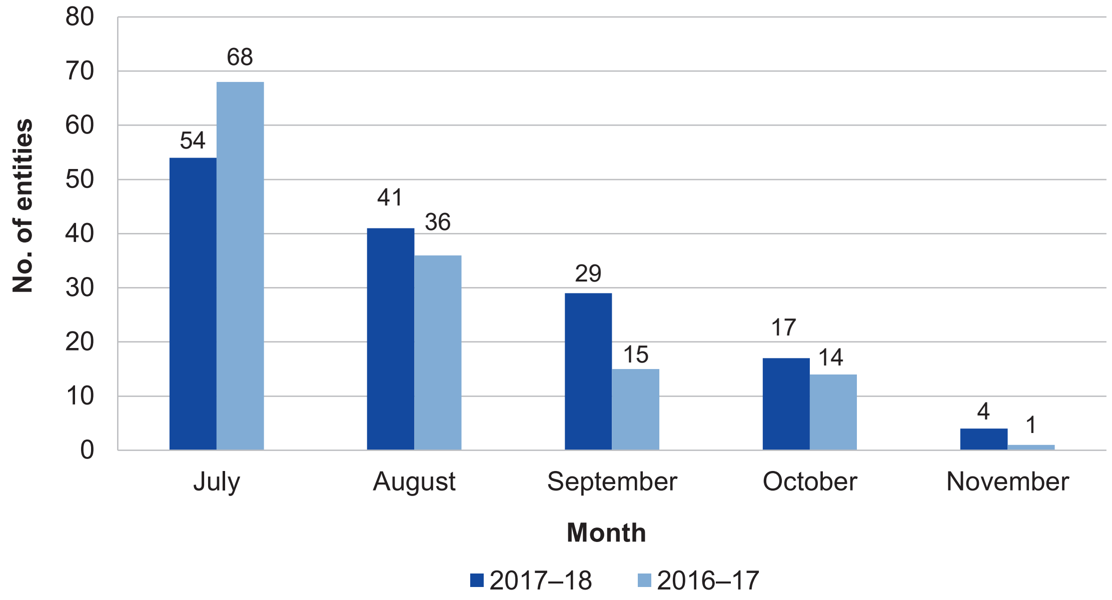
22 The following entities were not required to publish this information: Australian National University; Australian Secret Intelligence Service; the departments of: Parliamentary Services; House of Representatives; and Senate; High Court of Australia; the Parliamentary Budget Office; and subsidiary entities.

23 The ANAO considered information published by entities up to 30 November 2018.

24 Anindilyakwa Land Council; Australian Law Reform Commission; Australian Skills Quality Authority; Australian Sports Foundation Limited; Australian Transport Safety Bureau; Central Land Council; Old Parliament House; Outback Stores Pty Ltd; Royal Australian Mint and Tiwi Land Council.

25 Australian Strategic Policy Institute; National Archives of Australia; Regional Investment Corporation and Wreck Bay Aboriginal Community Council.

Figure 2.7: Timeliness of executive remuneration reporting by entities.



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

2.80 Of the 145 entities that published the information, 54 entities (approximately 38 per cent) published the information by 31 July and a further 41 (approximately 29 per cent) published in August.

2.81 The Secretary's letter requested the information be disclosed permanently on the websites of entities using a standardised reporting format. The guidance suggested disclosure of remuneration at an aggregate level within dollar ranges (or bands) providing the number of employees within each band. The guidance noted that the format may need to be adjusted to take into consideration privacy matters. The format requested the average, by band, for the following components: reportable salary; contributed superannuation; allowances; bonuses paid; and the total remuneration.

2.82 There were six entities that did not comply with the guidance issued. Four entities did not provide a breakdown of the components within the remuneration package.[26] Two entities only included remuneration relating to their boards, other executives were not published due to privacy considerations.[27]

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

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

27 Office of the Auditing and Assurance Standards Board and Office of the Australian Accounting Standards Board.

Audit findings

2.84 Audit findings are raised in response to the identification of a potential business or financial risk posed to an entity. Often these risks arise from deficiencies within entity's internal control processes or frameworks. Weaknesses in internal controls increase the possibility that a material misstatement of an entity's financial statements will not be prevented or detected in a timely manner. The ANAO rates audit findings according to the potential business or financial management risk posed to the entity. The rating scale is presented in Table 2.6.

Table 2.6: Audit findings rating scale

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

Source: ANAO reporting policy.

2.85 A summary of findings identified for the period ended 30 June 2018 by category is presented in Table 2.7.

Table 2.7: Audit findings by category for the period ended 30 June 2018

Category	Significant	Moderate	Minor	Main areas of weakness
IT control environment	–	5	52	• security management, particularly, user access and monitoring of privileged users.
Compliance and quality assurance frameworks	–	7	17	• appropriate quality assurance frameworks supporting financial reporting; and • compliance frameworks for program payments.
Accounting and control of non-financial assets	1	3	10	• management of inventory balances; • management and monitoring of assets under construction and capitalisation; and • processes supporting the valuation and assessment of impairment of assets.

Category	Significant	Moderate	Minor	Main areas of weakness
Revenue, receivables and cash management	–	–	16	• recognition of revenue arising from multi-year contracts; and • monitoring, management and review of bank accounts.
Human resources financial processes	–	2	23	• quality assurance over externally provided services; and • timely documentation and oversight of activities supporting payroll functions.
Purchases and payables management	–	–	8	• authorisation and oversight of expenditure; and • segregation of duties.
Other audit findings	–	1	14	• management of delegations; and • governance arrangements with third parties.
Total	**1**	**18**	**140**	

Source: ANAO compilation of findings.

2.86 Two legislative breaches were reported during 2017–18. Of these, one was significant and one non-significant.[28] The significant legislative breach was reported to the Northern Land Council and is not included in the table above. Further details regarding the significant breach can be found in Chapter 4, paragraphs 4.16.35 to 4.16.39.

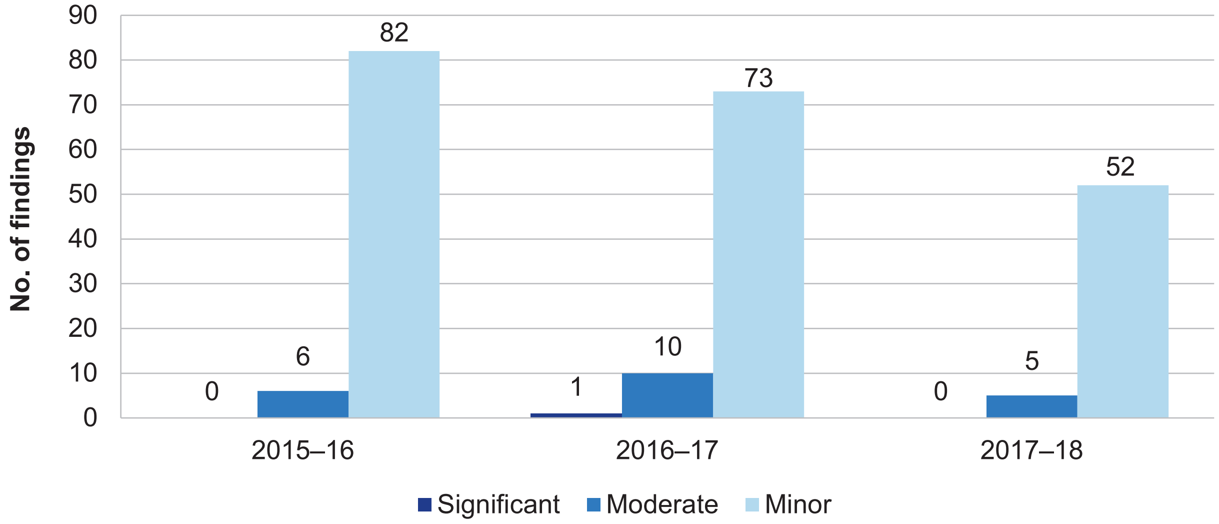
Information Technology control environment

2.87 Figure 2.8 demonstrates the trend in audit findings related to entities' IT control environments from 2015–16 to 2017–18. There is a decrease both in overall findings and the number of moderate findings. The most common area of weakness across all findings continues to relate to security management, in particular, the management of user access and monitoring of privileged users.[29] A lack of controls around privileged users increases the risk of unauthorised changes being made to systems and data, or unauthorised data leakage and is an area requiring sustained focus by entities.

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

29 Users with administrative privileges, commonly referred to as privileged user access, are able to make significant changes to IT systems configuration and operation, bypass critical security settings and access sensitive information. Source: *Australian Government Information Security Manual.*

Figure 2.8: IT control environment audit findings 2015–16 to 2017–18



2.88 Three of the moderate findings remained unresolved from the prior financial year.[30] Two moderate findings were raised during 2017–18, one of which was a minor audit finding and was upgraded due to issues that remained unaddressed from the prior year.[31]

Compliance and quality assurance frameworks

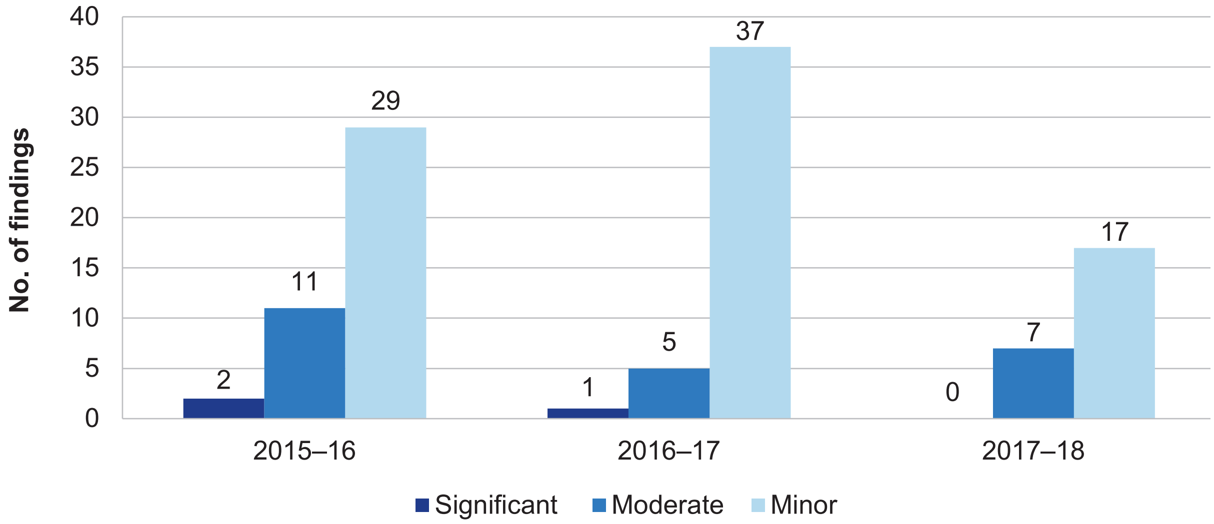
2.89 Entities place reliance on internal and external systems, parties and information in decision-making processes. The implementation of effective compliance and quality frameworks and processes, provide assurance over the completeness and accuracy of information and is integral to the preparation of financial statements that are free from material misstatement.

2.90 Figure 2.9 outlines trends in findings related to compliance and quality assurance frameworks identified between 2015–16 and 2017–18.

30 Further details regarding the moderate findings can be found in the following entities' detailed in chapter 4 for: Airservices Australia; Australian Federal Police; and National Health and Medical Research Council.

31 Further details regarding the moderate findings can be found in the following entities' detailed in chapter 4 for: Australian Federal Police; and Clean Energy Regulator.

Figure 2.9: Compliance and quality assurance framework audit findings 2015–16 to 2017–18



2.91 The significant audit finding in 2016–17 related to the National Disability Insurance Agency: *Business Assurance – Compliance Program,* first raised in 2015–16. This was downgraded to a moderate audit finding as part of the 2017–18 interim audit and remains unresolved. Further details can be found in the National Disability Insurance Agency section in Chapter 4.[32]

2.92 Of the six remaining moderate audit findings unresolved in 2017–18, five were first reported in 2017–18 and related to weaknesses in: assurance processes over information sourced from third parties; quality assurance processes supporting financial statement preparation; and risk management practices relating to loan facilities. One moderate finding relating to the National Disability Insurance Agency: *Streamlined Access to Scheme – Defined Programs* was first reported in 2016–17 and remains unresolved.[33] Further details of the resolved audit findings can be found in the respective entity's section in Chapter 4.[34]

2.93 The weaknesses in this category related to:

- financial statement preparation processes;
- quality assurance over data integrity and program payments; and
- design and documentation supporting third party arrangements.

2.94 There remains a need for entities to focus on risk management processes to support the effective engagement with risk in the delivery of programs. In particular, the implementation, documentation and consistent application of risk management processes.

32 Paragraph 4.17.38– 4.17.44

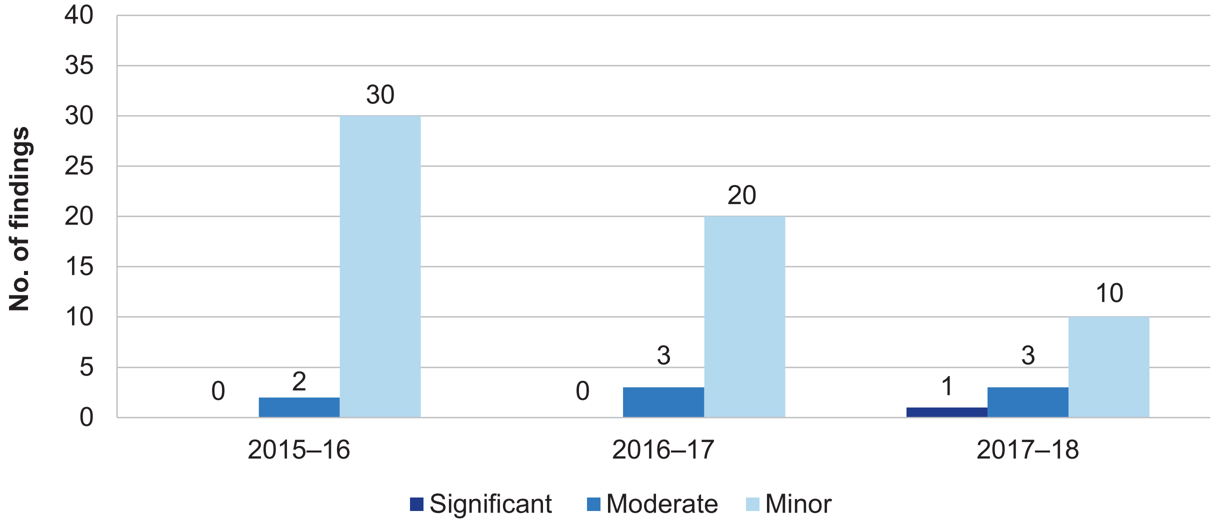
33 Further details regarding the moderate audit findings can be found in the following entity results section in Chapter 4: Australian National University; Australian Nuclear Science and Technology Organisation; departments of: Communications and the Arts; and Industry, Innovation and Science; Moorebank Intermodal Company Limited; and National Disability Insurance Agency.

34 Four moderate 2016–17 findings were resolved during the final phase of 2017–18. These related to: Director of National Parks; Australian Digital Health Agency; Australian Taxation Office; and National Disability Insurance Agency.

Accounting and control of non-financial assets

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

Figure 2.10: Accounting and control of non-financial assets audit findings 2015–16 to 2017–18



2.96 One new significant audit finding was reported in 2017–18 relating to the Department of Defence's management and monitoring of specialist military equipment and inventory balances.[35]

2.97 Of the three moderate audit findings open at 2017–18, two were first reported in 2017–18 and one was unresolved from the prior year. The remaining findings reported in 2016–17 have been resolved. The open moderate findings reported in 2017–18 relate to weaknesses in: asset and inventory management including impairment processes.[36]

2.98 The weaknesses in this category related to entities' processes for:

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

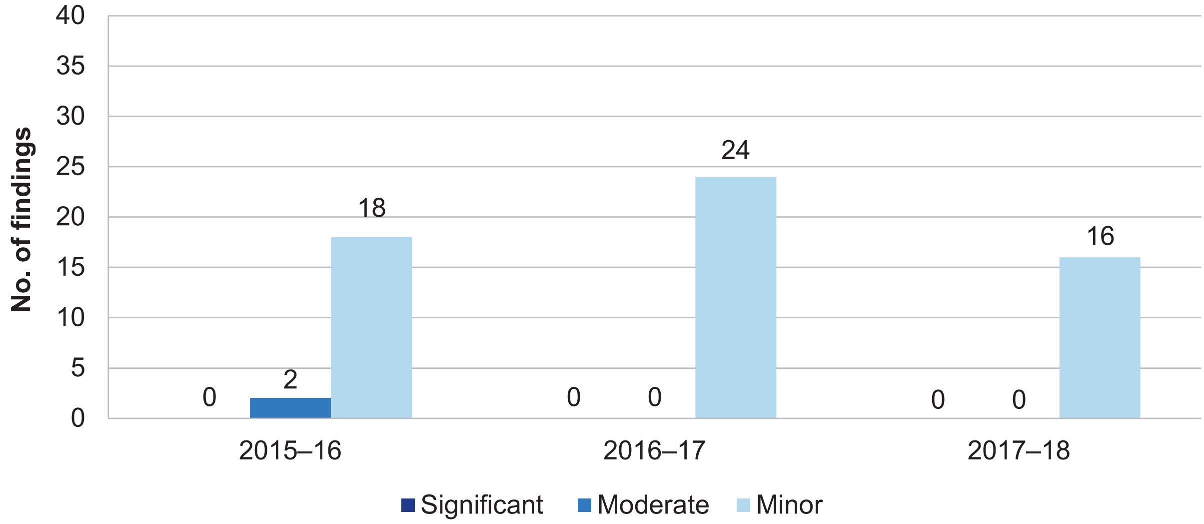
35 Further details regarding the significant audit finding can be found in paragraphs 4.4.16–4.4.22.

36 Further details regarding the moderate audit findings can be found in the following entity results section in Chapter 4: Department of Defence; Director of National Parks and Royal Australian Mint.

Revenue, receivables and cash management

2.99 Revenue and receivables consists of Parliamentary appropriations, taxation revenue, customs and excise duties and administered levies. Revenue is also generated by entities from the sale of goods and services and a range of other sources. Cash management involves the collection and receipt of public monies and the management of official bank accounts.

Figure 2.11: Revenue, receivables and cash management audit findings 2015–16 to 2017–18



2.100 Consistent with 2016–17, there are no significant or moderate audit findings reported in this category. The number of minor findings has reduced from 24 to 16. Three minor findings have been outstanding for more than one year of which two have been unresolved for two years and one unresolved for three years.

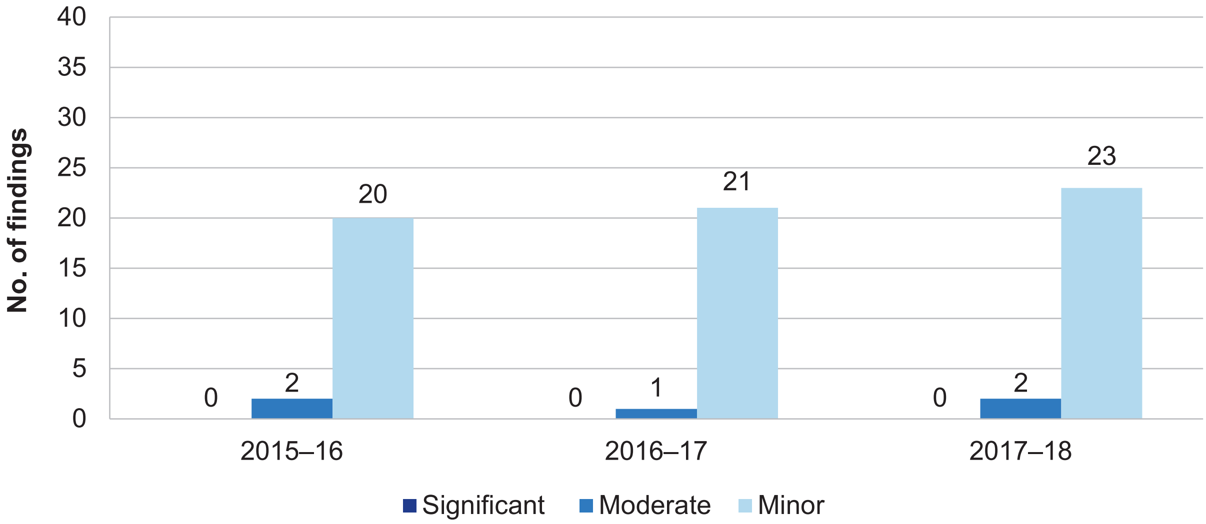
2.101 The weaknesses in this category include:

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

Human resources financial processes

2.102 Human resources encompass the day-to-day management and administration of employee entitlements and payroll functions. Employee benefits expenditure represents the largest departmental expenditure item for most entities. Employee entitlement liabilities involve estimates and judgements in inputs. It is important for entities to establish robust controls in these areas to support complete and accurate payment and recording of transactions.

Figure 2.12: Human resources financial processes audit findings 2015–16 to 2017–18



2.103 Two moderate audit findings were first reported in 2017–18. The findings relate to quality assurance and controls over human resource processes.[37]

2.104 There has been an increase in the number of minor audit findings reported over the past three years. Human resource transactions are high volume and low value in nature. As a result, management relies on effective and well-designed manual and automated controls. Unaddressed control weaknesses can result in systematic errors increasing the risk of material misstatement.

2.105 Nine minor findings have been unresolved for at least two years. Of these, one has been unresolved for three years.

2.106 The findings in this area related to weaknesses in:

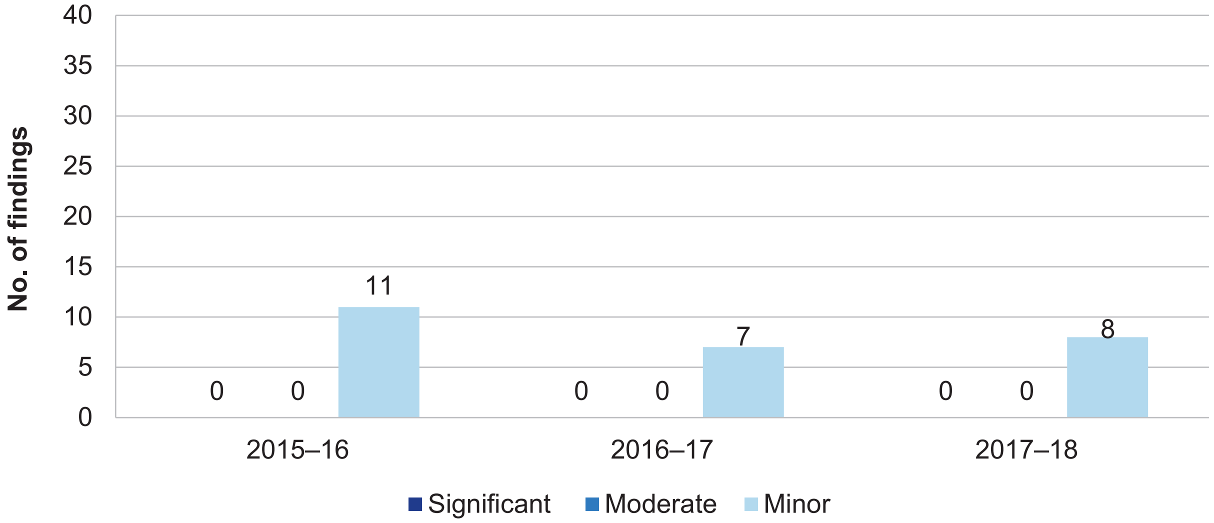
- quality assurance over services provided by third parties;
- appropriate segregation of duties; and
- appropriate review and approval processes supporting changes to human resources data.

Purchases and payables management

2.107 Purchases and payables are payments to, or due to, suppliers including contractor and consultancy expenses, lease payments and general administrative payments. These typically comprise the second most significant departmental expenditure item of entities after employee benefits.

37 Further details regarding the new moderate audit findings can be found in the following entity results section in Chapter 4: Australian National University and Australian Federal Police.
The closed moderate finding was first raised and reported in 2016–17 related to the Department of the Prime Minister and Cabinet was resolved during the 2017–18 interim audit. Details regarding this finding were reported in Auditor-General Report No.47 2017–18 *Interim Report on Key Financial Controls of Major Entities*.

Figure 2.13: Purchases and payables management audit findings 2015–16 to 2017–18



2.108 As demonstrated by Figure 2.13 above, there are limited findings in this category which indicates that controls in this area are well established. Of the eight minor audit findings unresolved at 2017–18, one is unresolved from 2016–17.

2.109 The most common weaknesses between 2015–16 and 2017–18 are:

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

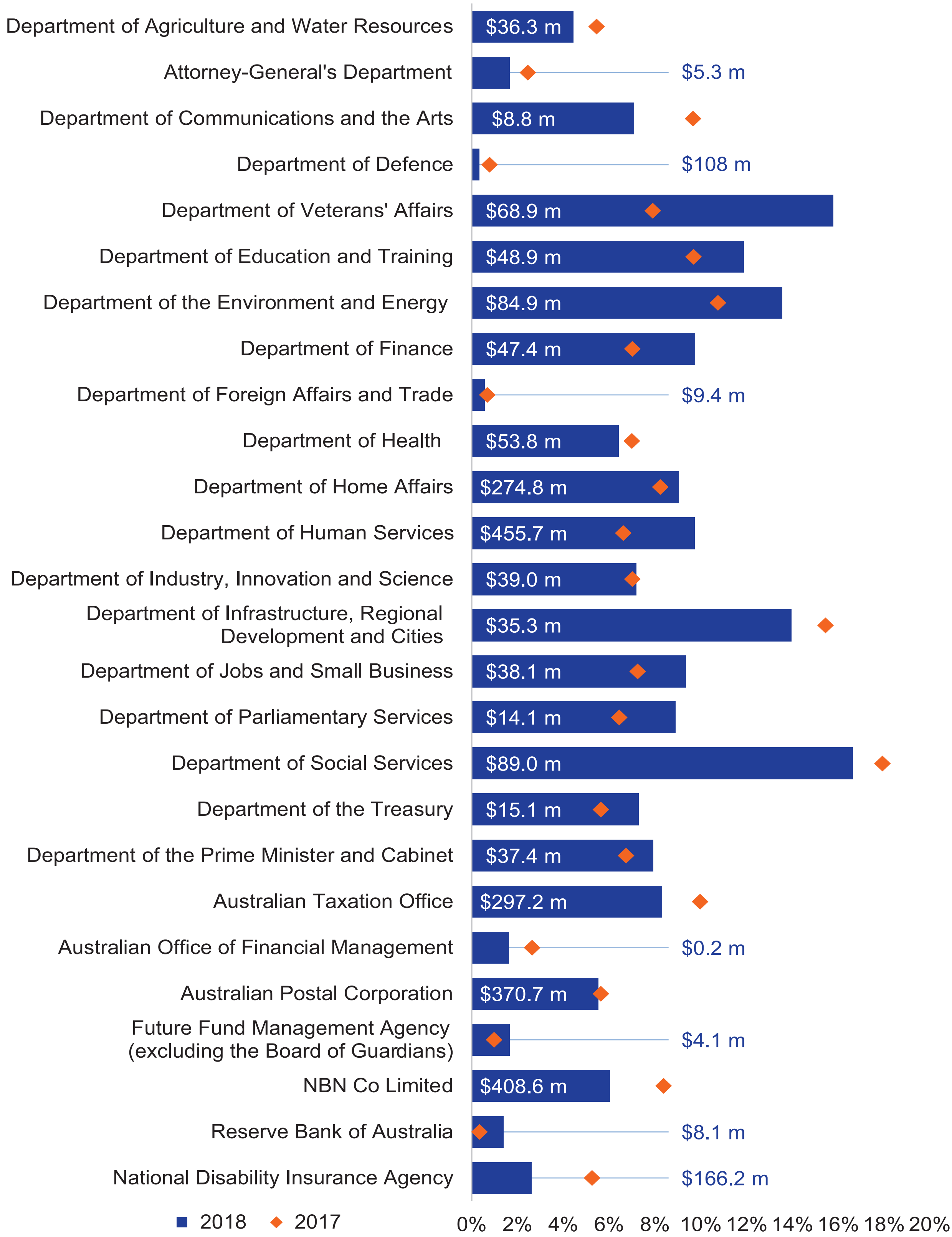
Contractor and consultant expenses

2.110 The ANAO considered the financial statements of the 26 entities included in Auditor-General Report No 47 *Interim Report on Key Financial Controls of Major Entitie*s. The FRR does not specify the level of disaggregation in the financial statements note disclosure relating to supplier expenses.

2.111 The ANAO examined the note disclosures in the 2017–18 financial statements of these entities and extracted information relating to departmental contractors and consultants, and total expenses. Figure 2.14 provides a summary of the 2017–18 contractor and consultant expenses against total expenses.

2.112 In 2017–18 entities incurred contractor expenses ranging from $0.2 million (2016–17: $0.3 million) to $455.7 million (2016–17: $440.3 million). Contractor expenses ranged from 0.3 per cent to 16.6 per cent of total expenses (2016–17: 0.3 per cent to 20.1 percent).

Figure 2.14: Entities' expenses on contractors

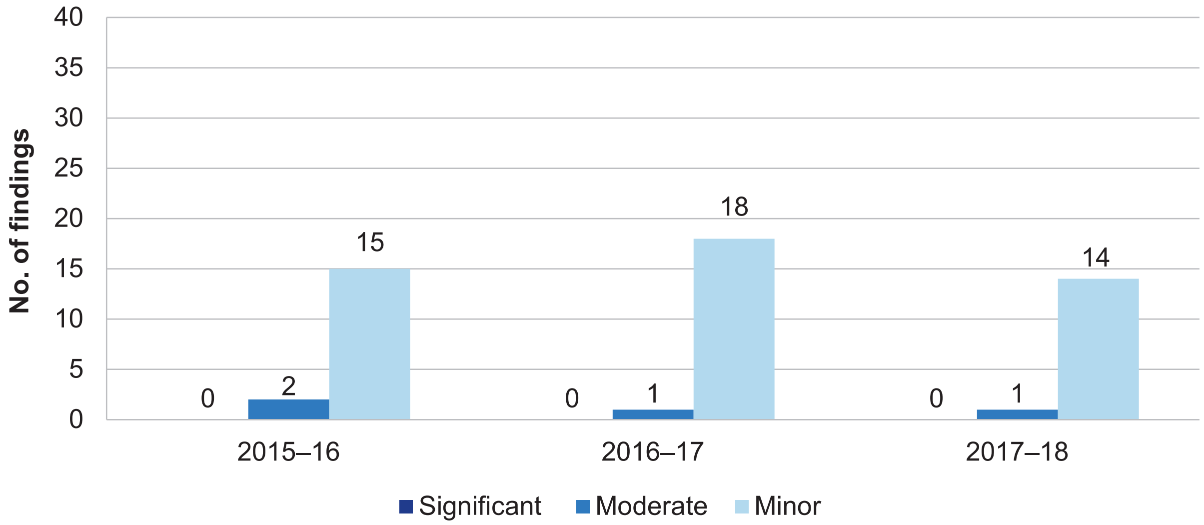


Source: Entities' financial statements for 2016–17 and 2017–18 and information provided by entities.

Other audit findings

2.113 Other audit findings typically include items relating to the: management and implementation of service level agreements or memoranda of understanding; updating or maintaining key governance documentation; and findings related to presentation and disclosure in the financial statements.

Figure 2.15: Other audit findings 2015–16 to 2017–18



2.114 One new moderate audit finding was reported in 2017–18 relating to weaknesses in appropriate exercise of delegations at the National Disability Insurance Agency. The moderate audit finding reported in 2016–17 for the Department of Home Affairs was downgraded to a minor audit finding.[38]

2.115 The weaknesses in this category related to:

- segregation of duties;
- formalisation of key corporate documents including agreements with third parties and internal policies; and
- fraud risk assessments and reporting of fraud to those charges with governance.

38 Further details regarding the moderate audit findings raised and resolved can be found in the following entity results section in Chapter 4: National Disability Insurance Agency; and Department of Home Affairs.

3. Reporting and auditing frameworks

Chapter coverage

This chapter outlines recent and future changes to the public sector reporting framework and the Australian auditing framework relating to the auditor's report on financial statements.

Summary of developments

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

The *Independent Review into the operation of the Public Governance, Performance and Accountability Act 2013 and Rule* has made a number of recommendations to the Minister for Finance and the Public Service including: bringing forward the date for the tabling of annual reports; removing duplication and improving linkages between accountability documents; and increasing disclosures around remuneration paid to executives and highly paid staff.

Introduction

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

3.2 The AASB bases its accounting standards on the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. As IFRS are designed primarily for use by private sector and for-profit organisations, the AASB amends the IFRS to reflect significant transactions and events that are particularly prevalent in the public and not-for-profit private sectors. In doing so, it takes into account standards issued by the International Public Sector Accounting Standards Board.

3.3 The Finance Minister prescribes additional reporting requirements for Commonwealth entities. These are contained in the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (the Rule). The Rule is made under the *Public Governance, Performance and Accountability Act 2013* (the PGPA Act).

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

3.5 The financial reporting and auditing frameworks that applied in 2017–18 are illustrated in Appendices 3 and 4 of this report.

Changes to the Australian public sector reporting framework

Future changes in the financial framework

3.6 In September 2018, the *Independent Review into the operation of the Public Governance, Performance and Accountability Act 2013 and Rule* in its report to the Minister for Finance and the Public Service made the following recommendations that if adopted have the potential to significantly impact on the status, presentation and preparation of financial statements:

- annual reports (including financial statements) to be presented to the Parliament on or before 30 September. This would increase entity accountability by ensuring that Parliament has this information prior to the Senate supplementary budget estimates hearings;
- reducing the reporting burden on small entities in particular by removing duplication and using standard templates across portfolio budget statements, corporate plans and annual reports;
- increased disclosures relating to remuneration of executives and highly paid staff. In addition to the current key management personnel disclosures, annual reports would include individual disclosures for executive and highly paid staff remuneration similar to that required for Australian Securities Exchange listed companies. Entities would also be required to disclose remuneration policies and practices; and
- annual performance statements to be considered the primary vehicle for reporting entity performance to Parliament.

Future changes to accounting standards

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

Financial instruments

3.8 The new financial instruments standard AASB 9 *Financial Instruments* (AASB 9) is effective for financial years commencing on or after 1 January 2018; this means it will have implications for entities in the 2018–19 financial year. AASB 9 moves away from recognition and disclosure primarily determined by the type of instrument to recognition and disclosure determined in large part by an entity's purpose for acquiring and holding the instrument. Where the financial instrument is held for the purpose of government policy, the entity will need to document the relationship between classification and policy.

3.9 AASB 9 amends the existing historical loss model for the assessment of credit risk to an expected loss model. This will require entities to consider the initial and ongoing ability of the creditor to settle the obligation.

3.10 The Department of Finance has issued a position paper *Implementation Options for AASB 9 Financial Instruments*, which outlines the Commonwealth's position with regard to selected options and application guidance for transitioning to the new standard. This includes the position that in applying the new standard retrospectively, as required by AASB 9, entities are not required to restate comparative information and any difference between the previous and revised carrying amount is recognised in opening retained earnings.

Revenue

3.11 The new revenue standard AASB 15 *Revenue from Contracts with Customers* (AASB 15) is effective for financial years commencing on or after 1 January 2019 for not-for-profit entities, meaning it will impact most Commonwealth entities in the 2019–20 financial year.[39] AASB 15 applies to all exchange transactions and provides a consistent approach to revenue recognition. The principle underpinning AASB 15 is that revenue is earned when the customer receives the goods or services that have been promised under the contract. AASB 15 will impact entities where:

- funding is given to provide goods or services to a third party - the entity will recognise revenue when the goods or services are provided to the third party. Under standards currently in force, revenue is recognised when the money is received from the funding provider;
- funding agreements do not identify specific goods or services to be delivered over the term of the contract. Entities will recognise revenue up front unless contract completion is a deliverable; and
- both revenue and the related expense are deferred until the goods or services are delivered, entities with significant non-appropriation revenue are likely to see an impact on their balance sheet and operating result, particularly for long term projects with a significant delay between establishment and initial delivery.

3.12 The Department of Finance has issued a positon paper *Implementation Options for AASB 1058 Income of Not-for-Profit Entities in conjunction with AASB 15 Revenue from Contracts with Customers*, which outlines the Commonwealth's position on options for the implementation of AASB 1058 *Income of Not-for-Profit Entities* (AASB 1058), in conjunction with AASB 15. This includes the position that entities are required to adopt a modified retrospective application on transition. As a consequence, AASB 15 is to be applied to all new and uncompleted contracts from the date of initial application and comparative information for the preceding periods is not required to be restated.

Leases

3.13 The revised leasing standard AASB 16 *Leases* (AASB 16) is effective for financial years commencing on or after 1 January 2019; this means it will impact entities in the 2019–20 financial year. AASB 16 significantly increases the recognition and disclosure of leases by lessees with the majority of leases currently treated as operating leases recognised on the balance sheet. The net impact on the balance sheet is expected to be limited as the right-of-use asset and liability for future lease payments will be largely offsetting as the value of the right-of-use asset is based on the net present value of the future lease payments. In terms of profit or loss impact, rather than the

39 For-profit entities will apply the requirements for financial years commencing on or after 1 January 2018.

current annual rent expense over the term of the lease two expenses will be recognised - interest on the lease liability and amortisation of the right-of-use asset. The effect of AASB 16 is to "front-load" the recognition of expense, rather than recognising it on a straight-line basis.

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

3.15 The Department of Finance has issued a positon paper *Implementation Options for AASB 16 Leases* which outlines the Commonwealth's position on the options available for the implementation of AASB 16. This includes mandating the election to not reassess previous lease contracts under the new standard and the modified transition model under which the cumulative effect of application of the new standard is recognised in opening retained earnings.

4. Results of financial statements audits by portfolio

Chapter coverage

This chapter outlines the results of the audits of the 2017–18 financial statements of individual entities by portfolio based on arrangements existing at 30 June 2018.

The chapter also details:

- an overview of the portfolio and each material entity's primary role; for each material entity[a] [b] [c] in the portfolio:
  - a summary of financial performance that provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items and commentary regarding significant movements; and
  - key areas of financial statements risk and the factors contributing to those risks for all material entities (this includes identification of key audit matters for relevant entities); and
- the status of significant and moderate audit findings reported during 2017–18 and previous years for all entities.

Audit results

Nineteen significant and moderate audit findings were reported in 2017–18 (2016–17: 22), and one significant legislative breach (2016–17: three).

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

Note b: The Commonwealth acquired 100 per cent ownership of Snowy Hydro Limited (SHL) on 29 June 2018. In accordance with the *Public Governance Performance and Accountability Act 2013* (PGPA Act) the Public Governance, Performance and Accountability Rule 2014 was amended to prescribe Snowy Hydro Limited as a government business enterprise and amend the first reporting period as the period commencing on 29 June 2018 and ending on 30 June 2019. As a result no audit report was issued by the ANAO in 2018.

Note c: The Regional Investment Corporation (RIC) was established in 2017–18 with a view to fully commencing operations from 1 July 2018. RIC is classified as a material entity for inclusion in the consolidated financial statements. For the purposes of this report RIC has not been included in the Agriculture and Water Resources portfolio chapter due its limited financial transactions in the 2017–18 financial year. An audit report was issued for RIC in 2017–18.

Results of financial statements audits

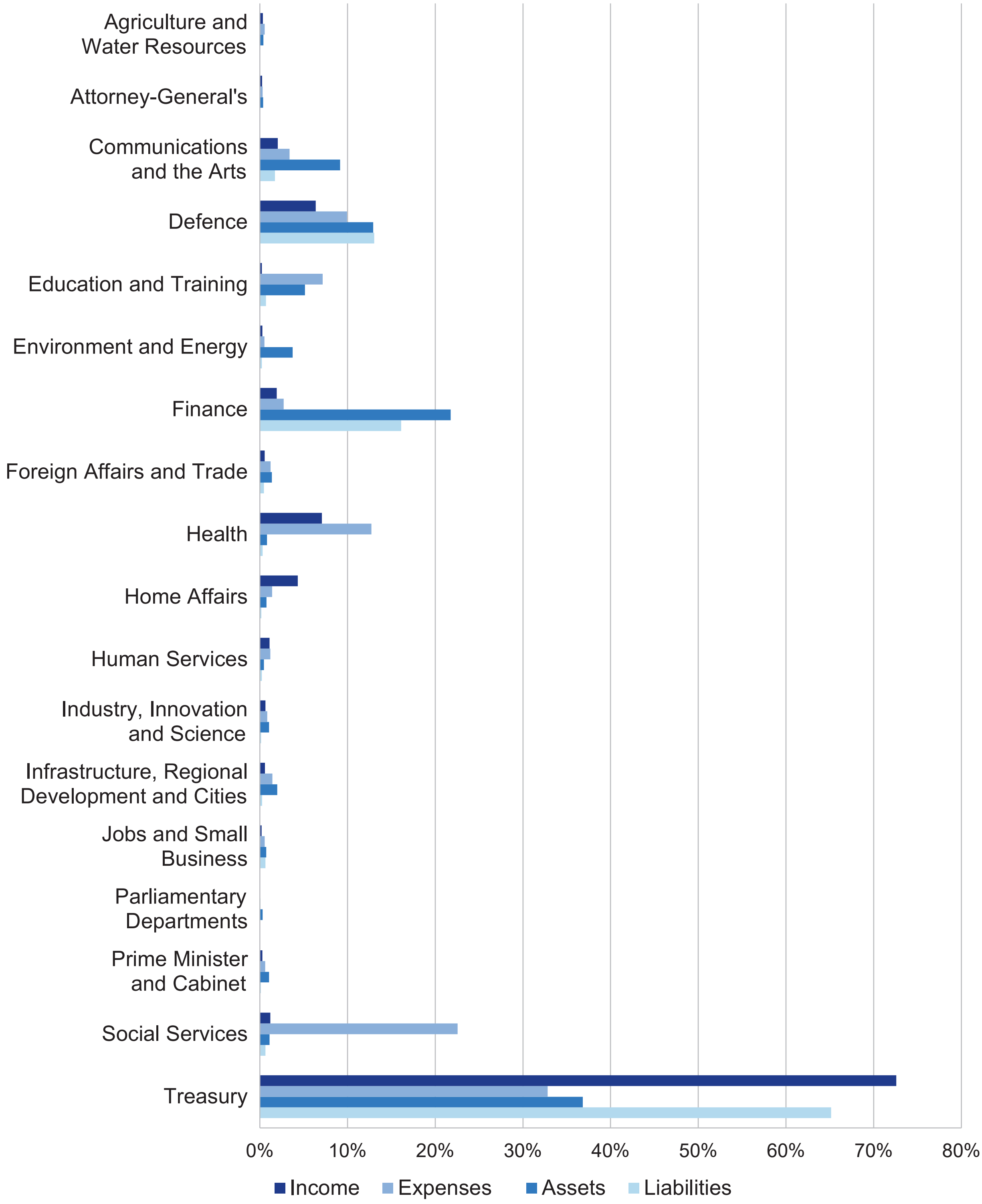
4.0.1 A central element of the ANAO's financial statements audit methodology, and the focus of the planning phase of the ANAO audits, is a sound understanding of an entity's environment and internal controls relevant to assessing the risk of material misstatement in the financial statements. This understanding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

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

4.0.3 Where a performance audit was tabled during 2017–18 that was relevant to the financial management or administration of an entity, the impact of those observations on the audit approach will be discussed within the relevant portfolio section. The observations of performance audits tabled since 1 July 2018 and relevant to the financial management or administration of entities will inform the ANAO's 2018–19 financial statements audits risk identification process.

4.0.4 Figure 4.0.1 provides each portfolio's contribution, as a percentage of the Australian Government's 2017–18 Consolidated Financial Statements.

Figure 4.0.1: Portfolio's contribution as a percentage of the Australian Government's 2017–18[40] Consolidated Financial Statements



Source: ANAO analysis of CFS and portfolio's financial statements for the year ended 30 June 2018.

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

4.0.5 This chapter reflects portfolio arrangements at 30 June 2018 as established by the September 2017 Administrative Arrangements Order[41] and outlines the following information:

- the portfolio overview;
- for each material entity within the portfolio:
  - the primary role of the entity;
  - a summary of financial performance that provides a comparison of the 2016–17 and 2017–18 key financial statement items and commentary regarding significant movements;
  - key areas of financial statements risk; and
- the status of significant and moderate audit findings during 2017–18 and previous years for all entities.

4.0.6 Table 4.0.1 presents a summary of significant and moderate findings reported at 30 June 2018 and 30 June 2017 by portfolio and entity, including the number carried forward as unresolved from the previous year. The findings and associated recommendations were agreed by all entities with one exception relating to the moderate audit finding reported to the Director of National Parks which was partially agreed.[42] Table 4.0.1 does not include significant legislative breaches. One significant legislative breach was reported in relation to the Northern Land Council (paragraphs 4.16.35 to 4.16.39).

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

Portfolio	Entity	30 June 2018		30 June 2017	
		Findings[a]	Repeat/ unresolved findings[b]	Findings[a]	Repeat/ unresolved findings[b]
Communications and the Arts	Department of Communication and the Arts	1	–	–	–
Defence	Department of Defence	2	–	2	–
Education and Training	Department of Education and Training	–	–	–	1
	Australian National University	2	–	–	–
Environment and Energy	Clean Energy Regulator	1	–	–	–
	Director of National Parks	–	1	2	–

41 These arrangements were established by the Administrative Arrangements Order of 1 September 2017 incorporating amendments up to 20 December 2017. AAO's issued after 30 June 2018 are not taken into consideration. A full listing of entities is presented at Appendix 1.

42 For further details refer to paragraph 4.6.35.

Portfolio	Entity	30 June 2018		30 June 2017	
Health	Australian Digital Health Agency	–	–	1	–
	National Health and Medical Research Council	–	1	1	–
Home Affairs	Department of Home Affairs	–	–	2	–
	Australian Federal Police	2	1	3	–
	Australian Transaction Reports and Analysis Centre	–	–	1	–
Industry, Innovation and Science	Department of Industry, Innovation and Science	1	–	–	–
	Australian Nuclear Science and Technology Organisation	1	–	–	–
Infrastructure, Regional Development and Cities	Airservices Australia	–	1	1	–
	Moorebank Intermodal Company Limited	1	–	–	–
Prime Minister and Cabinet	Department of the Prime Minister and Cabinet	–	–	1	–
Social Services	National Disability Insurance Agency	2	1	7	1
Treasury	Australian Taxation Office	–	–	1	–
	Royal Australian Mint	1	–	–	–
Total		**14**	**5**	**22**	**1**

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

Note b: Repeat/unresolved findings are categorised as such if unresolved from a prior financial year. Findings transferred to another entity as a result of machinery of government changes which remain unresolved are treated as repeat findings for the purposes of this table.

Source: 2017–18 and 2016–17 ANAO correspondence.

4.1 Agriculture and Water Resources portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Agriculture and Water Resources	**Yes**	Moderate	✓	31 Aug 18	31 Aug 18	Nil
Grains Research and Development Corporation	**Yes**	Low	✓	9 Aug 18	10 Aug 18	Nil
Regional Investment Corporation	**Yes**	Low	✓	5 Oct 18	8 Oct 18	Nil

✓: auditor's report not modified

Portfolio overview

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

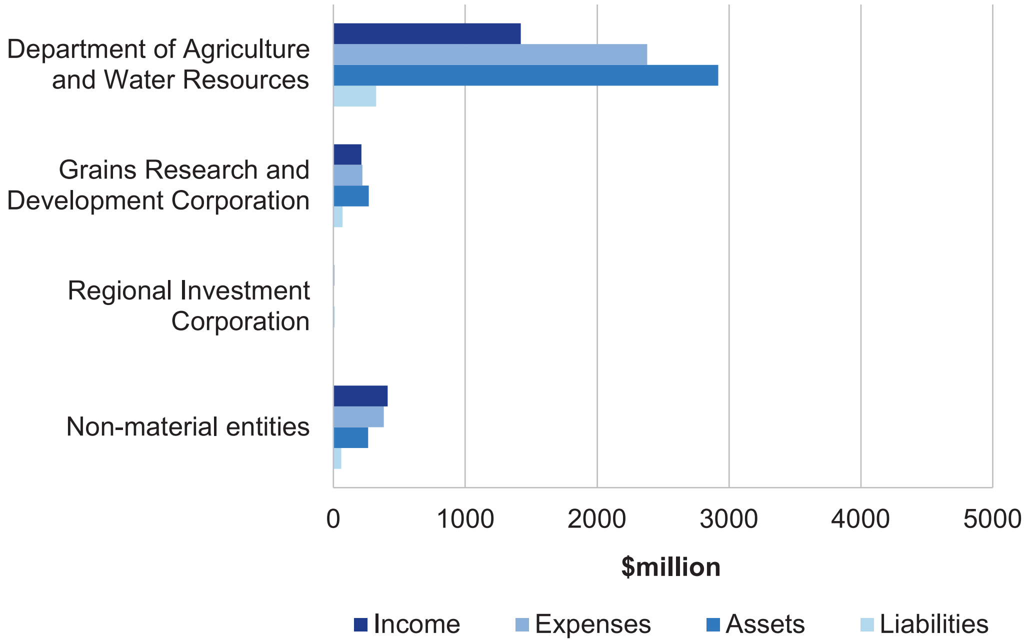
4.1.2 As a result of the 19 December 2017 machinery of government changes, responsibility for administering the National Water Infrastructure Development Fund was transferred to the Department of Infrastructure, Regional Development and Cities.

4.1.3 The Regional Investment Corporation (RIC) was established as a corporate Commonwealth entity on 8 March 2018 under the *Regional Investment Corporation Act 2018.* The Corporation did not commence operations until 1 July 2018. The Department of Agriculture and Water Resources was allocated the budget for undertaking establishment of the Corporation in 2017–18. In June 2018, the funds were transferred to the Corporation to continue the establishment activities.[43]

4.1.4 Figure 4.1.1 shows the Agriculture and Water Resources' portfolio's income, expenses, assets and liabilities.

43 The Regional Investment Corporation (RIC) was established in 2017–18 with a view to fully commencing operations 1 July 2018. RIC is classified as a material entity for inclusion in the consolidated financial statements. For the purposes of this report RIC has not been included in the Agriculture and Water Resources portfolio chapter due its limited financial transactions in the 2017–18 financial year. An audit report was issued for RIC in 2017–18.

Figure 4.1.1: Agriculture and Water Resources portfolio income, expenses, assets and liabilities[44]



Source: CFS 2017–2018.

4.1.5 The following sections provide a summary of the 2017–18 financial statements audit results for the Department of Agriculture and Water Resources (Agriculture), and one other material entity in the portfolio, Grains Research and Development Corporation.

Department of Agriculture and Water Resources

4.1.6 The Department of Agriculture and Water Resources (Agriculture) works with national and international governments and industry partners to increase the value of agricultural trade and reduce the risk to the agriculture sector. Agriculture contributes to maintaining and improving market access for primary producers, encouraging agricultural productivity in primary industries and supporting sustainable, high-quality natural resources to benefit producers and the community.

Summary of financial performance

4.1.7 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by Agriculture, and includes commentary regarding significant movements between years contributing to overall performance.

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

Table 4.1.1: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	388.8	379.7
Revenue from government	380.7	375.7
Deficit attributable to the Government	8.1	4.1
Total other comprehensive income	0	1.6
Total other comprehensive loss attributable to the Australian Government	8.1	2.4
Total assets	335.4	316.5
Total liabilities	217.2	218.7
Total equity	118.2	97.8

Source: Agriculture's financial statements for the year ended 30 June 2018.

4.1.8 The net cost of services has increased primarily because of the higher grant expenses related to the establishment of RIC which resulted in the department's transfer to the RIC of establishment funding.

4.1.9 Total assets have increased primarily due to the increased number of projects that have been in progress by the department throughout the year. This also resulted in an increase to total equity.

Table 4.1.2: Key administrated financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	1,561.5	1,505.6
Total income	708.7	721.0
Deficit after income tax	852.8	784.6
Total other comprehensive income after income tax	33.2	35.9
Total comprehensive loss	819.7	748.8
Total assets administered on behalf of Government	2,582.4	2,010.4
Total liabilities administered on behalf of Government	107.5	103.8
Net assets/(liabilities)	2,474.9	1,906.5

Source: Agriculture's financial statements for the year ended 30 June 2018.

4.1.10 The increase in total expenses is due to higher than anticipated transactions related to the wool and grain commodities during the year resulting in higher levy disbursements. Total assets administered on behalf of Government increased primarily due to the change in the reporting framework for cash and cash equivalents. Special account figures are reported as part of the cash and cash equivalents figure for the 2017–18 financial year.

Key areas of financial statements risk

4.1.11 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of Agriculture's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.1.3, including which areas were considered key audit matters (KAM) by the ANAO. There were no significant or moderate audit findings identified relating to these key areas of risk.

Table 4.1.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Departmental sale of goods and rendering of services revenue $400.0 million	Accuracy and completeness of export and quarantine revenue KAM	**Higher**	• large range of revenue streams, collected across the country through multiple systems; • complex cost recovery arrangements; • collection of a significant portion of biosecurity revenues is performed by the Department of Home Affairs; • estimation involved in the calculation of the provision for doubtful debts; and • complex disclosure requirements for cost recovery arrangements.
Administered levies fees and charges $565.9 million	Accuracy and completeness of primary industry levies, fees and charges revenue KAM	**Moderate**	• self-assessment nature of collections; and • complexities involved in estimating the level of agricultural production on which revenue is based.
Administered loans $804.9 million (included in trade, taxation and other receivables)	Valuation of loans to the state and territory governments KAM	**Moderate**	• variation in loan terms across jurisdictions; • potential changes in the accounting treatment for loans should they be deemed concessional in nature; • the level of estimation involved in determining any potential impairment of loans, with the likelihood increasing as the loans age; and • Commonwealth loans with jurisdictions are managed by the department. Subsequent management of loans to farm businesses is undertaken by a third party (the jurisdiction), who is responsible for the approval of recipients, and the ongoing monitoring and maintenance of the loans.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered assets recognised under jointly controlled arrangements $655.0 million	Valuation of jointly controlled assets KAM	**Moderate**	• jointly controlled assets are managed by a third party with limited oversight from joint owners; and • the complexities involved in valuing the unique assets managed under the arrangement.
Administered personal benefits payments $33.7 million	Eligibility of personal benefit payments	**Moderate**	• susceptibility to fraudulent benefit claims; and • eligibility for personal benefit payments paid by the Department of Human Services on behalf of Agriculture under the Farm Household Allowance scheme is subject to the applicants meeting a number of complex legislative conditions.

Source: ANAO 2017–18 audit results, and Agriculture's financial statements for the year ended 30 June 2018.

Audit results

4.1.12 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Grains Research and Development Corporation

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

Summary of financial performance

4.1.14 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by the GRDC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.1.4: Key financial statements items

Key financial statement items	2017–18 ($m)	2016–17 ($m)
Net cost of services	77.3	54.5
Revenue from Government	71.3	73.3
Surplus/(deficit) attributable to the Government	(6.0)	18.8
Total other comprehensive loss	0.4	0.5
Total comprehensive income/(loss) attributable to the Australian Government	(6.4)	18.3

Key financial statement items	2017–18 ($m)	2016–17 ($m)
Total assets	268.8	307.2
Total liabilities	69.5	101.4
Total equity	199.4	205.8

Source: GRDC's financial statements for the year ended 30 June 2018.

4.1.15 The increase in net cost of services was mainly due to the decrease in industry contributions due to lower production levels across the grains industry, lower royalties due to royalties received from one major investing company in 2016–17 that were not recurring in 2017–18 and lower research and development expenses due to the variations in the number and size of individual projects.

4.1.16 The decrease in assets was due to the lower Commonwealth Contribution held as a receivable in 2017–18 compared to the prior year. The decrease in liabilities was due to a decrease in research and development liabilities as a result of more active management of projects resulting in timely processing of suppliers claims for research and development.

Key areas of financial statements risk

4.1.17 The ANAO has completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of GRDC's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.1.5. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.1.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Research and development expenses and payables $192 million and $60 million	Research and development expenses and payable have been correctly recorded	**Moderate**	• the accounting treatment of research and development expenditure and payables is complex in nature and involves judgement in determining the appropriate capitalisation in accordance with the accounting standards.
Investments in managed funds $199 million	Valuation of investments	**Moderate**	• the value of investments is influenced by external factors such as volatility in financial markets; and • the process of valuing investments involves judgement and estimation.

Source: ANAO 2017–18 audit results, and the GRDC's financial statements for the year ended 30 June 2018.

Audit results

4.1.18 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

4.2 Attorney-General's portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Attorney-General's Department	**Yes**	Moderate	✓	23 Aug 18	23 Aug 18	Nil
Federal Court of Australia	**Yes**	Low	✓	5 Sept 18	5 Sept 18	Nil
High Court of Australia	**Yes**	Low	✓	27 Aug 18	27 Aug 18	Nil
National Archives of Australia	**Yes**	Low	✓	31 Aug 18	31 Aug 18	Nil

✓: auditor's report not modified

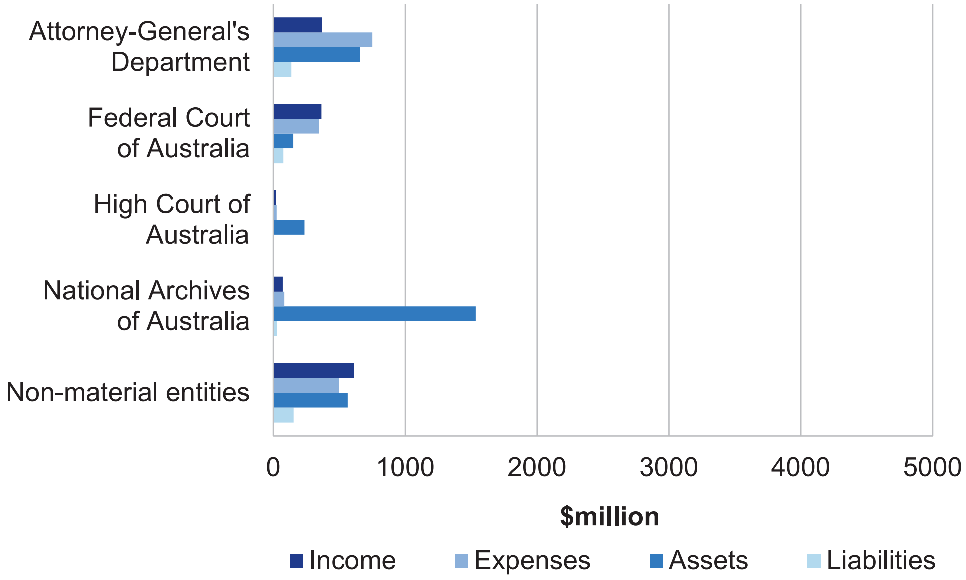
Portfolio overview

4.2.1 The Attorney-General's portfolio covers a range of functions and policy areas, including privacy; family law and marriage; protecting and promoting human rights; international law; freedom of information; personal property securities; government records management; and native title. It also includes legal services, whole-of-government integrity, protective security and courts and tribunals.

4.2.2 The Attorney-General's Department (AGD) is the lead entity in the portfolio and delivers programs and policies to maintain and improve Australia's law and justice framework. Through the Australian Government Solicitor, AGD also provides legal services to the Commonwealth. As a result of machinery of government (MOG) changes announced by the Prime Minister in December 2017, elements of national security, law enforcement policy and emergency management functions moved to the Department of Home Affairs.

4.2.3 Figure 4.2.1 shows the Attorney-General's portfolio's income, expenses, assets and liabilities.

Figure 4.2.1: Attorney-General's portfolio income, expenses, assets and liabilities[45]



Source: 2017–18 CFS.

4.2.4 The following sections provide a summary of the 2017–18 financial statements audit results for the Attorney-General's Department, and other material entities.

Attorney-General's Department

4.2.5 AGD is responsible for the provision of expert advice and services on a range of law and justice issues. Responsibilities relating to national security and emergency management were transferred to the Department of Home Affairs in December 2017 as a result of the MOG.

Summary of financial performance

4.2.6 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by the AGD's, and includes commentary regarding significant movements between years contributing to overall performance.

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

Table 4.2.1: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	162.6	186.9
Revenue from Government	181.8	199.9
Surplus attributable to the Government	14.5	7.7
Total other comprehensive income/(loss)	6.0	(0.1)
Total comprehensive income attributable to the Australian Government	20.5	7.6
Total assets	245.0	274.7
Total liabilities	123.7	140.6
Total equity	121.3	134.1

Source: AGD's financial statements for the year ended 30 June 2018.

4.2.7 The decrease in the net cost of services was mainly due to a reduction in staff associated with the MOG changes during the year resulting in a decrease in employee benefit expenses of $11.6 million. In addition, AGD transferred surplus lease space in Barton and associated fit-out to other Commonwealth entities in 2016–17 resulting in the recognition of a write off expense for assets valued at $10.8 million, no write downs occurred during 2017–18.

4.2.8 All other major movements in the above items were the result of the MOG changes during the year.

Table 4.2.2: Key administered financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	426.2	622.1
Total income	26.2	49.0
Deficit	400.0	573.2
Total other comprehensive income	49.5	5.9
Total comprehensive loss	350.5	567.3
Total assets administered on behalf of Government	412.1	492.0
Total liabilities administered on behalf of Government	13.6	33.3
Net assets	398.5	458.7

Source: AGD's financial statements for the year ended 30 June 2018.

4.2.9 The reduction in expenses was mainly due to completion of both the Royal Commission into the Protection and Detention of Children in the Northern Territory in October 2017 and the Royal Commission into the Institutional Responses to Child Sexual Abuse in March 2018. The total liabilities decreased as a result of the completion of the Royal Commissions and the transfer of the national security function under the MOG changes.

4.2.10 The decrease in total assets was largely due to the transfer of natural disaster relief programs and functions under the MOG changes. This was partially offset by increases in the department's administered investments.

Key areas of financial statements risk

4.2.11 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of AGD's financial statements. The ANAO focuses audit effort on those areas that were assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.2.3, including which areas were considered key audit matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.2.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Departmental rendering of services $160.2 million goods and services receivables $48.2 million	Accuracy and cut-off of revenue, and accuracy and completeness of trade receivables, from rendering of services KAM	**Moderate**	• Australian Government Solicitor (AGS) revenue from rendering of services is a significant component of the AGD's revenue; and • the value and timing of revenue recognition is determined with reference to time recorded on various AGS matters, the completion and recovery of matters and the valuation of work-in-progress at year end is subject to management judgement.
All financial statement line items	Completeness and accuracy of disclosures relating to the restructure that transferred functions from the department	**Moderate**	• risk associated with the accurate calculation and transfer of employees and related leave entitlements to the Department of Home Affairs; and • required additional financial statements disclosures.
All financial statements line items	Financial statements preparation, quality assurance and support processes	**Moderate**	• financial statements information for AGS is sourced from a separate information system that requires manual consolidation into AGD's financial statements.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered grant expenses $294.8 million	Accuracy and occurrence of grants expenses	**Moderate**	• AGD has a decentralised grants management system which encompasses multiple and varied practices; and • a significant component of the grants expense was managed by the Department of Social Services.

Source: ANAO 2017–18 audit results, and the AGD's financial statements for the year ended 30 June 2018.

Audit results

4.2.12 There were no significant or moderate unresolved audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Federal Court of Australia

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

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

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

Summary of financial performance

4.2.16 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by the Federal Court, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.2.4: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	266.1	250.9
Revenue from Government	252.6	245.3
Deficit attributable to the Government	13.5	5.6
Total other comprehensive income/(loss)	(0.2)	1.8
Total comprehensive loss attributable to the Australian Government	13.7	3.8
Total assets	145.8	147.4
Total liabilities	75.2	75.5
Total equity	70.6	71.9

Source: Federal Court's financial statements for the year ended 30 June 2018.

4.2.17 The increase in the net cost of services primarily relates to a $5.9 million increase in judicial expenses related to increases in remuneration and new judicial appointments. In addition depreciation and amortisation increased by $2.5 million as a result of the full year effect of assets transferred in 2016–17.

Table 4.2.5: Key administered financial statement items

Key administered financial statement items	2017–18 ($m)	2016–17 ($m)
Total expenses	5.0	4.2
Total income	107.9	81.2
Total other comprehensive income	102.8	77.0
Total assets administered on behalf of Government	4.7	4.0
Total liabilities administered on behalf of Government	0.5	0.6
Net assets	4.2	3.4

Source: Federal Court of Australia's financial statements for the year ended 30 June 2018.

4.2.18 The significant increase in total income of $26.7 million predominantly relates to the collection of fines in relation to a significant matter.

Key areas of financial statements risk

4.2.19 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of Federal Court of Australia's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.2.3. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.2.6: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Departmental employee expenses $207.4 million employee provisions – leave $59.9 million	Valuation and reporting of employee benefits	**Moderate**	• application of two enterprise agreements until a new agreement is finalised.
Administered income $107.9 million trade and other receivables $4.6 million	Completeness and accuracy of fee income	**Moderate**	• different case management systems continue to be used to collect and record fee income despite the amalgamation of 1 July 2016.
Departmental non-financial assets $62.9 million	Valuation of non-financial assets including land and buildings, property, plant and equipment	**Moderate**	• the Federal Court of Australia holds a relatively large portfolio of non-financial assets and the valuation of non-financial assets requires considerable judgement regarding the condition and useful lives of assets.

Source: ANAO 2017–18 audit results, and the Federal Court of Australia's financial statements for the year ended 30 June 2018.

Audit results

4.2.20 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

High Court of Australia

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

Summary of financial performance

4.2.22 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by the High Court and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.2.7: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	22.0	17.3
Revenue from Government	14.0	13.3
Deficit attributable to the Government	8.0	4.0
Total other comprehensive income	10.7	7.5
Total comprehensive income attributable to the Australian Government	2.7	3.6
Total assets	236.4	229.2
Total liabilities	3.4	3.2
Total equity	233.0	226.0

Source: High Court's financial statements for the year ended 30 June 2018.

4.2.23 The increase in the net cost of services was due to a higher depreciation expense and a reduction in other gains. The higher depreciation expense is the result of an increase in the value of the High Court building following a revaluation as at 30 June 2017 and capital expenditure, including the completion of stage one of the replacement of the Heating, Ventilation and Air Conditioning (HVAC) system and refurbishment of the Brisbane premises. Other gains was higher in 2016–17 due to the one-off transfer of assets from the Sydney Law Court building that occurred on 1 July 2016.

4.2.24 The increase in total assets relates to building works completed in 2017–18 and an increase in the valuation of the High Court building.

4.2.25 Fluctuations in other balances reflect normal business activities.

Table 4.2.8: Key administered financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	–	–
Total income	2.0	2.0
Deficit	2.0	2.0
Total other comprehensive income	–	–
Total comprehensive income	–	–
Total assets administered on behalf of Government	0	0
Total liabilities administered on behalf of Government	–	–
Net assets	0	0

Source: High Court's financial statements for the year ended 30 June 2018.

4.2.26 The High Court's administered income relates to the Court's hearing and filing fees. The hearing fees collected remained relatively stable between 2016–17 and 2017–18, reflecting normal business activities.

Key areas of financial statements risk

4.2.27 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of High Court's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2017–18 is provided in Table 4.2.9. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.2.9: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Departmental Land & buildings $210.4 million Property, plant and equipment $17.2 million	Valuation of land & buildings and property, plant and equipment	**Moderate**	• valuation process involves judgements due to unique features of the High Court's land, building and property, plant and equipment assets, such as location, special purpose development and heritage listing.

Source: ANAO 2017–18 audit results, and the High Court's financial statements for the year ended 30 June 2018.

Audit results

4.2.28 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

National Archives of Australia

4.2.29 The National Archives of Australia (the National Archives) has four main roles under the *Archives Act 1983*: promote sound records management by Australian Government entities by providing and setting standards for the management of information and records; authorise the retention and disposal of records; preserve records of national archival value; and make material publicly available.

Summary of financial performance

4.2.30 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by the National Archives, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.2.10: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	75.9	75.4
Revenue from Government	63.8	71.0
Deficit attributable to the Australian Government	12.0	4.4
Total other comprehensive income/(loss)	27.7	(8.2)
Total comprehensive income/(loss) attributable to the Australian Government	15.7	(12.6)
Total assets	1 534.9	1 511.9
Total liabilities	26.9	24.2
Total equity	1 508.0	1 487.8

Source: The National Archives' financial statements for the year ended 30 June 2018.

4.2.31 The reduction in revenue from Government was due to additional funding provided in 2016–17 for the relocation of staff and records to the new National Archives Preservation Facility which was largely completed in June 2017.

4.2.32 The increase in the deficit mostly relates to a reduction in transfer of collection items from the Australian Government to the National Archives.

4.2.33 Other comprehensive income reflects changes in the value of the National Archives collection. In 2017–18 the National Archives had the collection valued by an experienced and qualified valuer. The valuation resulted in a large increase in the collection's value reflected in other comprehensive income for 2017–18 compared to the previous year.

Key areas of financial statements risk

4.2.34 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of the National Archives' financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2017–18 is provided in Table 4.2.11. No significant or moderate audit findings were identified relating to this key area of risk.

Table 4.2.11: Key areas of financial statements risk audit results

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Property, plant and equipment $1,492.3 million	Valuation of the archival collection	**Moderate**	• the complex and unique nature of the archival collection.

Source: ANAO 2017–18 audit results, and the National Archives' financial statements for the year ended 30 June 2018

Audit results

4.2.35 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

4.3 Communications and the Arts portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Communications and the Arts	**Yes**	Moderate	✓	20 Sept 18	20 Sept 18	▲
Australian Broadcasting Corporation	**Yes**	Moderate	✓	10 Aug 18	10 Aug 18	Nil
Australian Communications and Media Authority	**Yes**	Low	✓	3 Sept 18	4 Sept 18	Nil
Australian Postal Corporation	**Yes**	Moderate	✓	23 Aug 18	23 Aug 18	Nil
National Gallery of Australia	**Yes**	Low	✓	4 Sept 18	5 Sept 18	Nil
National Library of Australia	**Yes**	Low	✓	13 Aug 18	16 Aug 18	Nil
NBN Co Limited	**Yes**	High	✓	9 Aug 18	9 Aug 18	Nil
Special Broadcasting Service Corporation	**Yes**	Low	✓	30 Aug 18	30 Aug 18	Nil

✓: auditor's report not modified

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

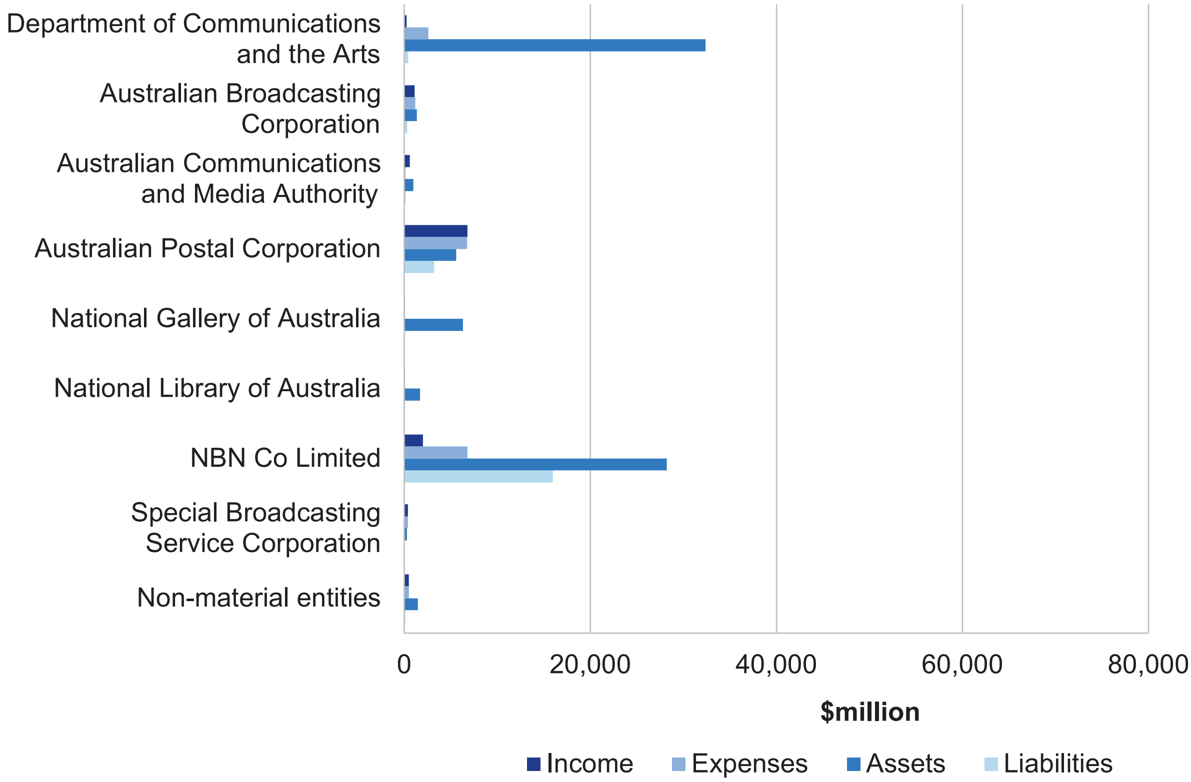
Portfolio overview

4.3.1 The Department of Communications and the Arts is the lead entity in the portfolio, with responsibilities including the promotion of an innovative and competitive communication sector, through policy development, advice and program delivery, to achieve the full potential of digital technologies and communications services. The department's role also includes support for participation in, and access to, Australia's arts and culture through developing and supporting cultural expression.

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

4.3.3 Figure 4.3.1 shows the Communications and Arts' portfolio's income, expenses, assets and liabilities.

Figure 4.3.1: Communications and the Arts portfolio's income, expenses, assets and liabilities[46]



Source: 2017–18 CFS.

4.3.4 The following sections provide a summary of the 2017–18 financial statements audit results for the Department of Communications and the Arts, and other material entities in the portfolio.

Department of Communications and the Arts

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

Summary of financial performance

4.3.6 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by the department, and includes commentary regarding significant movements between years contributing to overall performance.

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

Table 4.3.1: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	98.5	109.2
Revenue from Government	104.2	108.9
Surplus/(Deficit) attributable to the Government	5.6	(0.3)
Total other comprehensive loss	0.4	0.0
Total comprehensive income/(loss) attributable to the Australian Government	5.3	(0.3)
Total assets	92.4	79.9
Total liabilities	37.4	32.7
Total equity	55.0	47.1

Source: Department of Communications and the Arts' financial statements for the year ended 30 June 2018.

4.3.7 Communication's main office relocated to new premises as part of the Commonwealth's Operation Tetris. The take up of new premises resulted in a surplus due to a one off net gain of $11.3 million on office fit-out being recognised.

Table 4.3.2: Key administrated financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	2,458.6	2,400.1
Total income	163.2	64.9
Deficit	2,295.4	2,335.2
Total other comprehensive loss	4,915.4	3,995.0
Total comprehensive loss	7,210.8	6,330.2
Total assets administered on behalf of Government	32,271.8	29,642.8
Total liabilities administered on behalf of Government	390.5	396.1
Net assets	31,881.3	29,246.7

Source: Department of Communications and the Arts' financial statements for the year ended 30 June 2018.

4.3.8 The increase in income coincides with the Commonwealth's transition to funding completion of the national broadband network rollout through debt rather than capital from November 2017 onwards. This led to $69.7 million in interest being recognised in 2017–18. The outstanding loan balance at 30 June due is net of interest.

4.3.9 Following valuation assessments in 2017–18, the value of the Government's investment in NBN Co Limited (NBN) decreased by $2.8 billion. This reduction is offset by the $5.5 billion loan repayments due to the department from NBN.

Key areas of financial statements risk

4.3.10 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of the department's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.3.3, including which areas were considered key audit matters (KAM) by the ANAO.

Table 4.3.3: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Administered receivables $5,580.0 million	Valuation of Administered Loans KAM	**Higher**	• the significance of the balance; and • significant judgement involved in assessing whether there are indicators of impairment, including the recoverability of the loan based on cash flow forecasts, for which small changes in assumptions can result in material impacts on the estimated cash flows and rate of return.	One moderate audit finding was raised during the interim audit and remains unresolved. Refer to paragraphs 4.3.13 – 4.3.17.
Administered other investments $13,247.4 million	Valuation of the Australian Government's investment in NBN Co Limited KAM	**Higher**	• the significance of the balance; and • significant judgement by management in determining the valuation methodology.	No significant or moderate audit findings identified.
Administered other investments $2,582.2 million	Valuation of the Australian Government's investment in Australia Postal Corporation KAM	**Higher**	• valuation being dependent upon key assumptions that require significant management judgement because the chief inputs to the valuation model are not based on observable market information.	No significant or moderate audit findings identified.
Administered property, plant and equipment Regional Backbone Blackspots Program (RBBP) assets $148.0 million	Valuation of network infrastructure – RBBP	**Moderate**	• comprised of complex infrastructure assets requiring significant judgement.	No significant or moderate audit findings identified.

Source: ANAO 2017–18 audit results, and the Department of Communications and the Arts' financial statements for the year ended 30 June 2018.

Audit results

4.3.11 The following table summarises the status of audit findings reported by the ANAO in 2016–17 and 2017–18.

Table 4.3.4: Status of audit findings

Category	Closing position (2016–17)	New findings (2017–18)	Findings resolved (2017–18)	Closing position (2017–18)
Significant (A)	–	–	–	–
Moderate (B)	–	1[a]	–	1
Total	**–**	**1**	**–**	**1**

Note a: The moderate audit finding – Risk management practices relating to loan facility to NBN was first reported to Parliament in Auditor-General Report No.47 of 2017–18 *Interim Report on Key Financial Controls of Major Entities*.

Source: Audit results 2017–18

4.3.12 For each of the findings listed below, the ANAO undertook additional audit procedures to gain assurance that the department's 2017–18 financial statements were not materially misstated.

Unresolved moderate audit finding

Risk management practices relating to NBN's loan facility

4.3.13 On 22 December 2016, the Commonwealth entered into a loan arrangement with NBN which is administered by the department. The loan agreement sets out the terms of the $19.5 billion facility that is available to NBN for the period 1 July 2017 to 30 June 2021, including the applicable undertakings, restrictions and interest rate and a requirement that the principal amount borrowed is to be repaid in full by 30 June 2021. The value of the loan drawn down as at 30 June 2018 was $5.5 billion. For the majority of the loan period NBN's forecast operating cash flows are negative with a small positive cash flow projected for 2021.

4.3.14 Communications had not established the practices necessary to manage the risks associated with the loan facility. Communications was not able to provide evidence of:

- their undertaking of the evaluation and assessment in establishing the loan, including suitability of the terms and conditions within the contract, other than the interest rate, and details of assessment undertaken to determine NBN's capacity to fully service the loan;
- a governance policy or a suitable framework for Communications' oversight, review and monitoring of NBN's compliance with the lending arrangements;
- ongoing monitoring of NBN's compliance with several aspects of the loan agreement; and
- an analysis to progressively assess NBN's capacity to fully repay the loan.

4.3.15 The failure to fully establish practices to manage the risks associated with this loan significantly increases the Commonwealth's risk of exposure to loss. The Commonwealth is the sole shareholder of NBN, therefore the recovery of any losses may need to be absorbed by the Commonwealth.

4.3.16 Communications are in the process of reviewing the governance and risk management arrangements to better support the ongoing management of the loan facility. They have draft governance arrangements which are being considered by management prior to implementation.

4.3.17 Prior to the signing of the department's financial statements the Government announced a decision in relation to the loan to NBN. The information was included in the department's financial statements as follows:

> The Commonwealth has agreed to extend the tenor of its loan to NBN Co Limited by three years (from 30 June 2021 to 30 June 2024) and allow NBN Co Limited to access up to $2 billion of private sector debt. The terms of the amended and restated Commonwealth loan and terms for the private debt are subject to the approval of the Commonwealth.

Australian Broadcasting Corporation

4.3.18 The Australian Broadcasting Corporation (ABC) is responsible for informing, educating, facilitating public debate and fostering the performing arts by providing innovative and comprehensive broadcasting services of a high standard to the nation.

Summary of financial performance

4.3.19 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by the ABC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.5: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	1,122.7	1,036.1
Revenue from Government	1,043.7	1,036.1
Surplus/(deficit) attributable to the Government	(79.0)	0.0
Total other comprehensive income	7.8	65.4
Total comprehensive income/(loss) attributable to the Australian Government	(71.2)	65.4
Total assets	1,365.5	1,441.4
Total liabilities	332.1	336.8
Total equity	1,033.4	1,104.6

Source: ABC's financial statements for the year ended 30 June 2018.

4.3.20 The increase in net cost of services is partially attributed to the initial recognition of a building maintenance provision of $30.7 million. The increase in net cost of services is also partially attributed to the execution and implementation of the Investing in Audiences strategy which included expenditure on Australian content and other content initiatives.

4.3.21 The decrease in other comprehensive income is a result of a revaluation of the properties portfolio in 2016–17 which resulted in the recognition of an increment of $65.7 million in the prior year.

4.3.22 All other movements are not significant and are a result of normal business activities.

Key areas of financial statements risk

4.3.23 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of the ABC's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.3.6. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.3.6: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Total assets land and buildings $769.9 million	Valuation of land and buildings	**Moderate**	• valuations are sensitive to changes in the assumptions used in the valuation models, and contain highly specialised components.
Total assets inventories $117.0 million	Valuation of program inventory	**Moderate**	• complexities can arise from capturing the actual costs of various internally developed programs; and • assessment of whether program inventories are impaired is subject to judgement.
Total liabilities employee provisions $134.7 million	Valuation of employee provisions	**Moderate**	• staff located both in Australia and overseas may be entitled to varying allowances; and • methodology is subject to judgement and includes assumptions related to expected salary rates that will be applied at the time leave is taken and the extent to which the leave is likely to be taken during service rather than paid on termination.
Total liabilities other provisions $30.7 million	Valuation of building maintenance provision	**Moderate**	• the recognition criteria for the provision is complex and the measurement requires judgement related to the estimated costs of the maintenance works.

Source: ANAO 2017–18 audit results, and ABC's financial statements for the year ended 30 June 2018.

Audit results

4.3.24 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Australian Communications and Media Authority

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

Summary of financial performance

4.3.26 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by the ACMA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.7: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	95.9	92.6
Revenue from Government	82.1	81.8
Deficit attributable to the Government	13.8	10.8
Total other comprehensive loss	–	0.1
Total comprehensive loss attributable to the Australian Government	13.8	10.9
Total assets	71.5	78.8
Total liabilities	27.9	28.6
Total equity	43.6	50.2

Source: The ACMA's financial statements for the year ended 30 June 2018.

4.3.27 The increase in the net cost of services was mainly attributable to an increase in contractor expenses. Total assets mainly decreased due to an additional year of amortisation for intangible assets during 2017–18. The fluctuations in other balances reflect normal business activities.

Table 4.3.8: Key administrated financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	13.0	2.2
Total income	3,608.1	1,008.2
Surplus/(deficit) after income tax	3,595.1	1,006.0
Total comprehensive income/(loss)	3,595.1	1,006.0
Total assets administered on behalf of Government	893.6	84.6
Total liabilities administered on behalf of Government	130.7	1,580.8
Net assets/(liabilities)	762.9	(1,496.2)

Source: The ACMA's financial statements for the year ended 30 June 2018.

4.3.28 The increase in total expenses was the result of an increase in expenses for consultants, contactors as well as asset write-downs and impairment losses of assets.

4.3.29 The increase in total income and assets mainly relates to the revenue recognised in 2017–18 from the sale of spectrum radio communication multi-year licences.

4.3.30 The decrease in liabilities is due to revenue received in advance, prior to 30 June 2017, for spectrum licences which have now been recognised as revenue earned during the 2017–18 financial year.

Key areas of financial statements risk

4.3.31 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of the ACMA's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2017–18 is provided in Table 4.3.9. No significant or moderate audit findings were identified relating to this key area of risk.

Table 4.3.9: Key area of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered income $3 608.1 million receivables and accrued revenue $893 million payables – unearned income $130 million	Recognition and measurement of administered income, receivables and unearned income	**Higher**	• the significance of the balance; and • application of professional judgement is required in determining when to recognise revenue, as spectrum management is technically complex and involves licensing, auctions and trading.

Source: ANAO 2017–18 audit results, and the ACMA's financial statements for the year ended 30 June 2018.

Audit results

4.3.32 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Australian Postal Corporation

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

Summary of financial performance

4.3.34 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by Australia Post, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.10: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Total revenue and income	6,877.0	6,807.2
Total expenses	6,751.3	6,681.1
Profit before income tax	125.7	126.1
Income tax benefits/(expenses)	8.5	(30.7)
Net profit for the year	134.2	95.4
Total other comprehensive income/(loss)	190.8	232.1
Total comprehensive profit/(loss) for the year	325.0	327.5
Total assets	5,590.9	5,537.3
Total liabilities	3,224.2	3,419.4
Total equity	2,366.7	2,117.9

Source: Australia Post and its controlled entities' financial statements for the year ended 30 June 2018.

4.3.35 Australia Post reported a net profit during 2017–18, continuing the positive net profit trend since 2015–16. Australia Post reported a marginal decrease in total profit during 2017–18. Total revenue and income and total expenses is consistent with the results of 2016–17. The increase to total revenue and income is primarily due to growth in revenue ($245 million) associated with the domestic parcel services and international products. This continues to be offset by the decline in letter revenue ($114.2 million) mostly driven by year-on-year mail volume declines.

4.3.36 Total expenses increased primarily due to the increase in supplies expenses and employee expenses. The increase in suppliers' expenses is in line with the increase in the volume of domestic parcel services and international products. The increase in employee expense is primarily due to increases in the annual salary rate.

4.3.37 Income tax expenses has decrease primarily as a result of non-assessable capital gains associated with the sale of the Sydney GPO.

4.3.38 Australia Post's assets increased marginally. The increases are attributed to an overall increase in total current assets of $258.6 million and a reduction of total non-current assets of $204.4 million. The increases to the current assets are primarily a result of movements in cash held of $149.5 million and increases to the balance of assets held for sale at 30 June 2018 of $73.2 million, which is a result of reclassification of investments which were classified as part of the equity accounted investee account balance in 2016–17. The sale of assets during the year contributed to the increased cash balance.

4.3.39 The overall decrease in the non-current asset base is predominantly due to a culmination of the transfer noted above between equity accounted investee account ($236.5 million) and the assets held for sale and the assessments of intangible assets held which decreased due to the effect of amortisation of computer software and impairment of brand names and trademarks, offset by additions ($117.5 million). These movements were offset by an increase in the value of the net superannuation asset of $218.3 million and increases to the property plant and equipment asset base of $39.5 million.

Key areas of financial statements risk

4.3.40 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Australia Post's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.3.11, including which areas were considered key audit matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.3.11: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Goods and services income unearned postage revenue $63.5 million	Recognition of Revenue Cut off and accuracy of goods and services revenue and the valuation of unearned postage revenue KAM	**Higher**	• the judgement and assumptions used to estimate the amount of revenue to be deferred for stamps sold but not yet used; • the judgement required in the selection and application of accounting policies for new and diverse revenue stream; and • the complexity of contracts and arrangements entered into where they include multiple performance obligations and volume targets which affects the contracted price.
Net superannuation asset $918.7 million	Valuation of the Australia Post Superannuation Scheme KAM	**Moderate**	• the complexity of the valuation including the sensitivity of the economic and demographic assumptions supporting the calculation.
Intangible assets goodwill $494.1 million	Valuation and impairment of goodwill and indefinite life intangible assets KAM	**Moderate**	• the estimation process is complex and judgemental and includes assumptions related to future cash flows and discount rates.

Source: ANAO 2017–18 audit results and the Australia Post's financial statements for the year ended 30 June 2018.

Audit results

4.3.41 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

National Gallery of Australia

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

Summary of financial performance

4.3.43 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by the Gallery, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.12: Key departmental financial statement items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	40.4	50.0
Revenue from Government	30.8	31.3
Deficit attributable to the Government	9.6	18.7
Total other comprehensive income	7.2	47.0
Total comprehensive income/(loss) attributable to the Australian Government	(2.4)	28.3
Total assets	6,325.2	6,309.8
Total liabilities	10.3	9.2
Total equity	6,314.9	6,300.6

Source: The Gallery's financial statements for the year ended 30 June 2018.

4.3.44 The decrease in net cost of services and deficit attributable to the Government is the result of an increase in own-source revenues relating to additional gifts of works of art and grant funding received from the portfolio department in 2017–18. Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.3.45 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of the Gallery's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2017–18 are provided in Table 4.3.13. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.3.13: Key area of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Heritage and cultural assets $5,988.9 million	Valuation of items in the heritage and cultural collection	**Higher**	• judgement required in valuing iconic artwork through the use of observable market inputs; and • the complexity of the valuation model applied to the general collection.

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Buildings $288.2 million	Valuation of buildings	**Higher**	• judgement required in selecting the assumptions used in determining the fair value including assessing the impact of the building condition and specialised use.

Source: ANAO 2017–18 audit results, and the Gallery's financial statements for the year ended 30 June 2018.

4.3.46 Auditor-General Report No.46 2017–18 *Management of the National Collections* was tabled during 2017–18 and was relevant to the financial management or administration of the Gallery. This report included observations relevant to the key areas of financial statements risk outlined in Table 4.3.13, in particular, valuation of items in the heritage and cultural collection.

4.3.47 The report concluded that the National Gallery of Australia's collection management practices were not fully effective due to deficiencies in financial and asset management controls. In light of the results of the performance audit, the financial statements audit approach was designed to obtain appropriate and sufficient assurance that the valuation of the collection was materially correct and in accordance with Australian accounting standards.

Audit results

4.3.48 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

National Library of Australia

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

Summary of financial performance

4.3.50 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by the Library, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.14: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	58.3	55.8
Revenue from Government	52.7	50.0
Deficit attributable to the Government	5.6	5.8
Total other comprehensive income	1.1	2.3
Total comprehensive loss attributable to the Australian Government	4.5	3.5
Total assets	1,707.6	1,702.9
Total liabilities	15.6	16.0
Total equity	1,691.9	1,686.9

Source: The Library's financial statements for the year ended 30 June 2018.

4.3.51 The movement between years in net cost of services is mainly due to the increase in employee and supplier expenses and the reduction of revenue for cultural gifts received during the year. The reduction of other comprehensive income is mainly due to the relatively lower increases in the fair value of land and building due to stable market conditions.

Key areas of financial statements risk

4.3.52 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of the Library's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2017–18 is provided in Table 4.3.15. No significant or moderate audit findings were identified relating to the key area of risk.

Table 4.3.15: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Heritage and cultural assets $1.3 billion	Valuation of the national collection	**Higher**	• significant judgement and expertise required to assess the value of items in the collection, due to the unique nature of the collection assets and lack of a market of comparable assets.

Source: ANAO 2017–18 audit results, and the Library's financial statements for the year ended 30 June 2018.

Audit results

4.3.53 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

NBN Co Limited

4.3.54 The provision of wholesale services to internet service providers is NBN Co Limited's (NBN) core area of responsibility. The NBN is a government business enterprise incorporated under the *Corporations Act 2001*.

Summary of financial performance

4.3.55 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by NBN, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.16: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Total income	2,023.0	1,051.0
Total expenses	6,802.0	5,290.0
Loss before income tax	4,779.0	4,239.0
Income tax expense	1.0	5.0
Net loss for the year	4,780.0	4,244.0
Total other comprehensive loss	2.0	10.0
Total comprehensive loss for the year	4,782.0	4,254.0
Total assets	28,203.0	24,127.0
Total liabilities	15,991.0	9,168.0
Total equity	12,212.0	14,959.0

Source: NBN's financial statements for the year ended 30 June 2018.

4.3.56 In 2017–18, NBN generated revenue and income of $2.0 billion and reported a net loss of $4.8 billion, after taxation. Revenue increased as the network continues to roll out with 1.6 million premises activated during the year. A corresponding increase was observed in payments to Telstra and Optus for customer disconnection and migration activity.

4.3.57 As at 30 June 2018, NBN reported total assets of $28.2 billion, an increase of $4.1 billion compared with 2016–17, primarily due to an increase of $4.8 billion in property, plant and equipment and intangibles as a result of capital expenditure. The key drivers of capital expenditure during the year related to design, construction and activation activities for the deployment of NBN's access technologies across Australia. The increase is offset by a reduction in current assets of $727.0 million which is primarily attributable to a reduction in cash and cash equivalents.

4.3.58 As at 30 June 2018, NBN reported total liabilities of $16.0 billion, an increase of $6.8 billion compared with 2016–17, primarily due to the loan draw down of $5.5 billion from the $19.5 billion loan facility with the Commonwealth Government. The remaining $1.3 billion is primarily attributable to additional finance leases with telecommunication providers entered into during the year.

4.3.59 During the year, NBN received Government equity injections of $2.0 billion, which were primarily used in acquiring property, plant and equipment (including network assets), intangible assets and supporting operational requirements. As at 30 June 2018, the contributed equity of $29.5 billion has been offset by accumulated losses of $17.3 billion.

Key areas of financial statements risk

4.3.60 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of NBN's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.3.17, including which areas were considered key audit matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.3.17: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Property, plant and equipment $25.0 billion Intangibles $2.0 billion	Valuation of network assets KAM (impairment) KAM (accuracy and completeness of depreciation and amortisation)	**Higher**	• accounting for the valuation of network assets is subject to a high degree of judgement and complexity arising in the estimation of the significant costs of network construction and software development.
Construction liabilities $1.0 billion	Valuation of construction liabilities KAM	**Higher**	• involvement of multiple delivery partners and the capitalisation of associated network assets based on their respective stage of completion at reporting date.
Subscriber costs $1.9 billion Network assets $24.7 billion Other financial liabilities $7.2 billion	Accounting treatment of rights and obligations under significant contractual arrangements. KAM	**Higher**	• the agreements include arrangements for the lease of infrastructure as well as the payment of subscriber costs; and • these contracts are significant and complex in nature and represent a significant portion of the associated financial statements items.
Telecommunications revenue $1.8 billion	Accounting for and reporting telecommunications revenue	**Higher**	• revenue has increased significantly as the network continues to roll out with IT systems and controls continuing to evolve with scale.

Source: ANAO 2017–18 audit results, and the NBN's financial statements for the year ended 30 June 2018.

Audit results

4.3.61 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Special Broadcasting Service Corporation

4.3.62 Special Broadcasting Service Corporation (SBS) is responsible for contributing to a more cohesive, equitable and harmonious Australia through its television, radio and digital media services.

Summary of financial performance

4.3.63 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by SBS, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.18: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	279.5	283.6
Revenue from Government	280.1	281.6
Surplus/(deficit) attributable to the Government	0.6	(2.0)
Total other comprehensive income	7.5	10.1
Total comprehensive income attributable to the Australian Government	8.1	8.1
Total assets	278.7	272.0
Total liabilities	63.2	64.6
Total equity	215.5	207.4

Source: SBS' financial statements for the year ended 30 June 2018.

4.3.64 The movements in SBS' key financial statements items are not significant and are a result of normal business activities.

Key areas of financial statements risk

4.3.65 The ANAO completed appropriate audit procedures on all material items. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.3.19. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.3.19: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Total assets Land and Buildings $81.4 million	Valuation of land and buildings	**Moderate**	• valuations are sensitive to changes in the assumptions used in the valuation models, and contain highly specialised components.
Total assets inventories $78.3 million	Valuation of program inventory and related amortisation policy	**Moderate**	• complexities can arise from capturing the actual costs of produced and/or commissioned programs; and • assessment of whether program inventories are impaired is subject to judgement.
Total liabilities employee provisions $25.7 million	Valuation of employee provisions	**Moderate**	• staff located both in Australia and overseas and have varying entitlements; and • methodology is subject to judgement and includes assumptions related to expected salary rates that will be applied at the time leave is taken and the extent to which the leave is likely to be taken during service rather than paid on termination.
Total assets computer software and other intangibles $22.9 million	Valuation of intangibles and goodwill	**Moderate**	• complexities can arise from capturing the actual costs of various internally developed software; and • the valuation and impairment of goodwill is complex and judgemental and includes assumptions related to future cash flows and discount rates.

Source: ANAO 2017–18 audit results, and SBS' financial statements for the year ended 30 June 2018.

Audit results

4.3.66 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

4.4 Defence portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Defence	**Yes**	High	✓	24 Sep 18	24 Sep 18	□◆
Australian War Memorial	**Yes**	Low	✓	31 Aug 18	03 Sep 18	Nil
Defence Housing Australia	**Yes**	Moderate	✓	17 Aug 18	17 Aug 18	Nil
Department of Veterans' Affairs	**Yes**	Moderate	✓	07 Sep 18	10 Sep 18	Nil
Defence Housing Investment Management Limited	**No**	Low	✓ E	07 Aug 18	07 Aug 18	Nil

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

◆: new significant or moderate issues and/or legislative matters noted
□: significant or moderate issues and/or legislative matters identified in previous periods, or the 2017–18 interim audit phase, now downgraded or resolved

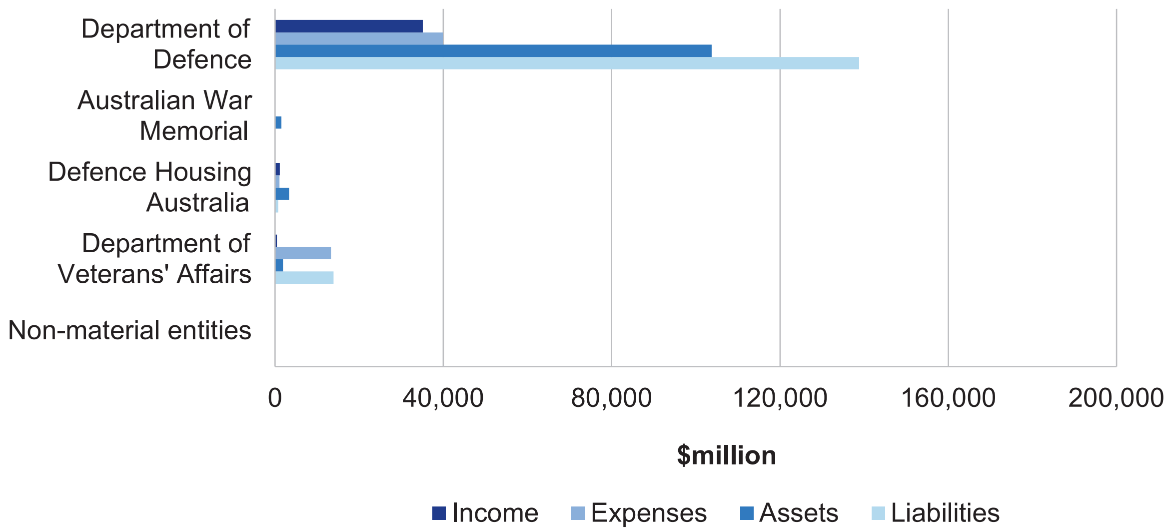
Portfolio overview

4.4.1 The Defence portfolio includes a range of entities that together are responsible for the defence of Australia and its national interests. The principal entity within the Defence portfolio is the Department of Defence (Defence).

4.4.2 Defence, including the Australian Defence Force, is responsible for protecting and advancing Australia's strategic interests through the provision of appropriately prepared and equipped armed forces. Accordingly, Defence prepares for and conducts military operations and other tasks as directed by the Australian Government.

4.4.3 Figure 4.4.1 shows the Defence portfolio's income, expenses, assets and liabilities.

Figure 4.4.1: Defence portfolio's income, expenses, assets and liabilities[47]



Source: 2017–18 CFS

4.4.4 The following sections provide a summary of the 2017–18 financial statements audit results for Defence and other material entities and commentary related to the emphasis of matter for Defence Housing Investment Management.

Department of Defence

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

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

Summary of financial performance

4.4.7 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by Defence, and includes commentary regarding significant movements between years contributing to overall performance.

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

Table 4.4.1: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	32,187.7	30,700.4
Revenue from Government	33,040.8	30,914.2
Surplus attributable to the Australian Government	853.1	213.8
Total other comprehensive income	1,477.6	492.7
Total comprehensive income attributable to the Australian Government	2,330.7	706.5
Total assets	100,088.9	95,424.7
Total liabilities	8,366.1	8,046.8
Total equity	91,722.8	87,377.9

Source: Defence's financial statements for the year ended 30 June 2018.

4.4.8 The net cost of services increased mainly due to the increase in employee benefits, depreciation and other expenses. The employee benefits were driven by an increase in wages and salaries. The revaluation uplift as a result of the measurement of specialist military equipment at fair value during 2016–17 resulted in increased depreciation expenses in 2017–18. Other expenses increased mainly due to re-estimates of decommissioning, decontamination, restoration and similar provisions.

4.4.9 Revenue from government mainly increased due to additional funding provided for ongoing military operations and depreciation funding.

4.4.10 During 2017–18 Defence continued to apply the fair value method for accounting for specialist military equipment. The revaluation resulted in increases to other comprehensive income as a result of increases to the asset revaluation reserve and the asset values.

Table 4.4.2: Key administered financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	7,066.6	7,968.6
Total income	1,563.5	1,593.1
Deficit	5,503.1	6,375.6
Total other comprehensive income/(loss)	(18,767.7)	23,270.2
Total comprehensive income/(loss)	(24,270.8)	16,894.7
Total assets administered on behalf of Government	3,701.0	3,564.8
Total liabilities administered on behalf of Government	130,413.1	107,068.1
Net liabilities	126,712.1	103,503.2

Source: Defence's financial statements for the year ended 30 June 2018.

4.4.11 The decrease in total expenses is mainly due to a reduction in the service cost related to the defined benefit liabilities administered on behalf of Government. The service cost is sensitive to movements in the interest rate which resulted in a reduction of $1.2 billion.

4.4.12 The movement in other comprehensive income and liabilities administered on behalf of Government is a result of the actuarial revaluation of the Australian Government's net defined benefit liabilities. The actuarial revaluation of the Australian Government's net defined benefit liabilities has increased by $18.9 billion. This increase is due largely to the movement in the discount rate and the revision of the key demographic assumptions applied to determine the value of the liabilities.

Key areas of financial statements risk

4.4.13 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of Defence's financial statements. The ANAO focused audit effort on those areas that were assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.4.3, including which areas were considered key audit matters (KAM) by the ANAO.

Table 4.4.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Departmental Specialist military equipment (SME) $62.0 billion	Existence, completeness and valuation of the SME balance which includes platform assets in use and under construction and spare parts for these assets KAM (valuation)	**Higher**	• high degree of management judgement due to the highly specialised nature of these assets and the judgements required to determine appropriate useful lives and assess the financial impact of indicators or impairment; • subjectivity in the valuation assessment due to the difficulty in obtaining the replacement costs of assets with a similar capability in the absence of an active market; • complexity in measuring assets at fair value, which was a new requirement for Defence in 2015–16. These processes were being embedded in 2016–17; • the annual impairment and revision of useful lives are subject to a high degree of judgement and subjectivity; • management of AUC is dispersed across numerous projects that have complex multi-year contractual arrangements and project management requirements; and • large prepayments are often made in relation to the acquisition and sustainment of SME.	One significant and one moderate audit finding were raised during the final audit and remain unresolved. Refer to paragraphs 4.4.16 to 4.4.29.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Departmental Inventory Explosive Ordnance (EO) Fuel General Stores Inventory (GSI) $6.9 billion	Existence, completeness and accuracy of inventory balances KAM (existence and completeness)	**Higher**	• the variety and number of inventory items which are managed across a large number of geographically dispersed locations; and • complexities associated with the identification of, and accounting for, obsolete stock.	No significant or moderate audit findings identified.
Departmental general assets $28.3 billion	Valuation and completeness of general and intangible assets KAM (valuation)	**Moderate**	• the high degree of management judgement required in respect of classifying project costs as capital or expense; and • the assumptions applied to determine appropriate useful lives and in the selection of valuation techniques to measure fair value and assess the financial impact of indicators of impairment.	No significant or moderate audit findings identified.
Litigation and compensation schemes (Unquantifiable Contingent liability)	Emerging threats of class action for environmental contamination and other potential legal exposures	**Moderate**	• complexity involved in assessing and reporting financial impacts relating to actual and potential legal actions with regards to environmental contamination issues; and • the variety of Defence's activities exposes it to potential litigation for past actions.	No significant or moderate audit findings identified.

Source: ANAO 2017–18 audit results, and Defence's financial statements for the year ended 30 June 2018.

Audit results

4.4.14 The following table summarises the status of audit findings reported by the ANAO in 2016–17 and 2017–18.

Table 4.4.4: Status of audit findings

Category	Closing position (2016–17)	New findings (2017–18)	Findings resolved (2017–18)	Closing position (2017–18)
Significant (A)	–	1	–	1
Moderate (B)	2	1	(2)	1
Total	**2**	**2**	**(2)**	**2**

4.4.15 For each of the findings listed below, the ANAO undertook additional audit procedures to gain assurance that Defence's 2017–18 financial statements were not materially misstated.

New significant audit finding

Management and monitoring of SME balances in ROMAN and MILIS

4.4.16 Defence uses a number of clearing accounts in its financial management information system (ROMAN) to manage the acquisition and sustainment of SME assets including: Military Support Items, Key Defence Assets and other platform support equipment. The Military Integrated Logistics Information System (MILIS) is the information management system that manages the inventory balances and calculates costs for reporting in ROMAN.

4.4.17 A significant number of MILIS asset receipts are generated through the raising of external purchase orders (EPOs). MILIS EPOs are not directly linked to a payment in ROMAN which requires a manual matching process linking receipt and payment which is subject to error. Matching and substantiation issues arise through the use of MILIS EPOs, as payments have to be entered in ROMAN and transaction details entered in MILIS and subsequently reconciled. Where business units are unable to appropriately match MILIS receipts to capital payments, this results in unmatched transactions resulting in a misstatement of the quantity and value of the inventory balances.

4.4.18 The ANAO identified the following issues with the substantiation of SME transactions in MILIS and the clearing accounts:

- significant delays between when the payment is made in ROMAN for the asset acquisition and the date the asset is receipted in MILIS, which may contribute to price differences;
- delays in transferring SME from the assets under construction (AUC) general leger account to the fixed asset register once available for use;
- transactions not validated in a timely manner and not reconciled to unmatched balances in the clearing accounts;
- some payments were posted to incorrect general ledger accounts which were not identified in the reconciliation and substantiation process and may lead to permanent uncleared differences in the clearing accounts.
- some purchases were posted to incorrect cost centres;
- not reconciling and managing accrual journals;
- misclassification of transactions between and within the various clearing accounts; and
- business units had not validated balances in MILIS and/or confirmed whether the SME were in use.

4.4.19 A residual uncertainty in the SME balances of $442.8 million remained which Defence agreed to investigate and remediate in 2018–19. The management and monitoring of SME balances in Defence's financial and logistics information systems supports budgetary and capability decisions made by Defence. In Defence's 2017–18 financial statements the SME balance was $62.0 billion.

4.4.20 A lack of a timely and accurate reconciliation of complex and significant SME asset balances increases the risk that the SME asset balances, depreciation expense, and asset revaluation reserve may be materially misstated.

4.4.21 The ANAO recommended Defence undertake investigation and remediate its SME balances within MILIS and ROMAN accounting business processes and balances by:

- performing monthly reconciliations and substantiate each clearing account, MILIS and ROMAN AUC balances as complete and accurate;
- validating asset pricing and receipting transactions in a timely manner;
- reviewing the asset receipting procedures in MILIS to ensure they align to the payment details from the external system;
- receipting SME transferred from the AUC general ledger account to the fixed asset register when the asset is entered into service; and
- reviewing and remediating MILIS asset balances for any legacy systems related transactions.

4.4.22 Defence agreed with the recommendation and will be implementing additional controls designed to ensure that SME balances are accurate and free from material misstatement.

New moderate audit finding

Documentation supporting the annual assessment of SME impairment indicators

4.4.23 Under AASB 136 Impairment of Assets, impairment is to be considered on an annual basis. SME is dispersed across Defence bases with the acquisition, custodian and sustainment responsibility residing with Systems Program Offices (SPO) and Project Offices (PO) and other service groups. These business units advise the Defence Finance Group annually of any impairment indicators.

4.4.24 The Service Chiefs or appropriate delegate provide an annual written representation on whether impairment indicators exist that may have a material effect on the value of SME platforms or AUC projects. The Service Chief sign-off includes consideration of indicators of physical damage, obsolescence and under performance of capabilities when reviewing the financial impairment of SME at the reporting date.

4.4.25 As reported by the ANAO in 2016–17, documentation provided to the Defence Finance Group by the business units was not always complete and did not reflect current circumstances providing limited value to the overall impairment assurance process.

4.4.26 In 2017–18 the ANAO noted instances where the assessment of impairment indicators had not been completed by Defence. The ANAO testing of the impairment calculations provided by Defence resulted in an increase to the impairment figure reported in the 2017–18 financial statements.

4.4.27 These weaknesses increased the risk of misstatements in the financial statements. This information supports the overall SME balance and associated depreciation expense recorded in the financial statements.

4.4.28 The ANAO recommends that:

- Defence document in each SME impairment assessment its consideration of internal and external sources of information;

- the relevant senior capability manager and service groups' CFO identify at an operational and strategic level whether there are any additional impairment indicators to be considered; and
- the individual SPO returns supporting the annual written representations should be documented and reviewed by an appropriate delegate.

4.4.29 Defence agreed with the recommendation and will consider additional sources of information when assessing for impairment. Defence will seek appropriate authorisation of impairment to ensure its accuracy.

Resolved moderate audit findings

Monitoring of the activities performed by service providers

4.4.30 Defence engaged an external organisation to manage and maintain Defence's IT Infrastructure that host business applications. Under a service contract, this organisation is required to maintain a reliable and secure ICT environment; perform authorised changes to IT infrastructure; and support Defence in meeting its performance, monitoring and compliance requirements under the Protective Security Policy Framework and Australian Government Information Security Manual.

4.4.31 This organisation is also responsible for the management and maintenance of hosting infrastructure that supports the enterprise resource planning systems, including the management information domains of the human resources and financial management information systems and the logistics management system.

4.4.32 The ANAO observed weaknesses in relation to:

- the timely removal of privileged access that was no longer required; and
- the management of changes made to Defence's IT infrastructure that was not in accordance with Defence's policies and procedures.

4.4.33 During the 2017–18 final audit, the ANAO tested the controls Defence implemented surrounding removal of privileged access no longer required and the managing of changes made to Defence's IT infrastructure. As a result, this finding was resolved.

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

4.4.34 Specialist military equipment (SME) is dispersed across Defence bases with the acquisition, custodian and sustainment responsibility residing with SPO, PO and service groups. These business units annually advise the centralised asset accounting team of impairment indicators, asset componentisation, inspection costs, present decommissioning costs and changes to asset useful lives, by completing a questionnaire and updating the Key Defence Asset Register (KDAR). During the 2016–17 final audit the ANAO observed weakness in the impairment assessment process for SME platforms and AUC projects that increased the risk of misstatement of the SME and depreciation balances. These weaknesses included:

- information provided by the business units did not always reflect the current circumstances of the SME project;

- incomplete information was provided by the business units in relation to the impairment assurance process; and
- a lack of detailed and approved information contained in the KDAR to identify asset critical information.

4.4.35 During the 2017–18 final audit the ANAO tested the information supporting the KDAR and the fixed asset register including a detailed assessment of the quality assurance processes implemented and noted that the 30 June 2018 KDAR was supported by senior capability manager review and sign off. As a result the finding has been resolved, however, the lack of valid information supporting the SME FAR has been incorporated into the 2017–18 new moderate finding as reported at paragraph 4.4.23.

Australian War Memorial

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

Summary of financial performance

4.4.37 The following section provides a comparison of the 2016–17 and 2017–18 key statements items reported by the AWM, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.4.5: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	54.3	53.9
Revenue from government	53.0	42.7
Deficit attributable to the Australian Government	1.3	11.2
Total other comprehensive income	25.0	115.3
Total comprehensive income attributable to the Australian Government	23.7	104.1
Total assets	1,475.9	1,440.6
Total liabilities	13.1	10.4
Total equity	1,462.8	1,430.2

Source: AWMs financial statements for the year ended 30 June 2018.

4.4.38 The increase in revenue from government relates to the appropriation funding provided to assist AWM with the digitisation of National Collection items at risk of technical obsolescence.

4.4.39 Total assets have largely increased as a result of an independent valuation of land and buildings during the year.

Key areas of financial statements risk

4.4.40 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of the AWM's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2017–18 is provided in Table 4.4.6. No significant or moderate audit findings were identified relating to this key area of risk.

Table 4.4.6: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Heritage and cultural assets $1,174.5 million	Valuation of the collection	**Higher**	• valuation is subject to judgement and assumptions, including assessments for impairment; and • judgement is involved in determining what costs should be capitalised and the appropriate depreciation of the collection.

Source: ANAO 2017–18 audit results, and the Australian War Memorial's financial statements for the year ended 30 June 2018.

Audit results

4.4.41 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Defence Housing Australia

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

Summary of financial performance

4.4.43 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by DHA and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.4.7: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Total revenue, income and share of joint venture profits	1,114.6	1,218.9
Total expenses	1,057.7	1,133.6
Profit before tax	56.9	85.3
Income tax expense	12.6	19.3
Net profit after income tax	44.3	66.0
Other comprehensive income	–	–
Total comprehensive income	44.3	66.0
Total assets	2,301.2	2,299.3
Total liabilities	750.0	765.8
Total equity	1,551.2	1,533.5

Source: DHA's financial statements for the year ended 30 June 2018.

4.4.44 The decrease in revenue was attributable to the decrease in the proceeds from sale and leaseback of properties during the year due to the deterioration of market conditions and the decrease in the net gain from disposal of investment properties due to DHA's decision not to sell as many investment properties in the year. This decrease was partially offset by a slight increase in housing services income due to the annual rent review increase and a higher proportion of properties being tenanted in areas.

4.4.45 The decrease in total expenses related specifically to the reduction in the cost of inventories sold which correlates to the decrease in sales. This has been partially offset by an increase in write down and impairment of assets during the year due to the deterioration in market conditions.

Key areas of financial risk

4.4.46 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of DHA financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.4.8. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.4.8: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Inventories $970.7 million	Valuation of inventories	**Higher**	• the high volume of properties and the complexity and detail of the model used to determine the correct valuation basis for inventory as either cost or net realisable value; • the accuracy and uncertainty associated with the market data which is a key input into the valuation model used to calculate the net realisable value; • management judgement applied in determining key inputs into the valuation model used to determine net realisable value; • the accuracy and completeness of the inventory data held in the finance and other supporting systems due to the volume of properties; and • depth of detailed judgement in applying the complex technical requirements of the financial framework for presentation and disclosure.
Investment properties $993.7 million	Valuation of investment properties	**Higher**	• complex valuation method, multiple data sources and assumptions subject to management judgement, including determining impairment; and • judgement to determine the correct classification of investment properties as either held for sale or non-current assets.
Revenue $1.1 billion	Completeness, accuracy and classification of revenue	**Moderate**	• the nature of the revenue streams and complexity of systems used to capture and record the financial information; and • the number of revenue streams and volume and complexity of the transactions.
Tax expense $12.6 million	Tax and accounting implications of Bringelly land return	**Moderate**	• the Australian Government determined that DHA was required to return the site at Badgery's Creek Road, Bringelly, during 2017–18. The consequential tax and accounting impact in relation to the land return was considered as material to the financial statements; and • the financial impact, accounting and taxation treatment of this transaction was complex.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Disclosure in notes to the financial statements	Assessing the Implications of AASB 15 and AASB 16 implementation and related disclosures in 2017–18	**Moderate**	• AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases* will be effective in the financial year ending 30 June 2019 and 30 June 2020 respectively. The implementation of these two standards is likely to have a significant impact on the financial statements of DHA due to the number of different revenue streams and operational arrangements with the Department of Defence and external investors; and • it is expected that these standards will have a significant impact on how DHA accounts for transactions and arrangements in the future.

Source: ANAO 2017–18 audit results, and DHA's financial statements for the year ended 30 June 2018.

Audit results

4.4.47 There were no significant or moderate unresolved audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Department of Veterans' Affairs

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

Summary of financial performance

4.4.49 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by DVA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.4.9: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	389.0	329.3
Revenue from government	368.3	306.5
Income tax – competitive neutrality	0.4	0.3
Deficit attributable to the Australian Government	21.1	23.1
Total other comprehensive income	0.7	2.0
Total comprehensive loss attributable to the Australian Government	20.4	21.1
Total assets	268.7	223.6
Total liabilities	186.0	146.7
Total equity	82.7	76.9

Source: DVA's financial statements for the year ended 30 June 2018.

4.4.50 The net cost of services has increased due to new shared service arrangements with the Department of Human Services for claims processing, and an increase in the cost of contractors and consultants for delivery of current modernisation reform projects within the department. Revenue from government increased mainly in respect to funding the shared service arrangements.

4.4.51 Total assets increased due to an increase in appropriations receivable to assist with the shared service delivery for the department in the future.

4.4.52 Total liabilities increased due to delayed payments for suppliers, which increased accrued accounts payable at year-end.

Table 4.4.10: Key administered financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	12,816.0	11,748.0
Total income	17.0	20.0
Deficit	12,799.0	11,728.0
Total other comprehensive income	24.0	104.0
Total comprehensive loss	12,775.0	11,624.0
Total assets administered on behalf of Government	1,653.0	1,591.0
Total liabilities administered on behalf of Government	13,701.0	11,460.0
Net liabilities	12,048.0	9,869.0

Source: DVA's financial statements for the year ended 30 June 2018.

4.4.53 The increase in total expenses is mainly attributed to the increase in the military compensation scheme provision following a review by the Australian Government Actuary.

4.4.54 DVA's military compensation provision balance increased by $2.3 billion. The personal benefits provision is attributed to increases in permanent impairment outlays under the *Military Rehabilitation and Compensation Act 2004* and the *Safety, Rehabilitation and Compensation (Defence Related Claims) Act 1988*.

4.4.55 The primary components of the increase in the liability are:

- opening balance adjustments of $1.3 billion, increasing the 2017 actuarial valuation due to actual claims experience and associated modelling changes; and
- adjustments of $1.0 billion in the current financial year resulting from actual claims and payments made which increased the provision by $309.0 million, and interest rate changes which increased the provision by $708.0 million.

4.4.56 The opening balance adjustments represent what the liability would have been at 30 June 2017 had all data at that point been available. These adjustments mainly comprised increased permanent impairment liability and increased incapacity and medical liabilities due to increased claims. Adjustments for current year claims mainly comprised the outstanding cost of claims reported between 1 July 2017 and 30 June 2018, offset by actual payments, and interest/discount factors.

4.4.57 The increase highlights the inherent volatility and complexity associated with the determination of a reliable best estimate valuation. Payments have been particularly high in the 2017–18 financial year as a result of both increasing claims experience, and a DVA initiative to clear a backlog of past claims for permanent impairment. The long tailed nature of the liability also means that it is particularly sensitive to changes in interest rates.

Key areas of financial statements risk

4.4.58 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of DVA's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.4.11, including which areas were considered key audit matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to the key area of risk.

Table 4.4.11: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered personal benefit and healthcare provisions $13.3 billion	Valuation of military compensation provision KAM	**Higher**	• complexity of assumptions and calculations underpinning the actuarial assessment of the military compensation provision; • increasing value of the provision as an unfunded liability; and • availability, quality and completeness of data used to derive the valuation.
All financial statement line items IT control environment	IT environment, including IT general and application controls for a large number of individual information systems, which relate to the financial statements; and Management of changing shared service arrangements with DHS	**Higher**	• access, logging and monitoring of a large number of system users; • multiple interactions between information and payment systems; • legacy 'aged' administered payment management systems; • increased complexity of ongoing maintenance of IT controls under shared service arrangements, particularly security management, • incident and problem solving and change management for new system releases or upgrades; and • data migration from legacy DVA systems to the new DHS systems, in particular the transition from Peoplesoft to SAP Human Resource (HR) for payroll processing and the implementation of the new Improved Payment System (IPS) for pension and health care payments.

Source: ANAO 2017–18 audit results, and the DVAs' financial statements for the year ended 30 June 2018.

4.4.59 In June 2018, Auditor-General Report No. 52 2017–18 *Efficiency of Veterans Service Delivery by the Department of Veterans' Affairs* tabled. The report made six recommendations relating to the management, quality and timeliness of DVA's veterans' rehabilitation and compensation claims processes, which were considered as part of the 2017–18 financial statements audit.

Audit results

4.4.60 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Comments on non-material entities

DHA Investment Management Limited

4.4.61 DHA IML was a wholly owned subsidiary of DHA. It was established on 14 December 2012. The principal activity of DHA IML was to act as the responsible entity of a managed investment scheme (DHA Residential Property Fund No. 1) and for this purpose DHA IML held an AFSL licence. This managed investment scheme was wound up in 2016–17. The DHA IML board resolved to wind up DHA IML in June 2018 and this decision was supported by a resolution of the board of directors of Defence Housing Australia on 29 June 2018. As a result the entity was not a going concern at 30 June 2018.

Emphasis of matter

4.4.62 The auditor's report for DHA IML's financial statements included an emphasis of matter paragraph to draw attention to the notes to the financial statements which disclosed that a resolution to wind up the company had been passed and that it was expected that winding up proceedings would commence in 2018–19 upon the cancellation of the company's AFSL licence on 19 July 2018. As a result the financial report was drawn up on a non-going concern basis. Accordingly, the entity's assets were recorded in the financial statements at their net realisable values and liabilities were recorded at their contractual settlement amounts.

4.5 Education and Training portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Education and Training	**Yes**	Moderate	✓	18 Sep 18	18 Sep 18	Nil
Australian Research Council	**Yes**	Low	✓	07 Sep 18	07 Sep 18	Nil
Australian National University	**No**	Low	✓☞	06 April 18	06 April 18	◆

✓: auditor's report not modified

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

☞: financial year end date other than 30 June 2018

Portfolio overview

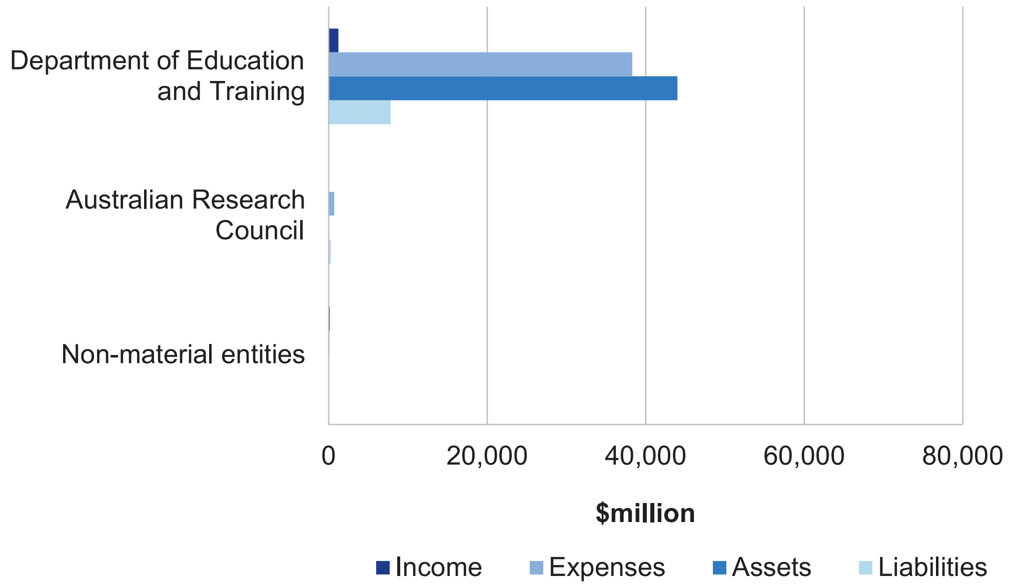
4.5.1 The Department of Education and Training is the lead entity in the portfolio. The department has responsibility for working with state and territory governments, other government entities and a range of service providers to deliver education and training–related policy, advice and services.

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

4.5.3 During the 2017–18 financial year the Australian Institute of Aboriginal and Torres Strait Islander Studies (AIATSIS) was transferred to the Prime Minister and Cabinet portfolio.

4.5.4 Figure 4.5.1 shows the Education and Training portfolio's income, expenses, assets and liabilities.

Figure 4.5.1: Education and Training portfolio's income, expenses, assets and liabilities[48]



Source: 2017–18 CFS.

4.5.5 The following sections provide a summary of the 2017–18 financial statements audit results for the Department of Education and Training and other material entities.

Department of Education and Training

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

Summary of financial performance

4.5.7 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by Education, and includes commentary regarding significant movements between years contributing to overall performance.

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

Table 4.5.1: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	385.7	360.8
Revenue from Government	350.3	339.8
Deficit attributable to the Government	35.3	21.0
Total other comprehensive income	–	–
Total comprehensive loss attributable to the Australian Government	35.3	21.0
Total assets	165.6	176.5
Total liabilities	101.0	115.0
Total equity	64.7	61.5

Source: Education's financial statements for the year ended 30 June 2018.

4.5.8 The increase in net cost of services is due to changes in the cost structure for payments related to the shared service arrangements and expenses associated with implementation of the new child care subsidy. Revenue from Government increased due to increased funding for the Family Day Care Integrity measure which aims to reduce fraudulent child care claims relating to family day care.

4.5.9 The decrease in assets is attributed to the $9.7 million write-off of the Australian Apprenticeship Management System that was under construction to replace the system currently in use for managing Apprenticeship payments. The liabilities have decreased in the current year due to the timely settlement of payments to the Service Delivery Office, compared to the prior year where payments were delayed due to the transition arrangements.

Table 4.5.2: Administered key financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	37,888.3	41,484.3
Total income	851.5	1,315.3
Deficit	37,036.8	40,169.0
Total other comprehensive income	385.1	220.1
Total comprehensive loss	36,651.8	39,949.0
Total assets administered on behalf of Government	43,825.3	39,546.6
Total liabilities administered on behalf of Government	7,714.6	7,688.3
Net assets	36,110.7	31,858.3

Source: Education's financial statements for the year ended 30 June 2018.

4.5.10 The increase in assets is due to an increase in the higher education loan receivable balance of $3.9 billion. The increase is due to $2.4 billion in new loans, $1.2 billion movement in the yield curve and $0.3 billion resulting from interest and actuarial adjustments.

4.5.11 The decrease in administered expenses in the current year is due to a $1.0 billon fair value loss resulting from the higher education loans receivable valuation. This is compared to a $6.1 billion fair value loss in the prior year. This reduction was driven by changes to indexation rates and the yield curve.

Key areas of financial statements risk

4.5.12 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of Education's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.5.3, including which areas were considered key audit matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.5.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered other financial assets: HELP receivable $36,856 million write–down and impairment of assets: $19,775.6 million fair value losses $813.9 million	The valuation of the outstanding loan receivable under the Higher Education Loan Program (HELP) KAM	**Higher**	• the balances of outstanding loans and impairment are derived from complex actuarial estimates and the estimate contains a degree of estimation uncertainty; • the complexity involved in estimating future income of individuals that need to repay HELP debts, the timing of expected repayments and the amount of the loan not expected to be recovered; and • payment data is reliant on sources external to Education such as: the Australian Taxation Office; universities; and other third parties.
Administered HESP provision $6,517.0 million other receivables $352.0 million	The valuation of the Higher Education Superannuation Program (HESP receivable and provision) KAM	**Higher**	• the valuation of the HESP liability is subject to an actuarial estimation process and is highly sensitive to movements in discount factors and bond rates; and • the valuation is complex and depends on accurate source data provided by universities.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered other financial assets: Personal benefits receivable $439.2 million Liabilities: Personal benefits payable $129.6 million Personal benefits provision $911.6 million	The valuation of the childcare personal benefit accrual and receivable balances KAM	**Higher**	• the complex legislation and administration arrangements that apply to child care benefits; • complex actuarial assessment supporting the balances; • payments are reliant on self-assessed information provided by child care service providers and claimants; and • the IT environment is highly dependent on external information systems which are administered by the Department of Social Services and the Department of Human Services.
Administered grants payments $28,425.0 million	The validity and accuracy of grants payments made to government and non-government schools and Higher Education Providers	**Moderate**	• grants programs are decentralised and are managed across a number of different systems that rely on information from third parties; and • the payments process relies on third party assessment of eligibility to receive a nominated grant.

Source: ANAO 2017–18 audit results, and Education's financial statements for the year ended 30 June 2018.

Audit results

4.5.13 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Australian Research Council

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

Summary of financial performance

4.5.15 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by ARC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.5.4: Departmental key financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	22.6	22.1
Revenue from Government	21.2	21.8
Deficit attributable to the Government	1.4	0.3
Total other comprehensive income	–	–
Total comprehensive loss attributable to the Australian Government	1.4	0.3
Total assets	35.1	33.9
Total liabilities	8.3	7.6
Total equity	26.8	26.3

Source: ARC's financial statements for the year ended 30 June 2018.

4.5.16 The deficit attributable to the Government increased by $1.1 million in 2017–18 due to an increase in employee benefits of $2.0 million and consultancy services of $0.4 million. This was offset by a net increase to revenue of $1.3 million, comprised of $2.0 million funding received from the Department of Defence for the Per-and Poly-Fluoroalkyl Substances (PFAS) Remediation Research Program and a decrease of $0.7 million revenue received from Government.

Table 4.5.5: Key administered financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	691.3	759.6
Total income	9.4	10.2
Deficit	681.9	749.4
Total other comprehensive income	–	–
Total comprehensive loss	681.9	749.4
Total assets administered on behalf of Government	1.0	0.1
Total liabilities administered on behalf of Government	239.3	310.0
Net liabilities	238.3	309.9

Source: ARC's financial statements for the year ended 30 June 2018.

4.5.17 Grant expenses decreased in 2017–18 by $58.3 million and grants payable decreased by $69.9 million predominately due to the timings of grants approved by the management as part of its normal business processes. There was a reduction in supplier expenses of $10.0 million resulting from the Dementia Research Initiative no longer being paid in 2017–18. These three factors contributed to an overall reduction in losses and net liabilities.

Key areas of financial statements risk

4.5.18 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of ARC's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.5.6. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.5.6: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered grants expense $688.1 million	Completeness and accuracy of grants payments	**Moderate**	• complexity of grant payments, including variations to grant agreements during the year; and • the high volume of grant payments and variations throughout the year increases the risks of error or fraud; and complex systems, processes and regulations exist for approval, management, payment, acquittal and reporting of administered grants.
Departmental intangibles $10.5 million	Valuation of intangibles	**Moderate**	• judgement involved in determining the appropriateness of capitalisation in line with the accounting standards.

Source: ANAO 2017–18 audit results, and the ARC's financial statements for the year ended 30 June 2018.

Audit results

4.5.19 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Comments on non-material entities

Australian National University

4.5.20 The Australian National University (ANU) was set up in 1946 with a special charter – to give the nation a university that would 'advance the cause of learning and research in general, and take its rightful place among the great universities of the world.' The ANU has a 31 December year end.

New moderate audit findings

Communication and interaction with the HR department

4.5.21 Delays in the provision of human resources (HR) information for the purposes of the audit resulted in the modification of the audit approach. Furthermore, as the ANAO were not able to obtain data directly from the HR system, it was necessary to undertake additional work in order to verify the completeness and accuracy of the information obtained. It was also noted that the ANU Finance section did not perform a reconciliation of the year to date amounts recorded in the general ledger to reports generated from the HR system but relied on a fortnightly review of payroll expenditure journals as evidence of the accuracy of this balance.

4.5.22 While sufficient assurance was obtained that there were no material omissions or misstatements in the reported employee expenses or liabilities, the ANAO recommended that management strengthen its assurance processes over HR information recorded in the financial statements including more timely provision of information.

4.5.23 The ANU agreed with the finding and will work to ensure that the ANAO is provided with the required access to HR information in accordance with agreed audit timeframes, including the provision of full inquiry and reporting access logins to the HR system(s), for the 2018 audit.

ANU investment portfolio

4.5.24 Investments is a material balance for ANU, having a value of $1.6 billion at 31 December 2017. From 1 January 2017 ANU ceased to manage its investment portfolio in house and engaged the National Australia Bank's NAB Asset Servicing (NAS) as its custodian.

4.5.25 The ANAO was unable to audit the ledger balances at the interim audit phase as the process of recording the balances in the general ledger had not been resolved until early 2018 for the financial year ended 31 December 2017. A total reconciliation of the complete balance in the general ledger comprising the NAS system and the investments held outside of the NAS had not been performed by the ANU at the time of the final audit phase. At the request of the ANAO a reconciliation was satisfactorily performed and no issues were noted. The ANAO performed additional control testing over the additions and disposals within the share portfolio with satisfactory results. The associated revenue and expenses were substantively tested with satisfactory results.

4.5.26 At the time of the interim audit phase, management had not requested a GS007 report on the controls implemented by NAS for December 2017. The December 2017 report was subsequently requested and obtained with no issues in the report that impacted the audit process. This report is required to be provided annually to assist with gaining an understanding of the internal control environment within NAS and the effectiveness of that environment. An Independent Assurance Report is provided to NAS in relation to the controls over custody and investment administration.

4.5.27 While a higher level Investment Policy Framework was presented to the Finance Committee in November 2017, the ANU had not formalised and documented the processes, procedures and framework within which ANU gains their assurance regarding the accurate record of the balances and the movements of the share portfolio in the general ledger and financial statements.

4.5.28 The ANU agreed with the finding and has undertaken a number of procedures that have addressed the issues raised. The ANAO will review ANU's progress in addressing this issue as part of the 2018 audit.

4.6 Environment and Energy portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of the Environment and Energy	**Yes**	Moderate	✓	30 Aug 18	30 Aug 18	Nil
Bureau of Meteorology	**Yes**	Low	✓	29 Aug 18	29 Aug 18	Nil
Clean Energy Finance Corporation	**Yes**	Moderate	✓	23 Aug 18	23 Aug 18	Nil
Clean Energy Regulator	**No**	Moderate	✓	24 Sep 18	24 Sep 18	◆
Director of National Parks	**No**	Moderate	✓	8 Oct 18	9 Oct 18	▲☐
Snowy Hydro Limited(a)	**Yes**	–	–	–	–	–

✓: 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 2017–18 interim audit phase, now downgraded or resolved

Note a: The Commonwealth acquired 100 per cent ownership of Snowy Hydro Limited (SHL) on 29 June 2018. In accordance with the *Public Governance Performance and Accountability Act 2013* (PGPA Act) the Public Governance, Performance and Accountability Rule 2014 was amended to prescribe Snowy Hydro Limited as a government business enterprise and amend the first reporting period as the period commencing on 29 June 2018 and ending on 30 June 2019. As a result no audit report was issued by the ANAO in 2018.

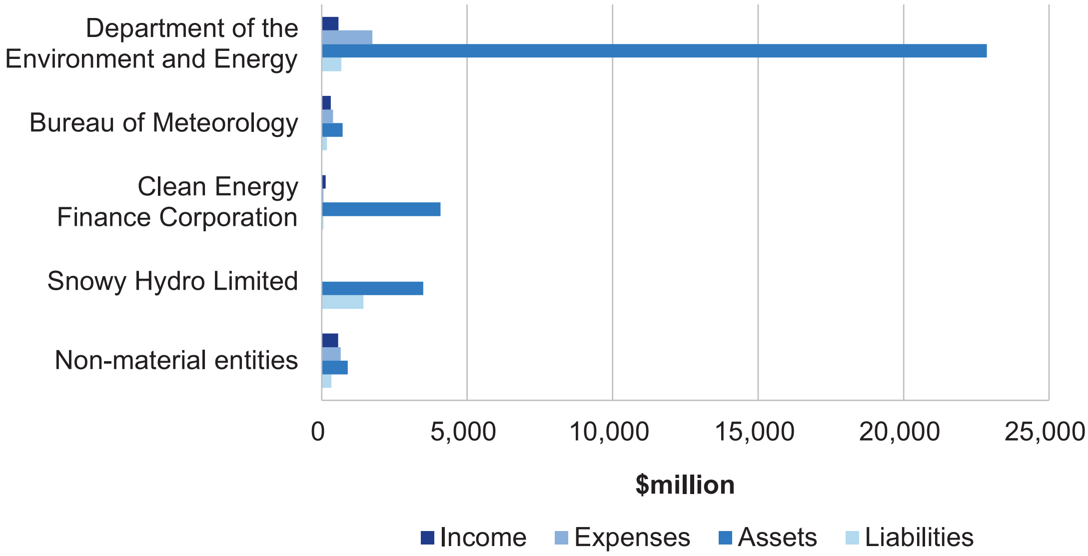
Portfolio overview

4.6.1 The Environment and Energy portfolio is responsible for sustainable management of Australia's environment, adapting to the impacts of climate change, and improving the health of ecosystems. The Department of the Environment and Energy is the lead entity in the portfolio and is responsible for advising on, and implementing, environmental and energy policy to support the Government.

4.6.2 In addition to the Department of the Environment and Energy, there are nine entities (excluding one subsidiary) within the portfolio that are responsible for renewable energy regulation and generation, weather forecasting services, financing the clean energy sector, advice on climate change mitigation, and conservation of national reserves and the Great Barrier Reef.

4.6.3 Figure 4.6.1 shows the Environment and Energy portfolio's income, expenses, assets and liabilities.

Figure 4.6.1: Environment and Energy portfolio's income, expenses, assets and liabilities[49]



Source: 2016–17 CFS.

4.6.4 The following sections provide a summary of the 2017–18 financial statements audit results for the Department of the Environment and Energy (Environment), Bureau of Meteorology (BOM), Clean Energy Finance Corporation (CEFC), and findings related to non-material entities in the portfolio.

Department of Environment and Energy

4.6.5 The core areas of responsibility of the Department of the Environment and Energy (Environment) are advising the Government on environmental and energy policy; and managing the conservation, protection and sustainability of Australia's natural resources, biodiversity, ecosystems, environment and heritage, and contributing to the national response to climate change. In addition, the department advances Australia's interests in the Antarctic, manages environmental water use, and supports the reliable, sustainable and secure operations of energy markets.

Summary of financial performance

4.6.6 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by Environment, and includes commentary regarding significant movements between years contributing to overall performance.

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

Table 4.6.1: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	570.7	455.6
Revenue from Government	454.4	410.4
Deficit attributable to the Government	116.3	45.2
Total other comprehensive income	134.8	27.0
Total comprehensive gain/(loss) attributable to the Australian Government	18.5	(18.2)
Total assets	912.9	688.5
Total liabilities	659.3	623.8
Total equity	253.5	64.7

Source: Environment's financial statements for the year ended 30 June 2018.

4.6.7 The department holds a provision for the restoration and clean-up of Australia's bases in Antarctica and sub Antarctic regions which is revalued on an annual basis. The movement in the provision associated with the solid waste disposal arising from the restoration and clean-up resulted in an increase to the net cost of services as did an increase in contractor costs across a range of policy areas.

4.6.8 The increase in other comprehensive income arises from the revaluation increment following a revaluation of non-financial assets undertaken during 2017–18 and an increase in that part of the valuation of the Antarctic related provision that relates to building and infrastructure.

4.6.9 The increase in total assets and total equity is due to the revaluation completed over Environment's non-financial assets in 2017–18; and progress payments made by Environment for the construction of the new Antarctic Icebreaker *Nuyina*.

Table 4.6.2: Key administered financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	1,110.0	663.4
Total income	307.2	290.8
Deficit	802.8	372.6
Total other comprehensive income	225.5	294.4
Total comprehensive loss	577.3	78.2
Total assets administered on behalf of Government	21,954.5	13,361.7
Total liabilities administered on behalf of Government	16.3	7.6
Net assets	21,938.2	13,354.1

Source: Environment's financial statements for the year ended 30 June 2018.

4.6.10 The increase in total expenses and corresponding total comprehensive loss is mainly attributable to the $443.3 million for the Great Barrier Reef 2050 Partnership program announced in the 2018–19 budget as well as increased impairment of water assets which is consistent with changes in market prices.

4.6.11 The increase in total assets administered on behalf of Government as well as net assets is due to an increase in investments. The Government acquired Snowy Hydro Limited through the purchase of shares from the New South Wales and Victorian state governments to increase its ownership from 13 per cent to 100 per cent for a purchase price of $6.114 billion. Additionally the value of the investment in the Clean Energy Finance Corporation increased due to an equity injection of $1.7 billion. The movement in Other Comprehensive Income reflects the change in valuation of administered investments excluding equity contributions.

Key areas of financial statements risk

4.6.12 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of Environment's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.6.3, including which areas were considered key audit matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.6.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered investments $11,676.8 million	Valuation of Snowy Hydro Ltd KAM	**Higher**	• subject to complex estimation and significant judgement relating to forecasts of future performance; and • a unique asset that is not readily traded in the open market, increasing the risk associated with determining an accurate value.
Administered water entitlements $3,337.2 million	Valuation of water assets	**Higher**	• the balance is subject to estimation and judgement, particularly given the trading of water assets is a relatively new and developing market; and • information to support the valuation is provided by third parties.
Departmental other provisions $561.0 million	Valuation of provision for restoration obligations in the Antarctic KAM	**Moderate**	• the balance is subject to judgement and estimation, particularly relating to discount rates, escalation factors, asset replacement costs and useful lives.
Administered grants $717.8 million	Management of grants	**Moderate**	• Environment administers a wide variety of grant programs which constitute a significant expense reported in the department's financial statements.

Source: ANAO 2017–18 audit results, and Environment's financial statements for the year ended 30 June 2018.

Audit results

4.6.13 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Bureau of Meteorology

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

Summary of financial performance

4.6.15 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by the Bureau of Meteorology, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.6.4: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	311.4	300.6
Revenue from Government	230.4	228.4
Deficit attributable to the Government	81.0	72.2
Total other comprehensive income	0.0	31.7
Total comprehensive loss attributable to the Australian Government	81.0	40.5
Total assets	716.8	692.9
Total liabilities	176.7	156.3
Total equity	540.1	536.6

Source: Bureau of Meteorology's financial statements for the year ended 30 June 2018.

4.6.16 The increase in the Bureau of Meteorology's total assets was a result of the acquisition of internally developed software in 2017–18. This contributed to the increase in net cost of services from higher depreciation and amortisation expenses.

4.6.17 The increase in total liabilities was due to higher payables in relation to new projects created in 2017–18. Fluctuations in other balances reflect normal business activities.

Table 4.6.5: Key administered financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	–	–
Total income	2.3	4.3
Surplus	2.3	4.3
Total other comprehensive income	–	–
Total comprehensive income	2.3	4.3

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total assets administered on behalf of Government	0.1	0.3
Total liabilities administered on behalf of Government	0.0	0.0
Net assets	0.1	0.3

Source: Bureau of Meteorology's financial statements for the year ended 30 June 2018.

4.6.18 Total administered income relates to income generated from the sale of third-party advertising on the Bureau of Meteorology's website. The decrease in total administered income was due to less advertising activities in 2017–18. Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.6.19 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of the Bureau of Meteorology's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.6.6. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.6.6: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Total assets $716.8 million	Valuation of specialised weather equipment	**Moderate**	• involves complex valuation processes that involve significant judgement and estimation by valuation experts; and • includes diverse types of assets such as radar, weather stations and super computers located across Australia.
	Valuation of computer software	**Moderate**	• high level of complexity involved in capturing costs and ensuring these are capitalised in accordance with Australian accounting standards; and • significant reliance on management's judgements in relation to useful lives and impairment of these assets.
Own source income $82.3 million	Completeness and accuracy of own-sourced income	**Moderate**	• own-source income makes up almost 30 per cent of overall revenue; • various revenue streams are generated through multiple channels; and • requires compliance with recognition and measurements requirements of relevant Australian accounting standards.

Source: ANAO 2017–18 audit results and the Bureau of Meteorology's financial statements for the year ended 30 June 2018.

Audit results

4.6.20 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Clean Energy Finance Corporation

4.6.21 The Clean Energy Finance Corporation (CEFC) is responsible for the facilitation of increased flows of finance into the clean energy sector. The CEFC's role is to invest with commercial rigour in a diverse portfolio across the spectrum of clean energy technologies that are solely or mainly Australian-based - either directly or indirectly through industry and the banking sector - that, in aggregate, have an acceptable but not excessive levels of risk relative to the sector. The CEFC is required to liaise with relevant persons and bodies, including the Australian Renewable Energy Agency, the Clean Energy Regulator, other Australian Government entities, and state and territory governments, for the purposes of facilitating its investment function. In the Investment Mandate 2016 (No. 2), the responsible ministers have also directed the CEFC Board to make available up to:

- $1.0 billion of investment finance over 10 years for the Reef Funding Program;
- $1.0 billion of investment finance over 10 years for the Sustainable Cities Investment Program; and
- $200.0 million for debt and equity investment through the Clean Energy Innovation Fund.

Summary of financial performance

4.6.22 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by CEFC and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.6.7: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Net contribution by services	73.7	21.7
Revenue from Government	–	–
Surplus attributable to the Government	73.7	21.7
Total other comprehensive income	28.1	7.6
Total comprehensive income attributable to the Australian Government	101.8	29.3
Total assets	4,086.8	2,273.3
Total liabilities	56.6	44.9
Total equity	4,030.2	2,228.4

Source: CEFC's financial statements for the year ended 30 June 2018.

4.6.23 The increase in the surplus attributable to Government is due to primarily a result of increases in interest income, trust distributions, establishment and commitment fees on investment book. Increases in other comprehensive income were primarily associated with gains in the market value of available for sale investments.

4.6.24 Total liabilities increased due to an increase in unearned income from fees received in advance on new investment arrangements entered into as at 30 June 2018. Total assets increased mainly as a result of CEFC's utilisation of an additional $1.7 billion from the CEFC special account, recognised in the Department of the Environment and Energy's financial statements, to fund the CEFC's pipeline of contracted debt and equity investments.

4.6.25 The increase in equity is a result of the substantial deployment of equity funds drawn from the special account in the current financial year (funded through $1.7 billion of equity drawn from the CEFC Special Account, a current year surplus of $73.7 million and a net $28.1 million increase in unrealised gains and losses on assets carried at fair value).

Key areas of financial statements risk

4.6.26 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of CEFC's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.6.8. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.6.8: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Revenue from interest and loan fees and distributions from trusts and equity investments $132.4 million	Revenue recognition	**Higher**	• interest and fee income derived from the CEFC's loan portfolio and distributions received from trusts and equity investments are the material components of the CEFC's total revenue. Amounts received for establishment and other fees may be in the form of cash or other assets (e.g. shares).
Loans and advances $1,936.7 million Available for sale financial assets $1,396.6 million Other financial assets $163.5 million Provision for concessional loans $8.6 million	Accounting for complex finance agreements including the adequacy of impairment provisions and concessional loan adjustments	**Higher**	• complex lending scenarios to entities undertaking new or emerging technologies in the climate change sector where a mature track record of results is still to be established and where access to other finance has been challenging; • complicated agreements with borrowers impacting on fair value assessment and concessional accounting calculations; • obtaining relevant benchmark information for related market data from which concessional loan charges are determined requires significant judgement; and • complexity of impairment assessments in relation to forecast future cash flows, security valuation and relevant discount factors, given the nature of the borrowers and their underlying business.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Key management personnel remuneration $4.6 million	Disclosure of key management personnel remuneration	**Moderate**	• payments relating to the variable compensation plan need to be made in accordance with the parameters set out in the plan; and • accruals relating to any such payments need to be appropriately accounted for.

Source: ANAO 2017–18 audit results, and CEFC's financial statements for the year ended 30 June 2018.

Audit results

4.6.27 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Comments on non-material entities

Clean Energy Regulator

4.6.28 The core areas of responsibility of the Clean Energy Regulator (CER) are administering schemes legislated by the Australian Government that are designed to work together to provide economic incentives, backed up by robust data, to reduce greenhouse gas emissions and increase the use of renewable energy to achieve the acceleration of carbon abatement for Australia.

New moderate audit finding

Privileged User Management

4.6.29 The ANAO reported minor audit findings in 2015–16 which remained unresolved. In the current year these have been raised as a moderate finding as outlined below.

4.6.30 For the TechOne financial management information system (FMIS) database access management, the ANAO noted that logging and monitoring of privileged user activity at the application and database level was not occurring. Further for TechOne FMIS privileged user access management, the logging and monitoring of super user access activity did not identify that the park and post functionality had been accidentally turned off resulting in the same person having the ability to park and post their own journals.

4.6.31 Testing of network privileged user access management identified that privileged user accounts did not have an expiry date and no monitoring or review of privileged activity or events (other than logon/logoff) was occurring.

4.6.32 In the final audit phase of 2017–18, the ANAO identified that for key systems such as the Customer Relationship Management (CRM) logging and monitoring had not been implemented for privileged user activity. For the Renewable Energy Certificate Registry, monitoring had not been implemented over changes to fee structures and privileged users were not revalidated to ensure that new or existing users had access rights commensurate with job responsibilities, and are approved by an appropriate individual.

4.6.33 The CER has advised that it is implementing procedures to address the weaknesses in 2018–19. The ANAO will review the progress made by the CER to improve its privileged user management as part of the 2018–19 audit.

Director of National Parks

4.6.34 The Director of National Parks (DNP) is responsible for the sustainable management of the Commonwealth's protected areas through conservation and appreciation of Commonwealth reserves. The DNP achieves its objectives through the provision of safe visitor access, the control of invasive species, and working with stakeholders and neighbours.

Unresolved moderate audit finding

Identification, valuation and classification of assets

4.6.35 The identification, valuation and classification of assets finding was first raised during the interim phase of the 2016–17 audit after undertaking site visits to the Kakadu and Booderee National Parks. The ANAO identified weaknesses in the identification, classification and valuation of assets and that the Kakadu National Park did not have an approved and implemented capital maintenance plan for the upkeep of its roads. These issues were not resolved during the 2017–18 audit process and the ANAO continued to identify weaknesses in both the asset register and the stocktake procedures.

4.6.36 DNP partially agreed with the ANAO's assessment that the weaknesses identified continued to pose a moderate risk to the financial statements.

Resolved moderate audit finding

Financial statement quality control and preparation process

4.6.37 During the final phase of the 2016–17 audit, the ANAO identified that DNP did not have adequate processes in place to ensure the timely and accurate preparation of their 2016–17 financial statements. During the 2017–18 audit, the ANAO observed that DNP adhered to financial statement preparation timetables and has been able to meet Government reporting deadlines in relation to the 2017–18 financial statements. The ANAO continued to identify weaknesses in DNP's quality assurance review processes which led to a number of presentation and disclosure adjustments.

4.6.38 Overall, from the testing performed the weaknesses identified during the 2016–17 final audit phase have been partially addressed. The ANAO reassessed and downgraded the finding to a minor audit finding, as the financial statement preparation process now poses a low financial management risk.

4.6.39 DNP partially agreed with the status of the finding citing that the recommendations from 2016–17 had been addressed.

4.7 Finance portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Finance	**Yes**	**Moderate**	✓	27 Aug 18	27 Aug 18	Nil
ASC Pty Ltd	**Yes**	**Moderate**	✓	31 Aug 18	31 Aug 18	Nil
Australian Electoral Commission	**Yes**	**Low**	✓	31 Aug 18	3 Sept 18	Nil
Australian Naval Infrastructure Pty Ltd	**Yes**	**Moderate**	✓	13 Sep 18	13 Sept 18	Nil
Future Fund Management Agency and the Board of Guardians	**Yes**	**Moderate**	✓	25 Sep 18	25 Sept 18	Nil

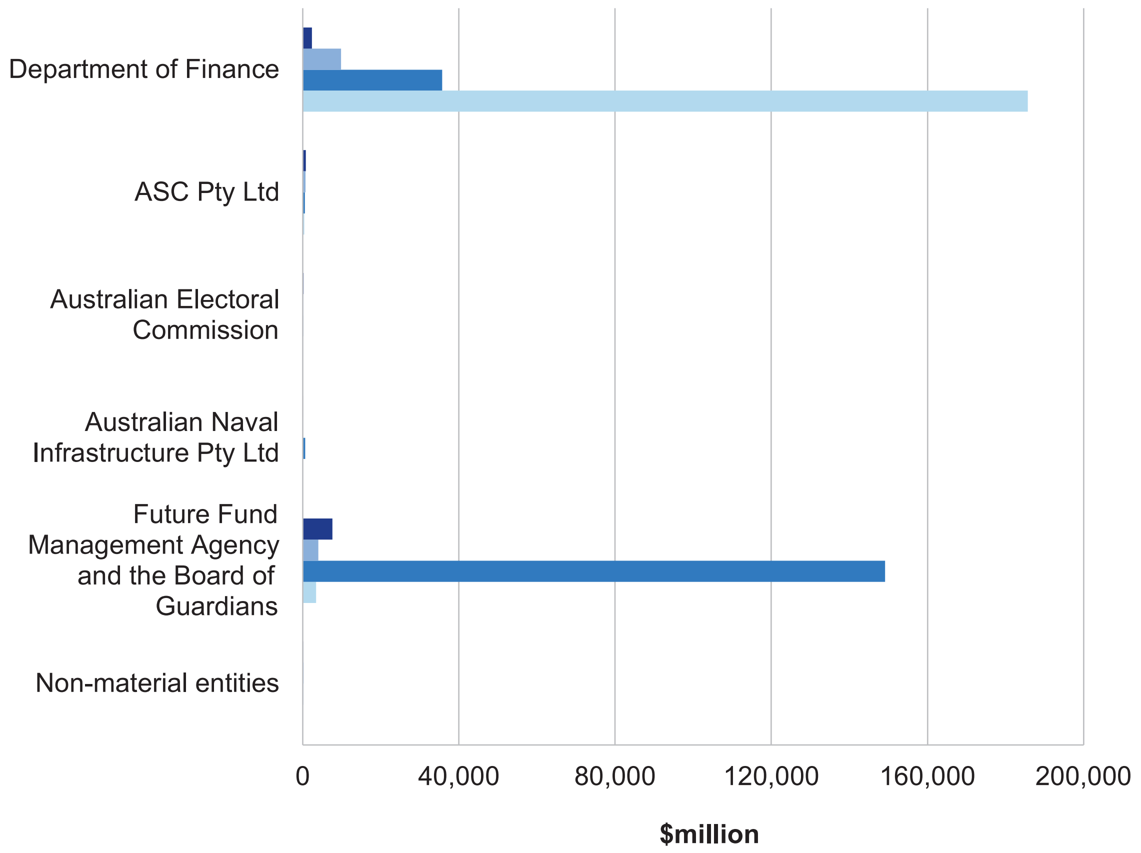
✓: auditor's report not modified

Portfolio overview

4.7.1 The Finance portfolio is responsible for the preparation of the consolidated financial statements (CFS) of the Australian Government and a range of finance related functions that include providing the Australian Government with Budget policy advice on superannuation arrangements for government employees, asset sales and online service delivery initiatives.

4.7.2 Figure 4.7.1 shows the Finance portfolio's income, expenses, assets and liabilities.

Figure 4.7.1: Finance portfolio's income, expenses, assets and liabilities[50]



Source: 2017–18 CFS.

4.7.3 The following sections provide a summary of the 2017–18 financial statements audit results for the Department of Finance.

Department of Finance

4.7.4 The Department of Finance (Finance) is the lead entity in the portfolio and is responsible for supporting the Government's budget process and oversight of public sector resource management, governance and accountability frameworks. In addition, the department is responsible for the preparation of the annual CFS, which includes the whole-of-government and the general government sector financial statements and the Australian Government's financial outcome.

Summary of financial performance

4.7.5 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by Finance, and includes commentary regarding significant movements between years contributing to overall performance.

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

Table 4.7.1: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	135.5	222.9
Revenue from Government	262.6	278.4
Surplus attributable to the Government	126.9	55.4
Total other comprehensive income	38.8	21.9
Total comprehensive income attributable to the Australian Government	165.7	77.3
Total assets	2,943.2	3,057.4
Total liabilities	749.5	811.7
Total equity	2,193.7	2,245.7

Source: Finance's financial statements for the year ended 30 June 2018.

4.7.6 The improvement in the net cost of services and total comprehensive income is largely due to the one off provisioning of an insurance claim for the Manus Island class action in the previous year. The liability has decreased with settlement of this claim in 2017–18.

Table 4.7.2: Key administered financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	9,312.3	9,480.2
Total income	2,219.4	1,895.1
Deficit	7,092.9	7,585.1
Total other comprehensive income/(loss)	(6,733.1)	21,816.5
Total comprehensive income/(loss)	(13,826.0)	14,231.4
Total assets administered on behalf of Government	32,727.9	24,465.6
Total liabilities administered on behalf of Government	184,956.1	174,222.2
Net liabilities	152,228.2	149,756.6

Source: Finance's financial statements for the year ended 30 June 2018.

4.7.7 Total other comprehensive loss increased largely due to the lower discount rates used for the superannuation liabilities valuation (as compared to 2017 where there was an increase in discount rates). The lower discount rate and other estimate adjustments affected the provision by around $6.7 billion, which explains the movement in liability.

4.7.8 Total assets increased due to additional contributions received from the Consolidated Revenue Fund and invested in the DisabilityCare Australia Fund and the Medical Research Future Fund managed by Finance, which increased funds held by $6.4 billion.

4.7.9 Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.7.10 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of Finance's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.7.3, including which areas were considered key audit matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.7.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered superannuation provision $183.1 billion	Valuation of unfunded public sector superannuation KAM	**Higher**	• complex calculation of each superannuation fund's liability and sensitivity of each fund to demographic factors and other movements, such as salary growth and bond rates; and • reliance on the Commonwealth Superannuation Corporation for the processing of superannuation benefit payments and the provision of complete and accurate data to Finance's actuary.
Departmental outstanding insurance claims $381.9 million	Valuation of the outstanding claims liability under the Australian Government's self-managed general insurance fund KAM	**Higher**	• complex calculation based on assumptions that require significant judgement; and • reliance on the control environment of an external service provider for the effective management of the claims process.
Departmental land and buildings, investment properties $1.7 billion	Valuation of the Government's non-defence domestic property portfolio KAM	**Moderate**	• use of different valuation methods that require significant judgement on the selection of assumptions within the valuation models across a large portfolio of properties.

Source: ANAO 2017–18 audit results and Finance's financial statements for the year ended 30 June 2018.

4.7.11 The performance audit report Auditor-General Report No.35 2017–18 *Management of Special Appropriations* was tabled during 2017–18 and was relevant to the financial management or administration of Finance. Additional disclosures were provided in the financial statements as a result of the audit.

Audit results

4.7.12 There were no significant or moderate unresolved audit findings arising from the 2016–17 or 2017–18 financial statements audits.

ASC Pty Ltd

4.7.13 The ASC Pty Ltd Consolidated Group (ASC) supports Australia's naval defence capabilities. ASC built Australia's fleet of Collins Class submarines for the Royal Australian Navy and is responsible for the ongoing design enhancements, maintenance and support of the Collins Class submarines through the in-service support contract.

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

4.7.15 On 29 June 2018, the Government announced that ASC's subsidiary, ASC Shipbuilding Pty Ltd will be transferred to BAE Systems to build the next generation of frigates for the Royal Australian Navy. At the end of the build, ASC Shipbuilding Pty Ltd will return to Commonwealth ownership. This transfer has not yet occurred.

4.7.16 ASC is a proprietary company limited by shares registered under the *Corporations Act 2001*. The Minister for Finance and the Public Service is the sole shareholder minister on behalf of the Commonwealth of Australia.

Summary of financial performance

4.7.17 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by ASC and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.7.4: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	719.3	769.3
Total income	765.1	811.2
Income tax expense	13.7	12.6
Profit after income tax	32.0	29.2
Total other comprehensive income after income tax	0.0	1.6
Total comprehensive income after income tax	32.0	30.8
Total assets	541.8	578.4
Total liabilities	411.3	464.6
Net assets	130.6	113.8

Source: ASC's financial statements for the year ended 30 June 2018

4.7.18 The reduction in expenses mainly reflects the AWD project approaching completion, partially offset by increased submarine maintenance activity and inventory levels. The transfer and lease-back of key infrastructure assets to Australian Naval Infrastructure Pty Ltd (ANI) has increased operating lease expenses and reduced depreciation expenses.

4.7.19 The decrease in income reflects a decrease in revenue from the AWD project, as the project approaches completion, partially offset by an increase in revenue from submarine maintenance.

4.7.20 Liabilities are lower mainly due to the repayment of a $32 million government advance during 2017–18. Other movements in assets and liabilities mainly reflect the timing of receipts and payments for submarine maintenance and the AWD project.

Key areas of financial statements risk

4.7.21 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of ASC's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2017–18 are provided in Table 4.7.5. No significant or moderate audit findings were identified relating to this key area of risk.

Table 4.7.5: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Revenue from continuing operations $765.1 million	Revenue and profit recognition in relation to the Air Warfare Destroyer project and the Collins Class submarine in-service support contract	**Higher**	• accounting for revenue, profit recognition, and claims in relation to these projects and contracts is complex and subject to significant estimation and judgement.

Source: ANAO 2017–18 audit results, and the ASC's financial statements for the year ended 30 June 2018.

Audit results

4.7.22 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Australian Electoral Commission

4.7.23 The core areas of responsibility of the Australian Electoral Commission (AEC) are conducting federal elections and referendums, maintaining the Commonwealth electoral roll, administering political funding, and disclosure and provision of a range of electoral information and education programs, both in Australia and internationally.

Summary of financial performance

4.7.24 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by the AEC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.7.6: Key departmental financial statement items

Key departmental financial statement items	2017–18 ($m)	2016–17 ($m)
Net cost of services	154.9	281.2
Revenue from Government	161.2	317.2
Surplus attributable to the Government	6.3	36.0
Total other comprehensive income/(loss)	0.2	(0.3)
Total comprehensive income attributable to the Australian Government	6.5	35.7
Total assets	153.2	122.8
Total liabilities	37.8	36.2
Total equity	115.4	86.6

Source: AEC's financial statements for the years ended 30 June 2018.

4.7.25 The significant decreases in the net cost of services and revenue from government are primarily due to no general election being held during 2017–18. This caused employee and supplier expenses to decrease, compared to 2016–17. The increase in assets is primarily due to an increase in appropriation receivables as a result of additional funding secured for the electoral integrity reforms.

Table 4.7.7: Key administered financial statements items

Key administered financial statement items	2017–18 ($m)	2016–17 ($m)
Total expenses	0.6	62.9
Total income	0.3	3.7
Deficit	0.3	59.2
Total other comprehensive	0.0	0.0
Total comprehensive loss	0.3	59.2
Total assets administered on behalf of Government	1.3	3.6
Total liabilities administered on behalf of Government	0.0	0.0
Net assets	1.3	3.6

Source: AEC's financial statements for the years ended 30 June 2018.

4.7.26 The significant decrease in administered expenses is due to no general election being held in 2017–18.

Key areas of financial statements risk

4.7.27 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of AEC's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.7.8. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.7.8: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Departmental employee benefits expense $86.7 million	Recognition and measurement of employee benefits expense	**Moderate**	• significant balance relative to the other financial statement items; and • staffing numbers fluctuate depending on Federal election activities.
Departmental suppliers expense $76.0 million	Compliance with the Commonwealth Procurement Rules	**Moderate**	• suppliers expense is a significant balance relative to the other financial statement items and is at risk of potential fraud and error.

Source: ANAO 2017–18 audit results, and the AEC's financial statements for the year ended 30 June 2018.

Audit results

4.7.28 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Australian Naval Infrastructure Pty Ltd

4.7.29 On 8 March 2017, the then Minister for Finance approved the restructure of the ASC Group (ASC) into two separate Government owned entities, ASC Pty Ltd and Australian Naval Infrastructure Pty Ltd (ANI) (formerly known as ASC Engineering Pty Ltd, a subsidiary of ASC Pty Ltd). The Board of ASC approved the restructure on 22 March 2017, with the effective date of separation being 26 March 2017.

4.7.30 ANI holds and invests in infrastructure for the domestic manufacture and maintenance of naval vessels in support of the Australian Government's continuous naval ship building program. ANI is a proprietary company limited by shares registered under the *Corporations Act 2001*. The Minister for Finance and the Public Service and the Minister for Defence are the shareholder ministers on behalf of the Commonwealth of Australia.

Summary of financial performance

4.7.31 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by ANI, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.7.9: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	24.1	15.0
Total income	18.7	15.4
Income tax benefit/(expense)	1.6	(0.1)
Profit/(loss) after income tax	(3.8)	0.3
Total other comprehensive income after income tax	4.4	2.2

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Total comprehensive income after income tax	0.6	2.5
Total assets	610.7	323.6
Total liabilities	59.4	52.4
Net assets	551.3	271.2

Source: ANI's financial statements for the year ended 30 June 2018.

4.7.32 The increase in expenses comprises the full year effect of depreciation on assets transferred from ASC and seven months of depreciation on the Techport Common User Facility assets acquired from Defence SA. There are also additional corporate costs as ANI establishes systems and a full staff profile. The increase in income predominantly reflects the full year effect of leasing assets transferred to ANI from ASC in late 2016–17.

4.7.33 The increase in assets reflects the acquisition of additional infrastructure assets during 2017–18, particularly the Techport Common User Facility.

Key areas of financial statements risk

4.7.34 The ANAO completed appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of ANI's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.7.10. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.7.10: Key area of financial statements risk audit results

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Property, plant and equipment $225.6 million deferred tax assets $4.7 million employee entitlements $0.3 million	Acquisition of Techport Facility	**Higher**	• complexities associated with determining the appropriate allocation of the purchase price to the assets acquired, in accordance with AASB 3 Business Combinations.
All financial statement line items	Implementation of new accounting system	**Higher**	• change in finance systems and transfer of data to the new system.
Property, plant and equipment $573.8 million	Valuation and recognition of property, plant and equipment	**Moderate**	• valuation requires significant judgements and estimates particularly in relation to assessing the highest and best use for the assets.

Source: ANAO 2017–18 audit results, and the ANI's financial statements for the year ended 30 June 2018.

Audit results

4.7.35 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Future Fund Management Agency and the Board of Guardians

4.7.36 The Future Fund Board of Guardians, supported by the Future Fund Management Agency (together the Future Fund), is responsible for investing the assets of the Future Fund under the *Future Fund Act 2006* and other investment funds under the *Nation-building Funds Act 2008*, the *DisabilityCare Australia Fund Act 2013*, and the *Medical Research Future Fund Act 2015*, for the benefit of future generations of Australians.

Summary of financial performance

4.7.37 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by the Future Fund, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.7.11: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	247.1	313.7
Total income	12,654.2	11,059.7
Income tax expense	72.1	69.4
Surplus	12,335.0	10,676.6
Total other comprehensive income	–	–
Total comprehensive income	12,335.0	10,676.6
Total assets	148,343.3	134,997.1
Total liabilities	2,596.1	1,584.9
Net assets	145,747.2	133,412.2

Source: Future Fund's financial statements for the year ended 30 June 2018.

4.7.38 The investment earnings for the Future Fund during 2017–18 were above the prior year. The return of 9.3 per cent (2017: 8.7 per cent) is above its target return of 6.1 per cent (CPI plus 4.5 per cent). The increase in return has led to the growth in the fund size at year end as all returns are re-invested.

4.7.39 The decrease in expenses is due to a reduction in investment management fees, largely due to lower performance fees accrued in the current financial year. The reduction is partly due to performance of some managers and a restructure of part of the portfolio leading to a greater proportion not being subject to performance management fees.

4.7.40 The increase in liabilities is from derivative liabilities, reflecting the fair value of the foreign currency contracts as at 30 June 2018.

Key areas of financial statements risk

4.7.41 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of Future Fund's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.7.12, including which areas were considered key audit matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.7.12: Key area of financial statements risk audit results

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Investments - collective $67.9 billion	Valuation of private market investments KAM	**Higher**	• the inherent subjectivity of valuations and illiquid market conditions for certain investments.
Investment management costs $109.9 million	Accuracy of fees paid to investment managers	**Moderate**	• calculation of performance fees due to their nature, multiple input variables and can require management estimation.
Investments $144.2 billion	Effectiveness of governance processes, including monitoring external service providers and the custodian	**Moderate**	• reliance on information from the custodian (including asset valuation, rights, obligations and existence of assets); and • potential for financial loss where custodian or sub-custodian fails to meet their obligations in accordance with the agreed terms.

Source: ANAO 2017–18 audit results, and the Future Fund's financial statements for the year ended 30 June 2018.

Audit results

4.7.42 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

4.8 Foreign Affairs and Trade portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Foreign Affairs and Trade	**Yes**	Moderate	✓	3 Sept 18	3 Sept 18	Nil
Export Finance and Insurance Corporation	**Yes**	Moderate	✓	23 Aug 18	24 Aug 18	Nil

✓: auditor's report not modified

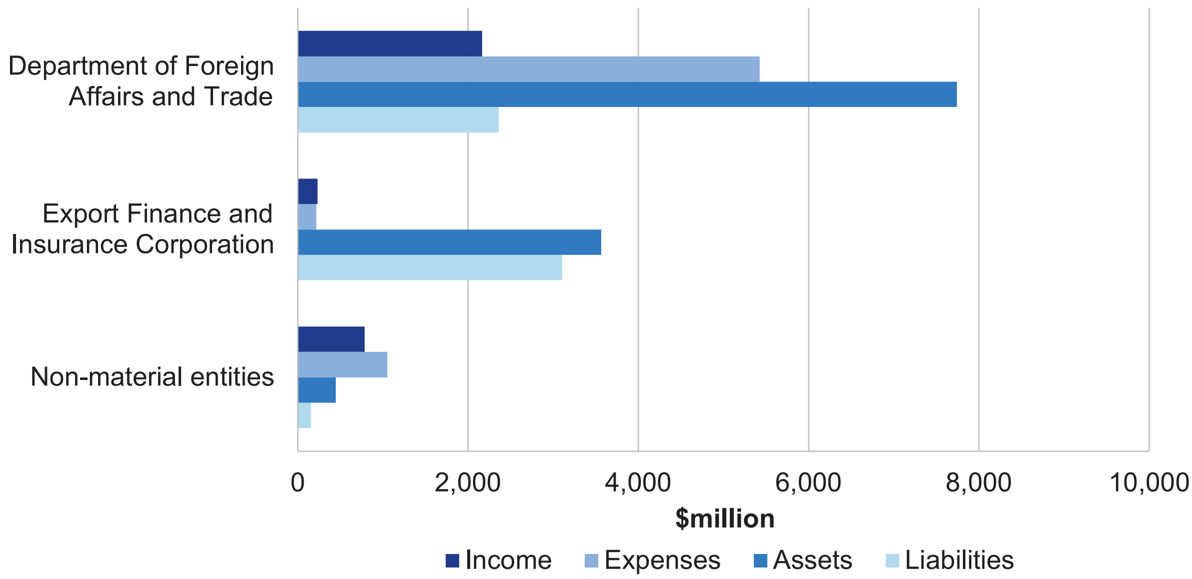
Portfolio overview

4.8.1 The objective of the Foreign Affairs and Trade portfolio is to make Australia stronger, safer and more prosperous by promoting and protecting its interests internationally and contributing to global stability and economic growth, particularly in the Indo-Pacific region.

4.8.2 The Department of Foreign Affairs and Trade (DFAT) is the lead entity in the portfolio and is responsible for providing foreign, trade and development policy advice and for leading the Australian Government's international efforts to shape the regional and international environment.

4.8.3 Figure 4.8.1 shows the Foreign Affairs and Trade portfolio's income, expenses, assets and liabilities.

Figure 4.8.1: Foreign Affairs and Trade's portfolio income, expenses, assets and liabilities[51]



Source: 2017–18 CFS.

51 Figure 4.8.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

4.8.4 The following sections provide a summary of the 2017–18 financial statements audit results for DFAT, and Export Finance and Insurance Corporation. Where a performance audit was tabled during 2017–18 that was relevant to the financial management or administration of an entity, the impact of those observations on the audit approach are also discussed.

Department of Foreign Affairs and Trade

4.8.5 The Department of Foreign Affairs and Trade (DFAT) is responsible for providing foreign, trade and development policy advice and for leading the Australian Government's international efforts to shape the regional and international environment.

Summary of financial performance

4.8.6 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by DFAT, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.8.1: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	1,409.0	1,519.7
Revenue from government	1,355.2	1,382.9
Deficit attributable to the Australian Government	53.9	136.8
Total other comprehensive income	220.4	32.0
Total comprehensive income/(loss) attributable to the Australian Government	166.6	(104.8)
Total assets	4,779.5	4,522.8
Total liabilities	411.0	419.0
Total equity	4,368.6	4,103.8

Source: DFAT's financial statements for the year ended 30 June 2018.

4.8.7 Net cost of services has primarily reduced due to gains made on the sale of two overseas properties in 2017–18.

4.8.8 Total assets increased primarily due to overseas property revaluations resulting from favourable movements in property markets and foreign exchange rates. This increase also resulted in an increase in other comprehensive income.

Table 4.8.2: Key administrated financial statement items

Key administered financial statement items	2017–18 ($m)	2016–17 ($m)
Total expenses	3,728.2	4,703.0
Total income	1,048.8	612.1
Deficit	2,679.42	(4,090.9)
Total other comprehensive income	0.2	10.1

Key administered financial statement items	2017–18 ($m)	2016–17 ($m)
Total comprehensive income/(loss)	2,679.2	(4,080.8)
Total assets administered on behalf of Government	2,962.1	2,568.6
Total liabilities administered on behalf of Government	1,949.9	2,280.4
Net assets	1,012.2	288.2

Source: DFAT's financial statements for the year ended 30 June 2018.

4.8.9 DFAT has a range of financial assets and liabilities the most significant of which are subscription assets and grant liabilities. The subscription assets represent membership rights DFAT holds on behalf of the Australian Government for international organisations like International Development Association (IDA) and the Asian Development Fund (ADF). The grant liabilities represent the obligations the Australian Government has in relation to its aid commitments with international organisations. Valuations of assets and liabilities resulting from the Australian Government's contribution to the international organisations are undertaken on an annual basis.

4.8.10 The increase in total income is primarily due to revaluation of subscription assets driven by a combination of change in the underlying discount rates and new subscription replenishments during 2017–18. This has also resulted in an increase in the total asset base.

4.8.11 The decrease in DFAT's administered expenses and liabilities was due to a combination of timings of the payments and the movements in the valuation of the Australian Government's contribution to international organisations.

Key areas of financial statements risk

4.8.12 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of DFAT's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.8.3, including which areas were considered key audit matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.8.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Fees and charges $522.2 million	Completeness and accuracy of revenue generated from passport operations	**Higher**	• a significant proportion of revenue is collected under contractual arrangements by a third party on behalf of the department; and • a significant component of the passport inventory balance is held and managed by a third party on behalf of the department.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Departmental Sale of goods and rendering of services $138.9 million	Accuracy of revenue for rental accommodation and other services provided to other Government entities at overseas posts	**Higher**	• multiple sources of revenue; and • revenue is assessed based on attached agencies staffing profiles at post, agreed floor space and other factors.
Departmental Land and buildings $3,334.3 million	Valuation of the department's overseas property portfolio KAM	**Moderate**	• variety of valuation methodologies applied; • inherent subjectivity, judgements and assumptions applied in the determination of the fair value of the properties; and • the management of overseas property is undertaken by a third party through contract arrangements.
Administered IDA and ADF assets $2,291.0 million Multilateral Grants Payable $980.7 million Other Payables - Multilateral $702.2 million	Valuation of IDA and ADF investments and associated liabilities KAM	**Moderate**	• significant judgements, which involve timing of future cash flows, currency and interest rate risks and selection of appropriate discount rates; and • complexity of the membership arrangements
Administered IDA expenses $3,067.7 million Aid program liabilities $187.4 million	Accuracy and completeness of the administered aid program payments KAM	**Moderate**	• there is significant geographical spread of aid programs recipients and a diverse range of aid program payments with a significant component paid through third party providers.

Source: ANAO 2017–18 audit results, and the DFAT's financial statements for the year ended 30 June 2018.

Audit results

4.8.13 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Export Finance and Insurance Corporation

4.8.14 The Export Finance and Insurance Corporation (Efic) is responsible for facilitating and encouraging Australian export trade on a commercial basis. Efic provides financial support to selected Australia-based companies exporting or seeking to expand internationally.

4.8.15 The financial statements of Efic report the results of two accounts – the Commercial Account and the National Interest Account (NIA). The Commercial Account is used to account for the transactions for which Efic is directly accountable. Efic retains the profits and losses arising from these transactions and retained earnings are held as capital. The NIA 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.

Summary of financial performance

4.8.16 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by Efic for the Commercial Account and the NIA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.8.4: Commercial Account key financial statements items

Commercial Account key financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	162.6	151.2
Total income	182.4	167.8
Net profit before tax benefit	19.8	16.6
Surplus attributable to the Government	13.9	11.6
Total other comprehensive income/(loss)	(1.1)	0.7
Total comprehensive income attributable to the Australian Government	12.8	12.3
Total assets	3,132.1	3,106.3
Total liabilities	2,673.8	2,655.0
Total equity	458.3	451.3

Source: Efic's financial statements for the year ended 30 June 2018.

4.8.17 The increase in income and expenses is reflective of normal business activity and attributable to increases in average interest rates on investments and borrowings. The minor increase in total comprehensive income is attributable to a decrease in operating expenses.

Table 4.8.5: National Interest Account key financial statements items

NIA key financial statement items	2017–18 ($m)	2016–17 ($m)
Total expenses	16.1	25.5
Total income	48.4	51.2
National Interest Account attributable to the Australian Government	32.3	25.7
Total assets administered on behalf of Government	432.2	532.2
Total liabilities administered on behalf of Government	432.2	532.2
Net assets	-	-

Source: Efic's financial statements for the year ended 30 June 2018.

4.8.18 The decrease in total expenses is primarily attributable to debt forgiveness in 2016–17. The offsetting decreases in total assets and total liabilities is due to the repayment of debts to the NIA. No new loans agreements were granted for the NIA during the year. Loans from the Commercial Account represent $417.1 million of the National Interest Account Liabilities as at 30 June 2018.

Key areas of financial statements risk

4.8.19 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of Efic financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.8.6. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.8.6: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Commercial account financial instruments - loans and receivables $1.7 billion	Valuation and impairment of loans and receivables	**Moderate**	• complex measurement, classification and disclosure requirements; and • subject to estimation and judgement including the credit risk exposure for key loans.
Commercial account financial instruments financial assets $2.7 billion financial liabilities $2.6 billion	Recognition and measurement of financial instruments and disclosure requirements	**Moderate**	• complex measurement which involves derivatives, available for sales financial instruments, borrowings and loans and receivables; and • subject to estimation and judgement in assessing the reasonableness of the valuation assumptions and inputs to independent sources.
Commercial and National Interest Account Balance of Loans, borrowing and derivatives within the treasury system	Completeness and accuracy of treasury system data migration	**Moderate**	• Efic changed the core investment management system from Integrity to Reval effective 1 July 2017.

Source: ANAO 2017–18 audit results, and the Corporation's financial statements for the year ended 30 June 2018.

Audit results

4.8.20 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

4.9 Health portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Health	**Yes**	Moderate	✓	30 Aug 18	31 Aug 18	Nil
Australian Sports Commission	**Yes**	Low	✓	16 Aug 18	16 Aug 18	Nil
National Blood Authority	**Yes**	Low	✓	27 Sep 18	28 Sept 18	Nil
National Health and Medical Research Council	**Yes**	Low	✓	21 Sep 18	21 Sept 18	▲
Australian Digital Health Agency	No	Moderate	✓	21 Sep 18	24 Sept 18	☐

✓: auditor's report not modified

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

☐: significant or moderate issues and/or legislative matters identified in previous periods, or the 2017–18 interim audit phase, now downgraded or resolved

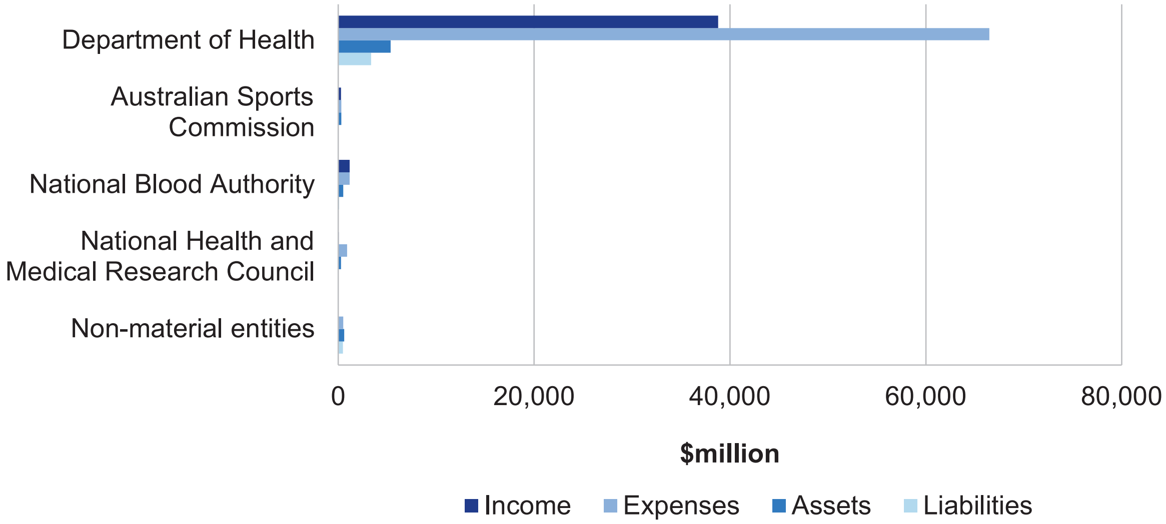
Portfolio overview

4.9.1 The Health portfolio covers a range of policy and program areas aimed at achieving better health and ageing outcomes for Australians; supporting equitable, efficient and high-quality health and aged care systems; and improving opportunities for better outcomes in sport.

4.9.2 The Department of Health is the lead entity in the portfolio and is responsible for achieving the Australian Government's health priorities through the development of policy; administering programs and services, including Medicare, the Pharmaceutical Benefits Scheme and aged care; managing health expenditure; progressing reforms to Australia's health system; and undertaking regulatory and compliance activities.

4.9.3 Figure 4.9.1 shows the Health portfolio's income, expenses, assets and liabilities.

Figure 4.9.1: Health portfolio's income, expenses, assets and liabilities[52]



Source: 2017–18 CFS.

4.9.4 The following sections provide a summary of the 2017–18 financial statements audit results for the Department of Health (Health), the Australian Sports Commission (ASC), the National Blood Authority (NBA), the National Health and Medical Research Council (NHMRC) and the Australian Digital Health Agency.

Department of Health

4.9.5 The Department of Health's (Health) core areas of responsibility are achieving the Australian Government's health and ageing priorities through evidence-based policy, program administration, research, regulatory activities, and partnerships with other government entities, consumers and stakeholders.

Summary of financial performance

4.9.6 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by Health, and includes commentary regarding significant movements between years contributing to overall performance.

52 Figure 4.9.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

Table 4.9.1: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	653.9	737.3
Revenue from Government	658.5	655.2
Surplus/(deficit) attributable to the Government	4.6	(82.1)
Total other comprehensive income	2.5	4.8
Total comprehensive surplus/(loss) attributable to the Australian Government	7.1	(77.4)
Total assets	381.8	353.8
Total liabilities	301.5	299.1
Total equity	80.3	54.7

Source: Health's financial statements for the year ended 30 June 2018.

4.9.7 The decrease in net cost of services resulted from lower expenditure on employee expenses and a range of supplier expenses due to cost constraints. The reduction in employee expenses resulted from a ten per cent reduction in staff numbers associated with the full year impact of voluntary redundancies from the prior year.

Table 4.9.2: Administered key financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	65,632.2	63,400.6
Total income	37,937.6	3,980.7
Deficit	27,694.6	59,419.9
Total other comprehensive income	42.3	43.7
Total comprehensive loss	27,736.9	59,376.1
Total assets administered on behalf of Government	3,282.0	2,317.6
Total liabilities administered on behalf of Government	2,996.7	2,875.3
Net assets/(liabilities)	285.3	(557.7)

Source: Health's financial statements for the year ended 30 June 2018.

4.9.8 The increase in total administered expenses is due to a five per cent increase in personal benefits that was mostly driven by an increase in Medical Benefits payments.

4.9.9 Total administered income has increased due to a change in the funding arrangement with the creation of the Medicare Guarantee Fund (MGF) special account whereby the receipt of funding is recognised as revenue. This is in contrast to the previous funding arrangement where the 2016–17 funding was received as a special appropriation which is not recognised as revenue in the financial statements.

4.9.10 Administered assets were higher in 2017–18 due to unspent cash remaining in the MGF special account and an increase in the accrued recoveries revenue relating to delays in raising invoices to recover Pharmaceuticals Benefits Schemes (PBS) drug recoveries resulting from delays in data availability.

Key areas of financial statements risk

4.9.11 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of Health's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017– 18 are provided in Table 4.9.3, including which areas were considered key audit matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.9.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered total expense subsides $11,762.4 million	Accuracy of Aged Care subsidies paid by Department of Human Services (Human Services) on behalf of Health KAM	**Higher**	• payment of aged care subsidies to nursing home providers are based on Aged Care Funding Instrument assessments prepared by the same providers and involve judgements regarding the level of patient care.
Departmental sale of goods and rendering of services $182.8 million	Completeness and accuracy of Therapeutic Goods Administration revenue	**Higher**	• the estimation of revenue under the *Therapeutic Goods Act (TGA) 1989* involves judgements and assumptions related to the assessment of registration and conformity fees.
Administered total expenses personal benefits $44,599.7 million	Accuracy of personal benefits paid by Human Services on behalf of Health: Medicare Benefits Schedule Pharmaceutical Benefits Scheme Private Health Insurance Rebate KAM	**Higher**	• volume and complexity of health care payments with varying eligibility requirements; and • processed by Human Services on complex IT systems.
Administered total income recoveries $2,943.4 million	Completeness and accuracy of Pharmaceutical Benefits Scheme recovery revenue KAM	**Moderate**	• manual calculation of complex information in spreadsheets; and • reliance on data sourced from Human Services and complex arrangements in place with pharmaceutical companies for recovery of expenditure.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered personal benefits provisions $1,074.3 million subsidies provision $441.0 million	Valuation of the Medical Indemnity and Medicare and Pharmaceuticals Outstanding Claims provisions KAM	**Moderate**	• significant judgements over future claims and economic assumptions including discount rate and future claims that underpin the estimation indemnity provisions.
Administered total expenses grants $7,721.9 million	Accuracy and validity of grant program payments.	**Moderate**	• significant number of grant programs are administered by Health and Human Services with different eligibility criteria.

Source: ANAO 2017–18 audit results, and Health's financial statements for the year ended 30 June 2018.

Audit results

4.9.12 There were no significant or moderate unresolved audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Australian Sports Commission

4.9.13 The Australian Sports Commission (the Commission) is responsible for leading and supporting the development of a cohesive and effective sport sector that enables more people to play sport, and Australian athletes and teams to succeed on the world stage.

Summary of financial performance

4.9.14 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by the Commission, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.9.4: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	283.0	257.8
Revenue from Government	267.9	250.6
Deficit attributable to the Australian Government	15.1	7.2
Total other comprehensive income	1.2	–
Total comprehensive loss attributable to the Australian Government	13.9	7.2
Total assets	310.5	319.2
Total liabilities	21.1	17.0
Total equity	289.4	302.2

Source: The Commission's financial statements for the year ended 30 June 2018.

4.9.15 The increase in net cost of services mainly related to grant payment funding for high performance athletes and redundancy and separation employee expense payments. In addition, the Commission increased spending on the 'Move it AUS' campaign resulting in increased supplier expenses primarily for advertising and media.

4.9.16 The increase in revenue from government was mainly due to funding assistance, to athletes, for the 2018 Gold Coast Commonwealth Games, the 2018 Special Olympics National Games and the Tokyo 2020 Olympic Games. Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.9.17 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of the Commission's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.9.5. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.9.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Grants expense $182.8 million	Accuracy and completeness of grant payments	**Moderate**	• payments of grants that involve manual processes and are made in accordance with agreed terms and conditions.
Non-financial assets $219.2 million employee benefits $61.0 million	Appropriate accounting for and disclosure of decisions made as a result of the Commission's review of its business investment strategy	**Moderate**	• judgements and assumptions involved in the valuation and reporting of land and buildings, and property, plant and equipment; and • termination payments and redundancy provision calculations.

Source: ANAO 2017–18 audit results, and the Commission's financial statements for the year ended 30 June 2018.

Audit results

4.9.18 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

National Blood Authority

4.9.19 The core responsibility of the National Blood Authority (NBA) is to secure the supply of safe and affordable blood products, including through national supply arrangements and coordination of best practice standards within agreed funding policies under the national blood arrangements.

Summary of financial performance

4.9.20 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by the NBA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.9.6: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	7.6	5.2
Revenue from government	5.6	5.6
Surplus/(deficit) attributable to the Australian Government	(2.0)	0.4
Total other comprehensive income	–	0.1
Total comprehensive income/(loss) attributable to the Australian Government	(2.0)	0.5
Total assets	10.6	12.1
Total liabilities	2.9	3.0
Total equity	7.7	9.1

Source: NBA's financial statements for the year ended 30 June 2018.

4.9.21 The net cost of services increased by $2.4 million predominately due to an increase in supplier expenses for information communication and technology. Fluctuations in other balances are the result of normal business activity.

Table 4.9.7: Administered key financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	1,165.0	1,062.8
Total income	1,158.7	1,050.2
Deficit	6.3	12.6
Total other comprehensive income	–	–
Total comprehensive loss	6.3	12.6
Total assets administered on behalf of Government	507.8	493.4
Total liabilities administered on behalf of Government	70.7	53.8
Net assets	437.1	439.6

Source: NBA's financial statements for the year ended 30 June 2018.

4.9.22 The NBA is funded by States and Territories based on budgeted expenditure for the purchase of blood and plasma products and operational expenses.

4.9.23 Expenses have increased due to an increase in prices for fresh blood products and an increase in the quantity of collected plasma for fractionation as well as an increase in demand for plasma products.

Key areas of financial statements risk

4.9.24 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of NBA's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.9.8. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.9.8: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered inventories $98.2 million	Valuation of Inventory	**Moderate**	• judgements and assumptions involved in the valuation of blood and blood products; and • the geographical spread of inventory and reliance on service providers to manage the inventory holdings.
Departmental employee provisions $2 million employee benefits $6.6 million	Estimation of provision for employee entitlements	**Moderate**	• judgements and assumptions involved in the estimation of employee provisions including salary growth rates and bond rates.

Source: ANAO 2017–18 audit results, and the NBA's financial statements for the year ended 30 June 2018.

Audit results

4.9.25 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

National Health and Medical Research Council

4.9.26 The core responsibilities of the National Health and Medical Research Council (NHMRC) are raising the standard of individual and public health care within Australia; developing consistent health standards; supporting medical and public health research and training; and fostering consideration of ethical issues relating to health.

Summary of financial performance

4.9.27 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by the NHMRC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.9.9: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	40.4	40.3
Revenue from Government	39.0	37.4
Deficit attributable to the Government	1.4	2.9
Total other comprehensive loss	–	0.1
Total comprehensive loss attributable to the Australian Government	1.4	3.0
Total assets	28.9	22.5
Total liabilities	14.6	10.9
Total equity	14.3	11.6

Source: NHMRC's financial statements for the year ended 30 June 2018.

4.9.28 The increase in total assets is due to expenditure on internally developed intangible assets including the new Research Grants Management System, Enhanced Reporting System, and website redevelopment.

4.9.29 Total liabilities has increased substantially due to three key factors:

- increased reliance on contractors in 2017–18 has led to an increase in accrued contractor expense of $2.1 million;
- an increase in recognised lease incentives resulting from new lease negotiations; and
- unearned income of $2.0 million primarily from the Medical Research Future Fund program which was signed late in the financial year.

Table 4.9.10: Administered key financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	848.6	821.8
Total income	9.2	20.6
Deficit	839.4	801.2
Total other comprehensive income	–	–
Total comprehensive income	839.4	801.2
Total assets administered on behalf of Government	249.3	200.3
Total liabilities administered on behalf of Government	8.0	3.2
Net assets	241.3	197.1

Source: NHMRC's financial statements for the year ended 30 June 2018.

4.9.30 Total expenses has increased due to greater funding for Boosting Dementia Research and increased Medical Research Grants. Income has reduced due to a once off receipt of co-funding from the Australia Research Council in 2016–17 which did not re-occur in 2017–18. Total assets increased due to increased cash balance as a result of an increase in uncommitted grants funding in comparison to the prior year.

Key areas of financial statements risk

4.9.31 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of NHMRC financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.9.11. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.9.11: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered grant expenses $841.9 million	Management and accounting of grant expenditure	**Higher**	• management of, and accounting for, a range of grants payments that constitute a significant expense reported in the NHMRC's financial statements; and • complexities associated with the indexing of grant payments.
Departmental property, plant and equipment $4.1 million intangibles $10.9 million	Management and valuation of non-financial assets	**Moderate**	• judgements and assumptions involved in the valuation of property, plant and equipment.
Departmental sale of goods and rendering of services $4.1 million	Completeness and accuracy of revenue	**Moderate**	• diverse type of services provided by NHMRC with multi-period terms and milestone revenue recognition requiring judgement in relation to accounting standards.

Source: ANAO 2017–18 audit results, and the NHMRC's financial statements for the year ended 30 June 2018.

Audit results

4.9.32 The following table summarises the status of audit findings reported by the ANAO in 2016–17 and 2017–18.

Table 4.9.12: Status of audit findings

Category	Closing position (2016–17)	New findings (2017–18)	Findings resolved (2017–18)	Closing position (2017–18)
Significant (A)	–	–	–	–
Moderate (B)	1	–	–	1
Total	**1**	**–**	**–**	**1**

Source: Audit results 2017–18

4.9.33 For the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that the NHMRC 2017–18 financial statements were not materially misstated.

Unresolved moderate audit finding

User Access Management

4.9.34 During the 2016–17 audit, the ANAO's testing of user access to NHMRC's information technology (IT) systems, including the Financial Management Information System (FMIS), identified that external vendors have privileged user access to NHMRC's IT Infrastructure (Network, Databases and Operating Systems) and the FMIS. The activities performed by these vendors were not logged and, as a result, no regular monitoring of user activities was performed by NHMRC. Additionally, there were no regular monitoring controls in place at NHMRC to ensure that vendors' activities are compliant with NHMRC's policy and procedures.

4.9.35 Users with privileged access to IT systems are able to edit and change data within systems and by-pass the controls designed to ensure appropriate segregation of duties. Ineffective monitoring controls increases the risk that unauthorised changes may be made to NHMRC's IT infrastructure and compromise the security of systems and their data.

4.9.36 Initial advice from NHMRC indicated that it would implement processes and controls to address this issue in 2017–18. The ANAO reviewed measures implemented by NHMRC to address this issue as part of the 2017–18 audit and found that the risk has not been fully addressed. NHMRC has advised that a permanent solution will be implemented as part of the replacement of key IT infrastructure during 2018–19. The ANAO will continue to focus on this area to ensure it is appropriately addressed.

Comments on non-material entities

Australian Digital Health Agency

4.9.37 The Australian Digital Health Agency is committed to the delivery of world-leading digital health capabilities. The Agency is working with the health system to drive better health for all Australians, enabled by seamless, safe and secure digital health services and technologies.

Resolved moderate audit finding

Financial statements quality assurance process

4.9.38 During the 2016–17 audit, the ANAO identified weaknesses in the quality assurance review process and the preparation of work papers to support the financial statements. These weaknesses contributed to a delay in the signing of the 2016–17 financial statements.

4.9.39 For 2017–18 a detailed project plan and timetable was developed for the delivery of the financial statements. The financial statement process was delivered by the Australian Digital Health Agency within the agreed timeframes and was supported by a high level of executive input. This finding has now been resolved.

4.10 Home Affairs portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Home Affairs	**Yes**	Moderate	✓	7 Sept 18	10 Sept 18	☐
Australian Federal Police	**Yes**	Low	✓	5 Oct 18	5 Oct 18	▲◆☐
Australian Security Intelligence Organisation	**Yes**	Moderate	✓	15 Aug 18	15 Aug 18	Nil
Australian Transaction Reports and Analysis Centre	No	Low	✓	14 Sept 18	14 Sept 18	☐

✓: 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 2017–18 interim audit phase, now downgraded or resolved

Portfolio overview

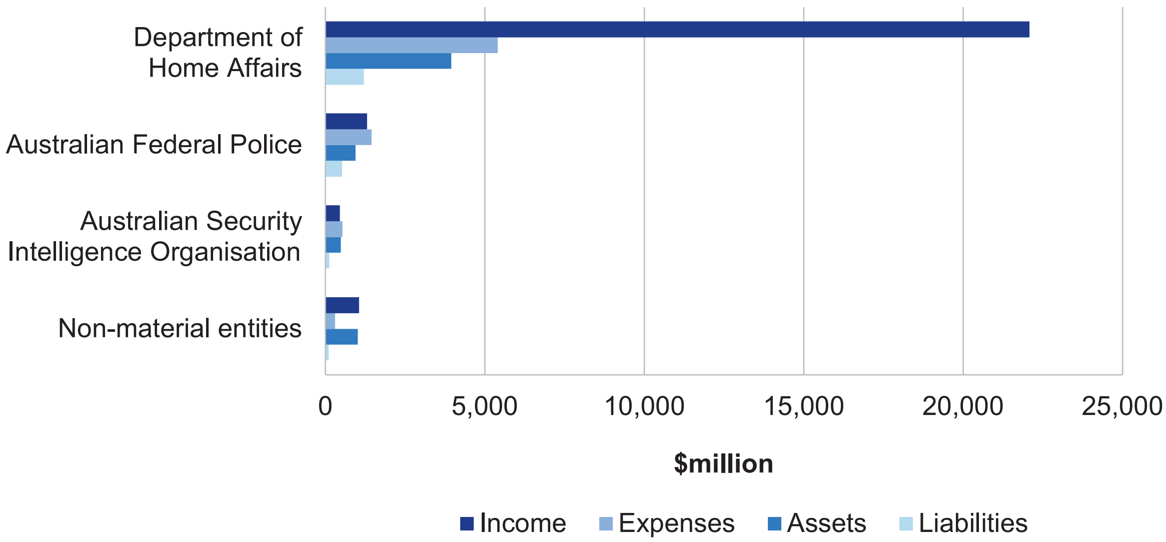
4.10.1 The Home Affairs portfolio was established by the 20 December 2017 Administrative Arrangement Order (AAO). The portfolio brings together Australia's federal law enforcement, national security, cyber security, transport security, criminal justice, emergency management, multicultural affairs and immigration and border-related functions.

4.10.2 The Department of Home Affairs is the lead entity in the portfolio and is responsible for managing the movement of non-citizens, implementing visa, citizenship, multicultural affairs, and refugee and humanitarian assistance programs, facilitating international trade and collecting border revenue. It also deals with national security and law enforcement policy and operations, transport security, critical infrastructure protection coordination, protective services at Commonwealth establishments and diplomatic and consular premises in Australia, cyber policy coordination, as well as emergency management and natural disaster assistance.

4.10.3 The Department of Home Affairs also includes the Australian Border Force, responsible for border, investigations, compliance, detention (facilities and centres) and enforcement functions, as well as Australia's customs functions. In light of the portfolio's focus on law enforcement and security, maintaining a high integrity culture is critical.

4.10.4 Figure 4.10.1 shows the Home Affairs portfolio's 2017–18 income, expenses, assets and liabilities.

Figure 4.10.1: Home Affairs portfolio's income, expenses, assets and liabilities[53]



Source: 2017–18 CFS

4.10.5 The following sections provide a summary of the 2017–18 financial statements audit results for the Department of Home Affairs, other material entities and the finding related to the Australian Transactional Reports and Analysis Centre.

Department of Home Affairs

4.10.6 The Department of Home Affairs (Home Affairs) was established on 20 December 2017 as a central policy agency, providing coordinated strategy and policy leadership for Australia's national and transport security, federal law enforcement, criminal justice, cyber security, border, immigration, multicultural affairs, emergency management and trade related functions.

4.10.7 The Department of Home Affairs includes the entirety of the former department of Immigration and Border Protection (DIBP). As part of the AAO's dated 20 December 2017, it also includes the national security, emergency management, natural disaster relief and recovery and criminal justice functions from the Attorney-General's Department; the Office of Transport Security from the Department of Infrastructure, Regional Development and Cities; multicultural affairs from the Department of Social Services; and the counter-terrorism coordination and cyber security policy functions from the Department of the Prime Minister and Cabinet.

Summary of financial performance

4.10.8 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by the Home Affairs, and includes commentary regarding significant movements between years contributing to overall performance.

53 Figure 4.10.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

Table 4.10.1: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	2,829.9	2,736.6
Revenue from government	2,505.4	2,459.9
Deficit attributable to the Australian Government	324.4	276.7
Total other comprehensive income/(loss)	35.2	(2.0)
Total comprehensive loss attributable to the Australian Government	289.2	278.7
Total assets	2,132.7	1,858.3
Total liabilities	810.8	689.3
Total equity	1,321.9	1 169.0

Source: Home Affairs' financial statements for the year ended 30 June 2018.

4.10.9 In 2017–18, an independent valuation of the property, plant and equipment was undertaken resulting in a $35.2 million increase in the fair value of assets. This is reflected in increases to the total other comprehensive income, total assets and total equity.

4.10.10 Fluctuations in other balances are primarily associated with the additional functions assumed as a result of the establishment of Home Affairs on 20 December 2017. The 2016–17 comparative values relate to the former Department of Immigration and Border Protection.

Table 4.10.2: Key administrated financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	2,358.4	2,116.8
Total income	19,367.6	17,751.6
Surplus	17,009.2	15,634.8
Total other comprehensive income/(loss)	30.1	(10.3)
Total comprehensive income	17,039.3	15,624.5
Total assets administered on behalf of Government	1,820.0	2,077.2
Total liabilities administered on behalf of Government	391.7	320.8
Net assets	1,428.3	1,756.4

Source: Home Affairs' financial statements for the year ended 30 June 2018.

4.10.11 The increase in administered expenses and reduction administered assets is primarily due to the gifting of $245.7 million of public property to the Papua New Guinea government, with the closure of the Manus Island Detention Centre facility on 31 October 2017.

4.10.12 Administered income increased mainly due to increases in customs duty and the Passenger Movement Charge (PMC) collections. The $1.5 billion increase in customs duty primarily related to collections for tobacco and alcohol, with a 12.5 per cent increase in the duty rate on tobacco products on 1 September 2017. PMC collections increased by $105.9 million due to an increase in the rate being applied to tickets and the number of eligible people departing Australia and short-term visitors during 2017–18.

4.10.13 Administered liabilities have increased primarily due to liabilities associated with the memorandum of understanding with Papua New Guinea relating to welfare and support services on Manus Island and in settlement locations following the closure of the related regional processing centre in October 2017.

Key areas of financial statements risk

4.10.14 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of Home Affairs' financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.10.3, including which areas were considered key audit matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.10.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered customs duty revenue $15.6 billion taxation receivable –Customs duty $377.8 million	Completeness and accuracy of customs duty collections and refunds KAM	**Higher**	• the self-assessment nature of the import declaration process; • the significant value of customs duty revenue; • the importance that compliance risk management plays in the completeness of that revenue; and • the complexity of the information technology (IT) environment used to manage customs duty.
Administered other taxes – visa application charges $2.0 billion	Completeness and accuracy of the collection of visa revenue KAM	**Higher**	• the significant value of visa application charges; • the decentralised approach to the collection of visa revenue which occurs in a number of locations domestically and internationally, using a number of payment mechanisms; and • the complexity of the IT environment used to collect and process visa application charges.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered non-financial assets $1.1 billion suppliers expenses $1.6 billion	Accuracy of detention and regional processing centres expenses and valuation of the associated non-financial assets KAM	**Higher**	• the significance of expenses and complexity of contracts associated with managing the detention and regional processing centres; • the variability of the costs associated with administering the detention and regional processing network, as the level of expenses is dependent on the rate of arrival and detention of unauthorised maritime arrivals; • the geographically dispersed land, buildings and equipment including assets located overseas; and • the financial implications of the closure of regional processing centres.
Administered and Departmental Multiple financial statement line items	Establishment of the Department of Home Affairs	**Moderate**	• impact on various financial statement line items; • changes to the control environment and governance structure; and • integration of IT systems, processes and controls.
Administered personal benefits expenses $245.8 million	Completeness and accuracy of payments of personal benefits under the Status Resolution Support Services (SRSS) program	**Moderate**	• complex eligibility criteria for the categories of allowable personal benefits; • payments are made under third-party arrangements with the Department of Human Services and other providers; • the self-assessment nature of the personal benefits process; and • complexity in the underlying IT infrastructure that is used to assess eligibility and make payments to recipients.
Departmental employee benefits expense $1.4 billion employee provisions $444.1 million	Completeness and accuracy of employee entitlements	**Moderate**	• selected Home Affairs staff are entitled to a range of allowances, subject to a number of conditions under different enterprise agreements; and • staff are located both in Australia and overseas, including locally engaged staff who may be entitled to varying employment conditions and benefits based on local laws and regulations.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered and Departmental Multiple financial statement line items	Management of overseas posts particularly relating to the management of departmental resources and collection of visa application revenue	**Moderate**	• decentralised nature of operations and controls; and • managed under third party arrangements through service level agreements with the Department of Foreign Affairs and Trade, and the Australian Trade and Investment Commission.

Source: ANAO 2017–18 audit results, and Home Affairs' financial statements for the year ended 30 June 2018.

Audit results

4.10.15 The following table summarises the status of audit findings reported by the ANAO in 2016–17 and 2017–18.

Table 4.10.4: Status of audit findings

Category	Closing position (2016–17)	New findings (2017–18)	Findings resolved (2017–18)	Closing position (2017–18)
Significant (A)	–	–	–	–
Moderate (B)	2	–	(2)	–
Total	**2**	**–**	**(2)**	**–**

Source: Audit results 2017–18

4.10.16 For each of the findings listed below, the ANAO undertook additional audit procedures to gain assurance that Home Affairs 2017–18 financial statements were not materially misstated. In 2017–18 one finding has been downgraded from a moderate to a minor finding.

Resolved moderate audit findings

Management of Privileged Security Users in the IT Network

4.10.17 The ANAO's review of users with privileged access to the department's networks during the 2016–17 interim audit identified weaknesses in the operation of the controls relating to terminating privileged user access and the use of these accounts. The weaknesses related to:

- the use of personal administrator accounts rather than a designated account for the running of scripted jobs;
- scripts to deactivate users for inactivity were not fully operational as there were instances identified with accounts active at the time of our audit despite greater than 90 days of inactivity; and
- domain administrator accounts with internet access. In protecting the related networks, department's position is that this should not occur.

4.10.18 The 2017–18 interim audit confirmed that internet access had been removed from domain administrator accounts.

4.10.19 During the 2017–18 final audit phase, the ANAO performed testing to assess the remediated controls Home Affairs had in place surrounding monitoring of the use of privileged access and their timely removal. Based on the testing undertaken, the ANAO is satisfied that the remediation activities undertaken have been effective. This has resulted in this finding being resolved.

Fraud and Integrity Reporting

4.10.20 During the 2016–17 final audit, the ANAO reported that the reporting of fraud instances, including a breakdown of the various types of fraud and financial implications along with appropriate trend analysis over years had been limited and was on occasion provided to the Audit Committee by way of a verbal update. It was noted that the reporting to the Audit Committee was not sufficient to facilitate appropriate review and independent advice and assurance about the appropriateness of the department's fraud control and anti-corruption as it related to its system of risk oversight and management as required by the *Public Governance, Performance and Accountability Act 2013*.

4.10.21 The ANAO recommended that the department strengthen reporting by: clearly defining data flows from divisions and IT systems used for the purposes of reporting; prioritising system enhancements; resolving data quality and data integrity issues; and implementing regular reporting of information with a focus appropriate analysis of the various types of fraud, implications, actions being undertaken to address identified instances and trend analysis to support an assessment of the performance of fraud control measures.

4.10.22 During 2017–18, the department had progressed the following initiatives:

- identification and analysis of the types of activities that may constitute fraud in the department's context and identification of potential sources of data that may be in scope for reporting purposes;
- developed reporting of fraud instances and related analysis with reports presented to the March 2018 and subsequent Audit Committee meetings;
- developed standard operating procedures for compiling this report; and
- reviewed and agreed the reporting framework to be applied within the investigator management system currently being used.

4.10.23 While the department continues to advance the reporting, the ANAO has concluded that remediation activities have progressed sufficiently to downgrade the issue to a minor audit finding. The ANAO will continue to monitor and assess the developments in this area.

Australian Federal Police

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

Summary of financial performance

4.10.25 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by the Australian Federal Police, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.10.5: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	1,145.3	1,105.5
Revenue from Government	1,016.0	1,021.3
Deficit attributable to the Australian Government	129.3	84.2
Total other comprehensive income	0.7	30.8
Total comprehensive loss attributable to the Australian Government	128.6	53.4
Total assets	949.7	880.8
Total liabilities	500.4	448.7
Total equity	449.3	432.1

Source: Australian Federal Police's financial statements for the year ended 30 June 2018.

4.10.26 The increase in net cost of services of $40 million is due to a heightened threat and response level and investigative activity; the impact of the new Enterprise Bargaining Agreement, and a technical adjustment to the recognition of appropriation.

4.10.27 The increase in total assets is mainly attributable to the significant upgrade/replacement program across information, communication and technology hardware and software and other projects that are work in progress.

Table 4.10.6: Key administrated financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	16.1	11.7
Total income	0.4	0.6
Deficit	15.7	11.2
Total other comprehensive income	–	–
Total comprehensive loss	15.7	11.2
Total assets administered on behalf of Government	1.0	0.1
Total liabilities administered on behalf of Government	1.3	1.1
Net liabilities	0.3	1.0

Source: Australian Federal Police's financial statements for the year ended 30 June 2018.

4.10.28 The increase in total expenses is as a result of substantial increase in police equipment for other jurisdictions, including refurbishments and training equipment.

Key areas of financial statements risk

4.10.29 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of AFP's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.10.7. Three moderate audit findings have been identified, or remain unresolved from prior years, relating to these key areas of risk.

Table 4.10.7: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Departmental employee benefits $921.9 million employee provisions $344.5 million	Recognition and measurement of payroll.	**Moderate**	• size and complexity of the remuneration structure including variable awards, work hours, penalty rates and allowances.	A new moderate audit finding has been reported in respect of superannuation on allowances. Refer to paragraph 4.10.32
All financial statement line items	Operating effectiveness of IT general controls (ITGCs).	**Moderate**	• prior year issues identified in respect of ITGCs which are an integral part of the audit in assessing the controls around key financial systems.	One new and one unresolved prior year moderate audit finding in respect of user access management and monitoring of the financial management information system. Refer to paragraphs 4.10.33 and 4.10.34

Source: ANAO 2017–18 audit results, and the Australian Federal Police's financial statements for the year ended 30 June 2018.

Audit results

4.10.30 The following table summarises the status of audit findings reported by the ANAO in 2016–17 and 2017–18.

Table 4.10.8: Status of audit findings

Category	Closing position (2016–17)	New findings (2017–18)	Findings resolved (2017–18)	Closing position (2017–18)
Significant (A)	–	–	–	–
Moderate (B)	3	2	2	3
Total	**3**	**2**	**2**	**3**

Source: ANAO 2017–18 audit results.

4.10.31 For each of the findings listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that the AFP's 2017–18 financial statements were not materially misstated.

New moderate audit findings

Underpayment of superannuation on certain allowances

4.10.32 During 2017–18 AFP has identified unpaid superannuation expenses dating back to 2007, which resulted in the understatement of employee expenses and liabilities. AFP identified instances where superannuation was not correctly applied to allowances. At the time of completion of the ANAO audit the amount of underpayment has not been fully quantified. The ANAO will review and monitor AFP's progress in addressing this matter as part of the 2018–19 financial statements audit.

Untimely removal and monitoring of FMIS privileged application process

4.10.33 During the 2017–18 interim audit the ANAO observed in four instances where privileged user access to the financial management information system (FMIS) was not removed on a timely basis. It was also noted that AFP did not have formalised monitoring of the validity of the activities performed by the users with privileged access to ensure that their activities are in line with the AFP policy. As a result of the extended period of privileged access there may be a risk of inappropriate activity being performed in the FMIS system. The ANAO will continue monitoring AFP's progress in addressing this issue.

Unresolved moderate audit finding

FMIS user access provisioning and termination

4.10.34 It has been identified that the AFP did not have adequate controls around the review of position based access and has a significant number of users who had access to sensitive transactions. This can lead to increased risk of improper use or changes made to the system and master data. The ANAO has recommended system changes to limit access risk where possible and if not possible a formal risk assessment is undertaken with periodic reviews of access and implementation of monitoring of users with this access. The ANAO acknowledges the AFP has made progress in reviewing the appropriateness of the number of users with access to sensitive transaction codes. The remediation activities will be reviewed as part of the 2018–19 financial statements audit.

Resolved moderate audit findings

FMIS privileged application access

4.10.35 In 2016–17 the ANAO identified weaknesses in the management of AFP's privileged user access to the FMIS. During the 2017–18 interim audit we confirmed that the AFP had implemented formalised processes to request, approve and remove access in a timely manner.

User access to FMIS generic accounts

4.10.36 In 2016–17 the ANAO identified that key users of the FMIS had access to various generic user accounts. During the 2017–18 interim audit we confirmed that access to the generic accounts had been removed with the exception of one account required specifically for SAP support. AFP has implemented controls in relation to the use of this account.

Australian Security Intelligence Organisation

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

4.10.38 Following the passage of the *Home Affairs and Integrity Agencies Legislation Amendment Act 2018* on 9 May 2018 ASIO was transferred from the Attorney-General's portfolio to the Home Affairs portfolio.

Summary of financial performance

4.10.39 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by ASIO, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.10.9: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	510.2	488.8
Revenue from Government	421.8	403.0
Deficit attributable to the Government	88.4	85.8
Total other comprehensive income	36.8	–
Total comprehensive loss attributable to the Australian Government	51.6	85.8
Total assets	488.9	456.5
Total liabilities	118.4	118.0
Total equity	370.5	338.5

Source: ASIO's financial statements for the year ended 30 June 2018.

4.10.40 The increase in the net cost of services and revenue from Government was due primarily to budget measures providing additional funding for ASIO's outcomes identified in the 2017–18 portfolio budget statements and portfolio additional estimate statements. The primary impact as a result of these measures was an increase in supplier expenses of $17.5 million, and an increase in employee expenses of $9.0 million as a result of increased staff levels.

4.10.41 The increase in total other comprehensive income is due to the revaluation of leasehold improvements, buildings and property, plant and equipment undertaken by ASIO in 2017–18. In accordance with ASIO's accounting policies, revaluations are undertaken on a periodic basis on advice from experts engaged by ASIO. No such revaluation was undertaken in 2016–17.

4.10.42 The increase in total assets partially reflects the impact of the revaluation which increased the carrying value of each asset class revalued. The movement in this balance was also due to the impact of purchases of property, plant and equipment and intangible assets during 2017–18, offset by depreciation and amortisation for the period.

Key areas of financial statements risk

4.10.43 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of ASIO's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2017–18 are provided in Table 4.10.10. No significant or moderate audit findings were identified relating to this key area of risk.

Table 4.10.10: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Employee benefits expenditure $248.9 million employee leave provisions $78.8 million	Accuracy and completeness of employee benefits	**Moderate**	• limitations in the payroll system mean that some entitlements require manual calculation.

Source: ANAO 2017–18 audit results, and ASIO's financial statements for the year ended 30 June 2018.

Audit results

4.10.44 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Comments on non-material entities

Australian Transaction Reports and Analysis Centre

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

Resolved moderate audit finding

Processes and policies for accounting for assets under construction

4.10.46 During the 2016–17 final audit, weaknesses were identified in AUSTRAC's process for recording capital charges as assets under construction, primarily relating to the development of software. There was no documented evidence of the review and approval of the timesheets by project managers that supported charges recorded as assets under construction arising from employee labour. In addition, there was limited information available to support capital charges, which may not have complied with AUSTRAC's accounting policy, being recorded as assets under construction.

4.10.47 These weaknesses increased the risk that these charges may not have been recognised in accordance with AUSTRAC's accounting policy.

4.10.48 During the 2017–18 audit, the ANAO observed that AUSTRAC had undertaken appropriate remediation action to address the weaknesses identified and this finding was downgraded to a minor audit finding during the interim audit phase, with the finding being resolved during the final audit phase. AUSTRAC implemented a revised standard operating procedure and approval process for timesheets in October 2017. The procedure requires that all employee timesheets that form the basis for capital charges are to be reviewed in detail by project managers prior to being recognised as assets under construction.

4.11 Human Services portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Human Services	**Yes**	Moderate	✓	31 Aug 18	03 Sep 18	Nil
Australian Hearing	**Yes**	Low	✓	14 Aug 18	14 Aug 18	Nil

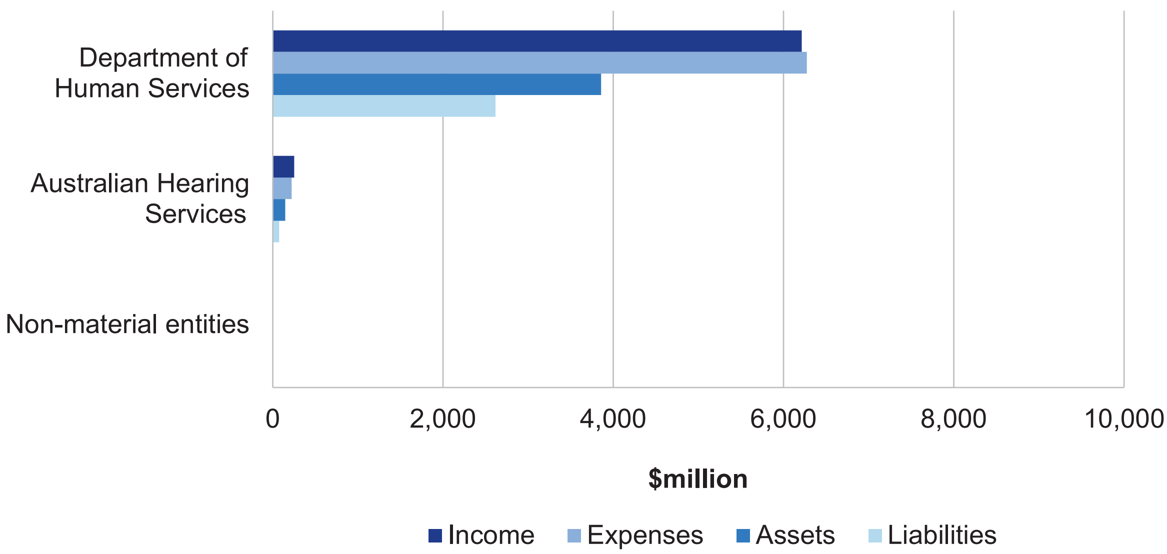
✓: auditor's report not modified

Portfolio overview

4.11.1 The Human Services portfolio comprises the Department of Human Services and Australian Hearing Services. The department has responsibility for delivering a range of payments and services to support individuals, families and communities, as well as providers and businesses. These include: income support payments and services; aged care payments; Medicare payments and services; and child support services.

4.11.2 Figure 4.11.1 shows Human Services portfolio's income, expenses, assets and liabilities.

Figure 4.11.1: Human Services portfolio's income, expenses, assets and liabilities[54]



Source: 2017–18 CFS.

4.11.3 The following sections provide a summary of the 2017–18 financial statements audit results for the Human Services portfolio. Where a performance audit was tabled during 2017–18 that was relevant to the financial management or administration of an entity, the impact of those observations on the audit approach are also discussed.

54 Figure 4.11.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

Department of Human Services

4.11.4 The Department of Human Services (Human Services) is responsible for delivering a range of payments and services to support individuals, families and communities, as well as providers and businesses. These include: income support payments and services; aged care payments; Medicare payments and services; and child support services.

4.11.5 The range of social and health related payments and services delivered by Human Services on behalf of other entities in 2017–18 was $171.9 billion and include:

- Centrelink payments and services for: retirees, the unemployed, families, carers, parents, students, people with disabilities, Indigenous Australians, farmers, people from diverse cultural and linguistic backgrounds, people living overseas, and provision of services at times of major change, including disaster recovery payments;
- services and programs that support the health of Australians such as Medicare, the Pharmaceutical Benefits Scheme, the Private Health Insurance Rebate, and the Australian Childhood Immunisation Register; and
- Aged Care payments to services funded under the *Aged Care Act 1997*, including residential care, home care, and flexible care services.

4.11.6 Human Services also delivers other services and payments on behalf of other entities, including veterans' entitlements and the Tasmanian Freight and Bass Strait passenger vehicle equalisation schemes.

Summary of financial performance

4.11.7 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by Human Services, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.11.1: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	4,371.5	4,363.8
Revenue from Government	4,297.1	4,201.6
Deficit attributable to the Government	74.5	162.2
Total other comprehensive income	20.2	37.6
Total comprehensive deficit attributable to the Australian Government	54.3	124.6
Total assets	2,808.1	2,256.2
Total liabilities	1,648.1	1,408.9
Total equity	1,160.0	847.3

Source: Human Services' financial statements for the year ended 30 June 2018.

4.11.8 Total assets increased mainly due to: unspent appropriations resulting from reduced costs of delivering IT projects; delays in the passage of legislation associated with budget measures; and an increase in non-financial assets as a result of a capital acquisitions during the financial year. Additional funding for new budget measures primarily relating to delivery modernisation reform, contributed to an increase in revenue from Government.

4.11.9 The increase in total liabilities reflects an increase in trade creditors and accruals due to an increase in contractor and IT purchase costs for the last quarter of the financial year.

Table 4.11.2: Key administered financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	1,588.2	1,566.0
Total income	1,621.7	1,604.9
Surplus	33.5	38.9
Total other comprehensive income	7.5	6.9
Total comprehensive income	41.0	45.8
Total assets administered on behalf of Government	1,049.8	1,013.3
Total liabilities administered on behalf of Government	967.8	936.9
Net assets	82.0	76.4

Source: Human Services' financial statements for the year ended 30 June 2018.

4.11.10 The key activity within Human Services' administered business relates to child support. The cash collected by Human Services from non-custodial parents in 2018 was $1.5 billion with $1.5 billion transferred to the custodial parents in that same year. The total child support amount payable to Human Services to be transferred to custodial parents has built up over time to $1.5 billion. An actuary has estimated the amount not expected to be recovered to be $697.0 million. This is an increase of $34.2 million over the previous year and was driven by a combination of a fall in collection rates, an increase in the mean term to recovery and the impact of changes in the bond rate.

Key areas of financial statements risk

4.11.11 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of Human Services' financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.11.3, including which areas were considered key audit matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.11.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered child support receivables $835.2 million	Valuation of child support receivables that are yet to be paid by non-custodial parents at the end of the financial year	**Moderate**	• significant judgements and assumptions around the collection rates of child support obligations are applied in determining the valuation of child support receivables, and require the involvement of an actuary. These judgements rely on the quality of the underlying data used in the estimation process which is maintained in spreadsheets and requires manual processing; and • a large volume of child support financial transactions are processed under the complex *Child Support Act 1988*. This complexity increases the judgements and estimates associated with the child support receivable valuation.
Departmental land and buildings plant and equipment software $1 067.7 million	Valuation of non-financial assets	**Moderate**	• significant judgements involved in considering the indicators of impairment to estimate the value of intangible assets; and • judgements involved in estimating the capitalisation of the staff and other costs attributed to developing the software applications.

Source: ANAO 2017–18 audit results, and Human Services' financial statements for the year ended 30 June 2018.

4.11.12 The following performance audits reports tabled during 2017–18 were relevant to the financial management or administration of Human Services:

- Auditor-General Report No.22 2017–18 *Administration of Medicare electronic claiming arrangements*; and
- Auditor-General Report No.35 2017–18 *Management of special appropriations*.

4.11.13 While these reports did not include recommendations regarding risks to Human Services' financial administration as it relates to the financial statements, the observations of these reports were considered in designing audit procedures.

Audit results

4.11.14 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Australian Hearing

4.11.15 Australian Hearing Services (Australian Hearing) is responsible for the provision of government-funded hearing services through a national network of hearing centres to eligible clients under the Australian Government Hearing Services program. Australian Hearing is managed by a board of directors appointed by the Minister and is constituted under the *Australian Hearing Services Act 1991*.

Summary of financial performance

4.11.16 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by the Australian Hearing, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.11.4: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Surplus attributable to the Government	19.1	22.4
Total other comprehensive income	-	-
Total comprehensive income attributable to the Australian Government	19.1	22.4
Total assets	146.1	143.6
Total liabilities	73.9	78.9
Total equity	72.2	64.7

Source: The Australian Hearing's financial statements for the year ended 30 June 2018.

4.11.17 The reduced surplus in 2017–18 is due to lower revenue from the sale of goods in a highly competitive and rapidly changing market.

4.11.18 Fluctuations in other balances reflect normal business activity.

Key areas of financial statements risk

4.11.19 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of Australian Hearing Service's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.11.5. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.11.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Total revenue $249.7 million deferred revenue $16.9 million	Completeness of revenue	**Higher**	• a number of revenue streams under the Hearing Services Program that are governed by various Acts and Rules.
Non-financial assets $35.0 million	Valuation of property plant and equipment and intangible assets	**Moderate**	• complex accounting judgements and estimates are required around useful lives and impairment including for specialised equipment; and • assets located throughout Australia.

Source: ANAO 2017–18 audit results, and the Australian Hearing's financial statements for the year ended 30 June 2018.

Audit results

4.11.20 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

4.12 Industry, Innovation and Science sub portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Industry, Innovation and Science	**Yes**	Moderate	✓	4 Sept 18	4 Sept 18	◆
Australian Nuclear Science and Technology Organisation	**Yes**	Low	✓	21 Aug 18	21 Aug 18	◆
Commonwealth Scientific and Industrial Research Organisation	**Yes**	Moderate	✓	31 Aug 18	31 Aug 18	Nil

✓: auditor's report not modified

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

Portfolio overview

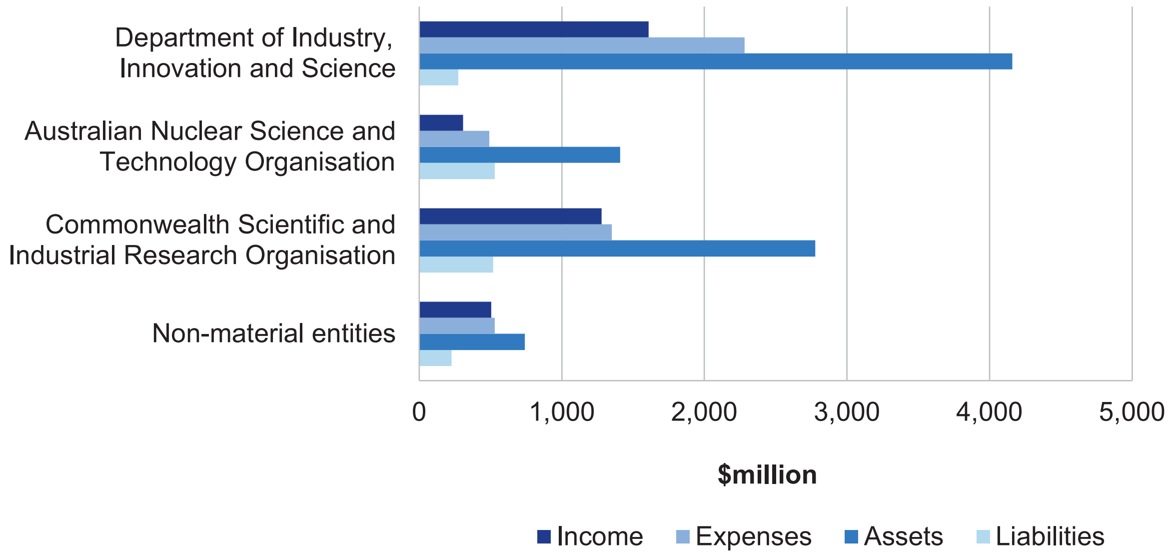
4.12.1 The Jobs and Innovation portfolio consists of two sub portfolios: Jobs and Small Business; and Industry, Innovation and Science. An Administrative Arrangement Order issued on 28 August 2018 established Industry, Innovation and Science and Jobs and Small Business as separate portfolios. This change will be reflected in our 2018–19 reports to Parliament.

4.12.2 The Department of Industry, Innovation and Science is responsible for supporting science and commercialisation; growing business investment and improving business capability; developing northern Australia; and streamlining regulation. The department has recently established a grants hub to streamline the administration of government grants to business.

4.12.3 In addition to the department, there are seven entities within the Industry, Innovation and Science sub-portfolio (excluding subsidiaries), with responsibilities in relation to marine, nuclear and geological science, Australia's intellectual property rights system, and offshore petroleum safety and environmental management.

4.12.4 Figure 4.12.1 shows the Industry, Innovation and Science sub portfolio's income, expenses, assets and liabilities.

Figure 4.12.1: Industry, Innovation and Science sub portfolio income, expenses, assets and liabilities[55]



Source: 2017–18

4.12.5 The following sections provide a summary of the 2017–18 financial statements audit results for the Department of Industry, Innovation and Science, and other material entities within the sub portfolio.

Department of Industry, Innovation and Science

4.12.6 The core areas of responsibility of the Department of Industry, Innovation and Science (Industry) are supporting science and commercialisation; growing business investment and improving business capability; developing Northern Australia; and streamlining regulation.

4.12.7 As part of the 2017–18 budget, the government announced the Maintaining Australia's Optical Astronomy Capability measure, which resulted in the transfer of the Australian Astronomical Observatory's functions from Industry to the Australian National University and Macquarie University.

Summary of financial performance

4.12.8 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by Industry, and includes commentary regarding significant movements between years contributing to overall performance.

55 Figure 4.12.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

Table 4.12.1: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	456.0	408.8
Revenue from Government	381.2	365.8
Deficit attributable to the Australian Government	74.8	42.9
Total other comprehensive income/(loss)	1.4	(2.2)
Total comprehensive loss attributable to the Australian Government	73.4	45.1
Total assets	337.2	368.5
Total liabilities	160.4	150.9
Total equity	176.8	217.5

Source: Industry's financial statements for the year ended 30 June 2018.

4.12.9 Industry's net cost of services increased in 2017–18. This increase was driven by the transfer of the Australian Astronomical Observatory's functions from Industry to the Australian National University and Macquarie University. The transfer resulted in an increase in expenses for the write-down and impairment of assets. The decrease in assets was also due to this transfer.

Table 4.12.2: Administered key financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	1,738.5	1,798.6
Total income	1,140.6	1,040.9
Deficit	597.9	757.7
Total other comprehensive income/(loss)	(174.9)	114.5
Total comprehensive loss	772.8	643.2
Total assets administered on behalf of Government	3,821.8	3,950.9
Total liabilities administered on behalf of Government	113.1	97.5
Net assets	3,708.7	3,853.4

Source: Industry's financial statements for the year ended 30 June 2018.

4.12.10 The deficit decreased from $757.7 million to $597.9 million as a result of an increase in royalty collections of $122.6 million driven by increased sales volumes and prices for Liquefied Natural Gas and Condensate offset by a reduction in subsidies of $81.9 million due to the continued wind-down of the Automotive Transformation Scheme.

4.12.11 The change in total other comprehensive income was due to a reduction in the value of administered investments, namely a reduction in the carrying value of ANM Pty Ltd, a subsidiary of the Australian Nuclear Science and Technology Organisation. This was partially offset by an increase in the carrying value of the Commonwealth Scientific and Industrial Research Organisation investment.

Key areas of financial statements risk

4.12.12 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of Industry's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.12.3, including which areas were considered key audit matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.12.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Departmental other own-source income $87.3 million	Completeness and accuracy of Industry's other revenue streams	**Higher**	• diversity of revenue streams; • reliance on manual calculations to quantify some revenue amounts; and • the large volume of cash based transactions.
Administered royalties revenue $1,072.7 million accrued revenue $106.8 million	Completeness and accuracy of offshore petroleum and uranium royalties KAM	**Higher**	• reliance on data included in self-assessments provided by uranium and petroleum producers; and • weaknesses identified in prior years in relation to the assurance and governance processes implemented by Industry and the Western Australian Department of Mines, Industry Regulation and Safety.
Administered advances and loans $3.4 million	Valuation of concessional loans made under the Northern Australia Infrastructure Facility program	**Higher**	• subject to significant judgement relating to the determination of the market interest rate and loan terms for use in the valuation; and • complexity and variety of concessions that are able to be provided increases the risk of determining an inaccurate value.
Administered grants expense $490.0 million grants payable $51.2 million	Accuracy, occurrence and completeness of grant payments.	**Moderate**	• a significant number of individual grant programs which operate under separate grant agreements and are subject to different eligibility criteria; and • susceptibility of grant funding to fraud.

Source: ANAO 2017–18 audit results, and Industry's financial statements for the year ended 30 June 2018.

Audit results

4.12.13 The following table summarises the status of audit findings reported by the ANAO in 2016–17 and 2017–18.

Table 4.12.4: Status of audit findings

Category	Closing position (2016–17)	New findings (2017–18)	Findings resolved (2017–18)	Closing position (2017–18)
Significant (A)	–	–	–	–
Moderate (B)	–	1	–	1
Total	**–**	**1**	**–**	**1**

Source: ANAO 2017–18 audit results.

4.12.14 For the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that the Industry's 2017–18 financial statements were not materially misstated.

New moderate audit finding

Human Resources Shared Services User Access Management

4.12.15 Industry provides a Human Resources Shared Services (HRSS) offering to other government agencies. The services offered relate to the management and the administration of payroll.

4.12.16 Information and system security, in particular privileged user access, should be appropriately restricted, logged and regularly monitored. Privileged user access typically allows users to make significant changes to IT systems configuration and operations, and bypass critical security and segregation of duties settings.

4.12.17 Industry has implemented separate password controls for each HRSS instance, and has established monitoring of privileged user access as part of its payroll processes. The monitoring focuses on users with access to edit system configurations, edit employee records and process payroll.

4.12.18 The ANAO's review of user access management noted that the configuration of password controls were inconsistent across the HRSS instances reviewed, with some configurations not being in accordance with the Australian Signals Directorate's Information Security Manual (ISM) requirements. The issues noted related to minimum password lengths, complexity requirements and logon limits.

4.12.19 The monitoring of privileged user access was inconsistent across the HRSS instances reviewed, with some lacking evidence of review, and others being noncompliant with internal procedures, such as storing reports in non-editable formats. Reports supporting the monitoring of privileged users were inconsistent, with some presenting incomplete and inaccurate information. A number of privileged users were inadvertently excluded from the reports.

4.12.20 In addition, there was a lack of segregation of duties between the preparation and review of payroll activities performed by staff within the Payroll Team, which had the potential to result in staff reviewing their own work.

4.12.21 Ineffective controls over payroll increases the potential that inaccurate or inappropriate payments are made and not detected, and also increases the risk that inaccurate payroll information is presented to shared service entities. Industry have commenced a review to address the issues raised in this finding. The ANAO will review the work undertaken to address this finding as part of the 2018–19 financial statements audit.

Australian Nuclear Science and Technology Organisation

4.12.22 The Australian Nuclear Science and Technology Organisation (ANSTO) is Australia's national nuclear research and development organisation and is the custodian of Australia's nuclear capabilities and expertise. ANSTO operates Australia's only multi-purpose nuclear reactor and the Australian Synchrotron, contributes to radiopharmaceutical production and supply, and conducts research into areas of national priority, including human health, the environment and the nuclear fuel cycle. ANSTO also provides advice to Government and other stakeholders on matters relating to nuclear science, technology and engineering.

Summary of financial performance

4.12.23 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by the ANSTO, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.5: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	284.6	73.9
Revenue from Government	198.1	183.3
Income tax benefit/(expense)	(0.4)	0.2
Surplus/(deficit) attributable to the Government	(86.9)	109.6
Total other comprehensive income/(loss)	(57.2)	13.6
Total comprehensive income/(loss) attributable to the Australian Government	(144.1)	123.3
Total assets	1,501.5	1,540.0
Total liabilities	528.9	444.3
Total equity	972.5	1,095.6

Source: ANSTO's financial statements for the year ended 30 June 2018.

4.12.24 The increase in net cost of services primarily relates to the recognition of income in 2016–17 for the acquisition of $191.1 million of net assets at no cost arising from the transfer of shares in the Australian Synchrotron Holding Company Pty Ltd (ASHCo) from the Victorian Government to ANSTO for no consideration, giving ANSTO 100 per cent ownership. The remainder of the increase to net cost of services primarily relates to a decrease in grant revenue of $21.1 million due to 2016–17 grants associated with the operation of the Australian Synchrotron being replaced with appropriation funding from 2017–18 as a result of ownership transferring to ANSTO.

4.12.25 The decrease in total assets is mainly attributable to the impairment of assets-under-construction of $28.9 million and intellectual property of $20.9 million. This was offset by an increase in inventories in preparation for the commissioning of the ANSTO nuclear medicine facility. The total impairment and write-down of assets for 2017–18 was relatively consistent with the 2016–17 results.

4.12.26 The increase in total liabilities is primarily related to a $73.7 million increase in the decommissioning provision due to the extension of the commencement date for decommissioning and revised demolition costs for buildings, including asbestos removal. A movement of $55.8 million is reflected in the other comprehensive loss for 2017–18 with $18.0 million included in net cost of services as unwinding of the discount factor consistent with 2016–17.

Key areas of financial statements risk

4.12.27 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of ANSTO's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.12.6. One moderate audit finding was identified relating to these key areas of risk.

Table 4.12.6: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
All financial statement line items	Implementation of a new business information system	**Higher**	• ANSTO implemented a new business information system in July 2017; and • the implementation of a new accounting system has inherent risks associated with the migration of financial and other data, changes to the IT environment and other key financial processes.	No significant or moderate audit findings identified.
Decommissioning provision $387.1 million	Valuation of the decommissioning provision including radioactive waste	**Higher**	• complexity of the calculation and reliance upon the exercise of significant judgement relating to the decommission of unique assets and materials.	No significant or moderate audit findings identified.
Property, plant and equipment $1,233.7 million intangible assets $70.5 million	Valuation and subsequent depreciation of non-financial assets	**Moderate**	• the valuation of non-financial assets is subjective and requires significant judgement particularly given the unique nature of assets held.	No significant or moderate audit findings identified.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Property, plant and equipment $1,223.7 million Parent entity disclosures -Investment in subsidiaries	Accounting for and disclosure of subsidiary business operations	**Moderate**	• the Mo-99 facility was expected to be operational during 2017–18 with the facility transferring from ANSTO to its ANM subsidiary; • the ASHCo subsidiary was expected to be wound-up during 2017–18; and • the PETTECH subsidiary announced in September 2017 that it will sell its business operations.	One moderate finding identified. Refer to paragraph 4.12.30
Total own-source revenue $105.2 million	Completeness and accuracy of material streams of commercial revenue	**Moderate**	• the number of revenue streams from both commercial and government sources and complexity of funding arrangements.	No significant or moderate audit findings identified.

Source: ANAO 2017–18 audit results, and ANSTO's financial statements for the year ended 30 June 2018.

Audit results

4.12.28 The following table summarises the status of audit findings reported by the ANAO in 2016–17 and 2017–18.

Table 4.12.7: Status of audit findings

Category	Closing position (2016–17)	New findings (2017–18)	Findings resolved (2017–18)	Closing position (2017–18)
Significant (A)	–	–	–	–
Moderate (B)	–	1	–	1
Total	**–**	**1**	**–**	**1**

Source: ANAO 2017–18 audit results.

4.12.29 For the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that ANSTO's 2017–18 financial statements were not materially misstated.

New moderate audit finding

Financial statements and key accounting position papers preparation process

4.12.30 ANSTO recognised an impairment of the ANSTO Nuclear Medicine Project in 2017–18. An extensive engagement process with internal and external stakeholders was undertaken by ANSTO in relation to the impairment. The engagement process did not include consideration of the accounting treatment of the impairment and the impact on the ANSTO consolidated financial statements. An audit difference arose on the basis of the accounting treatment of the components of the impairment assessment.

4.12.31 ANSTO management have recognised that the process could have been improved through the preparation of accounting position papers for key accounting and disclosure issues and will implement this for the 2018–19 financial statement preparation process.

Commonwealth Scientific and Industrial Research Organisation

4.12.32 The primary functions of the Commonwealth Scientific and Industrial Research Organisation (CSIRO), as set out in the *Science and Industry Research Act 1949*, are to carry out scientific research and facilitate the application or utilisation of the results of such research. CSIRO is responsible for delivering science and innovative solutions for industry, society and the environment.

Summary of financial performance

4.12.33 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by the CSIRO, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.8: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	862.8	792.9
Revenue from Government	793.5	787.3
Deficit attributable to the Government	69.2	5.6
Total other comprehensive income	120.4	7.1
Total comprehensive income attributable to the Australian Government	51.2	1.5
Total assets	2,779.2	2,690.4
Total liabilities	519.2	491.6
Total equity	2,260.0	2,198.8

Source: CSIRO's financial statements for the year ended 30 June 2018.

4.12.34 The deficit attributable to government of $69.2 million was consistent with the approved operating loss from Government. The deficit related to the Science and Industry Endowment Fund (SIEF) and increased from last year due to the receipt in 2016–17 of a $25.0 million grant from the NSW Government. Other factors contributing to the deficit were: an increase in suppliers expenses related to research and development and the decommissioning of assets that are no longer in use or are technically obsolete.

4.12.35 The increase in total other comprehensive income attributable to the Australian Government in 2017–18 was primarily a result of the land and building asset valuation increase following the external valuation undertaken during the year.

Key areas of financial statements risk

4.12.36 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of CSIRO financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.12.9. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.12.9: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Sale of goods and rendering of services $384.6 million work in progress (WIP) project revenue $29.3 million other payables (contract research revenue received in advance) $118.3 million	Recognition of project revenue and associated measurement of WIP and unearned revenue	**Moderate**	• judgement is required to determine whether staff costs can be capitalised in line with the accounting standards.
Land and buildings $1,625.6 million plant and equipment $548.6 million investment properties $49.7 million	Valuation of assets	**Moderate**	• the valuation of non-financial assets is subjective and requires significant judgement.
Provision for remediation $29.8 million	Valuation of the provision for remediation	**Moderate**	• inherent uncertainty associated with remediation works to be undertaken on waste material at a remote location.
All financial statement line items	Accounting for and disclosure of new entities as part of the Innovation Fund	**Moderate**	• Consolidating new entities adds complexity to the process of preparing financial statements.

Source: ANAO 2017–18 audit results, and the CSIRO's financial statements for the year ended 30 June 2018.

Audit results

4.12.37 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

4.13 Infrastructure, Regional Development and Cities portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Infrastructure, Regional Development and Cities	**Yes**	Moderate	✓	31 Aug 18	3 Sept 18	Nil
Airservices Australia	**Yes**	Moderate	✓	27 Sept 18	27 Sept 18	▲
Australian Rail Track Corporation Limited	**Yes**	Moderate	✓	30 Aug 18	30 Aug 18	Nil
Moorebank Intermodal Company Limited	**Yes**	Moderate	✓	19 Sept 18	19 Sept 18	◆
National Capital Authority	**Yes**	Low	✓	30 Aug 18	31 Aug 18	Nil
WSA Co Ltd	**Yes**	Moderate	✓ E	27 Aug 18	28 Aug 18	Nil

✓: auditor's report not modified
E: auditor's report contains an emphasis of matter
▲: significant or moderate issues and/or legislative matters reported previously not yet resolved
◆: new significant or moderate issues and/or legislative matters noted

Portfolio overview

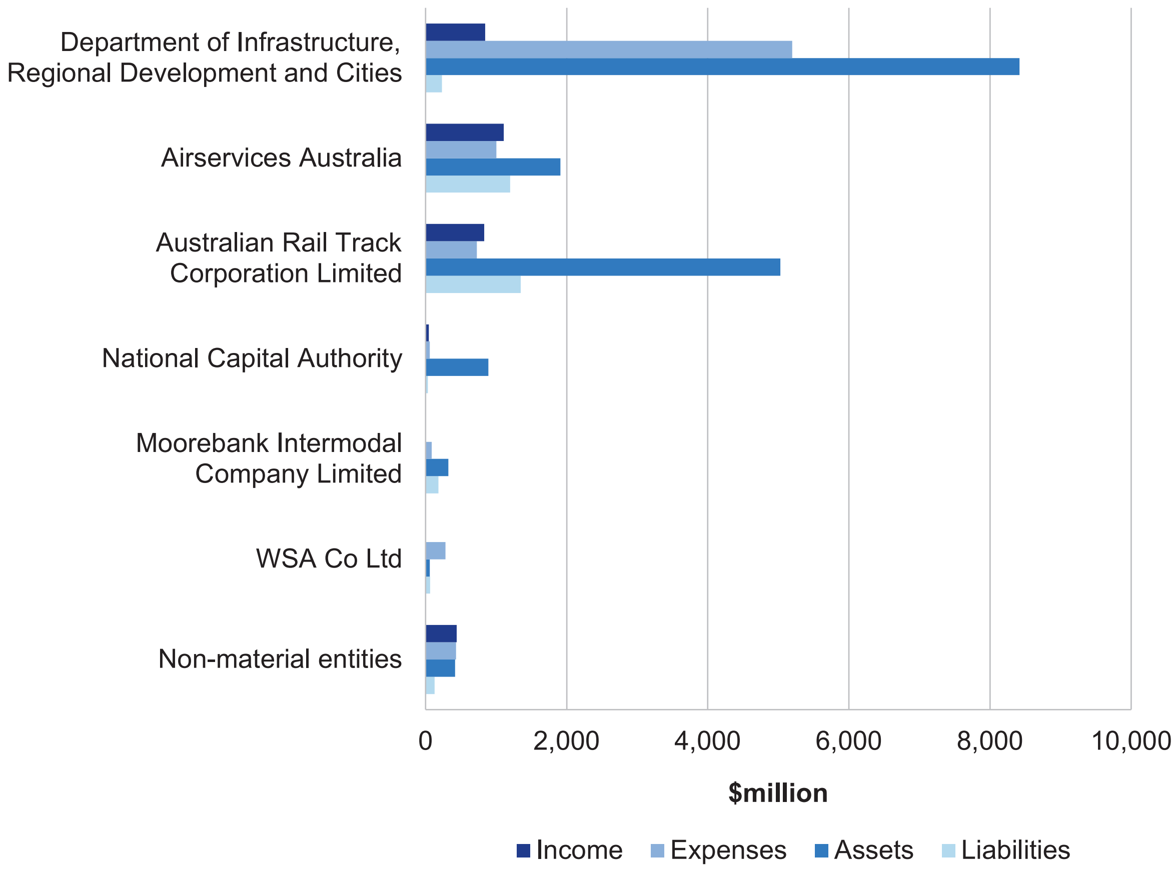
4.13.1 The Infrastructure, Regional Development and Cities portfolio covers a number of policy areas, including safety across the civil aviation, maritime and transport sectors; air navigation services; developing and administering the national capital; and road, rail and freight transport systems.

4.13.2 The Department of Infrastructure, Regional Development and Cities is the lead entity in the portfolio and is responsible for improving infrastructure across Australia, through funding coordination of transport and other infrastructure; providing an efficient and competitive transport system; strengthening the sustainability and diversity of regional economies; supporting governance arrangements in the Australian territories; and providing advice on population policy and national policy on cities.

4.13.3 In addition to the department, there are 11 entities within the portfolio with responsibility for matters such as maritime, transport and civil aviation safety; infrastructure planning, financing and delivery, including development of the Western Sydney Airport and Inland Rail project; and strategic planning for the national capital.

4.13.4 Figure 4.13.1 shows the Infrastructure, Regional Development and Cities portfolio's income, expenses, assets and liabilities.

Figure 4.13.1: Infrastructure and Regional Development portfolio's income, expenses, assets and liabilities[56]



Source: 2017–18 CFS.

4.13.5 The following sections provide a summary of the 2017–18 financial statements audit results for the Department of Infrastructure, Regional Development and Cities, and other material entities.

Department of Infrastructure, Regional Development and Cities

4.13.6 As a result of an amendment to the Administrative Arrangements Order on 20 December 2017, the former Department of Infrastructure and Regional Development was renamed the Department of Infrastructure, Regional Development and Cities (Infrastructure). As a result of these machinery of government changes Infrastructure:

- transferred functions associated with aviation and maritime transport security, including the functions of the Office of Transport Security, to the Department of Home Affairs; and
- received the functions for the national policy on cities, infrastructure project financing and population policy from the Department of the Prime Minister and Cabinet.

56 Figure 4.13.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

4.13.7 In addition, as announced by the Prime Minister on 19 December 2017, Infrastructure received the functions for dam and water infrastructure policy, including the administration of the National Water Infrastructure Development Fund and Loan Facility, from the Department of Agriculture and Water Resources.

4.13.8 Infrastructure is primarily responsible for: improving infrastructure across Australia, through funding coordination of transport and other infrastructure; providing an efficient, sustainable, competitive, safe transport system for all transport users; strengthening the sustainability, capacity and diversity of regional economies; and supporting governance arrangements in the Australian territories.

Summary of financial performance

4.13.9 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by Infrastructure, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.13.1: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	243.8	252.9
Revenue from Government	241.7	248.5
Deficit attributable to the Government	2.1	4.4
Total other comprehensive loss	0.2	1.2
Total comprehensive loss attributable to the Australian Government	2.3	5.6
Total assets	182.8	187.6
Total liabilities	63.6	73.5
Total equity	119.2	114.1

Source: Infrastructure's financial statements for the year ended 30 June 2018.

4.13.10 There were decreases in most of Infrastructure's financial statement line items resulting from the net impact of machinery of government changes described at paragraph 4.13.6. This was primarily due to the impact of the transfer of the Office of Transport Security to Home Affairs. The impact of this change was to:

- reduce Infrastructure's employee and supplier expenses, leading to a decrease in the net cost of services and revenue from government;
- reduce total assets, due to the transfer of $15.8 million of assets related to the functions transferred to Home Affairs; and
- reduce total liabilities, primarily due related to employee leave entitlements for employees transferring to Home Affairs.

4.13.11 With the exception of the impacts of machinery of government changes, Infrastructure's financial performance remained stable between 2016–17 and 2017–18.

Table 4.13.2: Administered key financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)(a)
Total expenses	4,945.5	5,989.5
Total income	602.8	414.2
Deficit	4,342.7	5,575.3
Total other comprehensive income	88.8	568.4
Total comprehensive loss	4,253.9	5,006.9
Total assets administered on behalf of Government	8,236.4	7,452.0
Total liabilities administered on behalf of Government	170.2	270.2
Net assets	8,066.2	7,181.8

Source: Infrastructure's financial statements for the year ended 30 June 2018.

Note a: As described at paragraph 4.13.16 the 2016–17 financial results have been restated due a voluntary change in accounting policy for recognition and measurement of concessional loans.

4.13.12 Total expenses decreased by $1.0 billion in 2017–18. This was mainly due to a decrease in the value of Financial Assistance Grants paid to local government due to the impact of re-phasing grants prescribed under the *Local Government (Financial Assistance) Act 1995* from 2017–18 into the 2016–17 financial year.

4.13.13 During 2017–18, Infrastructure also made equity contributions on behalf of the Commonwealth to entities within the portfolio (the Australian Rail Track Corporation, WSA Co Ltd and Moorebank Intermodal Company Limited) totalling $514.4 million to advance construction activities being undertaken by these entities.

4.13.14 Total assets increased by $784.4 million at 30 June 2018. This was mainly due to the net impact of:

- increases in the fair value of administered investments, reflecting the recognition of the Commonwealth's investment in WSA Co Ltd (WSA Co) (proponent of the Western Sydney Airport) which was established on 7 August 2018;
- increases in the fair value of the Australian Rail Track Corporation Limited (the Corporation) reflecting an increase in the value of rail track assets held by the Corporation;
- increases in the value of trade and other receivables, primarily reflecting drawdowns for the WestConnex loan facility ($641.3 million); and
- the lease of land to WSA Co for no consideration on 17 May 2018 resulting in a reduction in Infrastructures' land and buildings of $338.8 million and an increase to the department's investment in WSA Co to reflect the fair value of land at 30 June 2018 of $370.0 million.

4.13.15 As an entity established under the *Corporations Act 2001*, WSA Co can elect to value assets at cost in its financial statements. WSA Co has not recognised any value in their financial statements associated with this land. Under the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (the FRRs) required to be applied by Infrastructure, administered investments are required to be valued at fair value. To account for this difference, a valuation of the land was undertaken at 30 June, requiring a $370.0 million increase to the fair value of the Commonwealth's investment in WSA Co at 30 June 2018.

4.13.16 Total liabilities decreased primarily as a result of a voluntary change in accounting policy which was made during 2017–18, relating to accounting for the concessional component of the Westconnex loan facility. The change in accounting policy related to the recognition of the concessional loan expense (difference between market interest rate and loan interest rate). This has been disclosed in Infrastructure's financial statements for the 2017–18 financial year.

4.13.17 The change in accounting policy resulted in a restatement of Infrastructure's financial statements to recognise most of the concessional expenses associated with the loan facility in the 2015–16 financial year. This policy also results in the recognition of a provision which is reduced by the difference between market and actual interest rates as each drawdown of funds is processed in the course of the loan.

4.13.18 The impact of this change in accounting policy is that the total administered comprehensive loss for Infrastructure for the financial year ending 30 June 2016 increased by $312.1 million to $3.1 billion. The total administered comprehensive loss for Infrastructure for the financial year ending 30 June 2017 improved by $98.9 million to $5.0 billion.

Key areas of financial statements risk

4.13.19 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of Infrastructure's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.13.3, including which areas were considered key audit matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.13.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered investments $5,380.4 million	Valuation of the Australian Government's investment in the Australian Rail Track Corporation and Airservices Australia KAM	**Higher**	• valuations are subject to complex estimation processes using a discounted cash flow model. The use of this model requires Infrastructure to make significant judgements in the selection of assumptions and inputs, such as future cash flows and discount rates.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered concessional Loans $2,150.9 million concessional Loan commitments provision $102.0 million concessional Loans expense $10.2 million	Valuation of concessional loans KAM	**Moderate**	• complexity of the valuation and required calculations for loan balances, including the level of estimation required to determine the appropriate market rate for the concessional component of new loans; and • impairment considerations that may apply considering the nature and length of loan arrangements.
Administered grants expense $4,034.0 million grants payable $29.0 million	Management of grant payments	**Moderate**	• complex, significant and diverse range of programs that include a number of different administrative and legislative arrangements and conditions; and • level of subjectivity and professional judgement applied in determining whether a recipient meets eligibility and funding milestone requirements.
Multiple financial statement line items	Machinery of government changes, particularly the valuation and reporting of assets and liabilities transferred to and from Infrastructure as a result of such changes	**Moderate**	• risk associated with the transfer of employees and related leave balances to and from Infrastructure's systems; • timely and accurate recognition of expenses, revenue and assets from the time of legal transfer; and • required additional financial statements disclosures.

Source: ANAO 2017–18 audit results, and Infrastructure's financial statements for the year ended 30 June 2018.

4.13.20 The following performance audits reports tabled during 2017–18 were relevant to the financial management or administration of Infrastructure:

- Auditor-General Report No.30 2017–18 *Design and Governance of the National Water Infrastructure Development Fund*; and
- Auditor-General Report No.42 2017–18 *Effectiveness of Monitoring and Payment Arrangements under National Partnership Agreements*.

4.13.21 Reports No.30 and No.42 were relevant to the management of national partnership payments which are administered by Infrastructure (assessment and management of grant agreements), but paid centrally by the Department of the Treasury. The observations in the reports were considered in designing audit procedures related to national partnership payments.

Audit results

4.13.22 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Airservices Australia

4.13.23 Airservices Australia's (Airservices) core areas of responsibility are the provision of air navigation services across Australian and oceanic airspace, and the provision of aviation rescue firefighting services at major Australian airports. Supported by a national network of communications, surveillance and navigation facilities and infrastructure, Airservices is funded through charges levied on its customers and borrowings from debt markets.

Summary of financial performance

4.13.24 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by Airservices, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.13.4: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Total income	1,110.5	1,076.7
Total expenses	1,003.7	1,027.6
Income tax expense	32.3	15.1
Profit after income tax	74.5	34.0
Total other comprehensive income after tax	18.2	76.8
Total comprehensive income	92.7	110.8
Total assets	1,910.1	1,750.5
Total liabilities	1,198.9	1,114.8
Total equity	711.2	635.7

Source: Airservices' financial statements for the year ended 30 June 2018.

4.13.25 The increase in liabilities mainly related to a $37.1 million early payment by the Department of Defence for work to be conducted under the Civil-Military Air Traffic Management System acquisition contract and a $32.9 million increase in the Aviation Rescue and Fire Fighting Services (ARFFS) provision for the management of potential contamination of sites from chemicals that were contained in fire fighting foams. There has been a focus by Airservices in 2017–18 to continue to progress site investigations to understand the extent of potential contamination and research and development activities to identify practical solutions.

4.13.26 The increase in assets is primarily associated with a $119.0 million increase in cash and equivalents, including deposits at call and term deposits. In part, this relates to the early payment received by the Department of Defence.

4.13.27 The increase in profit reflects fluctuations in normal business activities and on-going restructuring activities in 2016–17.

Key areas of financial statements risk

4.13.28 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of Airservices' financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.13.5.

Table 4.13.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Airways revenue $1.1 billion	Completeness and accuracy of airways revenue	**Higher**	• complexity of the flight traffic data captured that is used as the basis for customer billings; and • dependence on multiple integrated IT systems.
Property, plant and equipment $969.1 million assets under construction $219.1 million intangibles $91.2 million	Management, recognition and valuation of assets under construction, and existing, completed property, plant and equipment and intangibles	**Moderate**	• sensitivity of completed asset infrastructure, which is a material balance for Airservices, to changes in the assumptions used in valuation models including technical obsolescence; and • complexity of capturing of costs related to assets under construction due to the technical nature of assets and the judgements involved in assessing whether costs can be capitalised and the appropriate point of recognition.
ARFFS decontamination provision $56.2 million	Calculation of provisions for legal obligations and related contingencies	**Moderate**	• complexity of the underlying event that gave rise to a potential legal obligation associated with ARFFS decontamination; and • significant judgement required in valuing the ARFF decontamination provision and contingent liability.
Financial assets $332.8 million financial liabilities $779.8 million	Management of and accounting for, a range of financial instruments	**Moderate**	• complex nature of financial instruments held by Airservices, including interest rate swaps and forward exchange contracts; and • extensive and complex presentation and disclosure requirements, including foreign currency and interest rate exposures and the fair value of complex financial instruments.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Fair value of defined benefit plan assets $922.2 million present value of the defined benefit obligation $659.4 million	Valuation of defined benefit superannuation obligations	**Moderate**	• complexities associated with the valuation of the defined benefit asset requiring the use of an actuary; and • judgement required in estimating expected future liabilities and the sensitivity of fund and the economic and demographic assumptions supporting the estimate.
Various expenses and capital items	Management and accounting of contracts	**Moderate**	• significant monetary value of contracts; and • large number of diverse contracts that are complex in nature.

Source: ANAO 2017–18 audit results, and the Airservices' financial statements for the year ended 30 June 2018.

Audit results

4.13.29 The following table summarises the status of audit findings reported by the ANAO in 2016–17 and 2017–18.

Table 4.13.6: Status of audit findings

Category	Closing position (2016–17)	New findings (2017–18)	Findings resolved (2017–18)	Closing position (2017–18)
Significant (A)	–	–	–	–
Moderate (B)	1	–	–	1
Total	**1**	**–**	**–**	**1**

Source: ANAO 2017–18 audit results.

4.13.30 For the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that the Airservices 2017–18 financial statements were not materially misstated.

Unresolved moderate audit finding

Management of IT Changes on the Corporate Network

4.13.31 Change Management is a key component of the control environment, supporting the controlled progression of changes to systems and processes. The ANAO identified weaknesses in the IT change management processes for the Airservices corporate network that increased the risk that unauthorised or inappropriate changes may be implemented. These weaknesses included an inability by Airservices to identify changes made to systems, validate that authorised changes were undertaken and provide evidence of approval and testing for some changes.

4.13.32 To progress the remediation of identified weaknesses Airservices implemented an organisational wide change management tool during 2017–18. The change management tool has been implemented for the enterprise resource planning system. The tool has not been implemented for all key business systems including those supporting management of revenue. The ANAO will review Airservices' progress in addressing the identified weaknesses in 2018–19.

4.13.33 The ANAO has not identified any issues in relation to Airservices' operational network.

Australian Rail Track Corporation Limited

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

Summary of financial performance

4.13.35 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by the Corporation, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.13.7: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Expenses	728.8	677.2
Revenue	831.0	826.8
Income tax expense	47.9	27.1
Surplus attributable to the Australian Government	54.3	122.5
Total other comprehensive income/(loss)	32.1	(96.8)
Total comprehensive income attributable to the Australian Government	86.4	25.7
Total assets	4,830.7	4,788.2
Total liabilities	1,152.0	1,273.8
Total equity	3,678.7	3,514.4

Source: The Corporation's financial statements for the year ended 30 June 2018.

4.13.36 The decrease in the surplus is a result of the increase of expenses related to an increase in rail maintenance works and the commencement of work for the Inland Rail project. Total assets has increased due to a revaluation increase and additions of new assets, partially offset by reduction in cash held. Fluctuations in other balances reflect normal business activity.

Key areas of financial statements risk

4.13.37 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of the Corporation's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.13.8. No significant or moderate audit findings were identified relating to these key areas of risk. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.13.8: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Property, plant and equipment $4,425.4 million	Valuation of infrastructure assets	**Higher**	• the determination of the fair value of infrastructure assets is subject to judgement and sensitive to changes in assumptions, including forecasts of business performance in future years.
Access Revenue $712.9 million	Completeness of revenue	**Higher**	• subject to management estimates and judgement to determine the amount of revenue charged; and • recognition in future reporting periods under revised accounting standards.
Deferred tax assets $131.4 million deferred tax expenses $47.9 million	Recognition and measurement of taxation related balances	**Moderate**	• tax liabilities and deferred tax assets (DTAs) arise predominantly from asset revaluations, which are subject to judgement and uncertainty; • there is significant judgement applied in recognising the amount of the DTAs that the Corporation will be able to utilise to offset future taxation expense; and • due to the complexity and judgement associated with the calculation of tax expense and deferred tax the disclosure of tax balances may be incomplete or incorrect in the financial report.
Interest bearing liabilities $364.6 million	Classification of funding and debt management	**Moderate**	• the operations of the Corporation are currently supported through a number of interest bearing liabilities, including short and long term bonds and a syndicated debt facility which require periodic renegotiation; and • current liabilities again exceeded current assets (due to primarily to imminent bank debt renegotiation) resulting in an increased focus on debt management.
Provisions $62.1 million	Estimation of provisions	**Moderate**	• significant judgement is required in determining the extent of provisioning for incident related claims.
Government grants $469.8 million	Classification of grants in the income statement	**Moderate**	• judgement is involved in determining the appropriate recognition point for grant contributions.

Source: ANAO 2017–18 audit results, and the Corporation's financial statements for the year ended 30 June 2018.

Audit results

4.13.38 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Moorebank Intermodal Company Limited

4.13.39 Moorebank Intermodal Company Limited (MIC) was established to oversee the development and future operation of the Moorebank intermodal terminal in Sydney's south-west. It is designed to enable more freight to be moved by rail both locally and nationally. The Moorebank terminal will have an import and export facility with a direct link to Port Botany, and also an interstate and regional facility to connect to the national rail freight network. The terminal will be developed and operated by co-investor Sydney Intermodal Terminal Alliance (SIMTA).

4.13.40 In May 2015, MIC established two wholly owned subsidiaries: the Moorebank Intermodal Development Investment Trust (MIDIT) and the Moorebank Intermodal Development Rail Trust (MIDRT). The trusts were established to facilitate the delivery of MIC's obligations under its agreements with SIMTA and to allow for divestment by the Commonwealth of its financial interests in the terminal development. These entities are reported in the consolidated financial statements of MIC.

4.13.41 The MIDIT jointly holds the Land Precinct Trust with SIMTA to undertake the land development.

Summary of financial performance

4.13.42 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by MIC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.13.9: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	87.2	3.7
Total revenue	0.7	0.3
Income tax benefit	25.3	1.0
Deficit attributable to the Australian Government	61.2	2.4
Total other comprehensive income/ (loss)	(0.2)	11.8
Total comprehensive income/(loss) attributable to the Australian Government	(61.4)	9.4
Total assets	321.3	223.1
Total liabilities	184.3	119.7
Total equity	137.0	103.4

Source: MIC's financial statements for the year ended 30 June 2018.

4.13.43 Total expenses and liabilities have increased to reflect the revised costs for preparation works including remediating and rezoning land associated with the delivery of the intermodal terminal. This increase is a result of higher than forecast construction costs and additional unplanned remediation work.

4.13.44 Total increase in income tax benefits predominately relates to the tax effect of the increase in the land preparation works. This was assessed as tax deductible in accordance with tax rulings received by MIC from the Australian Taxation Office.

4.13.45 Total assets have increased due to additional capitalised costs in relation to capital works as well as cash being higher as a result of unspent equity injections received from the Australian Government during the year.

Key areas of financial statements risk

4.13.46 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of MIC’s financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.13.10.

Table 4.13.10: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Non-financial liabilities – provisions $166.5 million	Valuation of the land remediation provision	**Higher**	• judgements and estimates involved in capturing remediation and site preparation costs, including assessing the level of remediation required for contamination and other unplanned works.	A moderate audit finding was identified Refer to paragraph 4.13.50
Non-financial assets – equity accounted investments $153.1 million	Recognition and disclosure of the value of the Precinct Land Trust	**Moderate**	• complexity of the investment structure; and • valuation of the land is subject to judgements and estimates associated with a discounted cash flow methodology, including future cash flows, rates of return and discounting.	No significant or moderate audit findings identified.
Non-financial assets – assets under construction $51.1 million	Capitalisation and valuation of assets under construction	**Moderate**	• judgements involved in apportioning capital and operating costs; and • judgements involved in considering the indicators of impairment to estimate the value of non-financial assets.	No significant or moderate audit findings identified.

Source: ANAO 2017–18 audit results, and the MIC’s financial statements for the year ended 30 June 2018.

4.13.47 Auditor-General Report No.23 2017–18 *Delivery of the Moorebank Intermodal Terminal* tabled during 2017–18 was relevant to the financial management or administration of MIC. This report included recommendations regarding procurement, contract management and governance which were considered in designing audit procedures for the 2017–18 financial statements audit.

Audit results

4.13.48 The following table summarises the status of audit findings reported by the ANAO in 2016–17 and 2017–18.

Table 4.13.11: Status of audit findings

Category	Closing position (2016–17)	New findings (2017–18)	Findings resolved (2017–18)	Closing position (2017–18)
Significant (A)	–	–	–	–
Moderate (B)	–	1	–	1
Total	**–**	**1**	**–**	**1**

Source: ANAO audit results 2017–18

4.13.49 For the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that MIC's 2017–18 financial statements were not materially misstated.

New moderate audit finding

Support and Quality Assurance over the financial statement close process

4.13.50 During the 2017–18 final audit, the ANAO identified weaknesses in the financial statement processes that involved judgements, and the presentation of MIC's consolidated financial statements. Key determinations and decisions associated with financial statements preparation, including valuations, which were finalised late or with weaknesses in appropriate quality assurance.

4.13.51 These weaknesses highlighted opportunities for improvement with MIC's quality assurance and support processes, to enhance the quality of financial reporting and reduce the risk of error to MIC's consolidated financial statements. The ANAO will review progress in addressing this issue as part of the 2018–19 audit.

National Capital Authority

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

Summary of financial performance

4.13.53 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by NCA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.13.12: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	20.3	18.9
Revenue from Government	17.1	16.5
Deficit attributable to the Government	3.2	2.4
Total other comprehensive income	0.4	0.2
Total comprehensive loss attributable to the Australian Government	2.9	2.2
Total assets	22.0	24.2
Total liabilities	6.5	8.4
Total equity	15.5	15.8

Source: NCA's financial statements for the year ended 30 June 2018.

4.13.54 The decrease in total assets and total liabilities by approximately $2.0 million reflects the drawdown of appropriation receivable to fund sponsored works and the settlement of supplier payables relating to those works.

Table 4.13.13: Administered key financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	35.0	24.3
Total income	24.9	66.4
Surplus/(deficit)	(10.1)	42.1
Total other comprehensive income	7.8	27.4
Total comprehensive income/(loss)	2.2	69.5
Total assets administered on behalf of Government	868.7	878.0
Total liabilities administered on behalf of Government	25.8	21.1
Net assets/(liabilities)	842.9	856.9

Source: NCA's financial statements for the year ended 30 June 2018.

4.13.55 The increase in expenses is mainly due to the write-off of assets that were renewed or replaced during 2017–18.

4.13.56 Income has decreased from 2016–17 which included the recognition as revenue of the value of upgraded Constitutional Avenue assets in Canberra. These assets were transferred to NCA by the Australian Capital Territory Government.

Key areas of financial statements risk

4.13.57 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of NCA's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.13.14. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.13.14: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Departmental operating lease commitments $1.0 million supplier expenses -property leases $0.3 million other payables - lease incentive $0.1 million	Accuracy, valuation and allocation of leasing arrangements	**Moderate**	• complexities around the leasing arrangements which in turn impact on the lease incentive.
Administered other payables $21.8 million Departmental other payables $3.5 million	Classification and valuation of the construction activities relating to NCA's responsibility to develop, further enhance and replace assets on national land	**Moderate**	• complexities in determining the value of work in progress at balance date as works are often between defined construction milestones and professional judgement is required.
Administered non-financial assets $865.5 million	Valuation and accounting for land, buildings and infrastructure located within the National Capital Estate	**Moderate**	• complexities in determining fair value for assets relating to land deemed for the special purposes of Canberra as the national capital and related capital works.
Administered parking services revenue $18.3 million	Completeness of revenue collection relating to the pay parking scheme on national land	**Low**	• collection of revenue and management of parking system contracted to a third party provider; and • judgement involved in determining recoverability of outstanding fines.

Source: ANAO 2017–18 audit results, and the Authority's financial statements for the year ended 30 June 2018.

Audit results

4.13.58 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

WSA Co Ltd

4.13.59 WSA Co Ltd (WSA Co) was established in August 2017 to build and operate the Western Sydney Airport in Badgerys Creek, in south-western Sydney. WSA Co is a government business enterprise, incorporated under the *Corporations Act 2001*, wholly owned by the Australian Government, represented by the Minister for Finance and the Public Service and the Minister for Cities, Urban Infrastructure and Population as shareholder ministers.

4.13.60 The Australian Government will invest up to $5.3 billion in equity funding for WSA Co to build Western Sydney Airport. This investment covers WSA Co's earthworks and construction of the airport, including compliance with environmental conditions. It also includes funding provided to Infrastructure, for preparatory activities including finalising the airspace and flight path design.

Summary of financial performance

4.13.61 The following section provides an analysis of the key financial statements items reported by WSA Co for 2017–18 and includes commentary regarding significant balances.

Table 4.13.15: Key financial statement items

Key financial statement items	2017–18 ($m)
Total expenses	(280.5)
Total revenue	0.6
Income tax benefit	0.0
Deficit attributable to the Australian Government	(280.0)
Total other comprehensive income	0
Total comprehensive loss attributable to the Australian Government	(280.0)
Total assets	58.4
Total liabilities	62.6
Total equity	4.2

Source: WSA Co's financial statements for the period ended 30 June 2018.

4.13.62 WSA Co commenced operations shortly after establishment. Total expenses recognised by WSA Co in 2017–18 primarily relate to:

- payments to the Commonwealth (through Infrastructure) for preparatory activities as required by the project deed ($146.1 million);
- site preparation and planning costs ($85.6 million); and
- recognition of expenses associated with the decontamination of the airport site ($25.1 million).

4.13.63 WSA Co's total assets primarily relate to cash and cash equivalents held by the Company. WSA Co's total liabilities primarily relate to supplier payables and a provision for remediation of land. Under the terms of the lease with the Commonwealth, WSA Co is required to bear all costs for any land remediation required. With the assistance of an expert WSA Co has assessed the site contamination and estimated remediation costs which has been recognised as a provision for future expenditure at 30 June 2018 ($25.1 million).

4.13.64 The total comprehensive loss and total equity reflects the nature of funding available to WSA Co. During 2017–18 WSA Co entered into an equity subscription agreement with the Commonwealth to fund the development and construction of the airport to meet the Commonwealth's functional specifications. The agreement provides up to $5.3 billion in equity funding for this purpose. During 2017–18 WSA Co received $275.7 million of this funding from the Commonwealth. These funds are recorded as share capital and are not recognised in the income statement.

4.13.65 On 17 May 2018, WSA Co entered into a lease for the airport site from the Commonwealth of Australia (as described at 4.13.15) for no consideration. WSA Co has been established under the *Corporations Act 2001*. The FRR applicable to Commonwealth corporate and non-corporate entities and requiring the fair value of assets to be recognised in the financial statements, do not apply to WSA Co as a Commonwealth company.

4.13.66 WSA Co has elected to recognise the value of the land leased from the Commonwealth at the cost to the company (nil) and therefore the land is not recognised in the statement of financial position as permitted under the applicable financial reporting framework. WSA Co has disclosed this accounting policy in their financial report. At the time the lease was agreed, the land was recognised by Infrastructure at a fair value of $333.8 million. At 30 June 2018, a valuation of the land was undertaken to enable a fair value of the Commonwealth's administered investment in WSA Co to be recognised in Infrastructure's administered financial statements reflecting a fair value of $370.0 million.

Key areas of financial statements risk

4.13.67 The ANAO completed appropriate audit procedures on all material items. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.13.16. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.13.16: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Assets under construction $2.4 million supplier expenses $242.8 million	Recognition of capital work in progress for airport construction activities	**Higher**	• increased judgements and estimates involved in apportioning capital and operating costs across the whole of term construction of the airport; and • given expected significant cost of construction of airport premises, judgement made will have a significant impact on the financial performance and position of the company in current and future periods.	No significant or moderate audit findings identified.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Non-financial assets $3.7 million	Recognition of leased airport land given nature of contractual arrangements	**Higher**	• nature, term and uniqueness of the lease agreement with the Commonwealth require increased judgement in order to determine the appropriate accounting policy to be applied; and • accounting policy decisions made by WSA Co in respect of the transaction have a significant impact on the financial performance and position of the company in current and future periods.	No significant or moderate audit findings identified. An emphasis of matter was included in our auditor's report drawing attention to the accounting policy applied by WSA Co.
Decontamination provision $25.1 million decontamination expenses $25.1 million	Recognition of Provision for Remediation of airport land	**Moderate**	• measurement and recognition of remediation provisions is inherently complex and subject to increased judgments and estimates relating to cost and level of contamination of land.	No significant or moderate audit findings identified.
Deferred tax assets income tax expense (Nil recognised in 2017–18)	Income Tax accounting	**Moderate**	• due to the complexity and judgement associated with the calculation of tax expense and deferred tax the disclosure of tax balances may be incomplete or incorrect in the financial report; and • increased judgement applied to determine appropriate tax treatment to one off transactions and recognition of tax effect accounting due to nature of the company's operations.	No significant or moderate audit findings identified.
Multiple financial statement line items.	Procurement Policies and Processes	**Moderate**	• weaknesses in procurement and contract management processes can increase the risk of unapproved expenditure or budgeted cost overruns being incurred by WSA Co.	No significant or moderate audit findings identified.

Source: WSA Co's financial statements for the period ended 30 June 2018.

Audit results

Emphasis of matter

4.13.68 The auditor's report on WSA Co's financial report included an emphasis of matter related to the accounting treatment for the land leased from the Commonwealth for the airport (described at paragraph 4.13.65). The emphasis of matter drew attention to the accounting treatment adopted and disclosed in the financial statements by WSA Co for this transaction.

4.13.69 There were no significant or moderate audit findings arising from the 2017–18 financial statements audits.

4.14 Jobs and Small Business sub portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Jobs and Small Business	**Yes**	Moderate	✓	06 Sept 18	06 Sept 18	Nil
Coal Mining Industry (Long Service Leave Funding) Corporation	**Yes**	Moderate	✓	24 Sept 18	24 Sept 18	Nil
Comcare	**Yes**	Moderate	✓	26 Sept 18	26 Sept 18	Nil

✓: auditor's report not modified

Portfolio overview

4.14.1 The Jobs and Innovation portfolio consists of two sub portfolios: Jobs and Small Business; and Industry, Innovation and Science. Jobs and Small Business became a component of the Jobs and Innovation portfolio in December 2017 to bring together policy and programs focusing on job creation. The portfolio consists of two sub-portfolios: Jobs and Small Business; and Industry, Innovation and Science.

4.14.2 As part of the Administrative Arrangements Order on 20 December 2017, the Small Business function transferred from the Department of the Treasury to the Department of Jobs and Small Business.

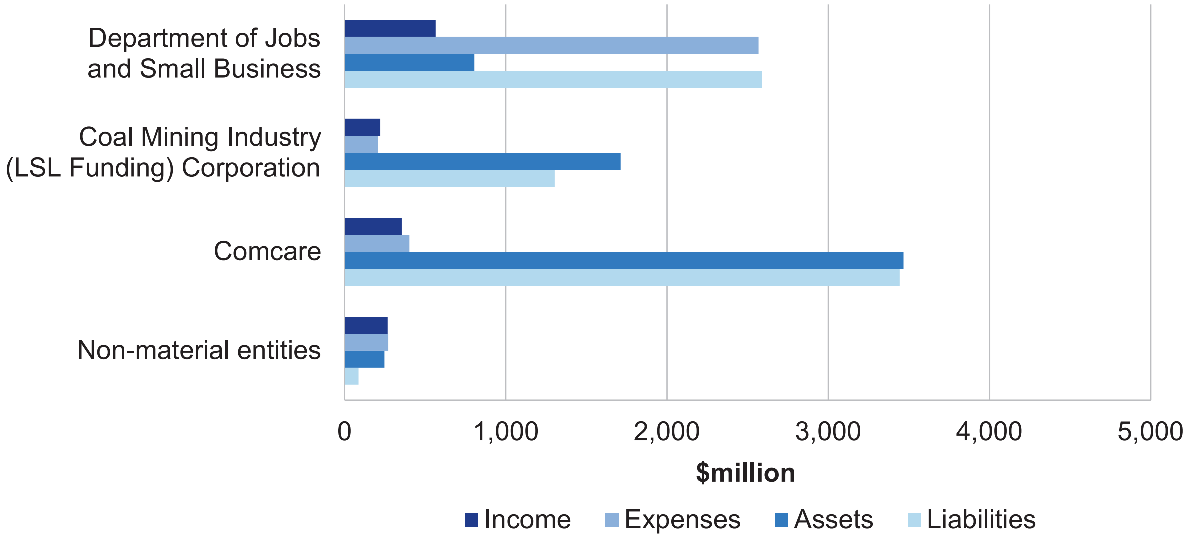
4.14.3 An Administrative Arrangement Order issued on 28 August 2018 established Industry, Innovation and Science and Jobs and Small Business as separate portfolios. This change will be reflected in our 2018–19 reports to Parliament.

4.14.4 The Department of Jobs and Small Business is responsible for policies and programs to help Australians find and keep employment, and work in safe, fair and productive workplaces. It has also been charged with reducing regulation and small business policy and programs.

4.14.5 In addition to the Department of Jobs and Small Business, there are seven entities within the sub-portfolio that provide workplace and work health and safety advice, initiatives and programs, and monitor compliance with Commonwealth workplace laws.

4.14.6 Figure 4.14.1 shows the Jobs and Small Business sub portfolio's income, expenses, assets and liabilities.

Figure 4.14.1: Jobs and Small Business sub portfolio's income, expenses, assets and liabilities[57]



Source: 2017–18 CFS.

4.14.7 The following sections provide a summary of the 2017–18 financial statements audit results for the Department of Jobs and Small Business, and other material entities.

Department of Jobs and Small Business

4.14.8 The Department of Jobs and Small Business (Jobs) is responsible for policies and programs to help Australians find and keep employment, and work in safe, fair and productive workplaces. It has also been charged with reducing regulation and small business policy and programs within the sub portfolio.

Summary of financial performance

4.14.9 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by the Jobs, and includes commentary regarding significant movements between years contributing to overall performance.

57 Table 4.13.16 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

Table 4.14.1: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	351.9	319.4
Revenue from government	310.8	286.4
Deficit attributable to the Australian Government	41.1	33.0
Total other comprehensive income	–	–
Total comprehensive income/(loss) attributable to the Australian Government	41.1	33.0
Total assets	344.1	316.5
Total liabilities	131.4	134.2
Total equity	212.7	182.3

Source: Job's financial statements for the year ended 30 June 2018.

4.14.10 The increase in revenue is primarily due to additional appropriation funding for new Government decisions including the machinery of government of the Small Business function from the Department of the Treasury. The increase in the net cost of services is a result of increased employee expenses due to increased staffing levels and higher expenditure for additional IT projects and associated services.

4.14.11 The increase in net assets is primarily the result of increased intangibles assets due to the development of software to support the jobactive employment services program.

Table 4.14.2: Key administered financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	2,158.8	1,849.2
Total income	587.1	330.4
Deficit	1,571.7	1,518.8
Total other comprehensive income	72.7	96.8
Total comprehensive loss	1,499.0	1,422.0
Total assets administered on behalf of Government	460.1	381.6
Total liabilities administered on behalf of Government	2,458.5	2,800.1
Net liabilities	1,998.4	2,418.5

Source: Job's financial statements for the year ended 30 June 2018.

4.14.12 Total administered expenses increased due to greater expenditure for assistance to jobseekers and industry through the jobactive program, as well as a higher take up of wage subsidies by employers. Total administered income increased as a result of the fair value gain from the actuarial assessment of the Comcare liability reported in Jobs' financial statements. This also resulted in a reduction in the corresponding liability.

4.14.13 Total administered assets increased as a result of the increase in the net asset value of the Coal Mining Industry (Long Service Leave Funding) Corporation, treated as an administered investment in Job's financial statements. Total administered liabilities decreased as a result of the actuarial assessment of the Comcare liability reported in Jobs' financial statements. This was due to reduced workers' compensation and common law asbestos related disease claims to Comcare and a reduction in claims premiums collected due to decreased claims activity.

Key areas of financial statements risk

4.14.14 The ANAO completed appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the Jobs financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.14.3 including which areas were considered key audit matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.14.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered suppliers $1.4 billion subsidies $449.4 million personal benefits $229.2 million	Accuracy and validity of administered supplier and subsidy expense payments KAM	**Moderate**	• payments are reliant on assessments made by third party service providers; and • the success of the department's compliance activities are also crucial to the integrity of the jobactive program.
Departmental intangible assets $113.2 million	Valuation and management of Intangible Assets	**Moderate**	• a significant increase of $53 million in the department's intangible assets was budgeted for 2017–18; and • the process of managing projects to internally develop software is complex due to judgements required relating to the value of staff and other costs that can be capitalised in accordance with Australian accounting standards.

Source: ANAO 2017–18 audit results.

Audit results

4.14.15 There were no significant or moderate unresolved audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Coal Mining Industry (Long Service Leave Funding) Corporation

4.14.16 The Coal Mining Industry (Long Service Leave Funding) Corporation (Coal LSL) collects levies from employers to fund long service leave payments made to employees in the Australian Black Coal Mining Industry. The levies collected are invested until the employee takes long service leave, at which point the employer makes a payment to the employee and seeks reimbursement from Coal LSL in accordance with legislative arrangements.

Summary of financial performance

4.14.17 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by the Coal LSL, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.14.4: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	76.4	48.1
Revenue from Government	149.1	145.0
Surplus attributable to the Government	72.7	96.9
Total other comprehensive income	0.0	0.0
Total comprehensive income attributable to the Australian Government	72.7	96.9
Total assets	1,712.8	1,583.0
Total liabilities	1,302.4	1,245.2
Total equity	410.4	337.8

Source: Coal LSL's financial statements for the year ended 30 June 2018.

4.14.18 The increase in the net cost of services was mainly attributable to a $29.5 million increase in the provision for long service leave reimbursements to meet Coal LSL's obligations to fund the long service leave of workers in the black coal industry.

4.14.19 Total assets increased mainly as a result of Coal LSL's increased investment in unit trusts, driven by the market performance and gains on disposal of individual investments, and changes in fair value of unutilised and reinvested funds. The increase in total liabilities reflects the increase in the provision for long service leave reimbursements.

Key areas of financial statements risk

4.14.20 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of Coal LSL financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017– 18 are provided in Table 4.14.5. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.14.5: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Unit trusts $1.7 billion	Valuation of investments	**Higher**	• Coal LSL is continuing to increase its holdings of unlisted assets; and • complexity surrounding the valuation of unlisted unit trusts, and warrant a higher degree of focus than listed equities and fixed interest investments.
Provisions $1.3 billion	Valuation of provision for reimbursements	**Higher**	• Coal LSL makes a provision for the expected reimbursement of employer's long service leave obligations, based on a complex methodology and estimation process.
All financial statements line items	In-housing of administration function	**Moderate**	• on 1 July 2017, Coal LSL's existing administration function, including systems staff and processes, transitioned in-house from an outsourced provider; and • the impacts of the transition included a geographical move in office location, and migration of the processes, procedures and controls previously in place with the outsourced provider.

Source: ANAO 2017–18 audit results, and Coal LSL's financial statements for the year ended 30 June 2018.

Audit results

4.14.21 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Comcare

4.14.22 Comcare is responsible for the administration of an integrated safety, rehabilitation and compensation scheme for federal employers, employees and their representatives; some state and territory bodies; and other organisations. Comcare aims to support participation and productivity nationally, through healthy and safe workplaces that minimise harm in the workplace. This also includes the management of a comprehensive workers' compensation liability scheme and the Commonwealth common law liabilities for asbestos compensation.

Summary of financial performance

4.14.23 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by the Comcare, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.14.6: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Net Contribution by services	333.6	533.5
Revenue from Government	56.8	61.0
Return of surplus claims funding	(382.7)	(127.2)
Surplus attributable to the Australian Government	7.7	467.3
Total other comprehensive income	0.0	0.0
Total comprehensive income attributable to the Australian Government	7.7	467.3
Total assets	3,466.4	3,821.3
Total liabilities	3,443.5	3,806.0
Total equity	22.9	15.3

Source: Comcare's financial statements for the year ended 30 June 2018.

4.14.24 The decrease in the net contribution by services and the decrease in total liabilities largely relates to movements in the workers' compensation and common law asbestos related disease claim provisions, following an independent valuation obtained during 2017–18, and a reduction in workers compensation premiums collected due to decreased claims activity. This has also resulted in the increase of funds returned to government. The provisions decreased in comparison to 2016–17 due to a number of movements in the parameters used to determine the provisions, including the results of actual claims data during 2017–18, and forecast data relating to future claims.

4.14.25 The decrease in total assets is mainly attributable to a reduction in the appropriation receivable balance and third party recoveries.

Key areas of financial statements risk

4.14.26 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of Comcare's financial statements. The ANAO focused audit effort on those areas that were assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.14.7. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.14.7: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Workers' compensation claims provision $2,550.2 million common law asbestos related disease claims provision $862.3 million workers' compensation claims expense $232.7 million common law asbestos related disease claims expense. $22.5 million	Valuation of workers' compensation and asbestos related disease claims provisions	**Higher**	• complex nature of the valuation of the provisions, including: the use of actuarial valuation models; the reliance on the accuracy of underlying assumptions including claims frequency and size, discount factors and establishment of procedure through case law, judgements and data; and the inherent difficulties in reflecting macro-economic trends in the valuation model.
Workers' compensation premiums $285.2 million fees and fines $15.7 million	Accuracy of revenue collection and recognition	**Moderate**	• complex nature of the legislative requirements due to the variety of criteria underpinning premium calculations.

Source: ANAO 2017–18 audit results, and the Comcare's financial statements for the year ended 30 June 2018.

Audit results

4.14.27 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

4.15 Parliamentary Departments

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Parliamentary Services	**Yes**	Moderate	✓	3 Sept 18	3 Sept 18	Nil

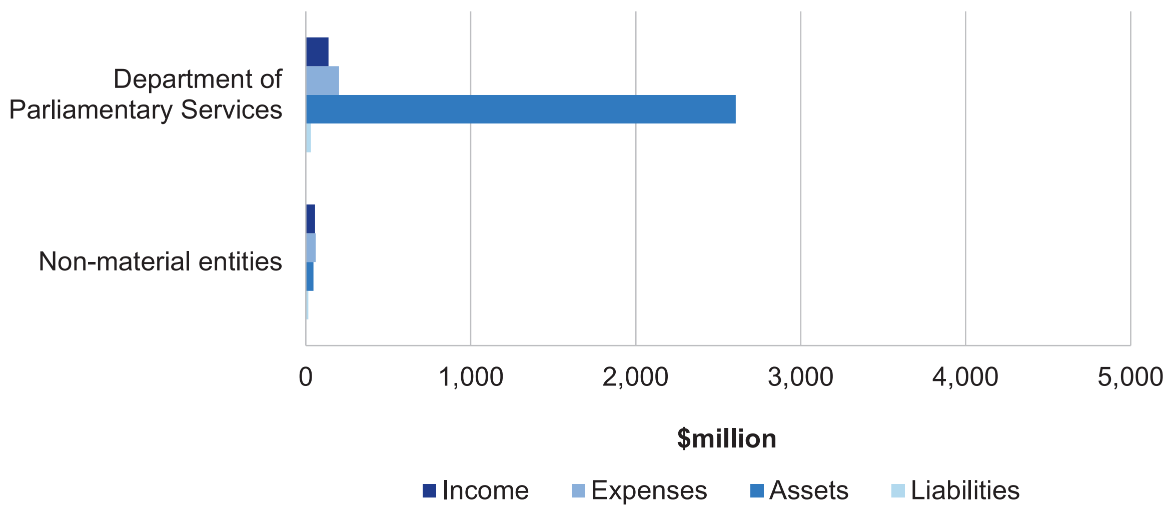
✓: auditor's report not modified

Portfolio overview

4.15.1 The Parliamentary Departments support the operation of the Parliament of Australia, its committees and members. There are four Parliamentary Departments: the Department of Parliamentary Services; the Department of the Senate; the Department of the House of Representatives; and the Parliamentary Budget Office.

4.15.2 Figure 4.15.1 shows the Parliamentary Departments' income, expenses, assets and liabilities.

Figure 4.15.1: Parliamentary Departments' income, expenses, assets and liabilities[58]



Source: 2017–18 CFS.

4.15.3 The following sections provide a summary of the 2017–18 financial statements audit results for the Department of Parliamentary Services.

58 Figure 4.15.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

Department of Parliamentary Services

4.15.4 The core responsibilities of the Department of Parliamentary Services (DPS) are to support the Parliament through a range of services, including library, Hansard, broadcasting, communications, building security and maintenance.

Summary of financial performance

4.15.5 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by DPS, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.15.1: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	144.9	138.9
Revenue from Government	123.0	118.6
Deficit attributable to the Government	21.9	20.3
Total other comprehensive income/(loss)	(0.7)	(0.1)
Total comprehensive loss attributable to the Australian Government	21.2	20.4
Total assets	130.6	132.0
Total liabilities	29.4	29.1
Total equity	101.2	102.8

Source: DPS' financial statements for the year ended 30 June 2018.

4.15.6 Fluctuations in the balances reflect normal business activities.

Table 4.15.2: Key administered financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	42.9	41.8
Total income	–	2.8
Deficit	42.9	39.0
Total other comprehensive income	84.6	104.8
Total comprehensive income	41.6	65.7
Total assets administered on behalf of Government	2,474.6	2,337.1
Total liabilities administered on behalf of Government	2.0	1.6
Net assets	2,472.6	2,335.5

Source: DPS' financial statements for the year ended 30 June 2018.

4.15.7 The movement in assets is largely due to the additional works on Parliament House, including security works ongoing within the building.

Key areas of financial statements risk

4.15.8 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of DPS' financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.15.3. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.15.3: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered non-financial assets (excluding intangibles) $2,470.1 million	Valuation of non-financial assets	**Higher**	• the unique nature of Parliament House, its contents and the purpose of the land, increases the judgement applied and complexity in establishing a fair value.
Departmental employee provisions $24.0 million	Valuation of employee provisions	**Moderate**	• significant judgement and assumptions are applied to determine the value of employee leave provisions including salary growth rates and probability of leave vesting.

Source: ANAO 2017–18 audit results, and DPS' financial statements for the year ended 30 June 2018.

Audit results

4.15.9 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

4.16 Prime Minister and Cabinet portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of the Prime Minister and Cabinet	**Yes**	Moderate	✓	3 Sept 18	3 Sept 18	☐
Indigenous Business Australia	**Yes**	Moderate	✓	13 Sept 18	18 Sept 18	Nil
Indigenous Land Corporation	**Yes**	Low	✓	27 Sept 18	27 Sept 18	Nil
Northern Land Council	**No**	Moderate	✓	28 Sept 18	28 Sept 18	▲☐

✓: auditor's report not modified

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

☐: significant or moderate issues and/or legislative matters identified in previous periods, or the 2017–18 interim audit phase, now downgraded or resolved

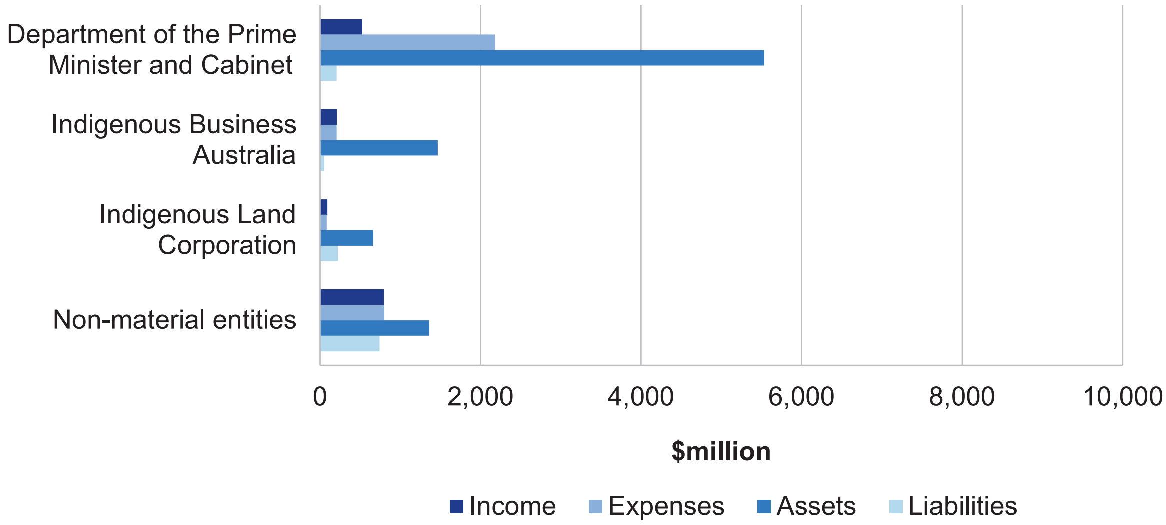
Portfolio overview

4.16.1 The Prime Minister and Cabinet portfolio is responsible for providing policy advice and support to the Prime Minister, the Cabinet and ministers on public and government administration matters, including policy development and whole-of-government coordination.

4.16.2 As a result of an amendment to the Administrative Arrangements Order of 19 April 2018, the Australian Institute of Aboriginal and Torres Strait Islander Studies transferred from the Education and Training portfolio to the Prime Minister and Cabinet portfolio.

4.16.3 Figure 4.16.1 shows the Prime Minister and Cabinet portfolio's income, expenses assets and liabilities.

Figure 4.16.1: Prime Minister and Cabinet portfolio's income, expenses, assets and liabilities[59]



Source: 2017–18 CFS.

4.16.4 The following sections provide a summary of the 2017–18 financial statements audit results for the Department of the Prime Minister and Cabinet, other material entities and findings related to non-material entities in the portfolio.

Department of the Prime Minister and Cabinet

4.16.5 The Department of the Prime Minister and Cabinet (PM&C) is responsible for coordinating policy development across government in economic, domestic and international affairs, Aboriginal and Torres Strait Islander advancement and public service stewardship.

4.16.6 Following a restructure of administrative arrangements, the ownership and property management of the Prime Minister's official residences were transferred from the Department of Finance on 30 November 2017. As a result of an amendment to the Administrative Arrangements Order on 20 December 2017 the functions for the national policy on cities, infrastructure project financing and population policy transferred from PM&C to the Department of Infrastructure, Regional Development and Cities.

Summary of financial performance

4.16.7 The following section provides a comparison of the 2016–17 and 2017–18 key departmental financial statements items reported by PM&C, and includes commentary regarding significant movements between years contributing to overall performance.

59 Figure 4.16.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

Table 4.16.1: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	441.4	427.0
Revenue from Government	417.4	406.4
Deficit attributable to the Australian Government	24.0	20.6
Total other comprehensive loss	0.8	0.3
Total comprehensive loss attributable to the Australian Government	24.8	20.9
Total assets	250.1	236.5
Total liabilities	138.5	122.6
Total equity	111.6	113.9

Source: PM&C's financial statements for the year ended 30 June 2018.

4.16.8 The movement in total liabilities reflects the recognition of new lease incentives received following the renegotiation in 2017–18 by PM&C of its leases for office accommodation. Fluctuations in other balances reflect normal business activities.

Table 4.16.2: Key administered financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	1,707.6	1,663.9
Total income	91.1	108.2
Deficit after income tax	1,616.5	1,555.7
Total other comprehensive income after income tax	131.4	156.2
Total comprehensive loss	1,485.1	1,399.5
Total assets administered on behalf of Government	5,288.1	4,876.8
Total liabilities administered on behalf of Government	67.3	63.5
Net assets	5,220.8	4,813.3

Source: PM&C financial statements for the year ended 30 June 2018.

4.16.9 The movement in total expenses reflects increased statutory payments made to royalty associations as a result of higher mining royalty equivalent income received by the Aboriginals Benefit Account. In accordance with the *Aboriginal Land Rights (Northern Territory) Act 1976*, thirty per cent of royalty equivalent income received by the Aboriginals Benefit Account is to be distributed to relevant Land Councils. This higher mining royalty equivalent income received by the Aboriginals Benefit Account also contributed to the movement in assets administered on behalf of the Government from term deposits held by the Aboriginals Benefit Account at 30 June 2018.

4.16.10 The increase in assets administered on behalf of the Government was also impacted by higher net asset positions of the Indigenous Land Corporation, detailed at 4.16.22, and the Indigenous Business Australia, detailed at 4.16.16.

Key areas of financial statements risk

4.16.11 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of PM&C's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.16.3, including which areas were considered key audit matters (KAM) by the ANAO. No unresolved significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.16.3: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered grants $1.3 billion	Occurrence of grants expenses KAM	**Higher**	• the magnitude and diversity of grant programs that are subject to a decentralised eligibility and assessment process; and • effectiveness of internal control activities and financial reporting arrangements.
Departmental employee benefits $268 million employee provisions $78.6 million	Valuation of employee provisions	**Moderate**	• prior year moderate audit finding identified in 2016–17 related to internal control review and quality assurance processes; and • business continuity and change management processes associated with the use of the human resource management information system.
Departmental property, plant and equipment $110.7 million Intangibles $30.4 million	Valuation and existence of non-financial assets	**Moderate**	• subject to judgement and estimation in determining property conditions and market rates for the fair value of non-financial assets dispersed across multiple and regional locations.
Administered Investments in Commonwealth entities $2.3 billion term deposits $2.8 billion	Valuation of investments	**Moderate**	• appropriateness of the selection of valuation techniques and underlying assumptions applied by PM&C to determine fair value; and • inaccurate or incomplete consolidation of the Aboriginals Benefit Account and the Aboriginal and Torres Strait Islander Land Account investment balances into the administered financial statements.

Source: ANAO 2017–18 financial statements audit results, and PM&C's financial statements for the year ended 30 June 2018.

Audit results

4.16.12 The following table summarises the status of audit findings reported by the ANAO in 2016–17 and 2017–18.

Table 4.16.4: Status of audit findings

Category	Closing position (2016–17)	New findings (2017–18)	Findings resolved (2017–18)	Closing position (2017–18)
Significant (A)	–	–	–	–
Moderate (B)	1	1[(a)]	(2)[(b)]	–
Total	**1**	**1**	**(2)**	**–**

Source: ANAO 2017–18 audit results.

Note a: The moderate audit finding relating to IT Logging and Monitoring was identified during the 2017–18 audit. This audit finding was reported to Parliament in Auditor-General Report No.47 of 2017–18 *Interim Report on Key Financial Controls of Major Entities*.

Note b: The moderate audit issue relating to Internal control over human resource management processes was resolved as reported to Parliament in Auditor-General Report No.47 of 2017–18 *Interim Report on Key Financial Controls of Major Entities*.

4.16.13 For of the finding listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that PM&C's 2017–18 financial statements were not materially misstated.

Resolved moderate audit finding

IT Logging and Monitoring

4.16.14 During the 2017–18 interim audit the ANAO identified weaknesses in the management of PM&C's privileged user access to key PM&C systems, including a lack of:

- active logging and monitoring of privileged users at the network and database level;
- active logs for a number of months for the human resource management information system and a number of these logs being reviewed by privileged users; and
- active logging or monitoring of privileged user activity on the financial management information system other than in relation to vendor accounts.

4.16.15 Inappropriate levels of access and inadequate monitoring of system access, particularly for privileged users, increases the risk of not preventing or identifying inappropriate activity. PM&C advised that they would implement processes to address the above finding. The ANAO reviewed and assessed their response during the 2017–18 final audit and observed that the latter two matters had been addressed. As a result this finding has been resolved.

Indigenous Business Australia

4.16.16 Under its enabling legislation, the *Aboriginal and Torres Strait Islander Act 2005*, Indigenous Business Australia's (IBA's) purposes are to assist and enhance Aboriginal and Torres Strait Islander self-management and economic self-sufficiency; and advance the commercial and economic interests of Aboriginal and Torres Strait Islander peoples by accumulating and using a substantial capital base for the benefit of Aboriginal and Torres Strait Islander peoples. IBA has 21 actively trading subsidiaries, which are audited by the ANAO.

Summary of financial performance

4.16.17 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by IBA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.16.5: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Net contribution by services	2.6	24.5
Revenue from Government	10.1	14.0
Surplus before income tax on continuing operations	12.7	38.5
Income tax expense	–	0.1
Surplus attributable to non-controlling interest	3.7	0.7
Surplus attributable to the Australian Government	9.0	37.7
Total other comprehensive loss	(0.1)	(2.5)
Total comprehensive loss attributable to the Australian Government	8.9	35.2
Total assets	1,467.7	1,378.9
Total liabilities	52.0	44.1
Total equity	1,415.8	1,334.8

Source: IBA's financial statements for the year ended 30 June 2018.

4.16.18 A decrease in net contribution by services and the decrease in surplus attributable to the Australian Government were mainly from fair valuation losses on recognition of home and business loans.

4.16.19 The increase in total assets and associated increases to equity were mainly due to significant increases in the number and fair value of home loans issued during 2017–18.

Key areas of financial statements risk

4.16.20 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of IBA's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.16.6. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.16.6: Key areas of financial statements risk audit results

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Loans – Home Ownership Program $772.7 million Loans – Business Development and Assistance Program $37.1 million	Valuation of loan portfolio	**Moderate**	• robust due diligence processes are required for loan applications to assess the ability of applicants to meet loan commitments; • fair value calculations are based on a combination of variable market inputs and internally generated estimates and judgements; • the fair value methodology is complex and requires regular review to ensure continued reliability; and • timely monitoring controls are required to identify and remediate delinquent loans to avoid impairment.
Investment property $149.1 million Property, plant and equipment $23.5 million	Valuation of investments	**Moderate**	• fair value calculation includes forecast earnings and capitalisation rates derived for regional areas; • complex accounting requirements associated with investments in associate entities and assessment of impairment and gains on revaluation; • unaudited management accounts are used for valuation of unlisted investments in associated entities; and • public scrutiny of the entity's governance and achievement of strategic priorities.
Own-source income $201.0 million	Revenue recognition of own-sourced income	**Moderate**	• IBA has a number of streams of commercial income and associated accounting functions, some of which are geographically decentralised and remote.

Source: ANAO 2017–18 audit results, and IBA's financial statements for the year ended 30 June 2018.

Audit results

4.16.21 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Indigenous Land Corporation

4.16.22 Under its enabling legislation, the *Aboriginal and Torres Strait Islander Act 2005*, the Indigenous Land Corporation's (ILC's) purpose is to assist Aboriginal and Torres Strait Islander people to acquire and manage land so as to provide economic, environmental, social and cultural benefits; and to provide land management assistance to support the delivery of sustainable benefits from land acquisition.

4.16.23 The ILC consolidated entity includes the following subsidiaries: the Australian Indigenous Agribusiness Company Pty Ltd (formerly National Indigenous Pastoral Enterprises Pty Ltd); the National Centre of Indigenous Excellence Ltd; The Owners – Strata Plan No. 86156; and Voyages Indigenous Tourism Australia Pty Ltd.

Summary of financial performance

4.16.24 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by the ILC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.16.7: Key financial statement items

Key financial statement items	2017–18 ($m)	2016–17 ($m)
Net cost of services	50.9	34.0
Revenue from Government	61.2	60.4
Surplus before income tax attributable to the Government	10.3	26.4
Income tax benefit	24.4	0.3
Surplus attributed to the Government	34.7	26.7
Total other comprehensive income	45.9	49.4
Total comprehensive income attributable to the Australian Government	80.6	76.1
Total assets	836.3	752.1
Total liabilities	384.3	380.7
Total equity	452.0	371.4

Source: ILC's financial statements for the year ended 30 June 2018.

4.16.25 The increase in net cost of services is largely attributable to the increase in the loss on market value of livestock which relates mainly to cattle. This is due to the lower average livestock prices in the current year as compared to the prior year where a significant net gain was experienced.

4.16.26 The increase in the income tax benefit is due to the recognition in the current year of prior year temporary differences not previously recognised which is partially offset by the tax effect of the current year's taxable income. In prior years, ILC adopted a conservative approach by not recognising the income tax benefit. The underlying business of Voyages Indigenous Tourism Australia Pty Ltd is now profitable, it is expected to recoup the tax losses by generating taxable income in future years.

4.16.27 In 2017–18, an independent valuation of the Ayers Rock Resort (the Resort) was undertaken resulting in a $68.9 million increase in the value of the Resort. The current year increase was recognised through the balance sheet and other comprehensive income, contributing to the increase in total assets and total equity in 2017–18. The increase in other comprehensive income was offset by the recognition of the tax effect on revaluations.

Key areas of financial statements risk

4.16.28 The ANAO completed appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of ILC consolidated entity's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.16.8. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.16.8: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Property, plant and equipment $327.6 million land $83.6 million	Valuation of property plant and equipment and land at the Ayers Rock Resort held by the ILC subsidiary, Voyages Indigenous Tourism Australia Pty Ltd	**Higher**	• complexities in valuing the Ayers Rock Resort assets due to the judgements and assumptions involved in determining future cash inflows driven by occupancy rates and room rates.
Other financial assets - concessional loan benefit $7.9 million interest bearing loans $169.0 million	Valuation of the concessional loan liability and associated loan benefit asset by the ILC and the refinancing of the Ayers Rock Resort by the ILC and the ILC subsidiary, Voyages Indigenous Tourism Australia Pty Ltd	**Moderate**	• significant value of the refinancing of the loan during the 2017–18 financial year; • the concessional loan is a variable rate loan based on the weighted average cost of borrowing for future issuance of Treasury bonds and needs to be reassessed each year; and • exposure to movements in the interest rate potentially impact the value of the refinanced loan and concessional loan.
Total revenue $183.2 million total expenses $177.4 million	Accuracy of revenue and expenses recognised by the ILC subsidiary, Voyages Indigenous Tourism Australia Pty Ltd	**Moderate**	• varying revenue and purchasing streams with differing processes and controls due to separation between the front office and back office which are in different locations including; and • decentralised nature of the Voyages' operations.
Income tax benefit $24.6 million deferred tax liabilities $10.7 million	Accuracy of tax effect accounting and tax loss recognition by the ILC subsidiary, Voyages Indigenous Tourism Australia Pty Ltd	**Moderate**	• complexities in tax effect accounting, calculation and recognition criteria for tax losses.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Property, plant and equipment $420.0 million biological assets $36.0 million	Valuation of property, plant and equipment and livestock held by the ILC and the ILC subsidiary, Australian Indigenous Agribusiness Company Pty Ltd	**Moderate**	• complexities in valuing the property, plant and equipment assets due to the judgements and assumptions involved including complexities in valuing the agribusiness assets; and • impact of the market and conditions in the market for valuing livestock.
Income Tax benefit Nil financial impact deferred tax asset / (liabilities) No property was been transferred during 2017–18. Therefore, there is no financial impact.	Valuation of tax balances in relation to the transfer of commercial properties between the ILC and the ILC subsidiary, Australian Indigenous Agribusiness Company Pty Ltd	**Moderate**	• complexities in the calculation of tax balances on transfer.
Property, plant and equipment The exit strategies for agribusinesses were not finalised during 2017–18. There is no financial impact.	Accuracy of the accounting treatment of agribusinesses by the ILC subsidiary, Australian Indigenous Agribusiness Company Pty Ltd	**Moderate**	• complexities in viability assessments for agribusinesses due to the judgements and assumptions involved; and • judgement required when assessing the proposed exit strategies for some agribusinesses which may impact on the carrying value of the property, plant and equipment held at fair value at 30 June 2018.
Total expenses $0.1 million	Completeness and classification of expenses recognised by the ILC subsidiary, The Owner's Strata Plan No. 86156	**Moderate**	• varying purchasing streams for expenditure and appropriate recognition within the financial year.

Source: ANAO 2017–18 audit results, and the ILC's or relevant subsidiaries financial statements for the year ended 30 June 2018.

Audit results

4.16.29 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Comments on non-material entities

Northern Land Council

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

4.16.31 The following table summarises the status of audit findings reported by the ANAO in 2016–17 and 2017–18.

Table 4.16.9: Status of audit findings

Category	Closing position (2016–17)	New findings (2017–18)	Findings resolved (2017–18)	Closing position (2017–18)
Significant (A)	–	–	–	–
Moderate (B)	–	–	–	–
Legislative breach (L1)	2	–	(1)	1
Total	**2**	**–**	**(1)**	**1**

Source: ANAO 2017–18 audit results.

Resolved significant legislative breach

Risk management framework

4.16.32 The PGPA Act requires the accountable authority of a Commonwealth entity to establish and maintain an appropriate system of risk oversight and management. This includes the development of a risk framework, typically including a risk plan and a risk register, and monitoring activities over the implementation of the control activities identified in the risk register.

4.16.33 In 2015–16 the ANAO identified that the Council did not have an appropriate risk framework in place, including the development of a risk register. In 2016–17, the Council endorsed a risk management policy and commenced on the development of a risk management plan. The Council introduced a risk management policy and fraud policy in April 2017 and during 2016–17 it commenced the process of establishing a comprehensive risk register which would include a fraud risk register and fraud control plan which was finalised in 2017–18.

4.16.34 In August 2018, the Council's Audit Committee approved the comprehensive risk register. The ANAO compared the policies/frameworks and risk registers developed by the Council against the PGPA Act and the Commonwealth Risk Management Policy issued by Department of Finance and found them to be consistent. The Council advised it will utilise the risk register to continually review the risks faced by the Council and the register will be reviewed at monthly management meeting. This finding has been resolved during the final audit phase of 2017–18.

Unresolved significant legislative breach

Royalty trust account

4.16.35 Previous audits identified non-compliance with the *Aboriginal Land Rights (Northern Territory) Act 1976*. This Act establishes the Council's responsibilities for payments in respect of Aboriginal land, requiring payment of an amount equal to amounts received to, or for the benefit of, the traditional owners of the land, within six months after that amount is received through the royalty trust account.

4.16.36 During 2017–18, the ANAO identified that instances of non-compliance, as noted in prior years, continue to occur as not all of the funds in the Council's royalty trust account had been distributed to traditional owners, within the agreed timeframe.

4.16.37 During 2016–17 the Council commenced a royalty reform project that was aimed at reducing incidents of non-compliance with the *Aboriginal Land Rights (Northern Territory) Act 1976* and reconciling the outstanding balances in the royalty trust account to identify the appropriate owners for distribution.

4.16.38 In 2017–18 the Council's finance team completed the first stage of reconciliation process by reviewing the integrity and ending balance of approximately 1,170 contracts held within the finance division, which could have attracted interest. After the review, the finance team was able to identify and allocate $5.9 million (out of $6.4 million) of the interest component to relevant contracts and related recipients. The contracts under review were those entered into during 2006 to date. The reconciliation was completed at 30 June 2018 however $0.9 million remains unreconciled.

4.16.39 The Council is obtaining legal advice on how to deal with this unallocated amount. The ANAO will review the Council's progress as part of the 2018–19 audit.

4.17 Social Services portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of Social Services	**Yes**	Moderate	✓	6 Sep 18	6 Sep 18	Nil
National Disability Insurance Agency	**Yes**	High	✓	14 Sep 18	17 Sep 18	◆▲□

✓: 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 2017–18 interim audit phase, now downgraded or resolved

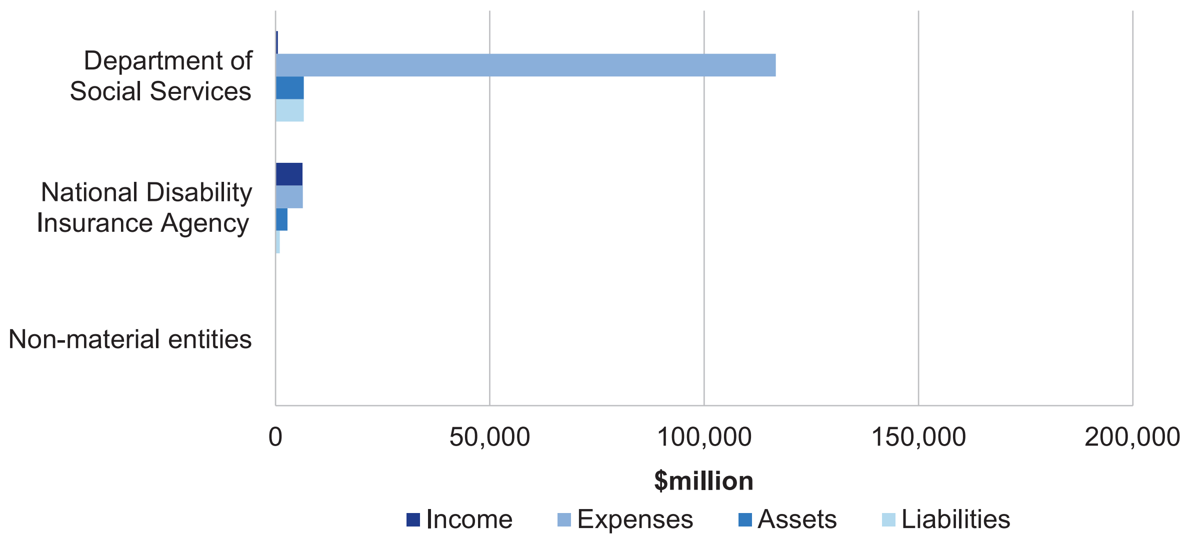
Portfolio overview

4.17.1 The Department of Social Services (DSS) is the lead entity in the portfolio and has four core areas of responsibility—social security, families and communities, disability and carers, and housing.

4.17.2 In addition to the department, the portfolio also includes National Disability Insurance Agency (NDIA) and the Australian Institute of Family Studies. The entities within the Social Services portfolio partner with other government entities, non-government organisations, consumers and other stakeholders.

4.17.3 Figure 4.17.1 shows Social Services portfolio's income, expenses, assets and liabilities.

Figure 4.17.1: Social Services portfolio's income, expenses, assets and liabilities[60]



Source: 2017–18 CFS.

60 Figure 4.17.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

4.17.4 The following sections provide a summary of the 2017–18 financial statements audit results for the Department of Social Services and the National Disability Insurance Agency.

Department of Social Services

4.17.5 The four core areas of responsibility of the Department of Social Services (DSS) are social security, families and communities, disability and carers, and housing. DSS works in partnership with other government and non-government organisations, particularly the Department of Human Services which is responsible for processing significant volumes of complicated benefit payments on behalf of DSS, on a range of policies, programs and services focused on improving the wellbeing of people and families in Australia.

Summary of financial performance

4.17.6 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by DSS, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.1: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	449.6	430.9
Revenue from Government	406.7	403.1
Deficit attributable to the Government	42.9	27.8
Total other comprehensive income	0.1	4.7
Total comprehensive loss attributable to the Australian Government	42.8	23.1
Total assets	358.8	382.5
Total liabilities	156.2	152.3
Total equity	202.6	230.2

Source: DSS' financial statements for the year ended 30 June 2018.

4.17.7 The increase in the net cost of services is due to amortisation of intangibles associated with major information technology investment over the last 2 years in the grant management system and the aged care system. This is partially offset by net reduction in services to other entities due to changing demand. Normally reductions in services (revenue) to other entities would have a corresponding reduction in cost and therefore no impact on the net cost of services. In prior years other entities contributed to the additional costs of providing services by paying for improvements to IT systems. A component of these costs were included as an increase in the value of intangible assets and not suppliers expenses and will result in a corresponding increase in the net cost of services due to increased amortisation over the life of the asset.

4.17.8 The decrease in assets was due to the repeal of $40.6 million of equity appropriations from 2012–13 and 2013–14 partially offset by an increase in leasehold improvements for the new national office.

Table 4.17.2: Key administered financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	116,137.2	113,783.0
Total income	85.0	78.5
Deficit	116,052.2	113,704.5
Total other comprehensive income	897.9	691.7
Total comprehensive loss	115,154.3	113,012.8
Total assets administered on behalf of Government	6,240.3	5,586.9
Total liabilities administered on behalf of Government	6,402.6	6,025.9
Net liabilities	162.3	439.0

Source: DSS' financial statements for the year ended 30 June 2018.

4.17.9 Total expenses increased primarily as a result of higher payments made to National Disability Insurance Agency (NDIA) for growth in participant numbers in the National Disability Insurance Scheme and due to an increase in the estimate of doubtful debts for personal benefit receivables. The estimate of doubtful debts for personal benefits receivable is performed by an actuary and the estimate increased due to refinements in the actuarial model used for the estimation.

4.17.10 The increase in assets is due to the change in investment in NDIA which is based on the net position of NDIA at 30 June 2018. This is partially offset by decrease in personal benefit receivables as a result of higher doubtful debts explained in the above paragraph.

Key areas of financial statements risk

4.17.11 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of DSS' financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.17.3, including which areas were considered key audit matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.17.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered personal benefit expenses $109.3 billion	Accuracy and occurrence of personal benefit expenses KAM	**Higher**	• reliance on the correct disclosure of personal circumstances by a large number of recipients across diverse social economic groups; and • reliance on the Department of Human Services' complex information technology system for the processing of a high volume of payments across numerous personal benefit types with varying complexities.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered personal benefit provisions $4.2 billion personal benefit receivables (net) $4.0 billion	Valuation of personal benefit provisions and personal benefit receivables KAM	**Higher**	• provisions and receivables involve estimation models which require significant judgements and assumptions, and are dependent on a number of factors. These factors include, but are not limited to, new budget measures affecting benefit programs, timing of payments, personal circumstances of recipients and the economic environment; and • the accuracy and completeness of the source data used by the actuary in developing the estimation of the provisions and receivables is also a key component of the valuation process.
Administered grant expenses $1.5 billion	Accuracy and occurrence of grant expenses KAM	**Moderate**	• a large number of grants programs with differing legislative and policy requirements which makes the management of grant complex; and • inherent information technology challenges relating to the expansion of existing grant management infrastructure to accommodate a shared service operation for other entities.

Source: ANAO 2017–18 audit results, and DSS' financial statements for the year ended 30 June 2018.

4.17.12 Auditor-General Report No.35 2017–18 *Management of Special Appropriations* (across entities audit) had an impact on the financial statements audit approach resulting in additional disclosures for special appropriations with a nil balance in the 30 June 2018 financial statements.

Audit results

4.17.13 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

National Disability Insurance Agency

4.17.14 The National Disability Insurance Agency (NDIA), which commenced operations on 1 July 2013, was established under the *National Disability Insurance Scheme Act 2013*. The NDIA is responsible for delivering the National Disability Insurance Scheme (the Scheme). The Scheme is designed to provide individual control and choice in the delivery of reasonable and necessary care and support; to improve the independence, social and economic participation of eligible people with disability, their families and carers; and associated referral services and activities.

Summary of financial performance

4.17.15 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by the NDIA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.17.4: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	93.4	981.3
Revenue from Government	1,051.0	1,598.5
Surplus attributable to the Government	957.6	617.1
Total other comprehensive income	5.4	3.7
Total comprehensive income attributable to the Australian Government	963.0	620.7
Total assets	2,805.3	1,572.1
Total liabilities	979.7	709.5
Total equity	1,825.5	862.5

Source: The NDIA's financial statements for the year ended 30 June 2018.

4.17.16 The decrease in the net cost of services and Revenue from Government is primarily due to a change in the funding mechanism for the NDIA. In 2016–17 funding was received via an appropriation through the DSS which was classified as Revenue from Government and does not form part of the net cost of services calculation. In 2017–18, the funding was split into two categories. The first category was funds paid to participants of the National Disability Insurance Scheme. This was received on a fee for service basis and was classified as revenue from rendering of services, forming part of the net cost of services calculation. The second category related to the operations of the NDIA and as in prior periods was received via appropriation from DSS and reported as Revenue from Government.

4.17.17 Total assets increased primarily due to a higher cash balance as at 30 June 2018. This resulted from a slower than forecast participant intake in 2017–18 and lower than expected supports claimed by Scheme participants.

4.17.18 The increase in total liabilities is mainly due to the increase in the participant plan provision. The participant plan provision is an estimate calculated by the Scheme Actuary for the value of any services provided to participants that have not yet been claimed. The increase in the provision largely reflects the higher number of participants in the Scheme in 2017–18.

Key areas of financial statements risk

4.17.19 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of the NDIA's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.17.5, including which areas were considered key audit matters (KAM) by the ANAO.

Table 4.17.5: Key areas of financial statements risk

Relevant financial statements item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment	Audit results
Participant plan expenses $5.42 billion	Accuracy and occurrence of participant plan expenses KAM	**Higher**	• the growing Scheme participant numbers, and needs to cater for a diverse group of participants with varying and changing needs; • reliance on third parties to provide information to support payments, making these payments more susceptible to fraud; • no supporting documentation required as part of the claiming process; and • significant work required to implement a successful compliance program supporting payments to participants.	Three moderate findings were identified. Refer to paragraph 4.17.21 below.
Participant plan provisions $706.4 million	Valuation of participant plan provisions KAM	**Higher**	• the provisions are subject to significant judgements and assumptions to determine the service delivery patterns for unclaimed services given the maturity of the Scheme; and • complexity of calculations due to the significant number of participant plans, the frequency of changes to approved plans and the diverse nature of goods and services provided.	No significant or moderate audit findings identified.
Contributions in-kind from Commonwealth, state and territory governments $1.1 billion	Completeness, occurrence and accuracy of contributions of in-kind services from Commonwealth and state and territory governments KAM	**Higher**	• the balance is reliant on management accounting estimates where data is not available; and • the manual management of some components of the in-kind contributions outside the customer relationship management system.	No significant or moderate audit findings identified.

Source: ANAO 2017–18 audit results, and the NDIA's financial statements for the year ended 30 June 2018.

Audit results

4.17.20 The following table summarises the status of audit findings reported by the ANAO in 2016–17 and 2017–18.

Table 4.17.6: Status of audit findings

Category	Closing position (2016–17)	New findings (2017–18)	Findings resolved (2017–18)	Closing position (2017–18)
Significant (A)	2	–	2[(a)(b)]	–
Moderate (B)	5	2[b]	4[(c)]	3
Total	**7**	**2**	**6**	**3**

Note a: The significant audit finding relating to IT User Access Management was identified during the 2016–17 audit. The audit issue was resolved as reported to Parliament in Auditor-General Report No. 47 of 2017–18 *Interim Report on Key Financial Controls of Major Entities*.

Note b: The significant audit finding relating to Business Assurance - Compliance Program was identified during the 2015–16 audit. This audit finding was downgraded to a moderate audit finding as reported to Parliament in Auditor-General Report No. 47 of 2017–18 *Interim Report on Key Financial Controls of Major Entities*.

Note c: The moderate audit issue relating to IT Logging and Monitoring has been downgraded to a minor audit finding.

Source: ANAO 2017–18 audit results.

4.17.21 For each of the findings listed below, the ANAO undertook additional audit procedures to gain reasonable assurance that the NDIA's 2017–18 financial statements were not materially misstated.

New moderate audit finding

Approval of Supports to Participants of the Scheme

4.17.22 The NDIA uses the SAP Customer Relationship Management (CRM) system to manage Scheme participant records, assess their eligibility for access to the Scheme, create and approve their support plans, create and register disability support service providers, and process service bookings and claims.

4.17.23 Roles in the CRM enable NDIA staff to perform these duties in the system. Roles are allocated both on the basis of a user's job description and, where applicable, their delegation in accordance with the signed Instrument of Delegation. The Instrument of Delegation grants the legislative authority to allow NDIA staff to perform their duties under the delegation of the Chief Executive Officer and for participant plan approvals sets the dollar value limit that a delegate may approve.

4.17.24 ANAO testing of participant plan expenses identified instances where participant plan budget values were increased after a delegate had exercised their delegation and approved the total value of the plan. These instances included participant plans that contained supports that required a quote to be provided, the manual payment of participant supports outside of the CRM system and participant plans that were extended beyond their initial term subsequent to the delegate's approval. These changes in the participant plan budget were not subject to re-approval by an appropriate delegate.

4.17.25 Plan expenditure that exceeds the delegate's approval is a breach of the legislative Instrument of Delegation. This also increases the risk of inappropriate or unauthorised transactions being processed and plans being approved outside of expected ranges which could impact on the Scheme's sustainability.

4.17.26 The ANAO recommends that the NDIA seek to understand the situations that give rise to participant plan budgets and/or expenditure increasing after the delegate's plan approval and implement a process that requires these changes to be re-approved by the appropriate delegate. The NDIA agreed with the recommendation and has advised that processes will be implemented to manage this issue and ensure that appropriate approvals are obtained.

Resolved moderate audit findings

Provider Registration

4.17.27 Providers must register with the NDIA to submit claims for payment for goods and services provided to Scheme participants. The provider registration occurs in the CRM system.

4.17.28 In 2016–17, the ANAO raised a moderate audit finding as testing of a sample of provider registrations identified that approximately 10 per cent of provider registrations were completed by one NDIA user. There was no control preventing a single person from creating and approving a registered provider. Once a provider has been approved as registered, a claim for payment can be made without any further approval or review by the NDIA. This increases the risk of inappropriate or unauthorised providers being registered and able to submit invalid claims for payment.

4.17.29 In 2017–18, the NDIA implemented a weekly report that identifies any provider registrations where a single person has created and approved a new registered provider. No instances of non-compliance have been identified. As a result this finding is now resolved.

Scheme Eligibility

4.17.30 Decisions on eligibility and therefore access to the Scheme are critical to both participant outcomes and Scheme financial sustainability. Evidence demonstrating that an applicant meets the Scheme eligibility requirements is to be provided as part of a valid Scheme access request. Additional information may also be requested by the NDIA to inform an access decision.

4.17.31 In 2016–17, the ANAO raised a moderate audit finding due to a sample of Scheme access requests reviewed having issues concerning evidence to support the access decision made.

4.17.32 Access decisions that allow people to enter the Scheme who do not meet the eligibility requirements will increase the cost of the Scheme and have the potential to impact on the Scheme's financial sustainability.

4.17.33 In 2017–18 the NDIA enhanced their quality assurance processes over Scheme access with regular quality checks performed that verified relevant documentation could be evidenced on the participant record and that the access decision made was supported. The ANAO's review in 2017–18 of Scheme eligibility did not identify any issues. As a result this finding is now resolved.

IT Logging and Monitoring

4.17.34 Maintaining and supporting IT systems requires that some individuals have powerful access rights – known as privileged access. This level of access can be used to bypass security controls and make changes, either to system settings or directly to system data. Individuals with privileged access should have their activity regularly monitored to detect any unauthorised use.

4.17.35 NDIA's financial management information system is hosted and maintained by the Department of Human Services (Human Services), and privileged user access is managed by Human Services. Although Human Services manage the granting of privileged access, NDIA is accountable for ensuring that privileged access is used appropriately.

4.17.36 In 2016–17, the ANAO raised a moderate finding as the NDIA did not have a formal policy for logging and monitoring privileged user activity and no evidence of regular monitoring of privileged user access was able to be provided. The NDIA performed a review after year end of the activity undertaken by privileged users to mitigate the risk.

4.17.37 In 2017–18, the NDIA developed a logging and monitoring policy for the NDIA business system and have put in place processes to gain assurance that Human Services has appropriate controls in place to oversight Human Services IT staff that have access to NDIA systems and data. The ANAO was able to see evidence of this process occurring in July and August 2018 but this process has not yet been reflected in their updated policies. The audit finding has been downgraded to a minor finding pending the inclusion of this process in NDIA's policies.

Unresolved moderate audit findings

Business Assurance – Compliance Program

4.17.38 Access to the Scheme is regulated via NDIA's assessment and approval of individual applicants against eligibility criteria. Once approved as eligible for the Scheme, a participant plan is formulated and approved that outlines the reasonable and necessary supports required by the participant.

4.17.39 Scheme participants can choose to self-manage their approved plan of supports or have their plan managed by the NDIA. Where plans are managed by the NDIA, payments are made to the provider subject to claims lodged online. Self-managed participants also claim online but funds are paid directly to the individual participant. No supporting documentation is required as part of the claiming process. Providers are expected to maintain evidence supporting the claims. Self-managed participants are required to keep copies of receipts for supports provided.

4.17.40 In 2015–16 the ANAO's review of the NDIA's progress towards implementing an assurance framework, including a compliance program, over the integrity of claims paid to both scheme participants and service providers identified weaknesses. The review noted that there were no documented compliance activities for payments made directly to self–managed participants and that the review program for payments made to providers was based on a non–statistical sample methodology which does not allow results to be extrapolated across the population to estimate the potential rate of non–compliance within the Scheme.

4.17.41 The ANAO also identified that there was insufficient documentary evidence to demonstrate quality assurance processes over the integrity of decisions made concerning provider registrations, participant identity or eligibility and participant plan approvals.

4.17.42 The NDIA has made progress towards the resolution of this finding. The NDIA has advised the ANAO that it has a plan to fully address this finding by June 2019. Progress is tracking well for this target date. Over the course of 2017–18, the NDIA has:

- developed and endorsed a business assurance and compliance plan which is in the process of being implemented;
- developed a statistical sample methodology that is stratified based on risk profiles and able to be extrapolated to give an overall estimated error rate across the population;
- continued progress with the implementation of the internal Quality Assurance Program that commenced in 2016–17;
- piloted a program testing the payment integrity of claims made to self-managed participants; and
- implemented a preventative control over Scheme access decisions whereby a sample of Scheme access decisions are reviewed by an NDIA quality assurance officer prior to finalisation to assess the accuracy of the decision as well as the completeness of evidence to support the decision.

4.17.43 The introduction of other preventative controls, such as the quality review of plan approvals, is currently under consideration.

4.17.44 Work undertaken by the ANAO in 2017–18 has highlighted the need for the NDIA to implement more robust processes around the timely verification and analysis of errors and error rates resulting from quality assurance processes undertaken. A more timely examination of errors allows feedback on the nature of confirmed errors to be provided to the compliance team and incorporated into future compliance activities. The ANAO will continue to monitor progress during the 2018–19 audit.

Streamlined Access to Scheme – Defined Programs

4.17.45 Streamlined access processes for participants were introduced to facilitate the timely transition of large numbers of people into the Scheme. One of the streamlined pathways is through Defined Programs. Defined Programs are existing state, territory and Commonwealth disability support programs that have been assessed by the NDIA as having eligibility requirements that align with Scheme access requirements. People currently receiving support from a Defined Program are automatically deemed eligible for the Scheme, as long as they meet the Scheme age and residence requirements. The NDIA advised that between 1 July 2017 and 30 June 2018, approximately 55 percent of NDIS participants entered the Scheme through a Defined Program.

4.17.46 The Commonwealth, state and territory governments provide information to the NDIA on existing disability clients transitioning into the Scheme in accordance with an agreed data standard, including if a potential participant is a participant in a Defined Program.

4.17.47 Due to the reliance on state and territory information and the limited access review processes for participants once they have been accepted as eligible to the Scheme, there is an increased risk of ineligible participants entering the Scheme and not being identified as ineligible in a timely manner. A risk mitigation strategy had not been implemented to address this risk.

4.17.48 The NDIA has advised that the redesigned participant pathway, which guides the interactions between the Scheme and participants, will include a review of the access decision for Defined Program participants as part of their participant plan review. The NDIA has also advised that risk profiling of Defined Program participants is scheduled for implementation in 2019–20. The ANAO will review the progress of these developments as part of the 2018–19 audit.

4.18 Treasury portfolio

Reporting entity	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues identified
Department of the Treasury	**Yes**	Moderate	✓	7 Sept 18	7 Sept 18	Nil
Australian Bureau of Statistics	**Yes**	Low	✓	16 Aug 18	16 Aug 18	Nil
Australian Office of Financial Management	**Yes**	Moderate	✓	24 Aug 18	24 Aug 18	Nil
Australian Prudential Regulation Authority	**Yes**	Low	✓	21 Aug 18	22 Aug 18	Nil
Australian Reinsurance Pool Corporation	**Yes**	Moderate	✓	25 Sept 18	25 Sept 18	Nil
Australian Securities and Investments Commission	**Yes**	Moderate	✓	14 Aug 18	14 Aug 18	Nil
Australian Taxation Office	**Yes**	High	✓	13 Sept 18	13 Sept 18	☐
Reserve Bank of Australia	**Yes**	Moderate	✓	23 Aug 18	23 Aug 18	Nil
Corporations and Markets Advisory Committee	**No**	Low	✓ E ☞	19 June 18	19 June 18	☐
Royal Australian Mint	**No**	Moderate	✓	21 Sept 18	21 Sept 18	◆

✓: auditor's report not modified
E: auditor's report contains an emphasis of matter
◆: new significant or moderate issues and/or legislative matters noted
☐: significant or moderate issues and/or legislative matters identified in previous periods, or the 2017–18 interim audit phase, now downgraded or resolved
☞: financial year end date other than 30 June 2018

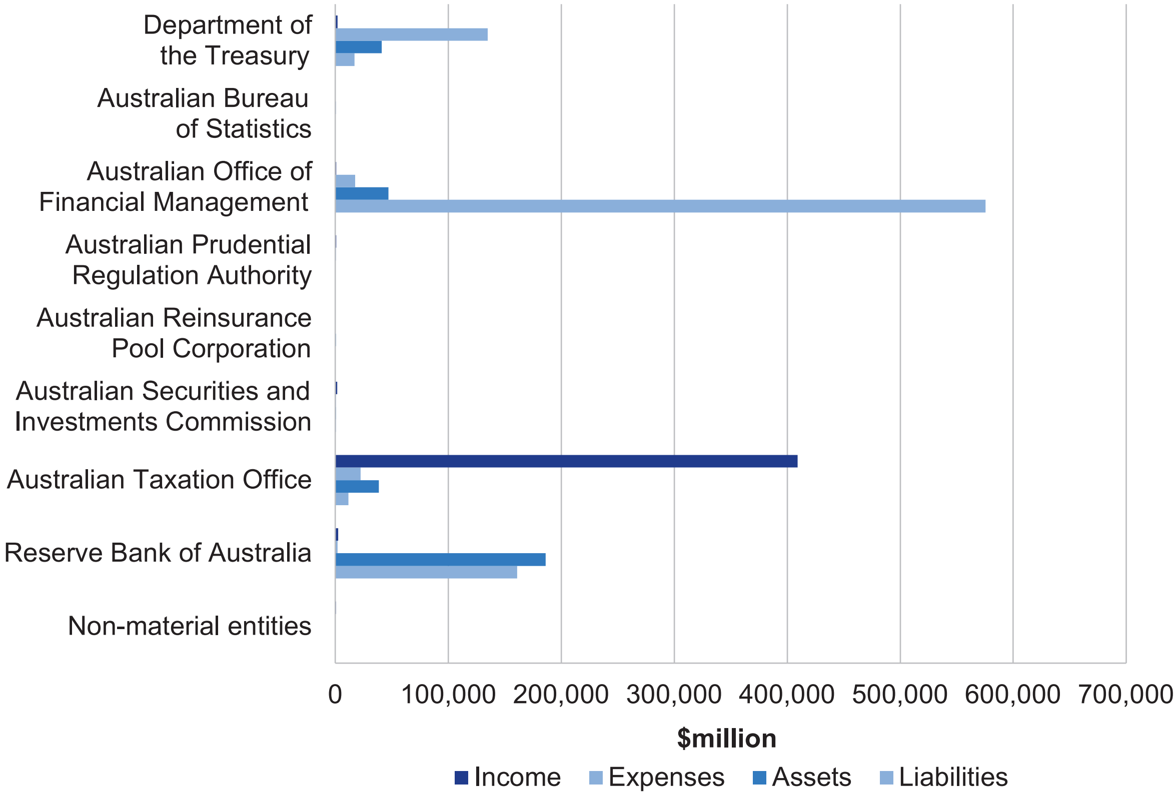
Portfolio overview

4.18.1 The Department of the Treasury (the Treasury) is the lead entity in the portfolio and is responsible for the development, delivery and implementation of economic policy and advice. This includes advice on taxation; the Budget and economy; financial, foreign investment, competition and broader structural policy; small business; and international economic policy. In addition to the department, there are 17 entities within the portfolio with a broad range of responsibilities, including revenue collection, consumer protection, financial regulation and the provision of official statistics. The portfolio includes the Australian Taxation Office (ATO).

4.18.2 As part of the Administrative Arrangements Order on 20 December 2017, the Small Business function transferred from the Department of the Treasury to the Department of Jobs and Small Business.

4.18.3 Figure 4.18.1 shows the Treasury portfolio's income, expenses, assets and liabilities.

Figure 4.18.1: Treasury portfolio's income, expenses, assets and liabilities[61]



Source: 2017–18 CFS.

4.18.4 The following sections provide a summary of the 2017–18 financial statements audit results for the Treasury, other material entities, the Royal Australian Mint and the Corporations and Markets Advisory Committee.

Department of the Treasury

4.18.5 The Treasury is responsible for the development, delivery and implementation of economic policy and advice. This includes advice on: taxation; the Budget and economy; financial and foreign investment, competition and broader structural policy; small business; and international economic policy.

Summary of financial performance

4.18.6 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by the Treasury, and includes commentary regarding significant movements between years contributing to overall performance.

61 Figure 4.18.1 reflects the entities combined departmental and administered items (where relevant) as this distinction is not relevant at the CFS level and has not been adjusted to eliminate inter-governmental transactions.

Table 4.18.1: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	193.6	177.6
Revenue from Government	187.8	170.5
Deficit attributable to the Government	5.7	7.1
Total other comprehensive income	0.3	0.2
Total comprehensive loss attributable to the Australian Government	5.5	6.8
Total assets	105.7	97.2
Total liabilities	64.8	62.8
Total equity	40.9	34.4

Source: The Treasury's financial statements for the year ended 30 June 2018.

4.18.7 The net cost of services increased as a result of an increase in employee expenses and supplier expenses. Employee expenses increased largely as a result of growth in employee numbers in addition to pay increases from the enterprise bargaining agreement. Supplier expenses increased as a result of further development of the Treasury's shared services capability and capacity to deliver shared corporate services. This work forms part of the Shared and Common Services Program led by the Department of Finance. In addition, there was an increase in legal expenses as a result of the government delivering on its commitment to establish the National Housing Finance and Investment Corporation by 1 July 2018.

4.18.8 Total assets increased due to an increase in the appropriation receivable balance for the year ended 30 June 2018. The increase in equity was the result of the 2017–18 equity injection and departmental supplementation, offset by the deficit for the year.

Table 4.18.2: Key administered financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	133,947.2	94,493.7
Total income	1,956.3	2,231.7
Deficit	131,991.0	92,262.0
Total other comprehensive income/(loss)	3,464.1	(2,170.9)
Total comprehensive loss	128,526.9	94,432.9
Total assets administered on behalf of Government	40,956.0	37,272.6
Total liabilities administered on behalf of Government	17,082.1	16,731.5
Net assets	23,874.0	20,541.1

Source: The Treasury's financial statements for the year ended 30 June 2018.

4.18.9 The increase in deficit of the Treasury's administered activities largely reflects money transferred from the Treasury Special Account to the Department of Health's Special Account for estimated costs associated with the Medicare Benefits Schedule and Pharmaceutical Benefits Scheme as required under the *Medicare Guarantee Act 2017*.

4.18.10 Total assets increased in 2017–18 largely as a result of an increase in the fair value of the administered investments, in particular the fair value of the Commonwealth's investment in the Reserve Bank of Australia. The fair value of the Reserve Bank of Australia is taken to be the net assets at 30 June, adjusted for the discount of employee benefit obligations with reference to the yield on Australian Government bonds. This also contributed to the increase in net assets administered on behalf of government and total other comprehensive income.

Key areas of financial statements risk

4.18.11 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of the Treasury's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.18.3, including which areas were considered key audit matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to this key area of risk.

Table 4.18.3: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered other provisions $898.8 million	Valuation of the Natural Disaster Relief and Recovery Arrangements (NDRRA) provision KAM	**Higher**	• complexities in judgements involved in estimating the provision; • reliance on information provided by state and territory governments to estimate the future value and timing of payments; and • uncertainty around the estimation of the costs to restore to original condition at the time of the natural disaster.
Administered grant expenses $99.1 billion	Payments to States and Territories under the *Federal Financial Relations Act 2009* KAM	**Moderate**	• the significance of the value of grants paid and the complex eligibility criteria for a number of grants; and • reliance on other government entities to provide information to support payments and confirm the eligibility criteria have been met.

Source: ANAO 2017–18 audit results, and Treasury's financial statements for the year ended 30 June 2018.

4.18.12 Auditor-General Report No.42 2017–18 *Effectiveness of Monitoring and Payment Arrangements under National Partnership Agreements* identified issues that were consistent with observations made during the financial statements audit.

Audit results

4.18.13 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Australian Bureau of Statistics

4.18.14 The core area of responsibility of the Australian Bureau of Statistics (ABS) is providing trusted official statistics on a wide range of economic, social, population and environmental matters of importance to Australia.

Summary of financial performance

4.18.15 The following section provides a comparison of the 2016–17 and 2017–18 key departmental financial statements items reported by the ABS, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.18.4: Key departmental financial statement items

Key departmental financial statement items	2017–18 ($m)	2016–17 ($m)
Net cost of services	449.7	537.8
Revenue from Government	413.8	520.3
Deficit attributable to the Government	36.0	17.5
Total other comprehensive income	6.6	–
Total comprehensive loss attributable to the Australian Government	29.4	17.5
Total assets	272.8	248.7
Total liabilities	172.2	168.4
Total equity	100.6	80.3

Source: ABS' financial statements for the year ended 30 June 2018

4.18.16 The net cost of services decreased as a result of a decrease in average staffing levels due to the completion of the 2016 Census and the ABS redundancy program. A decrease in revenue from Government is attributed the reduction in appropriations due to the completion of the 2016 Census in 2016–17.

4.18.17 The increase in total assets is attributed to the increase in value of leasehold improvements due to revaluation increments and asset fit out additions for the Canberra, Adelaide and Hobart offices. During the year an equity injection was received for the Statistical Business Transformation Program (SBTP), offset by the deficit for the year.

Key areas of financial statements risk

4.18.18 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of the ABS' financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2017–18 are provided in Table 4.18.5. No significant or moderate audit findings were identified relating to this key area of risk.

Table 4.18.5: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Intangible assets $101.5 million	Valuation and impairment of non-financial assets	**Moderate**	• implementation of significant technology upgrades as part of the transformation program; and • the potential misstatement associated with the high capitalisation threshold used for internally developed software.

Source: ANAO 2017–18 audit results, and the ABS' financial statements for the year ended 30 June 2018.

4.18.19 Auditor-General Report No.5 2017–18 *Statistical Business Transformation Program — Managing Risk* was considered in developing the financial statements risk assessment and focus on controls.

Audit results

4.18.20 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Australian Office of Financial Management

4.18.21 The core areas of responsibility of the Australian Office of Financial Management (AOFM) are managing Australian Government debt and financial assets through the issuance of Treasury bonds, Treasury indexed bonds and Treasury notes.

Summary of financial performance

4.18.22 The following section provides a comparison of the 2016–17 and 2017–18 key departmental financial statements items reported by the AOFM, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.18.6: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	10.0	9.6
Revenue from Government	10.8	11.2
Surplus attributable to the Government	0.9	1.6
Total comprehensive income attributable to the Australian Government	0.9	1.6
Total assets	27.9	28.2
Total liabilities	3.0	3.3
Total equity	24.9	25.0

Source: AOFM's financial statements for the year ended 30 June 2018.

4.18.23 The decline in revenue from Government reflects the fact that the AOFM received one-off funding in 2016–17 to compensate for changes in taxation arrangements for employees deployed oversees.

Table 4.18.7: Key administered financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	17,548.9	16,490.4
Total income	797.3	754.3
Re-measurement gains	581.0	19,403.3
Surplus/(deficit)	(16,170.6)	3,667.3
Total comprehensive gain/(loss)	(16,170.6)	3,667.3
Total assets administered on behalf of Government	46,933.3	60,660.3
Total liabilities administered on behalf of Government	575,449.3	547,253.7
Net liabilities	528,516.0	486,593.4

Source: AOFM's financial statements for the year ended 30 June 2018.

4.18.24 Australian Government Securities are remeasured at market value as at 30 June each year. As at 30 June 2018, the yields on Australian Government Securities were at similar levels to those observed as at 30 June 2018. The variation in observed yields was more significant between 30 June 2016 and 30 June 2017. Accordingly the re-measurement gain reported in 2017–18 was lower than in 2016–17. Additional borrowing on behalf of government during 2017–18 resulted in higher interest expense and an increase in liabilities. Total assets fluctuate based on the Government's cash flow requirements. In 2017–18 interest rates remained stable reducing the re-measurement gain from the previous year.

Key areas of financial statements risk

4.18.25 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of the AOFM's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The one area highlighted for specific audit coverage in 2017–18 is provided in Table 4.18.8, and was considered a Key Audit Matter (KAM) by the ANAO. No significant or moderate audit findings were identified relating to this key area of risk.

Table 4.18.8: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered Australian Government securities $557.4 billion	Valuation of Australian Government Securities KAM	**Moderate**	• significant liability class for AOFM; • significant increases in volume in prior and current period; • fair value movements have a material impact on the financial statements and are impacted by external factors; and • significant financial statement disclosure requirements.

Source: ANAO 2017–18 audit results, and the AOFM's financial statements for the year ended 30 June 2018.

Audit results

4.18.26 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Australian Prudential Regulation Authority

4.18.27 As the prudential regulator of the Australian financial services industry, the Australian Prudential Regulation Authority (APRA) oversees: banks, credit unions, building societies, friendly societies, general insurance, life insurance, private health insurance, reinsurance companies and most of the superannuation industry. APRA is funded largely by the industries that it regulates.

Summary of financial performance

4.18.28 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by APRA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.18.9: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	132.3	125.0
Revenue from Government	135.8	123.9
Surplus/(deficit) attributable to the Government	3.5	(1.1)
Total other comprehensive loss	–	0.2
Total comprehensive income/(loss) attributable to the Australian Government	3.5	(1.3)
Total assets	126.9	115.9
Total liabilities	75.6	68.1
Total equity	51.3	47.8

Source: APRA's financial statements for the year ended 30 June 2018.

4.18.29 The net cost of services increased as a result of supplier expenses and employee expenses. Movements in supplier expenses impacting the net cost of services were largely IT project costs and costs relating to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Banking Royal Commission). Employee expenditure increased in line with the enterprise bargaining agreement. The increase in assets was largely due to a temporary growth in cash balances arising from unspent government funding for specific projects and APRA's Sydney office rent free period. Based on the administered levies collected by APRA, a percentage of the levies is determined by the Treasurer to be returned to APRA as revenue from Government.

Table 4.18.10: Key administered financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	428.4	458.4
Total income	674.5	708.6
Surplus	246.1	250.2
Total comprehensive income	246.1	250.2
Total assets administered on behalf of Government	3.0	3.2
Total liabilities administered on behalf of Government	2.0	2.0
Net assets	1.0	1.2

Source: APRA's financial statements for the year ended 30 June 2018.

4.18.30 The decrease in income administered by APRA is attributable to a decrease in the collection of levy revenue. Levy revenue collected by APRA includes Financial Institutions Supervisory levies and Risk Equalisation levies. The Financial institutions Supervisory levy is determined by the Treasurer, in conjunction with APRA. The Risk Equalisation Levy is also determined annually and included in the Private Health insurance Supervisory Levy Imposition Determination.

4.18.31 Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.18.32 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of APRA's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The Area highlighted for specific audit coverage in 2017–18 is provided in Table 4.18.11. No significant or moderate audit findings were identified relating to this key area of risk.

Table 4.18.11: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered levy revenue $674.4 million	Accuracy of administered levy revenue	**Moderate**	• complex calculations that are prescribed in a number of Acts and rules.

Source: ANAO 2017–18 audit results, and APRA's financial statements for the year ended 30 June 2018.

Audit results

4.18.33 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Australian Reinsurance Pool Corporation

4.18.34 The Australian Reinsurance Pool Corporation (ARPC), established by the *Terrorism Insurance Act 2003*, is responsible for administering the Terrorism Reinsurance Scheme, providing primary insurers with reinsurance for commercial property and associated business interruption losses arising from a declared terrorist incident.

Summary of financial performance

4.18.35 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by ARPC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.18.12: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	161.1	159.9
Own-source income	189.3	168.9
Surplus attributable to the Government	28.2	9.0
Total assets	548.5	566.3
Total liabilities	122.6	111.1
Total equity	425.9	455.2

Source: ARPC's financial statements for the year ended 30 June 2018.

4.18.36 The increase in own source income is primarily due to increased premium rates and the inclusion of high value and mixed use properties in the scheme. The reduction in assets is primarily due to the liquidation of investments to meet the Government's dividend requirement. The increased premiums are partially reflected as unearned income, driving total liabilities higher.

Key areas of financial statements risk

4.18.37 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of APRC's financial statements. The ANAO focused audit effort on those areas that were assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.18.13. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.18.13: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Premium revenue $169.6 million unearned premium $85.1 million	Accuracy of insurance premium	**Moderate**	• inaccurate recognition of premium; • insurers may calculate and remit incorrect premium reviews; and • incorrect calculation of unearned premium.
Outward retrocession premium expense $62.4 million	Accuracy of retrocession cost and deferral	**Moderate**	• inaccurate calculations and payments of retrocession premium; and • deterioration in credit worthiness of reinsurance counterparties may affect the recoverability of reinsurance receivables.
Fees $90.0 million dividend $57.5 million	Management of amounts held in reserve to fund future capital requirements and insurance claims	**Moderate**	• requirement to pay fees and dividends to government.

Source: ANAO 2017–18 audit results, and ARPC's financial statements for the year ended 30 June 2018.

Audit results

4.18.38 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Australian Securities and Investments Commission

4.18.39 The Australian Securities and Investments Commission (ASIC) is the financial services and market regulator responsible for consumer protection and market integrity in areas such as investment management (including superannuation), capital markets (including primary and secondary capital markets), corporations and their auditors, liquidators, and market operators (for example, the Australian Securities Exchange). ASIC's core responsibility is to allow markets to allocate capital efficiently to fund the real economy by promoting investor and financial consumer confidence, with the objective of facilitating fair, orderly and transparent markets and delivering efficient and accessible registration.

Summary of financial performance

4.18.40 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by ASIC, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.18.14: Key departmental financial statements items

Key departmental financial statements items	2017–18 ($m)	2016–17 ($m)
Net cost of services	358.9	385.2
Revenue from Government	348.0	341.6
Deficit attributable to the Government	10.9	43.6
Total other comprehensive income	–	–
Total comprehensive loss attributable to the Australian Government	10.9	43.6
Total assets	337.6	313.6
Total liabilities	166.2	166.8
Total equity	171.4	146.8

Source: ASIC's financial statements for the year ended 30 June 2018.

4.18.41 During 2017–18 ASIC reached settlements with the Australia and New Zealand Bank and National Australia Bank over unconscionable conduct[62] in respect of the Bank Bill Swap Rate. This led to ASIC recognising revenue associated with court cost recoveries of approximately $34.1 million in 2017–18. These recoveries were the main driver of a significant improvement in ASIC's deficit compared to the previous year, where cost recoveries were only $2.4 million. This increase is also reflected in the closing balance of total assets, as the recoveries were recorded in the ASIC Enforcement Special Account—the balance of which is recognised as cash and cash equivalents in the financial statements.

Table 4.18.15: Key administered financial statement items

Key administered financial statement items	2017–18 ($m)	2016–17 ($m)
Total expenses	123.9	98.4
Total income	1,315.7	997.7
Surplus	1,191.8	899.3
Total assets administered on behalf of Government	393.2	137.8
Total liabilities administered on behalf of Government	378.8	378.2
Net assets/(liabilities)	14.4	(240.4)

Source: ASIC's financial statements for the year ended 30 June 2018.

4.18.42 In 2017–18, ASIC recorded an estimate of the administered taxation revenue, and accompanying taxation receivable, intended to be collected as a result of the introduction of supervisory cost recovery levies on 1 July 2017. The levies were legislated by the Government in June 2017, and are intended to recover the costs incurred by ASIC to regulate entities operating in Australia's financial system. ASIC has estimated it will receive approximately $247.4 million through these levies relevant to 2017–18, and this is reflected in the increase to ASIC's total administered income and assets in the current year, compared to 2016–17.

62 Australian Securities and Investments Commission, *Annual Report 2017–18*, ASIC, Sydney, p. 42

Key areas of financial statements risk

4.18.43 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of ASIC's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.18.16. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.18.16: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered other provisions $348.9 million	Valuation of the provisions for future claims of unclaimed monies	**Higher**	• the actuarial model used to calculate the provision relies on a legislative framework that can be subject to change; and • the calculation is sensitive to movements in general market conditions such as the growth rate, claims history and discount rate which are subject to management judgement.
Administered taxation revenue $1,008.2 million non-taxation revenue $307.5 million	Completeness and accuracy of administered revenue	**Moderate**	• corporate fees and fines revenue is reliant on the completeness of data in subsidiary IT systems which is transferred to the Financial Management Information System (FMIS); • taxation revenue arising from the introduction of supervisory cost recovery levies on 1 July 2017 is estimated in advance of invoicing, and subject to management judgement; and • complexities in the point at which unclaimed monies revenue is recognised in accordance with AASB 118 *Revenue*.

Source: ANAO 2017–18 audit results, and ASIC's financial statements for the year ended 30 June 2018.

Audit results

4.18.44 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Australian Taxation Office

4.18.45 The ATO is a large organisation with revenue collection responsibilities that, in some way, affect the lives of all Australians. While the Treasury has responsibility for taxation policy, the ATO is responsible for administering the tax and superannuation systems and for the delivery of programs. It is continuing to reform its administration of the tax and superannuation systems, with the aim to improve client experience and reinforce a service culture. The ATO is focusing on its data and analytics, as well as strategies for maintaining and improving its technology and services, as a way to achieve its longer term strategic intent.

Summary of financial performance

4.18.46 The following section provides a comparison of the 2016–17 and 2017–18 key departmental and administered financial statements items reported by the ATO, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.18.17: Key departmental financial statements items

Key departmental financial statement items	2017–18 ($m)	2016–17 ($m)
Net cost of services	3,434.2	3,372.5
Revenue from Government	3,199.2	3,197.8
Deficit	235.0	174.7
Total other comprehensive income	0.1	–
Total comprehensive loss	235.1	174.7
Total assets	1,371.2	1,349.2
Total liabilities	1,227.2	1,066.7
Total equity	144.0	282.5

Source: The ATO's financial statements for the year ended 30 June 2018.

4.18.47 The movement in the net cost of services and deficit attributable to the Government is primarily due to receipt in 2016–17 of a one-off compensation payment for contractual obligations not being met. In addition there was reduced spending in 2017–18 on contractors and travel offset by increased employee expenditure due to pay rises from the adoption of the enterprise agreement.

4.18.48 The increase in liabilities relates to higher employee leave entitlements, and accruals for payments to contractors and redundancy payments not yet made as at 30 June 2018. Fluctuations in other balances reflect normal business activities.

Table 4.18.18: Key administered financial statements items

Key administered financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	18,935.0	17,817.0
Total revenue	405,819.0	369,103.0
Surplus	386,884.0	351,286.0
Total comprehensive income	386,884.0	351,286.0
Total assets administered on behalf of Government	37,254.0	34,934.0
Total liabilities administered on behalf of Government	10,486.0	9,902.0
Net assets	26,768.0	25,032.0

Source: ATO's financial statements for the year ended 30 June 2018.

4.18.49 The increase in administered expenses was primarily due to the remission of a large penalty and interest charge, and an increase in superannuation guarantee charge payments arising from increased collections due to related compliance activity and community awareness.

4.18.50 The movement in administered income and assets is a result of an increase in taxation revenue arising from growth in corporate profitability due to increases in key commodity prices, growth in salaries and wages and capital gains, as well as the introduction of the major bank levy.

Key areas of financial statements risk

4.18.51 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that supported the preparation of the ATO's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.18.19, including which areas were considered key audit matters (KAM) by the ANAO. No new significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.18.19: Key areas of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered taxation revenue $405.6 billion expenses $18.9 billion	Accuracy of administered income and expenses KAM	**Higher**	• complex estimation processes, involving significant judgement and specialist knowledge; • completeness, relevance and accuracy of source data; and • volatility in economic conditions increases the uncertainty of factors underpinning the estimates.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Administered taxation revenue $405.6 billion expenses $18.9 billion provisions for credit amendments $4.4 billion impairment allowance $14.3 billion; and provisions for refunds $2.5 billion	Valuation of taxation receivables which includes processes for estimating taxation debt provisions, accounting for settlements of outstanding taxation liabilities and other adjustments to taxpayer client accounts KAM	**Higher**	• complex estimation processes for debt provisions, including allowance for credit amendment and impairment losses associated with taxation receivable balances, involving significant judgement and specialist knowledge; • completeness, relevance and accuracy of source data; • complexity associated with negotiations and dispute resolutions; • application of significant judgement for settlement resulting from differing deeds and terms; and • quality assurance processes for key judgements relating to the debt provisions which includes: credit amendments; impairment losses; and accounting for settlements of outstanding taxation liabilities and other adjustments to client accounts.
Administered taxation revenue $405.6 billion	Completeness and accuracy of taxation revenue. ATO compliance risk management relating to the collection of taxation revenue KAM	**Higher**	• self-assessment and voluntary compliance regime; and • judgements associated with the risk management approach to compliance activities.
Administered taxation revenue $405.6 billion penalty and interest charge remission expenses $2.0 billion taxation receivables (gross) $41.2 billion	Application of various types of penalties and interest charges	**Moderate**	• significant manual process surrounding imposition and remission of penalties; • application of various types of penalties and interest charges imposed by legislative requirements; and • application of judgement surrounding cancellation or remission of penalties and interest charges on unpaid or amended taxation liabilities.
All administered items	Complex manual processes required for financial reporting	**Moderate**	• manual calculation of complex information in spreadsheets increases the risk of miscalculation due to data linkages and human errors.

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
All administered items	IT business systems and associated processing of taxpayer returns and statements	**Moderate**	• large and complex IT environment with several hundred business applications processing a high volume of transactions; • many IT systems are bespoke or heavily customised to the ATO; and • reliance on specialised reports to prepare financial statements balances.

Source: ANAO 2017–18 audit results, and the ATO's financial statements for the year ended 30 June 2018.

Audit results

4.18.52 The following table summarises the status of audit findings reported by the ANAO in 2016–17 and 2017–18.

Table 4.18.20: Status of audit findings

Category	Closing position (2016–17)	New findings (2017–18)	Findings resolved (2017–18)	Closing position (2017–18)
Significant (A)	–	–	–	–
Moderate (B)	1	–	(1)	–
Total	**1**	**–**	**(1)**	**–**

Source: ANAO 2017–18 audit results.

Resolved moderate audit finding

Debt provisions and adjustments to client accounts

4.18.53 During 2016–17 the ANAO reviewed the approach adopted by the ATO to determine the debt provision estimate and adjustments, including settlements, to taxpayer client accounts. The ANAO identified the following weaknesses:

- instances of limited documentation to support key judgements made by ATO officers relating to large or complex cases;
- inconsistent documentation of reconciliation between deeds of settlement and taxpayer client accounts; and
- several other minor observations arising from debt provision processes and adjustments to the taxpayer client accounts.

4.18.54 These weaknesses increased the risk that key judgements applied by ATO officers were not based on sufficient and appropriate documentation and/or adjustments to taxpayer client accounts may not be correctly recorded. The ANAO undertook additional audit procedures to gain assurance that the 2016–17 financial statements were not materially misstated.

4.18.55 The ANAO reviewed the actions taken by the ATO to address this matter during the final phase of the 2017–18 audit. The ANAO observed that the ATO had:

- strengthened the timely identification and understanding of the status of taxpayer disputes; and
- created consistency in procedures and documentation and improved debt provision processes including the review of instruments in the collation of evidence to support the decision making process.

4.18.56 As a result, of the actions undertaken by the ATO this finding was resolved.

Reserve Bank of Australia

4.18.57 The objective of the Reserve Bank of Australia (RBA) is to conduct monetary policy, work to maintain a strong financial system, and issue the nation's currency. As well as being a policy making body, the RBA provides selected banking services to a range of Australian Government entities and to a number of overseas central banks and official institutions. It also manages Australia's gold and foreign exchange reserves.

Summary of financial performance

4.18.58 The following section provides a comparison of the 2016–17 and 2017–18 key financial statements items reported by RBA, and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.18.21: Key financial statements items

Key financial statements items	2017–18 ($m)	2016–17 ($m)
Total expenses	2,047	3,529
Total income	5,894	2,632
Net profit/(loss)	3,847	(897)
Total other comprehensive income	436	34
Total comprehensive income/(loss) attributable to the Australian Government	4,283	(863)
Total assets	186,341	194,012
Total liabilities	160,964	172,249
Total equity	25,377	21,763

Source: RBA's financial statements for the year ended 30 June 2018.

4.18.59 The increase in net in profit in 2017–18 was primarily driven by valuation gains on foreign exchange. The valuation gains reflect the net depreciation of the Australian dollar against major currencies.

4.18.60 The decrease in assets was primarily due to decrease in foreign currency investments as at 30 June 2018 and was largely due to the unwinding of foreign currency swaps.

4.18.61 The decrease in liabilities of $11.3 billion was primarily due to lower Australian government deposits held as at 30 June 2018, reflecting the net effect of government outlays and receipts and the accumulation of funds as at 30 June 2017 for a maturity of Australian Government

Securities in July 2017. This decline was partly offset by an increase in banknotes on issue of $2.0 billion.

Key areas of financial statements risk

4.18.62 The ANAO completed appropriate audit procedures on all material items. The ANAO also assesses the IT general and application controls for key systems that support the preparation of RBA's financial statements. The ANAO focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2017–18 are provided in Table 4.18.22, including which areas were considered key audit matters (KAM) by the ANAO.

Table 4.18.22: Key area of financial statements risk

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Australian dollar investments $104.3 billion foreign currency investments $75.9 billion net gain on foreign exchange and securities $3.0 billion	Valuation of Australian dollar securities and foreign currency investments KAM	**Higher**	• complexity in determining the fair value of a range of investments; and • potential for a significant financial impact from fluctuations in the value of the Australian dollar.
Australian banknotes on issue $75.6 billion	Accuracy of the liability for the Australian banknotes KAM	**Higher**	• accounting judgements applied in assessing the accuracy of the liability for Australian banknotes on issue; • security around production, storage and destruction of banknotes; and • high volume of note production and the supply and security of banknotes is structurally significant to the economy.
Other liabilities	Valuation of securities sold under repurchase agreements and foreign currency swap liabilities	**Moderate**	• complexity in valuing securities sold under repurchase agreements and foreign currency swap liabilities using a variety of methodologies.

Source: ANAO 2017–18 audit results, and the RBA's financial statements for the year ended 30 June 2018.

Audit results

4.18.63 There were no significant or moderate audit findings arising from the 2016–17 or 2017–18 financial statements audits.

Comments on non-material entities

Corporations and Markets Advisory Committee

4.18.64 The Corporations and Markets Advisory Committee (CMAC) was established under the *Australian Securities and Investments Commission Act 2001* to, on its own initiative or when requested by the Minister, provide advice and recommendations to the Minister about matters relating to corporations and financial services law, administration and practice. On 21 February 2018, CMAC was abolished following the enactment of the *Statute Update (Smaller Government) Act 2017*.

Resolved Significant Legislative Breach

Breach of section 42 and 46 of the PGPA Act

4.18.65 The ANAO previously noted in Auditor-General Report No.24 2017–18 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2017*, that as at 20 December 2017, CMAC had not provided an annual report, including audited financial statements, for presentation to the Parliament since the year ended 30 June 2014. This represented a breach of sections 42 and 46 the PGPA Act.[63] Sections 42 and 46 of the PGPA Act outline the accountable authority's responsibilities in relation to the preparation of annual financial statements and the provision of an annual report to the responsible minister, respectively.

4.18.66 In accordance with the provisions of the Statute Update (Smaller Government) Act 2017, the Secretary of the Department of the Treasury presented a final report on the operations of CMAC to the Treasurer on 19 June 2018. This report contained the audited financial statements of CMAC for the periods ended 30 June 2015, 30 June 2016, 30 June 2017 and 31 March 2018, fulfilling the requirements of sections 42 and 46 of the PGPA Act.

Emphasis of matter

4.18.67 The ANAO issued auditor's reports for CMAC's financial statements for the periods ended 30 June 2015, 30 June 2016, 30 June 2017 and 31 March 2018 on 19 June 2018. The auditor's reports each contained an emphasis of matter, drawing attention to CMAC ceasing to be a going concern.

Royal Australian Mint

4.18.68 The Royal Australian Mint (the Mint) is the sole supplier of Australia's coins, and produces coins for other countries, along with medals, medallions, and tokens for both national and international clients. The Mint is also the custodian of Australia's National Coin Collection and provides educational and tourist services to local and overseas residents.

New moderate audit finding

Controls over accuracy of system based parameters and costing

4.18.69 In 2017–18 the Mint implemented a new information technology management system to manage inventory and manufacturing functions. In 2017–18, the Mint identified deficiencies

63 Auditor-General Report No.24 2017–18 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2017*, pp. 292–293.

in configuration settings within this new system that contributed to a number of adjustments to inventory costs. These system configuration issues were unable to be remediated through configuration adjustments and will necessitate ongoing monitoring and review. The need for ongoing manual intervention increases the risk of error that could impact the accuracy of management and financial reporting.

4.18.70 The ANAO recommended the Mint conduct a post-implementation review of the system implementation, with a focus on data input and system configuration controls, to remediate factors that may have contributed to these adjustments. The Mint has advised it is addressing the issues detected.

Grant Hehir
Auditor-General

Canberra ACT
17 December 2018

Appendices

Appendix 1 Listing of entities by portfolio

Reporting entities	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues	Approval of annual report[(a)]	Annual report tabling date	Senate Estimates date[(b)]
Agriculture and Water Resources portfolio									
Department of Agriculture and Water Resources	**Yes**	Moderate	✓	31 Aug 18	31 Aug 18	Nil	12 Sep 18	15 Oct 18	23 Oct 18
Australian Fisheries Management Authority	No	Low	✓	10 Sep 18	11 Sep 18	Nil	18 Sep 18	16 Oct 18	
Australian Pesticides and Veterinary Medicines Authority	No	Low	✓	14 Sep 18	14 Sep 18	Nil	14 Sep 18	22 Oct 18	
Cotton Research and Development Corporation	No	Low	✓	23 Aug 18	23 Aug 18	Nil	15 Oct 18	26 Nov 18	
Fisheries Research and Development Corporation	No	Low	✓	14 Aug 18	14 Aug 18	Nil	26 Oct 18	27 Nov 18	
Grains Research and Development Corporation	**Yes**	Low	✓	9 Aug 18	10 Aug 18	Nil	15 Oct 18	29 Nov 18	
Murray Darling Basin Authority	No	Low	✓	26 Sep 18	26 Sep 18	Nil	3 Oct 18	16 Oct 18	
Rural Industries Research and Development Corporation	No	Low	✓	12 Sep 18	12 Sep 18	Nil	12 Oct 18	27 Nov 18	
Regional Investment Corporation	**Yes**[(c)]	Low	✓	5 Oct 18	8 Oct 18	Nil	12 Oct 18	24 Oct 18	
Wine Australia	No	Low	✓	18 Sep 18	19 Sep 18	Nil	•	•	
Attorney-General's portfolio									
Attorney General's Department	**Yes**	Moderate	✓	23 Aug 18	23 Aug 18	Nil	3 Oct 18	19 Oct 18	23 Oct 18
Administrative Appeals Tribunal	No	Moderate	✓	6 Sep 18	6 Sep 18	Nil	2 Oct 18	19 Oct 18	
Australian Commission for Law Enforcement Integrity	No	Low	✓	21 Sep 18	21 Sep 18	Nil	2 Oct 18	19 Oct 18	
Australian Financial Security Authority	No	Moderate	✓	25 Sep 18	25 Sep 18	Nil	25 Sep 18	22 Oct 18	
Australian Human Rights Commission	No	Moderate	✓	12 Sep 18	12 Sep 18	Nil	20 Sep 18	19 Oct 18	

Reporting entities	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues	Approval of annual report[(a)]	Annual report tabling date	Senate Estimates date[(b)]
Australian Law Reform Commission	No	Low	✓	19 Sep 18	19 Sep 18	Nil	19 Sep 18	19 Oct 18	
Federal Court of Australia	**Yes**	Low	✓	5 Sep 18	5 Sep 18	Nil	5 Sep 18	19 Oct 18	
High Court of Australia	**Yes**	Low	✓	27 Aug 18	27 Aug 18	Nil	●	●	
National Archives of Australia	**Yes**	Low	✓	31 Aug 18	31 Aug 18	Nil	12 Sep 18	19 Oct 18	
Office of Parliamentary Counsel	No	Low	✓	14 Sep 18	14 Sep 18	Nil	17 Sep 18	19 Oct 18	
Office of the Australian Information Commissioner	No	Low	✓	11 Sep 18	11 Sep 18	Nil	17 Sep 18	22 Oct 18	
Office of the Commonwealth Director of Public Prosecutions	No	Low	✓	20 Sep 18	20 Sep 18	Nil	24 Sep 18	19 Oct 18	
Office of the Commonwealth Ombudsman	No	Low	✓	20 Sep 18	20 Sep 18	Nil	2 Oct 18	19 Oct 18	
Office of the Inspector General of Intelligence and Security	No	Low	✓	20 Sep 18	20 Sep 18	Nil	24 Sep 18	19 Oct 18	
Communications and the Arts portfolio									
Department of Communications and the Arts	**Yes**	Moderate	✓	20 Sep 18	20 Sep 18	▲	22 Sep 18	31 Oct 18	23 Oct 18
Australia Business Arts Foundation Limited	No	Low	✓	20 Aug 18	20 Aug 18	Nil	20 Aug 18	31 Oct 18	
Australia Council	No	Low	✓	31 Aug 18	31 Aug 18	Nil	31 Aug 18	31 Oct 18	
Australian Broadcasting Corporation	**Yes**	Moderate	✓	10 Aug 18	10 Aug 18	Nil	20 Sep 18	31 Oct 18	
Australian Communications and Media Authority	**Yes**	Low	✓	3 Sep 18	4 Sep 18	Nil	10 Sep 18	18 Oct 18	
Australian Film, Television and Radio School	No	Low	✓	10 Sep 18	11 Sep 18	Nil	24 Sep 18	22 Oct 18	
Australian National Maritime Museum	No	Low	✓	19 Sep 18	20 Sep 18	Nil	19 Sep 18	31 Oct 18	
– Australian National Maritime Foundation	No	Low	✓	19 Sep 18	20 Sep 18	Nil	N/a	N/a	
Australian Postal Corporation	**Yes**	Moderate	✓	23 Aug 18	23 Aug 18	Nil	18 Oct 18	18 Oct 18	
– Australia Post Licensee Advisory Council Limited	No	Low	✓	21 Aug 18	21 Aug 18	Nil	N/a	N/a	

Reporting entities	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues	Approval of annual report[(a)]	Annual report tabling date	Senate Estimates date[(b)]
– Australia Post Services Pty Ltd	No	Low	✓	27 Sep 18	28 Sep 18	Nil	N/a	N/a	
– Australia Post Transaction Services Pty Ltd	No	Moderate	✓	27 Sep 18	27 Sep 18	Nil	N/a	N/a	
– DFE Pty Limited	No	Low	✓	14 Sep 18	17 Sep 18	Nil	N/a	N/a	
Bundanon Trust	No	Low	✓	10 Sep 18	10 Sep 18	Nil	10 Sep 18	16 Oct 18	
NBN Co Limited	**Yes**	High	✓	9 Aug 18	9 Aug 18	Nil	9 Aug 18	31 Oct 18	
National Film and Sound Archive of Australia	No	Low	✓	19 Sep 18	21 Sep 18	Nil	19 Sep 18	23 Oct 18	
National Gallery of Australia	**Yes**	Low	✓	4 Sep 18	5 Sep 18	Nil	10 Oct 18	22 Oct 18	
– National Gallery of Australia Foundation	No	Low	✓	4 Sep 18	5 Sep 18	Nil	N/a	N/a	
National Library of Australia	**Yes**	Low	✓	13 Aug 18	16 Aug 18	Nil	13 Aug 18	30 Oct 18	
National Museum of Australia	No	Low	✓	22 Aug 18	24 Aug 18	Nil	12 Sep 18	23 Oct 18	
National Portrait Gallery of Australia	No	Low	✓	28 Sep 18	28 Sep 18	Nil	28 Sep 18	23 Oct 18	
Old Parliament House	No	Low	✓	3 Sep 18	3 Sep 18	Nil	3 Sep 18	24 Oct 18	
Screen Australia	No	Low	✓	27 Aug 18	27 Aug 18	Nil	27 Aug 18	29 Oct 18	
Special Broadcasting Service Corporation	**Yes**	Low	✓	30 Aug 18	30 Aug 18	Nil	30 Aug 18	29 Oct 18	
Defence portfolio									
Department of Defence	**Yes**	High	✓	24 Sep 18	24 Sep 18	□◆	2 Oct 18	18 Oct 18	24 Oct 18
AAF Company	No	Low	✓	11 Sep 18	11 Sep 18	Nil	11 Sep 18	26 Oct 18	
Army and Air Force Canteen Service	No	Low	✓	28 Aug 18	28 Aug 18	Nil	28 Aug 18	26 Oct 18	
Australian Military Forces Relief Trust Fund	No	Low	✓	22 Aug 18	22 Aug 18	Nil	24 Aug 18	26 Oct 18	
Australian Strategic Policy Institute Ltd	No	Low	✓	31 Aug 18	31 Aug 18	Nil	31 Aug 18	24 Oct 18	
Australian War Memorial	**Yes**	Low	✓	31 Aug 18	3 Sep 18	Nil	16 Oct 18	16 Oct 18	
Defence Housing Australia	**Yes**	Moderate	✓	17 Aug 18	17 Aug 18	Nil	28 Sep 18	19 Oct 18	
– Defence Housing Australia Investment Management Limited	No	Low	✓ E	7 Aug 18	7 Aug 18	Nil	N/a	N/a	

Reporting entities	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues	Approval of annual report[(a)]	Annual report tabling date	Senate Estimates date[(b)]
Department of Veterans' Affairs	**Yes**	Moderate	✓	7 Sep 18	10 Sep 18	Nil	4 Oct 18	19 Oct 18	
– Defence Service Homes Insurance Scheme	No	Moderate	✓	12 Sep 18	12 Sep 18	Nil	N/a	N/a	
RAAF Welfare Recreational Company	No	Low	✓	27 Sep 18	27 Sep 18	Nil	24 Sep 18	1 Nov 18	
Royal Australian Air Force Veterans' Residences Trust Fund	No	Low	✓	26 Sep 18	26 Sep 18	Nil	26 Sep 18	24 Oct 18	
Royal Australian Air Force Welfare Trust Fund	No	Low	✓	21 Aug 18	21 Aug 18	Nil	24 Aug 18	26 Oct 18	
Royal Australian Navy Central Canteens Board	No	Low	✓	4 Oct 18	4 Oct 18	Nil	4 Oct 18	24 Oct 18	
Royal Australian Navy Relief Trust Fund	No	Low	✓	24 Aug 18	24 Aug 18	Nil	24 Aug 18	26 Oct 18	
Education and Training portfolio									
Department of Education and Training	**Yes**	Moderate	✓	18 Sep 18	18 Sep 18	Nil	27 Sep 18	18 Oct 18	25 Oct 18
Australian Curriculum, Assessment and Reporting Authority	No	Low	✓	24 Aug 18	24 Aug 18	Nil	28 Aug 18	18 Oct 18	
Australian Institute for Teaching and School Leadership Limited	No	Low	✓	27 Aug 18	27 Aug 18	Nil	27 Aug 18	16 Oct 18	
Australian National University	No	Moderate	✓ ☞	6 Apr 18	6 Apr 18	◆	6 Apr 18	28 Jun 18	
– ANU Enterprise Pty Limited	No	Low	✓ ☞	27 Mar 18	28 Mar 18	Nil	N/a	N/a	
– Australian Scientific Instruments Pty Ltd	No	Moderate	✓ ☞	27 Mar 18	28 Mar 18	Nil	N/a	N/a	
– Social Research Centre Pty Limited	No	Low	✓ ☞	27 Mar 18	28 Mar 18	Nil	N/a	N/a	
Australian Research Council	**Yes**	Low	✓	7 Sep 18	7 Sep 18	Nil	10 Oct 18	22 Oct 18	
Australian Skills Quality Authority	No	Low	✓	11 Sep 18	11 Sep 18	Nil	18 Sep 18	17 Oct 18	
Tertiary Education Quality and Standards Agency	No	Low	✓	31 Aug 18	31 Aug 18	Nil	31 Aug 18	15 Oct 18	

Reporting entities	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues	Approval of annual report[(a)]	Annual report tabling date	Senate Estimates date[(b)]
Environment and Energy portfolio									
Department of the Environment and Energy	**Yes**	Moderate	✓	30 Aug 18	30 Aug 18	Nil	22 Oct 18	31 Oct 18	22 Oct 18
– Natural Heritage Trust of Australia	No	Low	✓	30 Aug 18	30 Aug 18	Nil	N/a	N/a	
Australian Renewable Energy Agency	No	Low	✓	14 Sep 18	14 Sep 18	Nil	14 Sep 18	30 Oct 18	
Bureau of Meteorology	**Yes**	Low	✓	29 Aug 18	29 Aug 18	Nil	2 Oct 18	24 Oct 18	
Clean Energy Finance Corporation	**Yes**	Moderate	✓	23 Aug 18	23 Aug 18	Nil	26 Sep 18	31 Oct 18	
Clean Energy Regulator	No	Moderate	✓	24 Sep 18	24 Sep 18	◆	28 Sep 18	25 Oct 18	
Climate Change Authority	No	Low	✓	12 Sep 18	12 Sep 18	Nil	18 Oct 18	18 Oct 18	
Director of National Parks	No	Moderate	✓	8 Oct 18	9 Oct 18	▲□	12 Oct 18	31 Oct 18	
Great Barrier Reef Marine Park Authority	No	Low	✓	3 Sep 18	3 Sep 18	Nil	5 Oct 18	24 Oct 18	
Sydney Harbour Federation Trust	No	Low	✓	18 Sep 18	19 Sep 18	Nil	19 Sep 18	18 Oct 18	
– Sydney Harbour Conservancy Limited	No	Low	✓	19 Sep 18	19 Sep 18	Nil	N/a	N/a	
Finance portfolio									
Department of Finance	**Yes**	Moderate	✓	27 Aug 18	27 Aug 18	Nil	7 Oct 18	18 Oct 18	23 Oct 18
ASC Pty Ltd	**Yes**	Moderate	✓	31 Aug 18	31 Aug 18	Nil	21 Sep 18	18 Oct 18	
– ASC AWD Shipbuilder Pty Ltd	No	Low	✓	31 Aug 18	31 Aug 18	Nil	N/a	N/a	
– ASC Ship Building Pty Ltd	No	Moderate	✓	31 Aug 18	31 Aug 18	Nil	N/a	N/a	
Australian Electoral Commission	**Yes**	Low	✓	31 Aug 18	3 Sep 18	Nil	24 Sep 18	15 Oct 18	
Australian Naval Infrastructure Pty Ltd	**Yes**	Moderate	✓	13 Sep 18	13 Sep 18	Nil	13 Sep 18	19 Oct 18	
Australian Defence Force Super	No	Moderate	✓	24 Sep 18	24 Sep 18	Nil	N/a	N/a	
Commonwealth Superannuation Corporation	No	Moderate	✓	24 Sep 18	25 Sep 18	Nil	28 Sep 18	18 Oct 18	
Commonwealth Superannuation Scheme	No	Moderate	✓	24 Sep 18	24 Sep 18	Nil	N/a	N/a	
Future Fund Management Agency and the Board of Guardians	**Yes**	Moderate	✓	25 Sep 18	25 Sep 18	Nil	25 Sep 18	19 Oct 18	

Reporting entities	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues	Approval of annual report[(a)]	Annual report tabling date	Senate Estimates date[(b)]
Independent Parliamentary Expenses Authority	No	Low	✓	27 Sep 18	27 Sep 18	Nil	15 Oct 18	30 Oct 18	
Military Superannuation and Benefits Scheme	No	Moderate	✓	24 Sep 18	24 Sep 18	Nil	N/a	N/a	
Public Sector Superannuation Accumulation Plan	No	Moderate	✓	24 Sep 18	24 Sep 18	Nil	N/a	N/a	
Public Sector Superannuation Scheme	No	Moderate	✓	24 Sep 18	24 Sep 18	Nil	N/a	N/a	
Foreign Affairs portfolio									
Department of Foreign Affairs and Trade	**Yes**	Moderate	✓	3 Sep 18	3 Sep 18	Nil	18 Sep 18	17 Oct 18	25 Oct 18
Australian Centre for International Agricultural Research	No	Low	✓	14 Sep 18	14 Sep 18	Nil	3 Oct 18	16 Oct 18	
Australian Secret Intelligence Service	No	Low	✓	8 Oct 18	8 Oct 18	Nil	N/a	N/a	
Australian Trade and Investment Commission	No	Low	✓	4 Sep 18	5 Sep 18	Nil	2 Oct 18	24 Oct 18	
Export Finance and Insurance Corporation	**Yes**	Moderate	✓	23 Aug 18	24 Aug 18	Nil	21 Sep 18	23 Oct 18	
Tourism Australia	No	Low	✓	28 Aug 18	30 Aug 18	Nil	23 Oct 18	31 Oct 18	
Health portfolio									
Department of Health	**Yes**	Moderate	✓	30 Aug 18	31 Aug 18	Nil	25 Sep 18	15 Oct 18	24 Oct 18
Australian Aged Care Quality Agency	No	Low	✓	31 Aug 18	31 Aug 18	Nil	14 Sep 18	18 Oct 18	
Australian Commission on Safety and Quality in Health Care	No	Low	✓	11 Sep 18	12 Sep 18	Nil	11 Sep 18	16 Oct 18	
Australian Digital Health Agency	No	Moderate	✓	21 Sep 18	24 Sep 18	☐	15 Oct 18	12 Nov 18	
Australian Institute of Health and Welfare	No	Low	✓	27 Sep 18	28 Sep 18	Nil	27 Sep 18	25 Oct 18	
Australian National Preventive Health Agency	No	Low	✓	30 Aug 18	31 Aug 18	Nil	25 Sep 18	15 Oct 18	

Reporting entities	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues	Approval of annual report[(a)]	Annual report tabling date	Senate Estimates date[(b)]
Australian Organ and Tissue Donation and Transplantation Authority	No	Low	✓	17 Sep 18	17 Sep 18	Nil	17 Sep 18	16 Oct 18	
Australian Radiation Protection and Nuclear Safety Agency	No	Low	✓	7 Sep 18	10 Sep 18	Nil	20 Sep 18	17 Oct 18	
Australian Sports Anti Doping Authority	No	Low	✓	10 Sep 18	10 Sep 18	Nil	31 Oct 18	8 Nov 18	
Australian Sports Commission	**Yes**	Low	✓	16 Aug 18	16 Aug 18	Nil	18 Sep 18	18 Oct 18	
Australian Sports Foundation Limited	No	Low	✓	24 Aug 18	24 Aug 18	Nil	8 Oct 18	31 Oct 18	
Cancer Australia	No	Low	✓	12 Sep 18	12 Sep 18	Nil	3 Oct 18	19 Oct 18	
Food Standards Australia New Zealand	No	Low	✓	2 Oct 18	3 Oct 18	Nil	5 Oct 18	24 Oct 18	
Independent Hospital Pricing Authority	No	Low	✓	14 Sep 18	17 Sep 18	Nil	28 Sep 18	17 Oct 18	
National Blood Authority	**Yes**	Low	✓	27 Sep 18	28 Sep 18	Nil	2 Oct 18	18 Oct 18	
National Health and Medical Research Council	**Yes**	Low	✓	21 Sep 18	21 Sep 18	▲	4 Oct 18	23 Oct 18	
National Health Funding Body	No	Low	✓	24 Sep 18	25 Sep 18	Nil	4 Oct 18	25 Oct 18	
National Mental Health Commission	No	Low	✓	21 Sep 18	21 Sep 18	Nil	2 Oct 18	24 Oct 18	
Professional Services Review Scheme	No	Low	✓	20 Sep 18	21 Sep 18	Nil	11 Oct 18	18 Oct 18	
Home Affairs portfolio									
Department of Home Affairs	**Yes**	Moderate	✓	7 Sep 18	10 Sep 18	□	18 Oct 18	18 Oct 18	22 Oct 18
Australian Criminal Intelligence Commission	No	Low	✓	17 Sep 18	18 Sep 18	Nil	11 Oct 18	18 Oct 18	
Australian Federal Police	**Yes**	Low	✓	5 Oct 18	5 Oct 18	▲◆□	5 Oct 18	19 Oct 18	
Australian Institute of Criminology	No	Low	✓	17 Sep 18	18 Sep 18	Nil	11 Oct 18	18 Oct 18	
Australian Security and Intelligence Organisation	**Yes**	Low	✓	15 Aug 18	15 Aug 18	Nil	25 Sep 18	18 Oct 18	
Australian Transaction Reports and Analysis Centre	No	Low	✓	14 Sep 18	14 Sep 18	□	4 Oct 18	18 Oct 18	

Reporting entities	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues	Approval of annual report[(a)]	Annual report tabling date	Senate Estimates date[(b)]
Human Services portfolio									
Department of Human Services	**Yes**	Moderate	✓	31 Aug 18	3 Sep 18	Nil	18 Sep 18	15 Oct 18	25 Oct 18
Australian Hearing	**Yes**	Low	✓	14 Aug 18	14 Aug 18	Nil	6 Oct 18	17 Oct 18	
Industry, Innovation and Science portfolio									
Department of Industry, Innovation and Science	**Yes**	Moderate	✓	4 Sep 18	4 Sep 18	◆	19 Sep 18	17 Oct 18	25 Oct 18
Australian Nuclear Science and Technology Organisation	**Yes**	Moderate	✓	21 Aug 18	21 Aug 18	◆	21 Aug 18	18 Oct 18	
– ANSTO Nuclear Medicine Pty Ltd	**Yes**[(d)]	Low	✓	21 Aug 18	21 Aug 18	Nil	N/a	N/a	
– Australian Synchrotron Holding Company Pty Limited	No	Low	✓	21 Aug 18	21 Aug 18	Nil	N/a	N/a	
– PETTECH Solutions Pty Ltd	No	Low	✓	21 Aug 18	21 Aug 18	Nil	N/a	N/a	
Australian Institute of Marine Science	No	Low	✓	24 Aug 18	24 Aug 18		18 Sep 18	17 Oct 18	
Commonwealth Scientific and Industrial Research Organisation	**Yes**	Moderate	✓	31 Aug 18	31 Aug 18	Nil	31 Aug 18	16 Oct 18	
– CSIRO General Partner Co Pty Ltd FSA 2016 2017	**Yes**[(e)]	Low	✓	6 Aug 18	6 Aug 18	Nil	N/a	N/a	
– CSIRO Financial Services	No	Moderate	✓	6 Aug 18	6 Aug 18	Nil	N/a	N/a	
– CSIRO Innovation Fund 1	No	Moderate	✓	6 Aug 18	6 Aug 18	Nil	N/a	N/a	
– National ICT Australia Limited	No	Moderate	✓	13 Aug 18	13 Aug 18	Nil	N/a	N/a	
– Science and Industry Endowment Fund	No	Low	✓	26 Jul 18	26 Jul 18	Nil	N/a	N/a	
Geoscience Australia	No	Low	✓	5 Sep 18	5 Sep 18	Nil	5 Sep 18	17 Oct 18	
IP Australia	No	Low	✓	14 Sep 18	14 Sep 18	Nil	19 Sep 18	17 Oct 18	

Reporting entities	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues	Approval of annual report[(a)]	Annual report tabling date	Senate Estimates date[(b)]
National Offshore Petroleum Safety and Environmental Management Authority	No	Low	✓	27 Sep 18	28 Sep 18	Nil	28 Sep 18	24 Oct 18	
Northern Australia Infrastructure Facility	No	Low	✓	23 Aug 18	24 Aug 18	Nil	10 Oct 18	26 Oct 18	
Infrastructure, Regional Development and Cities portfolio									
Department of Infrastructure, Regional Development and Cities	**Yes**	Moderate	✓	31 Aug 18	3 Sep 18	Nil	18 Sep 18	18 Oct 18	22 Oct 18
Airservices Australia	**Yes**	Moderate	✓	27 Sep 18	27 Sep 18	▲	27 Sep 18	15 Oct 18	
Australian Maritime Safety Authority	No	Low	✓	19 Sep 18	19 Sep 18	Nil	19 Sep 18	18 Oct 18	
Australian Rail Track Corporation Limited	**Yes**	Moderate	✓	30 Aug 18	30 Aug 18	Nil	18 Oct 18	18 Oct 18	
Australian Transport Safety Bureau	No	Low	✓	12 Sep 18	13 Sep 18	Nil	2 Oct 18	15 Oct 18	
Civil Aviation Safety Authority	No	Low	✓	24 Aug 18	24 Aug 18	Nil	13 Sep 18	19 Oct 18	
Infrastructure Australia	No	Low	✓	30 Aug 18	30 Aug 18	Nil	30 Aug 18	18 Oct 18	
Infrastructure and Project Financing Agency	No	Low	✓	25 Sep 18	25 Sep 18	Nil	26 Sep 18	24 Oct 18	
Moorebank Intermodal Company Limited	**Yes**	Moderate	✓	19 Sep 18	19 Sep 18	◆	19 Sep 18	31 Oct 18	
– Moorebank Intermodal Development Investment Trust	No	Low	✓	19 Sep 18	19 Sep 18	Nil	N/a	N/a	
– Moorebank Intermodal Development Rail Trust	No	Low	✓	19 Sep 18	19 Sep 18	Nil	N/a	N/a	
National Capital Authority	**Yes**	Low	✓	30 Aug 18	31 Aug 18	Nil	11 Oct 18	26 Oct 18	
National Transport Commission	No	Low	✓	24 Aug 18	25 Aug 18	Nil	19 Sep 18	15 Oct 18	
WSA Co Ltd	**Yes**	Moderate	✓ E	27 Aug 18	28 Aug 18	Nil	17 Oct 18	17 Oct 18	
Jobs and Small Business portfolio									
Department of Jobs and Small Business	**Yes**	Moderate	✓	6 Sep 18	6 Sep 18	Nil	13 Sep 18	16 Oct 18	24 Oct 18
Asbestos Safety and Eradication Agency	No	Low	✓	19 Sep 18	19 Sep 18	Nil	19 Sep 18	22 Oct 18	

Reporting entities	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues	Approval of annual report[(a)]	Annual report tabling date	Senate Estimates date[(b)]
Australian Building and Construction Commission	No	Low	✓	11 Sep 18	11 Sep 18	Nil	1 Oct 18	17 Oct 18	
Coal Mining Industry (Long Service Leave Funding) Corporation	**Yes**	Moderate	✓	24 Sep 18	24 Sep 18	Nil	24 Sep 18	24 Oct 18	
Comcare	**Yes**	Moderate	✓	26 Sep 18	26 Sep 18	Nil	27 Sep 18	17 Oct 18	
Fair Work Commission	No	Low	✓	4 Sep 18	4 Sep 18	Nil	18 Sep 18	17 Oct 18	
Fair Work Ombudsman and Registered Organisations Commission Entity	No	Low	✓	17 Sep 18	17 Sep 18	Nil	17 Sep 18	17 Oct 18	
Safe Work Australia	No	Low	✓	14 Sep 18	14 Sep 18	Nil	19 Sep 18	22 Oct 18	
Seacare Authority (Seafarers Safety Rehabilitation and Compensation Authority)	No	Low	✓	25 Sep 18	25 Sep 18	Nil	4 Oct 18	17 Oct 18	
Parliamentary Departments									
Department of Parliamentary Services	**Yes**	Moderate	✓	3 Sep 18	3 Sep 18	Nil	28 Sep 18	15 Oct 18	22 Oct 18
Department of the House of Representatives	No	Low	✓	24 Sep 18	24 Sep 18	Nil	12 Oct 18	24 Oct 18	
Department of the Senate	No	Low	✓	27 Sep 18	27 Sep 18	Nil	15 Oct 18	16 Oct 18	
Parliamentary Budget Office	No	Low	✓	4 Sep 18	4 Sep 18	Nil	8 Oct 18	15 Oct 18	
Prime Minister and Cabinet portfolio									
Department of the Prime Minister and Cabinet	**Yes**	Moderate	✓	3 Sep 18	3 Sep 18	☐	3 Sep 18	3 Oct 18	22 Oct 18
– Aboriginals Benefit Account	No	Moderate	✓	3 Sep 18	3 Sep 18	Nil	N/a	N/a	
Aboriginal Hostels Limited	No	Moderate	✓	21 Sep 18	21 Sep 18	Nil	21 Sep 18	25 Oct 18	
Anindilyakwa Land Council	No	Low	✓	1 Oct 18	2 Oct 18	Nil	•	•	
Australian Institute of Aboriginal and Torres Strait Islander Studies	No	Low	✓	20 Sep 18	20 Sep 18	Nil	21 Sep 18	1 Nov 18	
Australian Public Service Commission	No	Low	✓	26 Sep 18	26 Sep 18	Nil	8 Oct 18	18 Oct 18	

Reporting entities	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues	Approval of annual report[(a)]	Annual report tabling date	Senate Estimates date[(b)]
Central Land Council	No	Low	✓	15 Aug 18	16 Aug 18	Nil	21 Sep 18	1 Nov 18	
Digital Transformation Agency	No	Moderate	✓	21 Sep 18	24 Sep 18	Nil	28 Sep 18	17 Oct 18	
Indigenous Business Australia	**Yes**	Moderate	✓	13 Sep 18	18 Sep 18	Nil	19 Sep 18	25 Oct 18	
– Gagudju Crocodile Hotel Trust	No	Low	✓	31 Oct 18	1 Nov 18	Nil	N/a	N/a	
– Gagudju Lodge Cooinda Trust	No	Low	✓	31 Oct 18	1 Nov 18	Nil	N/a	N/a	
– IBA Retail Asset Management Pty Ltd	No	Low	✓	1 Nov 18	2 Nov 18	Nil	N/a	N/a	
– IBA Retail Property Trust	No	Low	✓	31 Oct 18	1 Nov 18	Nil	N/a	N/a	
– IBA Tourism Asset Management Pty Ltd	No	Low	▪	01 Dec 18	01 Dec 18	Nil	N/a	N/a	
– Ikara Wilpena Enterprises Pty Ltd	No	Low	✓	31 Oct 18	31 Oct 18	Nil	N/a	N/a	
– Ikara Wilpena Holdings Trust	No	Low	✓	31 Oct 18	1 Nov 18	Nil	N/a	N/a	
– Indigenous Economic Development Trust	No	Low	✓	26 Sep 18	27 Sep 18	Nil	N/a	N/a	
– Indigenous Prosperity Fund – Cash Fund	No	Low	✓	17 Sep 18	17 Sep 18	Nil	N/a	N/a	
– Indigenous Prosperity Fund – Growth Fund	No	Low	✓	17 Sep 18	17 Sep 18	Nil	N/a	N/a	
– Indigenous Prosperity Fund – Income Fund	No	Low	✓	17 Sep 18	17 Sep 18	Nil	N/a	N/a	
– Indigenous Real Estate Investment Trust	No	Low	✓	14 Sep 18	14 Sep 18	Nil	N/a	N/a	
– Kakadu Tourism (GCH) Pty Ltd	No	Low	✓	25 Oct 18	25 Oct 18	Nil	N/a	N/a	
– Kakadu Tourism (GLC) Pty Ltd	No	Low	✓	25 Oct 18	25 Oct 18	Nil	N/a	N/a	
– Darwin Hotel Partnership	No	Low	✓	7 Nov 18	12 Nov 18	Nil	N/a	N/a	
– Li Ar Yalug Land Holding Trust	No	Low	✓	28 Sep 18	28 Sep 18	Nil	N/a	N/a	
– Performance Bond Fund Trust	No	Low	✓	28 Sep 18	28 Sep 18	Nil	N/a	N/a	
– Tennant Creek Foodbarn Partnership	No	Low	✓	23 Nov 18	23 Nov 18	Nil	N/a	N/a	
– Tennant Creek Land Holding Trust	No	Low	✓	31 Oct 18	1 Nov 18	Nil	N/a	N/a	

Reporting entities	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues	Approval of annual report[(a)]	Annual report tabling date	Senate Estimates date[(b)]
– Tjapukai Aboriginal Cultural Park Partnership	No	Low	✓	25 Oct 18	25 Oct 18	Nil	N/a	N/a	
– Wilpena Pound Aerodrome Services Pty Ltd	No	Low	✓	31 Oct 18	1 Nov 18	Nil	N/a	N/a	
Indigenous Land Corporation	**Yes**	Low	✓	27 Sep 18	27 Sep 18	Nil	12 Sep 18	19 Oct 18	
– Australian Indigenous Agribusiness Company Pty Ltd	No	Low	✓	28 Sep 18	28 Sep 18	Nil	N/a	N/a	
– National Centre of Indigenous Excellence Limited	No	Low	✓	14 Sep 18	14 Sep 18	Nil	N/a	N/a	
– The Owners Strata Plan No. 86156	No	Low	✓	3 Sep 18	3 Sep 18	Nil	N/a	N/a	
– Voyages Indigenous Tourism Australia Pty Ltd	**Yes**[(f)]	Moderate	✓	30 Aug 18	30 Aug 18	Nil	N/a	N/a	
National Australia Day Council Limited	No	Low	✓	22 Aug 18	22 Aug 18	Nil	22 Aug 18	16 Oct 18	
Northern Land Council	No	Moderate	✓	28 Sep 18	28 Sep 18	▲□	28 Sept 18	21 Nov 18	
Office of National Assessments	No	Low	✓	26 Sep 18	26 Sep 18	Nil	N/a	N/a	
Office of the Official Secretary to the Governor General	No	Low	✓	10 Oct 18	10 Oct 18	Nil	11 Oct 18	30 Oct 18	
Outback Stores Pty Ltd	No	Low	✓	23 Aug 18	24 Aug 18	Nil	24 Aug 18	1 Nov 18	
Tiwi Land Council	No	Low	✓	5 Sep 18	5 Sep 18	Nil	13 Nov 18	29 Nov 18	
Torres Strait Regional Authority	No	Low	✓	5 Sep 18	5 Sep 18	Nil	9 Oct 18	26 Nov 18	
Wreck Bay Aboriginal Community Council	No	Low	✓	24 Sep 18	24 Sep 18	Nil	●	●	
Workplace Gender Equality Agency	No	Low	✓	7 Sep 18	10 Sep 18	Nil	●	●	
Social Services portfolio									
Department of Social Services	**Yes**	Moderate	✓	6 Sep 18	6 Sep 18	Nil	25 Sep 18	15 Oct 18	25 Oct 18
Australian Institute of Family Studies	No	Low	✓	12 Sep 18	12 Sep 18	Nil	13 Sep 18	17 Oct 18	
National Disability Insurance Agency	**Yes**	High	✓	14 Sep 18	17 Sep 18	▲◆□	14 Sep 18	23 Sep 18	

Reporting entities	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues	Approval of annual report[(a)]	Annual report tabling date	Senate Estimates date[(b)]
Treasury portfolio									
Department of the Treasury	**Yes**	Moderate	✓	7 Sep 18	7 Sep 18	Nil	27 Sep 18	17 Oct 18	24 Oct 18
Australian Bureau of Statistics	**Yes**	Low	✓	16 Aug 18	16 Aug 18	Nil	3 Sep 18	18 Oct 18	
Australian Competition and Consumer Commission	No	Low	✓	31 Aug 18	31 Aug 18	Nil	7 Sep 18	18 Oct 18	
Australian Office of Financial Management	**Yes**	Moderate	✓	24 Aug 18	24 Aug 18	Nil	17 Sep 18	18 Oct 18	
Australian Prudential Regulation Authority	**Yes**	Low	✓	21 Aug 18	22 Aug 18	Nil	28 Sep 18	23 Oct 18	
Australian Reinsurance Pool Corporation	**Yes**	Moderate	✓	25 Sep 18	25 Sep 18	Nil	25 Sep 18	17 Oct 18	
Australian Securities and Investments Commission	**Yes**	Moderate	✓	14 Aug 18	14 Aug 18	Nil	12 Oct 18	31 Oct 18	
Australian Taxation Office	**Yes**	High	✓	13 Sep 18	13 Sep 18	☐	11 Oct 18	26 Oct 18	
Commonwealth Grants Commission	No	Low	✓	13 Sep 18	13 Sep 18	Nil	20 Sep 18	31 Oct 18	
Corporations and Markets Advisory Committee[(g)]	No	Low	✓ E ☞	19 Jun 18	19 Jun 18	☐	N/a	N/a	
Financial Adviser Standards and Ethics Authority Ltd	No	Low	✓	26 Sep 18	26 Sep 18	Nil	26 Sep 18	31 Oct 18	
Inspector–General of Taxation	No	Low	✓	17 Sep 18	17 Sep 18	Nil	25 Sep 18	19 Oct 18	
National Competition Council	No	Low	✓	27 Aug 18	27 Aug 18	Nil	24 Aug 18	18 Oct 18	
Office of the Auditing and Assurance Standards Board	No	Low	✓	5 Oct 18	5 Oct 18	Nil	5 Oct 18	23 Oct 18	
Office of the Australian Accounting Standards Board	No	Low	✓	5 Oct 18	5 Oct 18	Nil	5 Oct 18	23 Oct 18	
Productivity Commission	No	Low	✓	23 Aug 18	23 Aug 18	Nil	13 Sep 18	15 Oct 18	
Reserve Bank of Australia	**Yes**	Moderate	✓	23 Aug 18	23 Aug 18	Nil	27 Aug 18	20 Sep 18	

Reporting entities	Material entity	Audit risk rating	Type of auditor's report	Date financial statements signed	Date auditor's report issued	Audit issues	Approval of annual report[(a)]	Annual report tabling date	Senate Estimates date[(b)]
– Note Printing Australia Ltd	No	Low	✓	23 Jul 18	23 Jul 18	Nil	N/a	N/a	
Royal Australian Mint	No	Moderate	✓	21 Sep 18	21 Sep 18	◆	16 Oct 18	16 Oct 18	

Note a: The date of the accountable authority's approval of the annual report is taken as either the date on the transmittal letter or the date the board approved the annual report.

Note b: This is the first appearance for the portfolio at the 2018–19 Supplementary Budget Estimates hearing.

Note c: The Regional Investment Corporation (RIC) was established in 2017–18 with a view to fully commencing operations 1 July 2018. RIC is classified as a material entity for inclusion in the consolidated financial statements. For the purposes of this report RIC has not been included in the Agriculture and Water Resources portfolio chapter due its limited financial transactions in the 2017–18 financial year.

Note d: This entity is classified as material by the Department of Finance. As it is consolidated into a material entity, Australian Nuclear Science and Technology Organisation, it is not discussed separately as a material entity in this report.

Note e: This entity is classified as material by the Department of Finance. As it is consolidated into a material entity, Commonwealth Scientific and Industrial Research Organisation, it is not discussed separately as a material entity in this report.

Note f: This entity is classified as material by the Department of Finance. As it is consolidated into a material entity, Indigenous Land Corporation, it is not discussed separately as a material entity in this report.

Note g: Corporations and Markets Advisory Committee was abolished on 21 February 2018. No annual report was issued.

✓: auditor's report not modified

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

✏: financial statements not signed as at 30 November 2018

☞: financial year end date other than 30 June 2018

E: auditor's report contains an emphasis of matter

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

☐: significant or moderate issues and/or legislative matters identified in previous periods, or the 2017–18 interim audit phase, now downgraded or resolved

●: annual report not tabled as at 30 November 2018

Appendix 2 Changes in audit responsibilities in 2017–18

The following is a listing of new entities that were required to be audited by the Auditor-General in 2017–18, entities that ceased to be audited by the Auditor-General in 2017–18, entities that had a name change in 2017–18 and entities that have moved between portfolio.

New entities audited in 2017–18

- Australian Synchrotron Holding Company Pty Limited
- CSIRO Financial Services Pty Ltd
- CSIRO Innovation Fund 1
- Financial Adviser Standards and Ethics Authority
- Infrastructure and Project Financing Agency
- Performance Bond Fund Trust
- Regional Investment Corporation
- WSA Co Ltd

Entities that ceased to be audited by the Auditor-General

- AIATSIS Foundation Incorporated
- Minjerribah Camping Pty Limited
- National Health Performance Authority
- Our Neighbourhood Pty Ltd
- Synchrotron Light Source Australia Pty Ltd
- WLAN Services Pty Ltd

Entities that had a name change

2017–18 entity name	Former entity name
Darwin Hotel Partnership	Larrakia Darwin Hotel Partnership
Department of Home Affairs	Department of Immigration and Border Protection
Department of Infrastructure Regional Development and Cities	Department of Infrastructure and Regional Development
Department of Jobs and Small Business	Department of Employment
Wine Australia	Australian Grape and Wine Authority

Changes in administrative arrangements

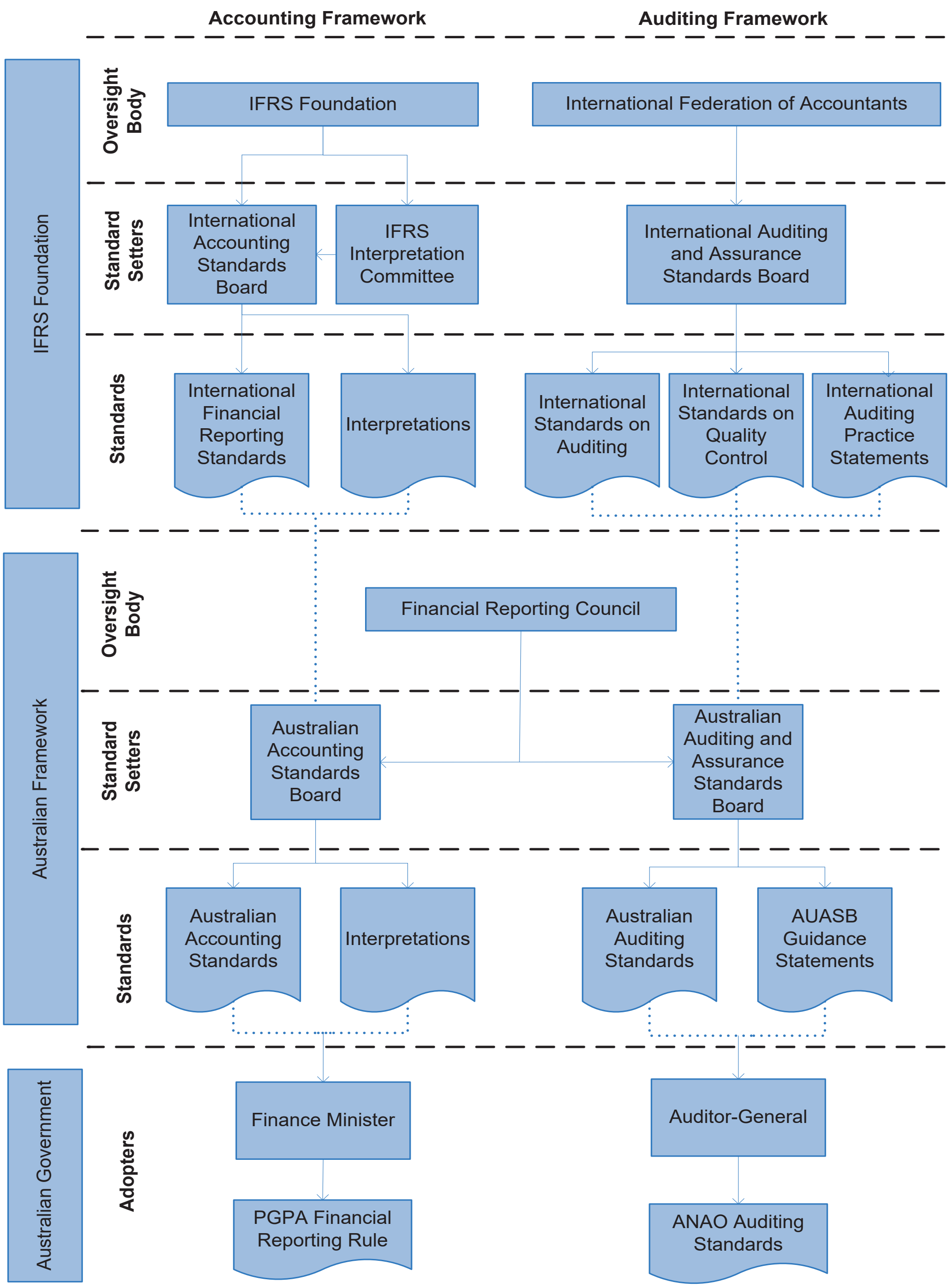
Entity name	2017–18 portfolio	Former portfolio
Australian Criminal Intelligence Commission	Home Affairs	Attorney-General's
Australian Federal Police	Home Affairs	Attorney-General's
Australian Hearing Services	Human Services	Social Services

Entity name	2017–18 portfolio	Former portfolio
Australian Institute of Aboriginal and Torres Strait Islander Studies	Prime Minister and Cabinet	Education and Training
Australian Institute of Criminology	Home Affairs	Attorney-General's
Australian Security and Intelligence Organisation	Home Affairs	Attorney-General's
Australian Transaction Reports and Analysis Centre	Home Affairs	Attorney-General's
Department of Human Services	Human Services	Social Services
Office of the Commonwealth Ombudsman	Attorney-General's	Prime Minister and Cabinet
Office of the Inspector General of Intelligence and Security	Attorney-General's	Prime Minister and Cabinet
Workplace Gender Equality Agency	Prime Minister and Cabinet	Employment

Appendix 3 The financial reporting and auditing standards frameworks for 2017–18

1. The figure below depicts the standard setting framework for financial reporting and auditing, in the Australian Government context.

Figure A.1: Australian Government standard setting framework

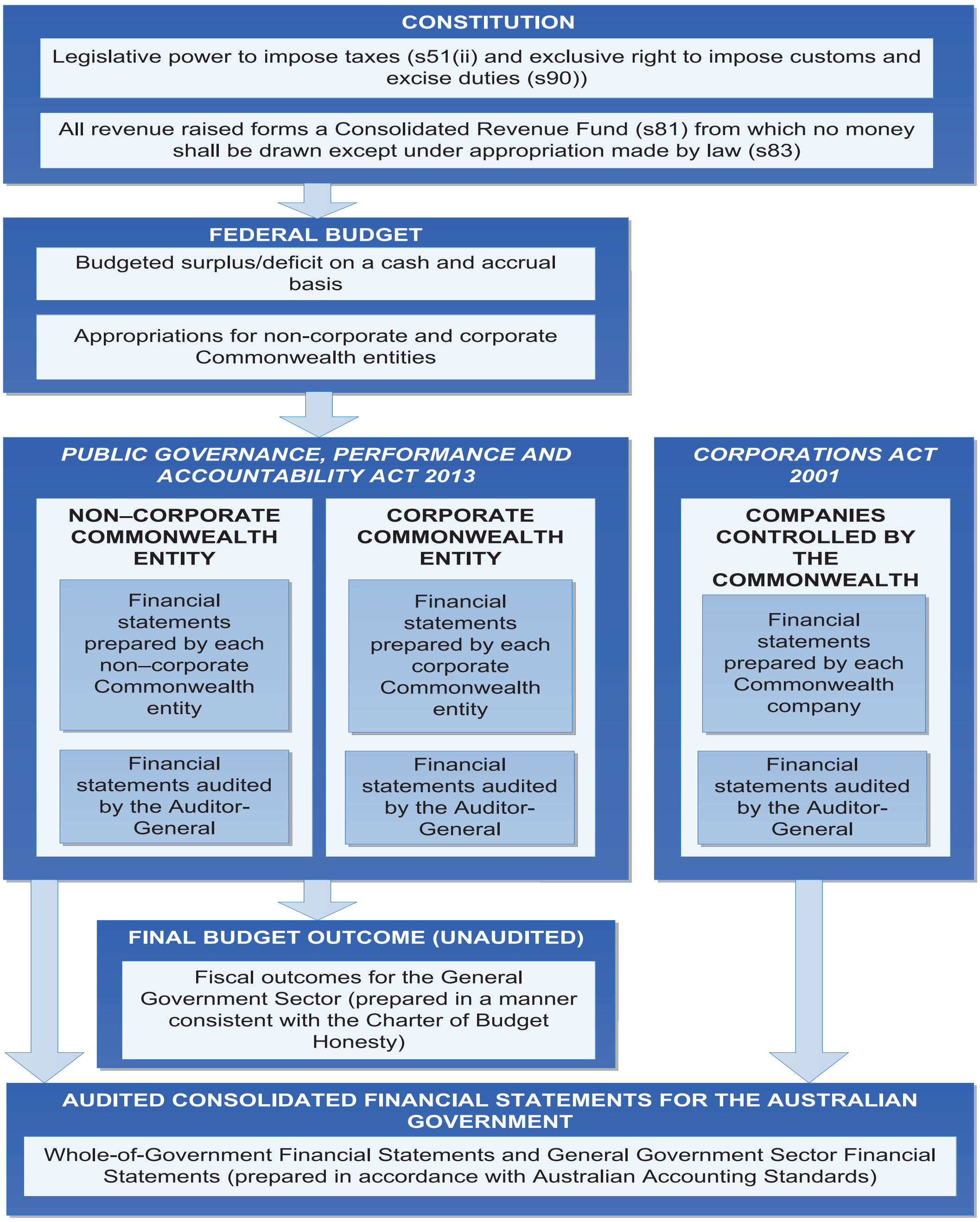


Source: ANAO compilation.

Appendix 4 The financial reporting and auditing framework for 2017–18 financial statements

1. Key elements of the Australian Government's financial reporting framework are outlined in the diagram below. An overview of the financial reporting requirements for the various types of Australian Government entities covered by the framework and the audit approach for the financial statements of these entities is also described below.

Figure A.2: Australian Government financial reporting framework



Source: ANAO compilation.

Australian Government reporting entities

Commonwealth Government of Australia

2. Section 48 of the PGPA Act requires the Finance Minister to prepare annual consolidated financial statements for the Commonwealth Government of Australia. These financial statements are general purpose financial statements consolidating the financial activities and financial position of Commonwealth entities and other entities controlled by the Commonwealth Government.

3. The PGPA Act prescribes the Australian accounting standards (AASs), and any other requirements prescribed by the rules, as the applicable financial reporting framework for the consolidated financial statements.

Commonwealth entities

4. Section 10 of the PGPA Act defines a Commonwealth entity as a department of state, a Parliamentary department, a listed entity or a body corporate of the Commonwealth. Section 11 of the PGPA Act determines that there are two types of Commonwealth entities: a non-corporate Commonwealth entity, which is a Commonwealth entity that is not a body corporate[64]; and a corporate Commonwealth entity, which is a Commonwealth entity that is a body corporate and legally separate from the Commonwealth.

5. Section 42 of the PGPA Act requires the accountable authority of a Commonwealth entity to prepare annual financial statements that comply with the AASs and any other requirements prescribed by the rules.

6. Resource Management Guide 125: *The Commonwealth Entities Financial Statements Guide* applies to all Commonwealth reporting entities responsible for preparing financial statements under the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015. The guide includes definitions of terms that have been used in this report.

Non-corporate Commonwealth entities

7. Non-corporate Commonwealth entities, comprising departments of state, Parliamentary departments and listed entities, are subject to the provisions of the PGPA Act.

8. The PGPA Act prescribes the AASs and PGPA Financial Reporting Rule (FRR) as the applicable financial reporting framework for non-corporate Commonwealth entities.

Corporate Commonwealth entities and subsidiaries

9. Corporate Commonwealth entities are bodies corporate that hold money on their own account and have been created to perform specific functions. Corporate Commonwealth entities operate under their own enabling legislation and also must comply with the relevant provisions of the PGPA Act.

64 Three entities have a body corporate status but are prescribed as non-corporate Commonwealth entities. These are the Australian Competition and Consumer Commission; the Australian Prudential Regulation Authority; and the Australian Securities and Investments Commission.

10. The PGPA Act prescribes the AASs and FRR as the applicable financial reporting framework for corporate Commonwealth entities. The financial reporting framework applicable to subsidiaries of corporate Commonwealth entities depends on the nature of the subsidiary.

Commonwealth companies and subsidiaries

11. 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.

12. The applicable financial reporting framework for Commonwealth companies is the *Corporations Act 2001* (Corporations Act), including the AASs and the Corporations Regulations.

13. The financial reporting framework applicable to subsidiaries of Commonwealth companies depends on the nature of the subsidiary.

Other bodies

14. The ANAO also audits the financial statements of other bodies under Commonwealth legislation other than the PGPA Act, including the 'by arrangement' provisions in section 20 of the *Auditor-General Act 1997*. Examples of these other bodies include statutory bodies not established as Commonwealth entities and trusts. The financial reporting framework applicable to these other bodies depends on legislation or other rules that govern that entity.

Audit of Australian Government entity financial statements

Audit scope

15. The accountable authority of a Commonwealth entity is responsible for the preparation and fair presentation of the financial statements and for maintaining records, internal controls, procedures and processes that support the preparation of those statements.

16. The Directors of a Commonwealth company, or a company that is a subsidiary of either a Commonwealth entity or a Commonwealth company, are responsible for the preparation of financial statements that give a true and fair view and for maintaining records, internal controls, procedures and processes that support the preparation of that report.

17. The ANAO's independent audits of financial statements are undertaken to form an opinion whether they are free from material misstatement and present fairly in accordance with applicable accounting standards and legislation. These audits are conducted in accordance with the ANAO Auditing Standards, which incorporate the Australian Auditing Standards and provide reasonable assurance.

18. Audit procedures include an examination of the entity's records and its internal control, information systems, control procedures and statutory disclosure requirements. Evidence supporting the amounts and other information in the statements is examined on a test basis, and accounting policies and significant accounting estimates are evaluated.

19. The entity's internal control relevant to the entity's preparation and fair presentation of the financial statements or reports is considered in order to design audit procedures that are appropriate in the circumstances. In some audits, audit procedures concentrate primarily on substantiating the amounts appearing in the financial statements and do not include detailed testing of systems and internal controls.

20. The primary responsibility for the prevention and detection of fraud and error rests with both those charged with the governance and the management of an entity. The auditor is not responsible for the prevention or detection of fraud and error.

The auditor's report on financial statements

21. The ANAO auditor's report on the financial statements includes a statement of the auditor's opinion as to whether the financial statements present fairly the entity's financial position, the results of its operations and its cash flows in accordance with the applicable financial reporting framework.

22. If the auditor is not of that opinion, the auditor's opinion is modified, with the reasons being indicated.

23. The auditor's report on the financial statements may also include an 'emphasis of matter,' 'other matter' or 'material uncertainty related to going concern' paragraph. A report on other legal and regulatory requirements may accompany the auditor's report on the financial statements. The inclusion of these paragraphs does not modify the auditor's opinion.

Form of auditor's opinion

24. 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.

25. An auditor's opinion may be 'modified' in one of three ways.

- A 'qualified opinion' is expressed when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in aggregate, are material but not pervasive to the financial statements. A 'qualified opinion' is also expressed when the auditor, having been unable to obtain sufficient appropriate audit evidence, concludes that the possible effects on the financial statements of undetected misstatements could be material but not pervasive.
- A 'disclaimer of opinion' is expressed when the auditor, having been unable to obtain sufficient appropriate audit evidence on which to base the opinion, concludes that the possible effects on the financial statements of undetected misstatements could be both material and pervasive. A 'disclaimer of opinion' is also expressed when the auditor, having been able to obtain sufficient appropriate audit evidence regarding individual uncertainties, concludes that the potential interaction of the uncertainties and their possible cumulative effect on the financial report cannot be determined.
- 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

26. An ‘emphasis of matter’ paragraph is included in the auditor’s report when the auditor considers it necessary to draw to users’ attention a matter presented in the financial statements that, in the auditor’s judgement, is of such importance that it is fundamental to the users’ understanding of the financial statements. The circumstances in which an emphasis of matter is used include:

- when financial statements and the auditor’s report have been issued and a fact is discovered that leads to revised financial statements and a new auditor’s report being prepared; and
- when financial statements have been prepared in accordance with a special purpose framework, and as a result the financial statements may not be suitable for another purpose.

Other matter

27. The auditor’s report on the financial statements may also include a reference to an ‘other matter’. This allows the auditor to communicate a matter other than a matter that is presented or disclosed in the financial statements that, in the auditor’s judgement, is relevant to users’ understanding of the audit, the auditor’s responsibilities or the auditor’s report.

Material uncertainty related to going concern

28. The auditor’s report on the financial statements will also include a reference to a ‘material uncertainty related to going concern’ when there are possible or actual events or conditions that may cast significant doubt on an entity’s ability to continue as a going concern and the financial statements include adequate disclosure about the uncertainty and management’s plans to deal with the uncertainty.

Report on other legal and regulatory requirements

29. 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.