

The Auditor-General
Auditor-General Report No. 14 2021–22
Financial Statements Audit

**Audits of the Financial Statements of Australian
Government Entities for the Period Ended
30 June 2021**

© Commonwealth of Australia 2021

ISSN 1036–7632 (Print)

ISSN 2203–0352 (Online)

ISBN 978-1-76033-695-0 (Print)

ISBN 978-1-76033-696-7 (Online)

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

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

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

For terms of use of the Commonwealth Coat of Arms, visit the *It's an Honour* website at <https://www.pmc.gov.au/government/its-honour>.

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

Senior Executive Director
Corporate Management Group
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Or via email:

communication@anao.gov.au.





Canberra ACT
14 December 2021

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 2021*. 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

A handwritten signature in black ink, reading 'Grant Hehir'.

Grant Hehir
Auditor-General

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

AUDITING FOR AUSTRALIA

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

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

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

Auditor-General reports and information about the ANAO are available on our website:

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

Contents

| | |
|---|-----|
| Executive summary | 9 |
| Consolidated financial statements | 9 |
| Financial audit results and other matters | 9 |
| Reporting and auditing frameworks | 11 |
| Cost of this report | 11 |
| 1. The Consolidated Financial Statements | 12 |
| Background | 12 |
| Key audit matters | 13 |
| Audit results | 15 |
| Australian Government's financial outcome | 15 |
| Australian Government's financial position | 19 |
| Australian Government loans and equity issued | 26 |
| Definitions used in this chapter | 30 |
| 2. Financial audit results and other matters | 32 |
| Introduction | 33 |
| Summary of 2020–21 auditor's reports | 33 |
| Internal control environment | 34 |
| Quality and timeliness of financial statements preparation | 36 |
| Timeliness of financial reporting | 38 |
| Key audit matters | 41 |
| Removal of user access | 43 |
| Financial sustainability of material entities | 45 |
| Audit findings | 53 |
| 3. Reporting and auditing frameworks | 66 |
| Introduction | 66 |
| Changes to the Australian public sector reporting framework | 67 |
| Quality Assurance Framework and Reporting | 72 |
| Data Analytics 2020–21 | 73 |
| 4. Results of financial statements audits by portfolio | 75 |
| 4.1 Agriculture, Water and the Environment portfolio | 80 |
| Portfolio overview | 80 |
| Department of Agriculture, Water and the Environment | 82 |
| Bureau of Meteorology | 86 |
| Comments on non-material entities | 89 |
| 4.2 Attorney-General's portfolio | 90 |
| Portfolio overview | 90 |
| Attorney-General's Department | 92 |
| Coal Mining Industry (Long Service Leave Funding) Corporation | 95 |
| Comcare | 97 |
| High Court of Australia | 99 |
| National Archives of Australia | 102 |
| Comments on non-material entities | 104 |
| 4.3 Defence portfolio | 107 |
| Department of Defence | 109 |
| Australian Signals Directorate | 118 |

| | | |
|------|---|------------|
| | Australian War Memorial | 120 |
| | Defence Housing Australia | 122 |
| | Department of Veterans' Affairs | 124 |
| | Comments on non-material entities | 129 |
| 4.4 | Education, Skills and Employment portfolio | 130 |
| | Department of Education Skills and Employment | 132 |
| | Australian Research Council | 136 |
| | Comments on non-material entities | 138 |
| 4.5 | Finance portfolio | 140 |
| | Department of Finance | 142 |
| | ASC Pty Ltd | 145 |
| | Australian Naval Infrastructure Pty Ltd | 146 |
| | Future Fund Management Agency and the Board of Guardians | 148 |
| 4.6 | Foreign Affairs and Trade portfolio | 151 |
| | Department of Foreign Affairs and Trade | 152 |
| | Export Finance Australia | 155 |
| | Comments on non-material entities | 158 |
| 4.7 | Health portfolio | 159 |
| | Department of Health | 161 |
| | National Blood Authority | 165 |
| | National Health and Medical Research Council | 167 |
| 4.8 | Home Affairs portfolio | 170 |
| | Department of Home Affairs | 172 |
| | Australian Federal Police | 176 |
| | Australian Security Intelligence Organisation | 178 |
| 4.9 | Industry, Science, Energy and Resources portfolio | 181 |
| | Department of Industry, Science, Energy and Resources | 183 |
| | Australia Nuclear Science and Technology Organisation | 186 |
| | Clean Energy Finance Corporation | 190 |
| | Commonwealth Scientific and Industrial Research Organisation | 193 |
| | Geoscience Australia | 195 |
| | Snowy Hydro Limited | 197 |
| 4.10 | Infrastructure, Transport, Regional Development and Communications portfolio | 201 |
| | Department of Infrastructure, Transport, Regional Development and Communications | 205 |
| | Airservices Australia | 209 |
| | Australian Broadcasting Corporation | 212 |
| | Australian Communications and Media Authority | 214 |
| | Australian Postal Corporation | 216 |
| | Australian Rail Track Corporation | 218 |
| | Moorebank Intermodal Company Limited | 221 |
| | National Capital Authority | 224 |
| | National Gallery of Australia | 226 |
| | National Library of Australia | 228 |
| | NBN Co Limited | 230 |
| | WSA Co Limited | 232 |
| 4.11 | Parliamentary Departments | 235 |
| | Department of Parliamentary Services | 236 |

| | | |
|------------|---|-----|
| 4.12 | Prime Minister and Cabinet portfolio | 239 |
| | Department of the Prime Minister and Cabinet | 242 |
| | Indigenous Business Australia | 244 |
| | Indigenous Land and Sea Corporation | 246 |
| | National Indigenous Australians Agency | 250 |
| | Comments on non-material entities | 252 |
| 4.13 | Social Services portfolio | 258 |
| | Department of Social Services | 260 |
| | Australian Hearing Services | 264 |
| | National Disability Insurance Scheme Launch Transition Agency | 266 |
| | Services Australia | 270 |
| 4.14 | Treasury portfolio | 275 |
| | Department of the Treasury | 277 |
| | Australian Bureau of Statistics | 280 |
| | Australian Office of Financial Management | 282 |
| | Australian Prudential Regulation Authority | 284 |
| | Australian Reinsurance Pool Corporation | 287 |
| | Australian Securities and Investments Commission | 288 |
| | Australian Taxation Office | 291 |
| | National Housing Finance and Investment Corporation | 296 |
| | Reserve Bank of Australia | 298 |
| Appendix 1 | Listing of entities by portfolio | 301 |
| Appendix 2 | Changes in audit responsibilities in 2020–21 | 320 |
| Appendix 3 | The financial reporting and auditing standards frameworks for 2020–21 | 321 |
| Appendix 4 | The financial reporting and auditing framework for 2020–21 financial statements | 322 |
| | Australian Government reporting entities | 323 |

Executive summary

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. As set out in the AAWP, the ANAO prepares two reports annually that, drawing on information collected during financial statements audits, provide insights at a point in time to the financial statements risks, governance arrangements and internal control frameworks of Commonwealth entities. These reports provide Parliament with an independent examination of the financial accounting and reporting of public sector entities.
2. These reports explain how entities' internal control frameworks are critical to executing an efficient and effective audit and underpin an entity's capacity to transparently discharge its duties and obligations under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). Deficiencies identified during audits that pose either a significant or moderate risk to an entity's ability to prepare financial statements free from material misstatement are reported.
3. This report presents the final results of the 2020–21 audits of the Consolidated Financial Statements (CFS) and 244 Australian Government entities. The Auditor-General Report No.40 2020–21 *Interim Report on Key Financial Controls of Major Entities* (ANAO Report No.40), focused on the interim results of the audits of 25 of these major entities.

Consolidated financial statements

Audit results

4. The CFS presents the whole of government and the General Government Sector financial statements. The 2020–21 CFS was signed by the Minister for Finance on 12 November 2021 and an unmodified auditor's report was issued on 15 November 2021.
5. There were no significant or moderate audit issues identified in the audit of the CFS in 2020–21 or 2019–20.

Australian Government financial position

6. The Australian Government's net worth deficiency increased from \$679.9 billion in 2019–20 to \$743.2 billion in 2020–21. Over the period 2011–12 to 2020–21, total assets have increased from \$390.6 billion to \$1,000.1 billion, total liabilities increased from \$647.5 billion to \$1,743.3 billion and net worth has decreased from a deficit of \$256.9 billion to a deficit of \$743.2 billion.

Financial audit results and other matters

Quality and timeliness of financial statements preparation

7. The ANAO issued 241 unmodified auditor's reports, including the CFS, and one modified auditor's report, as at 19 November 2021. A quality financial statements preparation process will reduce the risk of untimely, inaccurate or unreliable reporting.

8. The ANAO noted a decrease in findings relating to processes supporting financial statements preparation improved delivery of draft financial statements in line with entity financial statements project plans, a decrease in the number of unadjusted audit differences and a decrease in overall total value of unadjusted audit differences reported to entities in 2020–21 compared to 2019–20.

Timeliness of financial reporting

9. The financial statements were finalised, and auditor’s reports issued for 89 per cent of entities within three months of the financial year-end. On average it took entities 41 days after the auditor’s report was issued to table their annual reports in Parliament. Eighty-four per cent of entities that are required to table an annual report in Parliament tabled prior to or on the date that the portfolio’s Senate estimates hearing commenced. Of the remaining entities, eight per cent had not tabled an annual report as at 19 November 2021.

Key audit matter reporting

10. The ANAO has applied ASA 701 *Communicating Key Audit Matters in the Independent Auditor’s Report* for the 25 entities included in Auditor-General Report No.40 *Interim Report on Key Financial Controls of Major Entities* and the CFS. In 2020–21 a total of 58 key audit matters (KAM) were included across the 25 entities and seven KAM were included in the CFS auditor’s report.

Removal of user access

11. ISM *Security Control 0430* specifies that access is removed or suspended on the same day personnel no longer have a legitimate requirement for access. An assessment of the IT control environment was performed on 18 interim report entities. The assessment includes a review of Security Control 0430. The ANAO identified eight of these entities did not adequately implement Security Control 0430 which resulted in user accounts remaining active after staff no longer required the access. Five out of the eight entities had user accounts that were accessed after the date where access was no longer required.

Financial sustainability

12. An assessment of an entity’s financial sustainability can provide an indication of financial management issues or signal a risk that the entity will require additional or refocused funding. Our analysis concluded that the financial sustainability of the majority of entities was not at risk.

Summary of audit findings

13. A total of 164 findings were reported to entities as a result of the 2020–21 financial statements audits. These comprised two significant, 21 moderate, 127 minor findings and 14 legislative findings. The highest number of findings are in the categories of:

- IT security management and user access, in particular the management of privileged users; and
- accounting and control of non-financial assets.

14. The total findings included three significant legislative breaches, one of which has remained open since 2012–13. Eight of the 14 legislative breaches related to remuneration of key management personnel.

Reporting and auditing frameworks

Changes to the Australian public sector reporting framework

15. There were no significant changes in accounting standards in 2020–21. A revised ASA 540 *Auditing Accounting Estimates and Related Disclosures* was issued in December 2018 and was implemented in ANAO audits of financial statements in 2020–21. The ANAO introduced new methodology templates to address the requirements.

16. The auditing of performance information is an emerging area of interest for both national and international auditing standard setters. For the ANAO, this is an area of strategic priority as it enhances accountability and transparency to the Parliament.

17. Data analytics continues to be a focus for the ANAO, and audits undertaken in 2020–21 have continued to build on previous initiatives to enhance audit quality and efficiency. In 2021, the ANAO applied four standardised data analytics solutions to audits, at least one of which was used by more than 35 audit teams.

Cost of this report

18. The cost to the ANAO of producing this report is approximately \$430,000.

1. The Consolidated Financial Statements

Chapter coverage

This chapter outlines the results of the audit of the Consolidated Financial Statements (CFS) of the Australian Government, which includes the Whole of Government and the General Government Sector (GGS) financial statements for the year ended 30 June 2021, and the Australian Government's financial results for 2020–21.

The chapter also includes:

- the key audit matters (KAM) reported for the CFS;
- an analysis of the Australian Government's financial outcome and financial position; and
- an analysis of the Australian Government loans and equity issued, including investments made for policy purposes in public corporations and concessional loans.

Audit results

The 2020–21 CFS was signed by the Minister for Finance on 12 November 2021 and the Auditor-General's unmodified auditor's report was issued on 15 November 2021.

There were no significant or moderate audit issues identified in the audit of the CFS in 2020–21 or 2019–20.

In 2020–21 there was one new KAM relating to the valuation of Australian Government securities. The KAM relating to the occurrence and accuracy of JobKeeper payments and cash flow boost to support businesses, reported in 2019–20, was removed.

Expenses of the Australian Government totalling \$671.6 billion for the year ended 30 June 2021 were funded by \$541.2 billion of revenue and approximately \$130.4 billion net borrowings. The borrowings represent 19.4 per cent of the total expenses for 2020–21 (compared to 16.6 per cent in 2019–20).

The Australian Government's net worth deficiency increased from \$679.9 billion in 2019–20 to \$743.2 billion in 2020–21.

Over the period 2011–12 to 2020–21, total assets increased from \$390.6 billion to \$1,000.1 billion, total liabilities increased from \$647.5 billion to \$1,743.3 billion and net worth has decreased from a deficit of \$256.9 billion to a deficit of \$743.2 billion.

Background

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

1.2 The CFS presents the consolidated whole of government financial results which includes the results of all Australian Government controlled entities, as well as the GGS financial statements. The 2020–21 CFS is prepared in accordance with section 48 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the requirements of the Australian Accounting Standards, including AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049).

1.3 AASB 1049 requires, with limited 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 audit matters

1.4 The ANAO's 2020–21 audit approach identified seven key areas of financial statements risk that had the potential to impact the CFS and which were considered key audit matters (KAM). In 2020–21 there is one new KAM relating to the valuation of Australian Government securities. The KAM relating to the occurrence and accuracy of JobKeeper payments and cash flow boost to support businesses, reported in 2019–20, was removed. The KAM for 2020–21 are provided below in Table 1.1.

Table 1.1: CFS key audit matters

| Relevant financial statements item ^a | Key audit matters | Audit risk rating | Factors contributing to the risk assessment |
|--|--|-------------------|---|
| Taxation revenue \$479.9 billion <i>Australian Taxation Office</i> <i>Department of Home Affairs</i> | Accuracy of taxation revenue | Higher | <ul style="list-style-type: none"> complex estimation processes, involving significant judgement and specialist knowledge; completeness, relevance and accuracy of source data; and volatility in economic conditions, such as wage growth, gross domestic product and historical information increases the uncertainty of factors underpinning the estimates. |
| Personal benefits expense \$160.5 billion <i>Australian Taxation Office</i> <i>Department of Education, Skills and Employment</i> <i>Department of Social Services</i> <i>National Disability Insurance Scheme</i> <i>Launch Transition Agency</i> | Accuracy and occurrence of personal benefits expense | Higher | <ul style="list-style-type: none"> reliance on the correct self-disclosure of personal circumstances by a large number of diverse recipients; reliance on complex information technology systems for the processing of a high volume of payments across numerous personal benefit types with varying conditions for determining the payment amount; and implementation of stimulus measures in response to the COVID-19 pandemic where a range of payment eligibility and qualification controls have been varied. |
| Advances paid \$71.6 billion other receivables and accrued revenue \$59.3 billion <i>Australian Taxation Office</i> | Valuation of advances paid and receivables | Moderate | <ul style="list-style-type: none"> for advances paid, particularly student loans through the Higher Education Loan Program (HELP), complexity and uncertainty in estimating fair value, including recoverability and impairment based on estimates of future income of individuals that need to repay, the timing of expected repayments and the amounts not expected to be recovered; |

| Relevant financial statements item ^a | Key audit matters | Audit risk rating | Factors contributing to the risk assessment |
|---|---|-------------------|--|
| <p><i>Department of Education, Skills and Employment</i></p> <p><i>Department of Social Services</i></p> | | | <ul style="list-style-type: none"> for receivables, estimation processes draw on specialist knowledge of debt provisions including allowance for credit amendment and impairment losses for taxation receivables and involve complexity associated with negotiations and dispute resolutions; and sensitivity of these balances to changes in assumptions. |
| <p>Collective investment vehicles (component of investments, loans, and placements)</p> <p>\$90.4 billion</p> <p><i>Future Fund Management Agency (Future Fund)</i></p> <p><i>Department of Finance</i></p> | Valuation of collective investment vehicles | Moderate | <ul style="list-style-type: none"> size of the investments and the inherent subjectivity and significant judgements and estimates required where market data is not available to determine the fair value of these investments. |
| <p>Australian Government Securities</p> <p>\$683.9 billion</p> <p><i>Australian Office of Financial Management</i></p> | Valuation and disclosure of Australian Government Securities | Moderate | <ul style="list-style-type: none"> significant value of the liability and significant volume of instruments issued; fair value movements have a material impact on the financial statements and are impacted by price changes in money markets and capital markets; and complex financial statements disclosure requirements for financial liabilities measured at fair value through profit and loss. |
| <p>Specialist military equipment (SME)</p> <p>\$74.4 billion</p> <p><i>Department of Defence</i></p> <p>other plant, equipment and infrastructure</p> <p>\$69.5 billion</p> <p><i>Numerous entities</i></p> | Valuation of specialist military equipment and other plant, equipment and infrastructure assets | Moderate | <ul style="list-style-type: none"> high degree of management judgement due to the highly specialised nature of the SME, including judgements required to determine appropriate useful lives, to assess the financial impact of indicators of impairment and to obtain replacement costs of assets with similar capability in the absence of an active market; the management of SME assets under construction is dispersed across numerous projects that have complex multi-year contractual arrangements and project management requirements; the annual impairment and revision of useful lives are subject to a high degree of judgement and subjectivity; |

| Relevant financial statements item ^a | Key audit matters | Audit risk rating | Factors contributing to the risk assessment |
|--|---|-------------------|---|
| | | | <ul style="list-style-type: none"> differences in accounting policies applied by Government Business Enterprises, such as NBN Co Limited and Snowy Hydro Limited, compared to those applied in the preparation of the CFS; and complex valuation process and judgement involved in valuing assets such as the nbn network, Inland Rail and Snowy 2.0. |
| Superannuation liabilities ^b \$407.5 billion <i>Department of Defence</i> <i>Department of Finance</i> | Valuation of superannuation liabilities | Higher | <ul style="list-style-type: none"> complexity of the calculation, requiring significant judgement in the selection of long-term assumptions, including the salary growth, pension indexation, pension take-up, invalidity retirements and discount rates to which the valuation of the superannuation liability is highly sensitive; and detailed disclosure requirements for the presentation and disclosure of defined benefit plans. |

Note a: 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 statements 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 2020–21 audit results, and the CFS for the year ended 30 June 2021.

Audit results

1.5 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits of the CFS.

Australian Government's financial outcome

Operating result

1.6 The following key financial measures were reported for 2020–21:

- net operating balance was a deficit of \$130.5 billion (compared to a deficit of \$98.8 billion in 2019–20);
- operating result was a deficit of \$97.9 billion (compared to a deficit of \$133.7 billion in 2019–20); and
- comprehensive result (change in net worth) was a decrease in net worth of \$63.4 billion (compared to a decrease of \$135.4 billion in 2019–20).

1.7 The decrease in the Australian Government's net operating balance was due to an increase in expenses of \$72.3 billion (12.1 per cent), partially offset by an increase in revenue of \$40.7 billion (8.1 per cent).

1.8 The increase in expenses was due to the Australian Government's ongoing economic response to the impact of the COVID-19 pandemic. Key movements in expenses include:

- an increase of \$16.2 billion for additional benefits to households in goods and services such as payments relating to the National Disability Insurance Scheme (\$5.8 billion) and medical and pharmaceutical benefits (\$4.2 billion);
- an increase of current grants expenses of \$17.2 billion relating to payments to states and territories under national partnership arrangements and for goods and services tax (GST) distribution;
- subsidy expenses increased by \$18.0 billion, reflecting an additional \$25.5 billion of JobKeeper payments, partially offset by a decrease in cash flow boost to support business of \$11.3 billion; and
- additional personal benefit expenses of \$15.8 billion, including working age payments such as JobSeeker and support for seniors and students.

1.9 Total revenue increased by \$40.7 billion primarily due to higher taxation revenue (mainly individual income and company taxation) as a result of the improved economic conditions including a stronger labour market, higher commodity prices and strong household consumption compared with the 2019–20 which was impacted by the onset of the COVID-19 pandemic.

1.10 The Australian Government remained in deficit for 2020–21. The operating result deficit improved compared to 2019–20 as a result of fair value gains of \$53.7 billion, primarily attributable to collective investment vehicles and investments administered by the Future Fund (compared to fair value losses in 2019–20 of \$18.8 billion). These gains were partly offset by an increase in the net write-down of assets. In 2020–21 the net write-down of assets was \$12.0 billion (compared to \$9.1 billion in 2019–20), reflecting additional impairment due to the impacts of the COVID-19 pandemic on small businesses.

1.11 The comprehensive result (total change in net worth) is the sum of the operating result deficit of \$97.9 billion and actuarial gains on the superannuation liability of \$33.5 billion. The actuarial gain reflects an increase in the Australian Government bond rate resulting in a higher discount rate being applied in the calculation of the superannuation liability.

1.12 The expenses of the Australian Government of \$671.6 billion for the year ended 30 June 2021 were funded by \$541.2 billion of revenue and approximately \$130.4 billion net borrowings. The additional borrowings, representing 19.4 per cent of total expenses, were applied to fund expenses resulting from the various stimulus and support packages comprising payments for personal benefits, subsidy and grants expenses in response to the COVID-19 pandemic. The Australian Government's borrowings are expected to continue to increase through the period of the forward estimates.¹

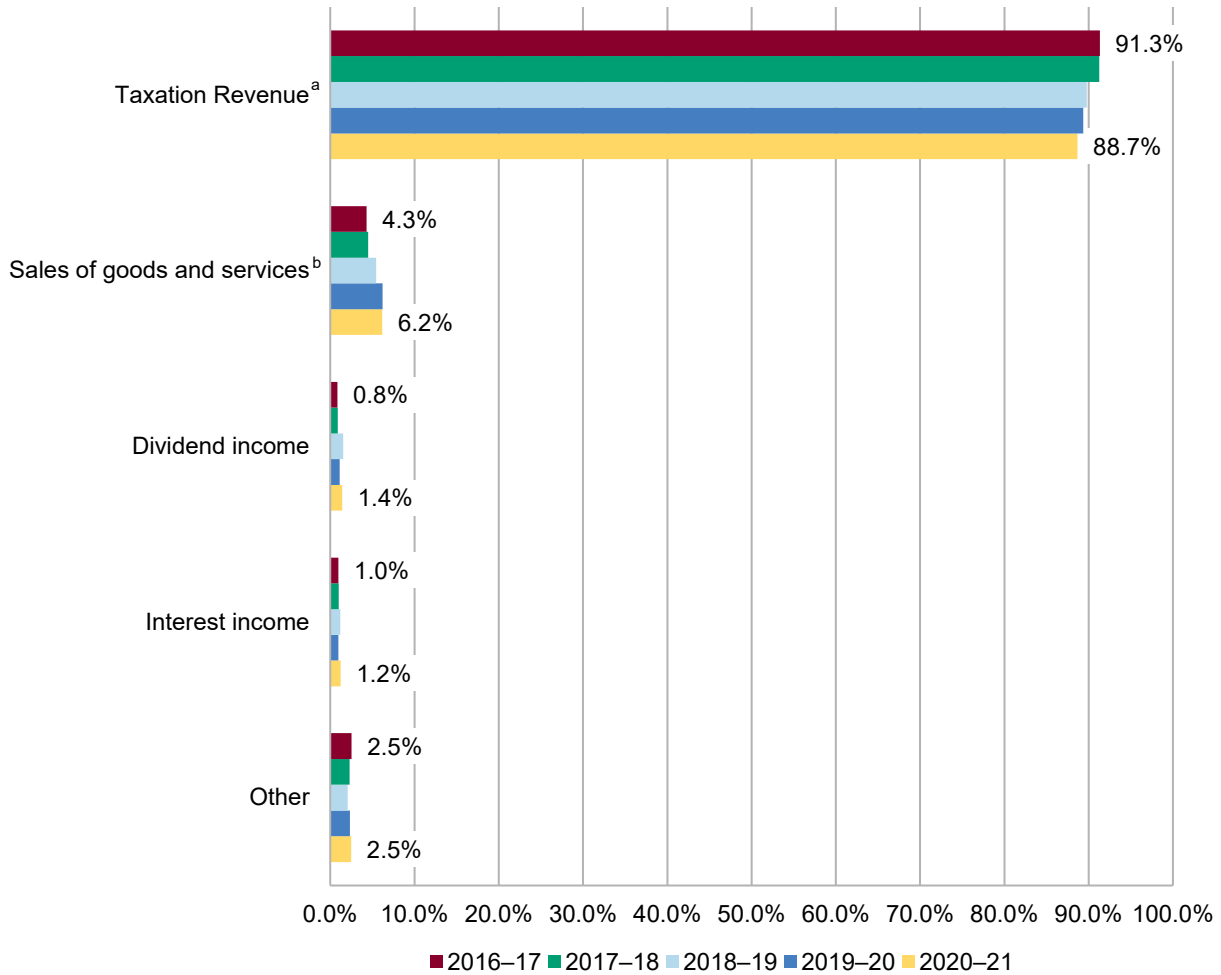
Revenue by source

1.13 The Australian Government's revenue for the year ended 30 June 2021 was \$541.2 billion (compared to \$500.5 billion for the year ended 30 June 2020). Figure 1.1 provides an analysis of revenue by source from 1 July 2016 to 30 June 2021. Each revenue source as a percentage of total

1 2021–22 Budget Paper 1 Budget Strategy and Outlook, Table 10.2 Australian Government general government sector balance sheet.

revenue has remained steady with the proportion of taxation revenue decreasing slightly from 91.3 per cent in 2016–17 to 88.7 per cent in 2020–21. Sales of goods and services has increased from 4.3 per cent to 6.2 per cent during the same period. Taxation revenue including company tax, individual tax and sales taxes remains the major source of Australian Government revenue.

Figure 1.1: Australian Government revenue by source from 2016–17 to 2020–21



Note a: In 2020–21 the main sources of taxation revenue included individual tax (49.1 per cent), company tax (20.6 per cent), sales taxes (16.0 per cent), excise duty (5.1 per cent), and customs duty (3.8 per cent).

Note b: Sales of goods and services include revenue received from the provision of regulatory services, rental income, sale of electricity by Snowy Hydro Limited, postal services and the broadband network.

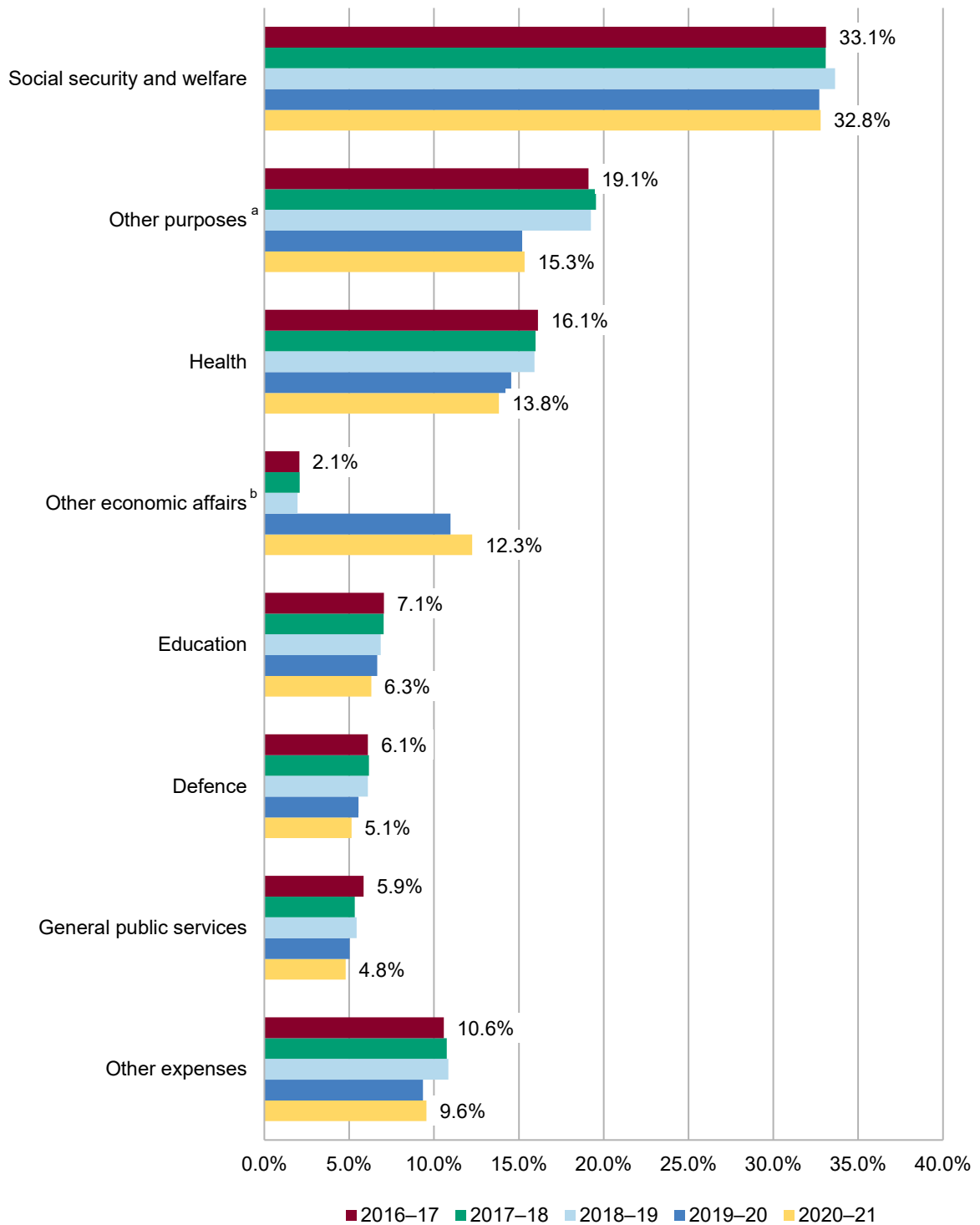
Source: ANAO analysis of CFS from 2016–17 to 2020–21.

Classification of expenses by the functions of Government

1.14 Figure 1.2 provides an analysis of the Australian Government’s expenses by function from 1 July 2016 to 30 June 2021. As a percentage of total expenses, each function has remained stable during this period with the exception of ‘Other economic affairs’, which increased from 2.1 per cent in 2016–17 to 12.3 per cent in 2020–21. The ‘Other economic affairs’ function had higher expenses in 2019–20 and 2020–21 due to the JobKeeper payments and cash flow boost

measures administered by the Australian Taxation Office to support businesses impacted by the effects of the COVID-19 pandemic.

Figure 1.2: Proportion of expenses of Government by function from 2016–17 to 2020–21



Note a: The 'Other purposes' function includes payments to: agriculture, forestry and fishing; fuel and energy; housing and community amenities; mining, manufacturing and construction; public order and safety; and transport and communications.

Note b: The 'Other economic affairs' function represents non-standard payments including storage, tourism promotion, labour market assistance to industry and industrial relations.

Source: ANAO analysis of the CFS from 2016–17 to 2020–21.

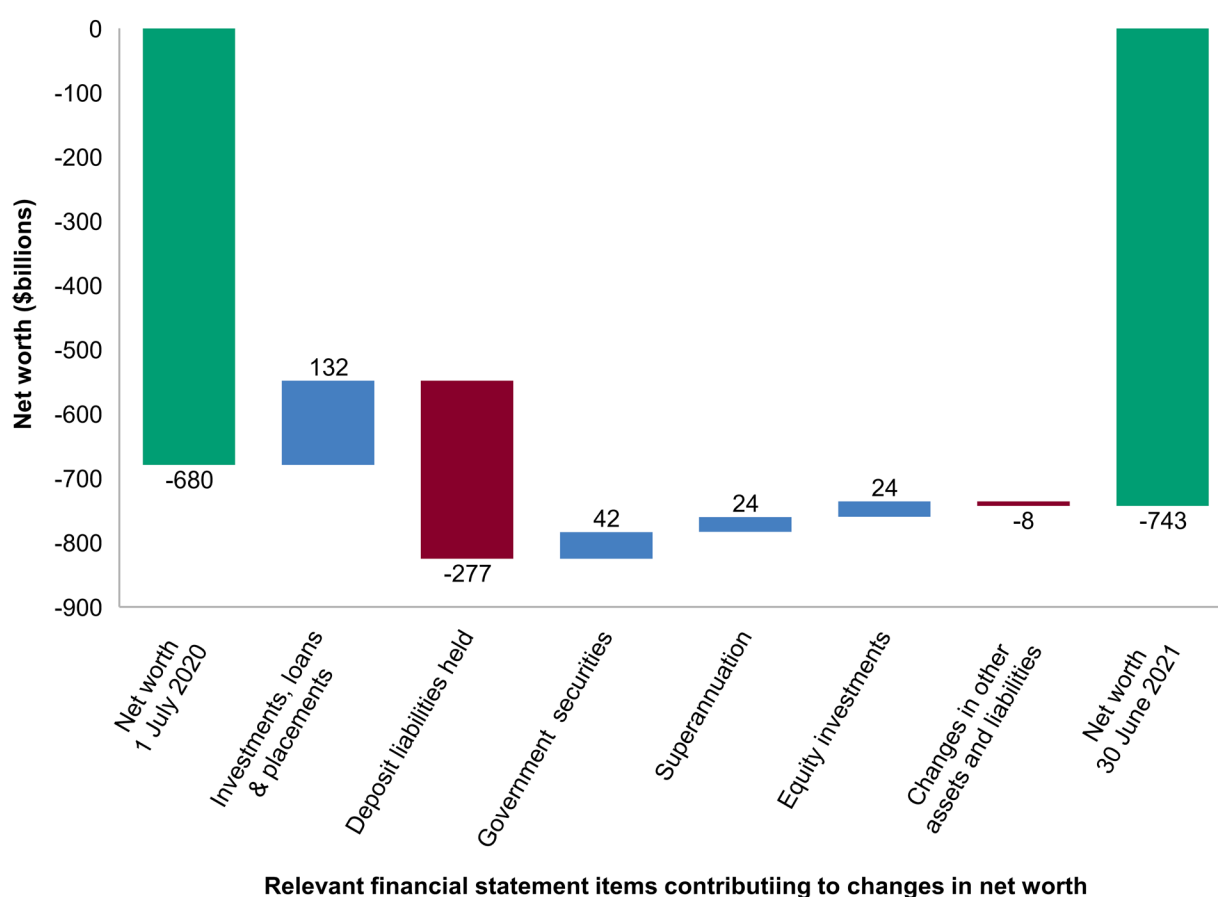
Australian Government's financial position

Net worth

Change in net worth from 1 July 2020 to 30 June 2021

1.15 The Australian Government's net worth deficiency increased from \$679.9 billion in 2019–20 to \$743.2 billion in 2020–21. Figure 1.3 provides an analysis of the change in net worth from 1 July 2020 to 30 June 2021.

Figure 1.3: Changes in the Australian Government's net worth from 1 July 2020 to 30 June 2021



Source: ANAO analysis of 2020–21 CFS.

1.16 Table 1.2 provides an explanation of the key contributors to the change in net worth of the Australian Government between 1 July 2020 and 30 June 2021 identified in Figure 1.3.

Table 1.2: Explanation of key changes in net worth from 1 July 2020 to 30 June 2021

| Relevant financial statements item | Explanation for key changes in net worth from 1 July 2020 to 30 June 2021 |
|--|--|
| Investments, loans & placements | <p>Investments, loans and placements comprise securities and other non-equity investments held for liquidity or policy purposes. The increase of \$131.6 billion includes:</p> <ul style="list-style-type: none"> • an increase of \$117.2 billion of investments made by the Reserve Bank of Australia (RBA) to purchase government securities as part of monetary policy measures to lower interest rate yields on bonds; and the expansion of the Term Funding Facility for banks. These measures were taken by the RBA with the expected impact of lowering interest rates and exchange rate to support the economy in response to the COVID-19 pandemic²; and • an increase of \$14.0 billion in the value of collective investment vehicles administered by the Future Fund and other Australian Government Investment Funds (such as the Medical Research Future Fund) due to the improvement in investment values as the economy recovers from the impact of the COVID-19 pandemic. |
| Deposit liabilities held | <p>Deposit liabilities held represent the exchange liabilities reported by the RBA. The RBA operates and maintains the interbank settlement system, the Reserve Bank Information and Transfer System (RITS). RITS facilitates the settlement of interbank obligations arising from the range of payments used in Australia including electronic transfer, card, cheque and high value payments. The increase of \$277.0 billion is primarily the result of additional deposits by financial institutions to facilitate the expansion of the Term Fund Facility for banks by the RBA in response to the impact of the COVID-19 pandemic.</p> |
| Government securities | <p>The Australian Office of Financial Management (AOFM), on behalf of the Australian Government, undertakes debt management activities including the issuance of Australian Government securities, such as, Treasury Bonds, Treasury Indexed Bonds and Treasury Notes, to meet the Australian Government's financing objectives. The reported value of Government securities for the Australian Government decreased by \$42.0 billion. This is primarily driven by:</p> <ul style="list-style-type: none"> • a decrease in the value of Treasury Bonds due mainly to a \$30.2 billion change in fair value of bond liabilities given an increase in the discount rate applied in fair value calculations (reflecting an increase in the long-term interest rate yield); and • a decrease in the value of Treasury Notes of \$31.5 billion due to repayments of \$126.0 billion offset by issuance of new notes of \$94.5 billion. |
| Superannuation liabilities | <p>There was a decrease in the value of the Australian Government's defined benefit superannuation liability of \$23.6 billion due to an increase in the discount rate that has been applied in the calculation of the liability. The discount rate applied in the calculation of superannuation liabilities is consistent with the long-term Australian Government bond rate which increased during the period.</p> <p>An increase in the discount rate has the effect of reducing the present value of the estimated value of future superannuation liabilities.</p> |

² Reserve Bank of Australia Annual Report 2020–21, available from: [Reserve Bank of Australia Annual Report 2021 \(rba.gov.au\)](https://www.rba.gov.au/annual-reports/2020-21/) [accessed 28 October 2021].

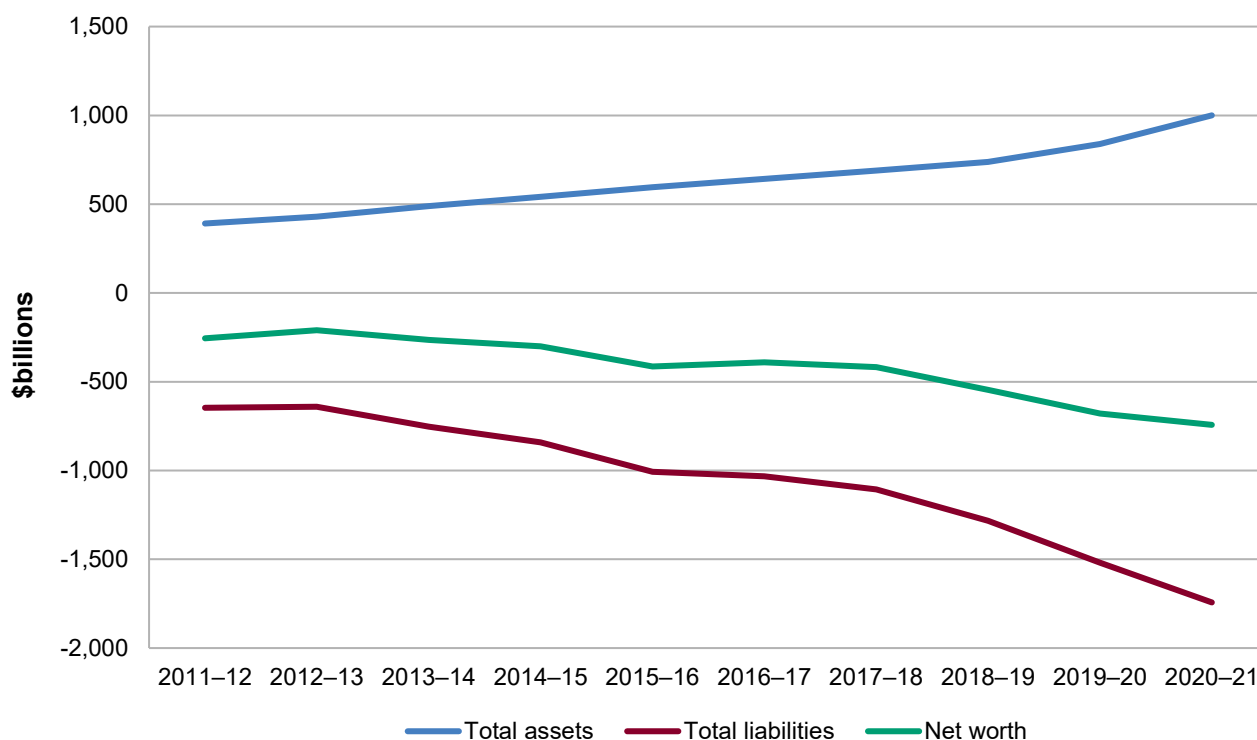
| Relevant financial statements item | Explanation for key changes in net worth from 1 July 2020 to 30 June 2021 |
|--|---|
| Equity investments | Equity investments primarily comprise the Future Fund's holdings of listed equities and listed managed investment schemes. There was a \$24.3 billion increase in the value of these investments due to improvement in fair values as markets recover from the impact of the COVID-19 pandemic. |
| Changes in other assets and liabilities | Significant movements in other assets and liabilities include: <ul style="list-style-type: none"> • an increase of \$6.8 billion in advances paid, including the increase in the value of student loans resulting from the HELP program of \$3.0 billion; • an increase in SME of \$2.2 billion, as a result of additions and revaluation adjustments; • a decrease in other provisions of \$11.3 billion related to the cessation of the JobKeeper and cash flow boost payments during 2020–21; • an increase of \$5.5 billion in other employee liabilities due to increases in the provision for military compensation; and • an additional \$5.4 billion in Australian banknote currency on issue. |

Source: ANAO analysis of 2020–21 CFS.

Changes in the Australian Government's net worth from 2011–12 to 2020–21

1.17 Figure 1.4 demonstrates the changes in the Australian Government's total assets, total liabilities and net worth over the period 2011–12 to 2020–21. Total assets increased from \$390.6 billion to \$1,000.1 billion, total liabilities increased from \$647.5 billion to \$1,743.3 billion and net worth has decreased from a deficit of \$256.9 billion to a deficit of \$743.2 billion.

Figure 1.4: Australian Government's total assets, total liabilities and net worth, from 2011–12 to 2020–21



Source: ANAO analysis of 2011–12 to 2020–21 CFS.

1.18 The primary reasons for the increase in total assets include:

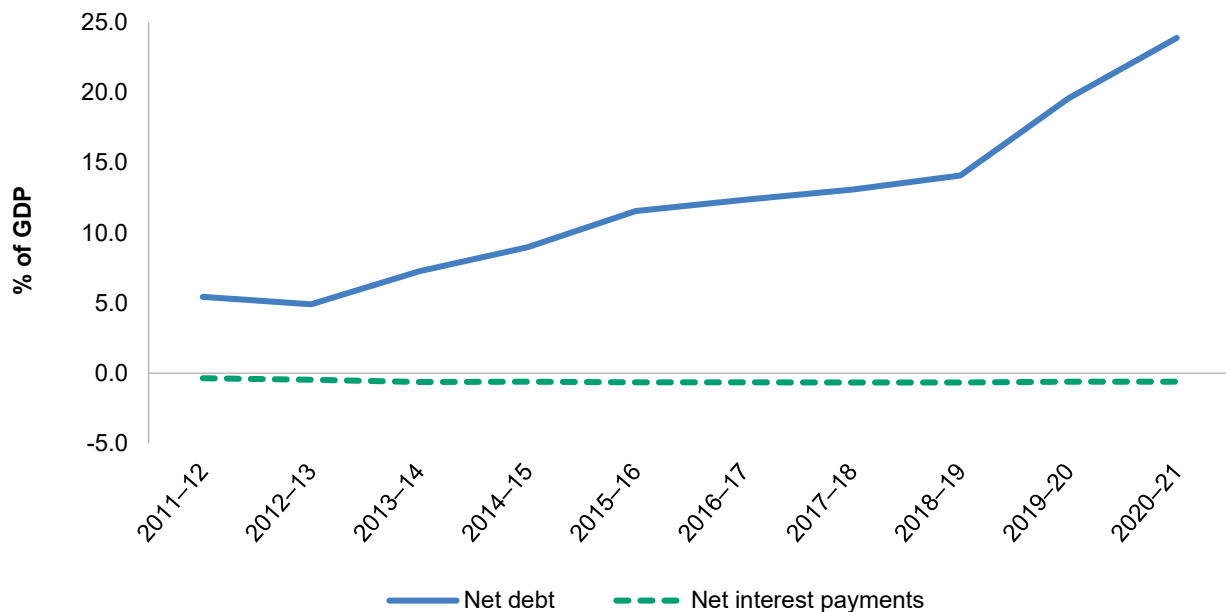
- investments, loans and placements and equity investments increased from \$167.2 billion in 2011–12 to in \$613.5 billion in 2020–21. A major contributor to this class of assets is the Australian Government’s holding of investments in the Future Fund (\$191.4 billion); and
- advances paid and receivables, such as student loans, which increased from \$66.6 billion in 2011–12 to \$130.8 billion in 2020–21.

1.19 The increase in total liabilities is the result of:

- government securities, from \$201.3 billion in 2011–12 to \$683.9 billion in 2020–21;
- deposit liabilities held, from \$3.0 billion in 2011–12 to \$356.0 billion in 2020–21; and
- employee liabilities, including superannuation liabilities and military compensation provision, from \$253.1 billion in 2011–12 to \$447.5 billion in 2020–21.

1.20 There has continued to be a steady growth in net debt as a per cent of Gross Domestic Product (GDP) since 2011–12. Figure 1.5 below illustrates the change in the indicators of the net financial position of the Australian Government since 2011–12 as a per cent of GDP.

Figure 1.5: Australian Government net debt position as a per cent of GDP, from 2011–12 to 2020–21



Source: ANAO analysis of 2020–21 commentary on the CFS.

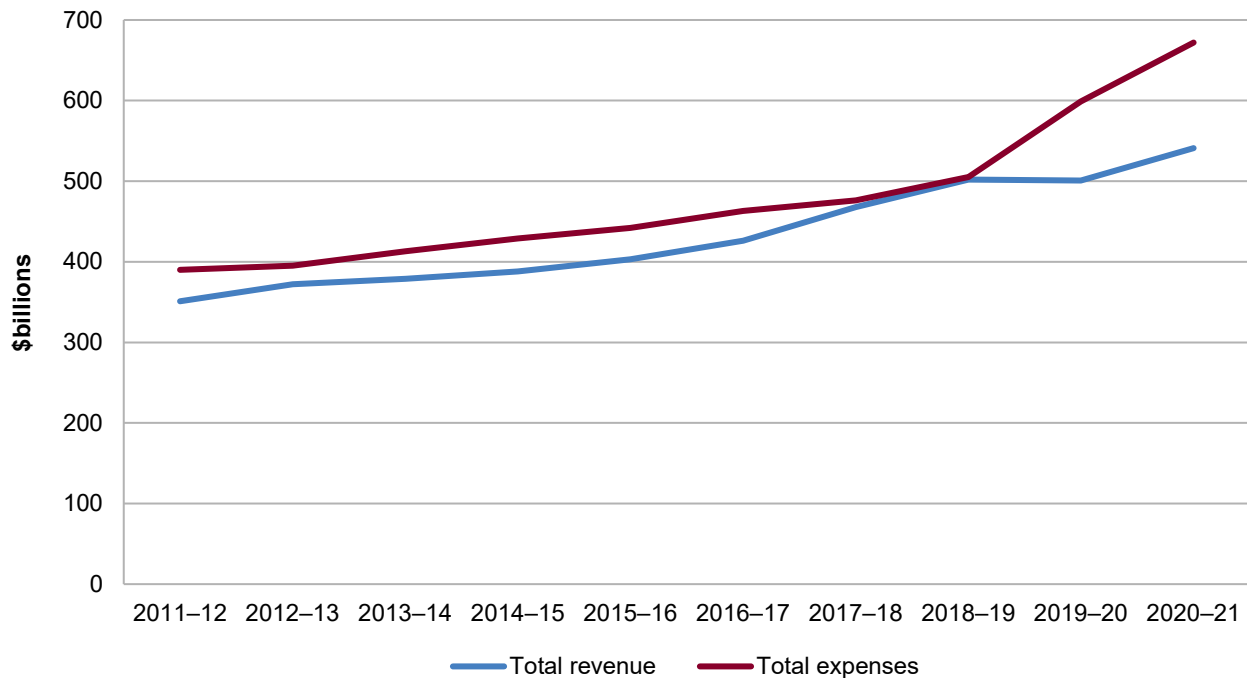
1.21 Net interest payments were \$12.9 billion in 2020–21, remaining stable compared to \$13.5 billion in 2019–20, reflecting the low interest rates incurred on Government Securities as a result of global economic conditions and the impact of the COVID-19 pandemic on financial markets.³

3 Net interest payments are interest paid less interest received by the Australian Government during the financial year.

Government securities

1.22 Government securities are primarily issued to meet the financing needs of the Australian Government. Since 2011–12 there has been continued growth in the value of Government securities issued in order to fund the operations of the Australian Government because expenses have been greater than revenue received. Figure 1.6 below illustrates the growth of Australian Government revenue and expenses over the period 2011–12 to 2020–21.

Figure 1.6: Australian Government revenue and expense for the period 2011–12 to 2020–21



Source: ANAO analysis of 2011–12 to 2020–21 CFS.

1.23 Government Securities on issue from the AOFM increased by \$132.3 billion (GGS) during the period. However, as a portion of the securities issued are purchased by the RBA for monetary policy purposes, after eliminations for these related transactions, Government Securities decreased by \$42.0 billion at the Australian Government level in 2020–21.

1.24 The decrease in the fair value reflects the impact of the increase in yields incurred on Government Securities. For financial reporting purposes the value of Government Securities liabilities is discounted by the yield on the security over the term of the security to settlement. As the yield on these securities increases, the present value of the liability decreases.

Superannuation liabilities and the Future Fund

1.25 The Australian Government has superannuation liabilities arising from obligations to employees for defined benefit superannuation schemes. Note 9C of the CFS provides information on the nature of these schemes. The total superannuation net liability as at 30 June 2021 for these schemes was \$407.5 billion (compared to \$431.1 billion as at 30 June 2020). The significant balances of the reported net liability relate to the following schemes that are closed to new members:

- Commonwealth Superannuation Scheme (\$86.2 billion);

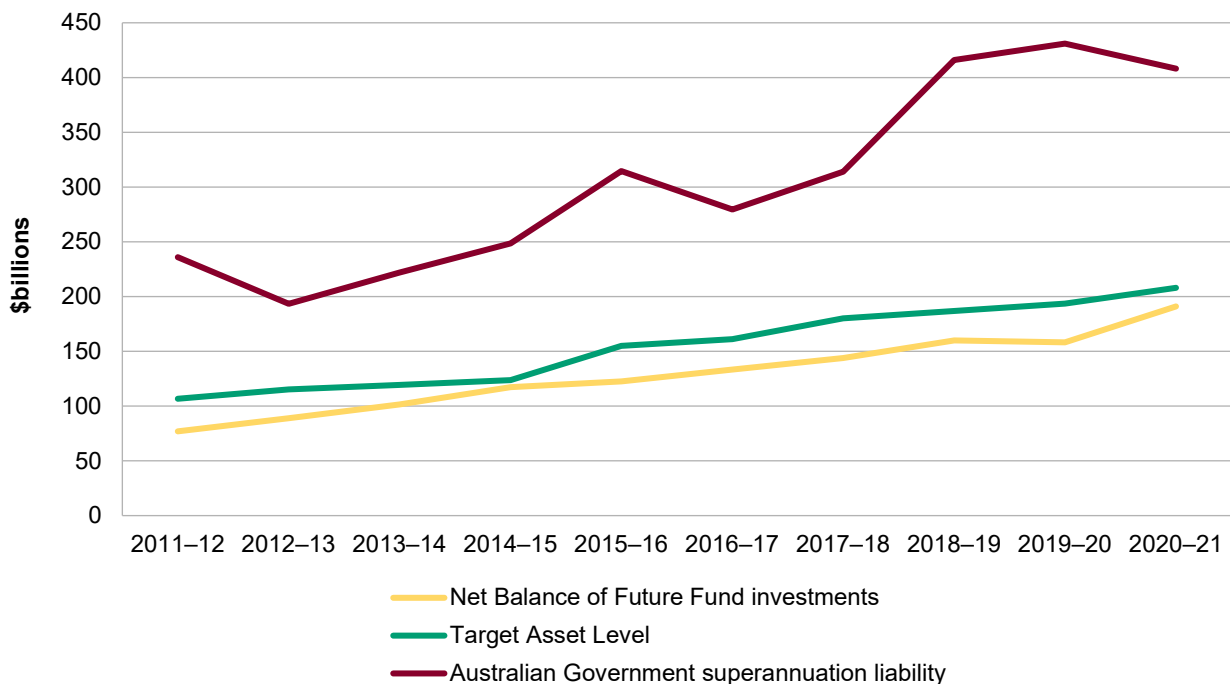
- Public Sector Superannuation Scheme (\$137.4 billion);
- Military Superannuation Benefits Scheme (\$131.7 billion); and
- Defence Force Retirement and Death Benefits Scheme (\$45.8 billion).

1.26 The primary reason for the decrease in the liability is the increase in the discount rate used in valuing the superannuation liability between 30 June 2020 and 30 June 2021.⁴ The long-term nature of the superannuation liability means that small changes to the discount rate can have a large impact on the estimation of the value of the liability.

1.27 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. The Future Fund’s 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.

1.28 Figure 1.7 provides an overview of the balances of the Australian Government superannuation liabilities, the net investment balance of the Future Fund and the Target Asset Level (TAL) from 2011–12 to 2020–21.

Figure 1.7: Total value of Australian Government superannuation liabilities and Future Fund investments, and the Target Asset Level, from 2011–12 to 2020–21



Source: ANAO analysis of 2020–21 CFS and the Target Asset Level Declaration issued by the designated actuary of the Future Fund on 25 June 2021.

1.29 The TAL represents the best estimate of the assets required, together with investment earnings on those assets, which would be sufficient to meet future unfunded superannuation benefit payments. As such, the discount rate used to calculate the present value of future

⁴ The discount rate applied in the estimation of the liability was 2.0–2.3% (2020: 1.4–1.7%). The increase in the discount rate was related to the increase in the market yield on Australian Government securities during 2020–21.

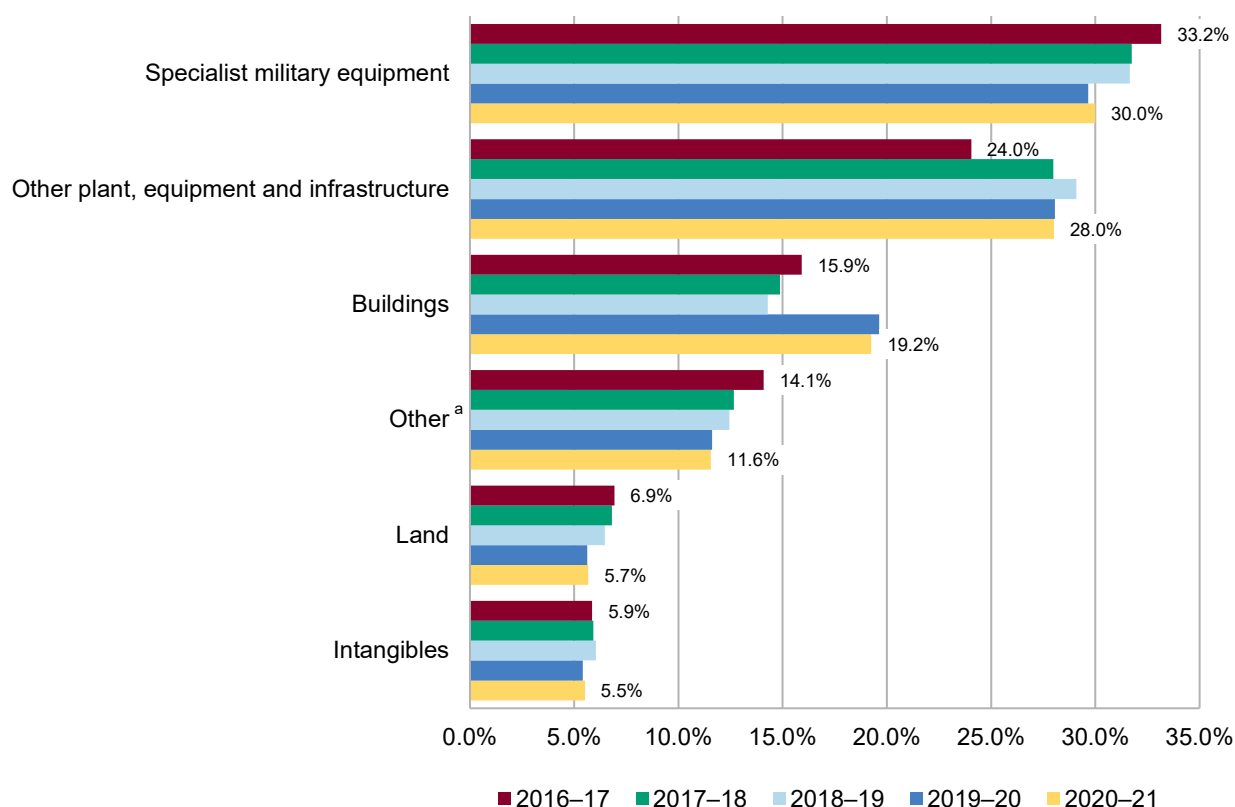
payments for TAL purposes represents the expected investment return on Future Fund assets. The Australian Government superannuation liability included in Figure 1.7 reflects the present value of future unfunded superannuation benefits payments discounted using the Commonwealth bond rate, in accordance with Australian Accounting Standards.

1.30 Figure 1.7 illustrates that the 2020–21 estimate of the TAL is \$207.5 billion, which is above the current Future Fund net asset balance of \$191.4 billion (compared to \$158.2 billion in 2019 – 20).⁵ The *Future Fund Act 2006* permits drawdowns, to fund superannuation payments, from 1 July 2020 or when the balance of the Future Fund equals or exceeds the TAL. In 2017 the Australian Government announced it would delay drawdowns from the Future Fund until at least 2026–27.

Non-financial assets

1.31 Non-financial assets comprise the Australian Government's holdings of land, buildings, plant, equipment and infrastructure, heritage and cultural assets, investment properties and intangibles. The Australian Government's non-financial assets for the year ended 30 June 2021 was \$248.0 billion (\$241.8 billion for the year ended 30 June 2020). Figure 1.8 provides an analysis of non-financial assets by source from 1 July 2016 to 30 June 2021.

Figure 1.8: Australian Government assets by class from 2016–17 to 2020–21



Note a: Other comprises inventory, heritage and cultural assets, investment properties and other non-financial assets.
Source: ANAO analysis of CFS from 2016–17 to 2020–21.

5 Designated Actuary's Report: Target Asset Level Declaration of 25 June 2021, available from <https://www.finance.gov.au/sites/default/files/2021-07/2021%20Future%20Fund%20TAL%20Declaration.pdf> [accessed on 27 October 2021]

1.32 During the period 2016–17 to 2020–21 there have been changes in the composition of the balance of non-financial assets, particularly in relation to specialist military equipment, other plant, equipment and infrastructure and buildings. These changes are:

- specialist military equipment declined from 33.2 per cent in 2016–17 to 30.0 per cent in 2020–21. Whilst the total proportion of the balance of total non-financial assets has decreased, the balance increased by \$15.8 billion over the period reflecting capability acquisition and development and fair value changes;
- other infrastructure, plant and equipment increased from 24.0 per cent in 2016–17 to 28.0 per cent in 2020–21. The increase mainly relates to the acquisition or construction of additional infrastructure assets including broadband network infrastructure by NBN Co Limited, electricity generation assets by Snowy Hydro Limited and infrastructure projects such as the construction of the Nancy Bird Walton Western Sydney International Airport; and
- buildings increased from 15.9 per cent in 2016–17 to 19.2 per cent in 2020–21. This change was due to the implementation of Australian Accounting Standard AASB 16 *Leases* on 1 July 2019, for which a right-of-use asset corresponding to the discounted future cash flows for rented premises was recognised for the first time.

Australian Government loans and equity issued

Investments for policy purposes

1.33 The Australian Government reports fiscal aggregates including net operating balance and underlying cash. These aggregates exclude cash or accounting movements that are of an investment or financing nature, such as investments made for policy purposes and the fair value losses on these investments.

1.34 Investments made for policy purposes have elements of economic and social benefits in addition to providing commercial returns to the Australian Government. There may be some benefits in segregating the commercial and non-commercial portions of the investments to better reflect the implications on key fiscal aggregates.⁶

1.35 Two key items included in investments made for policy purposes are investments in public corporations and concessional loans. The accounting treatment of investments in public corporations and concessional loans is discussed below.

Investment in public corporations (GGS)

1.36 Investments in Australian Government controlled entities has increased. Consistent with reporting requirements, these investments do not impact net operating balance or underlying cash.

6 The Parliamentary Budget Office Report no.01/2020 *Alternative Financing of Government Policies* examined the trends in the use of alternative financing arrangements and explained how these arrangements relate to the Australian Government budget and identified possible enhancements to budget reporting to support public understanding. Parliamentary Budget Office Report no.1/2020, available from https://www.apb.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Publications/Research_reports/Alternative_financing_of_government_policies [accessed on 27 October 2021].

1.37 The majority of these investments are in entities that provide a positive real return to the GGS over the life of the investment and are classified as equity injections. Examples of the difference between these types of equity injections are demonstrated by:

- WSA Co Limited is constructing and operating the Nancy Bird-Walton Western Sydney International Airport. The Australian Government is providing up to \$5.3 billion in equity injections to the entity to construct the airport. There is an expectation that the investment will make a positive return over the long-term following the completion of the construction and commencement of the airport operations; and
- Australian Rail Track Corporation Limited (ARTC) is undertaking the construction of the Melbourne to Brisbane Inland Rail line. The Australian Government will provide up to \$14.5 billion in equity injections to the entity to construct the Inland Rail Line which will be operated in addition to the entity's existing business units. The Australian Government makes a return on the entity's existing operations.

1.38 The impact of the equity injections or operations of these entities is not reflected in the net operating balance unless dividends are received from the entities. The ongoing valuations of these entities are reflected in net worth. If the valuation of these entities deteriorates (for example as a result of accumulating losses or the valuation of future cash flows associated with assets procured through equity injections being less than their purchase costs), the deterioration in the position will be reflected in the GGS' net worth but not impact on the net operating balance even if the deterioration was a predictable result of a non-commercial policy decision.

1.39 For instance, ARTC's accounting policy for the assets constructed in relation to the Inland Rail Line is to impair the balance of expenditure to nil value on the construction of Inland Rail. This impairment is based on the judgement that ARTC does not expect the future cash flows from the operation of the Inland Rail Line to exceed the cost of construction and operation, and as a result will not make a real rate of return. At the time of making payments for each equity injection to the entity the Australian Government is aware that no returns are expected from the investment being made to fund the construction of Inland Rail. As the injection is made to an existing entity that achieves a real positive rate of return from existing operations, the injection of equity is treated as an investment. As a result, changes in value of the entity are reflected as a change in net worth, but the cost of making an investment that is not expected to maintain a real positive rate of return is not reflected in the net operating balance or underlying cash balance.

1.40 Table 1.3 shows investments made in Australian Government entities where the equity contributed is greater than \$300.0 million.

Table 1.3: Australian Government entities' contributed equity, net assets and GGS fair value

| Entity | Contributed equity \$000 | Net assets \$000 | Fair value (GGS) \$000 |
|---|-----------------------------|---------------------|---------------------------|
| Australian Naval Infrastructure Pty Ltd | 1,395,823 | 1,425,775 | 1,425,775 |
| Australian Postal Corporation | 400,000 | 2,487,900 | 2,300,000 |

| Entity | Contributed equity \$000 | Net assets \$000 | Fair value (GGS) \$000 |
|-----------------------------------|-----------------------------|--------------------------|---------------------------|
| Australian Rail Track Corporation | 4,291,332 | 2,719,221 | 2,728,400 |
| Moorebank Intermodal Company | 466,172 | 321,406 | 321,406 |
| NBN Co Limited | 29,500,000 | (1,740,000) ^a | 18,000,000 |
| Snowy Hydro Limited | 1,375,100 ^b | 2,522,000 | 11,000,000 |
| WSA Co Limited | 1,744,165 | 612,212 ^c | 999,248 ^c |

Note a: The net equity deficiency reported by NBN Co Limited is mainly due to an increase in the company's borrowings for medium term notes and private debt during 2020–21.

Note b: Snowy Hydro Limited is currently receiving contributed equity from the Australian Government for the delivery of the Snowy 2.0 hydro-electricity generation project. The balance of contributed equity comprises \$816.1 million recognised prior to the Australian Government taking full ownership of the company in July 2018. The remaining contributed equity relates to contributions by the Australian Government after the purchase date.

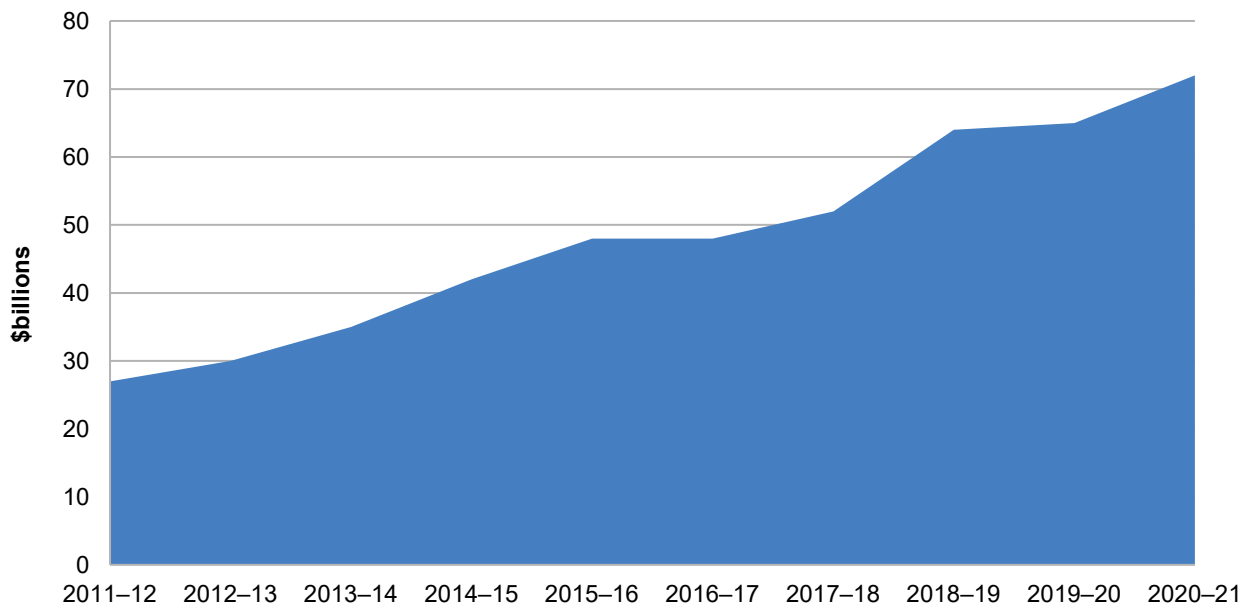
Note c: The differential in these values is due to the land transferred held under finance lease by WSA Co Limited at nil value. The land has a value for GGS purposes.

Source: ANAO analysis of entity 2020–21 financial statements and the CFS for the year ended 30 June 2021.

Concessional loans

1.41 There has been a continual growth in loans provided by the Australian Government, with a large proportion of these loans being concessional. Concessional loans are loans provided on favourable terms, for example, the interest rate may be below the current market rate for loans of similar risk. Figure 1.9 illustrates the growth in loans and advances paid during the period 2011–12 to 2020–21.

Figure 1.9: Australian Government loans and advances paid from 2011–12 to 2020–21



Source: ANAO analysis of 2011–12 to 2020–21 CFS.

Higher Education Loan Program

1.42 The Higher Education Loan Program (HELP) is the largest Australian Government concessional loan program and is administered by the Department of Education, Skills and Employment (DESE). HELP provides financial assistance to students through income contingent loans to remove up-front cost barriers to tertiary education.

1.43 These loans are indexed to the Consumer Price Index and repayments are linked to the ability to pay based on income thresholds. The income contingent conditions associated with these loans includes not recovering the value of loans outstanding for individuals where income does not meet an annual threshold. In these circumstances the Australian Government forgoes repayment of some loans.

1.44 The policy of making HELP and other student loans income contingent has a significant cost to the Australian Government. The fair value of student loans at 30 June 2021 was \$55.5 billion compared to the nominal value of the loans of \$70.3 billion. The difference between the nominal value and the fair value includes a total of \$14.8 billion that is made up of amounts not expected to be repaid and the impact of the yield curve movement based on 2020–21 actuarial assessment.⁷ This reflects the accumulated cost to the Australian Government of making the loans income contingent.

1.45 Prior to 2020–21, the Australian Government recognised the change in value of debt not expected to be repaid on HELP loans as a change in fair value. The change in fair value was recognised as an ‘other economic flow’ in the operating statement. Other economic flows include revaluations of assets and liabilities. Under AASB 1049, other economic flows are included in some, but not all, fiscal aggregates reported in the CFS. In particular, they are not included in the net operating balance.

1.46 In preparing the 2020–21 CFS, the Australian Government amended its accounting policy in respect of the treatment of HELP and other student loans. The amended accounting policy now reports the change in value of debt not expected to be repaid as a ‘mutually agreed write down’. Mutually agreed write-downs represent transactions where both parties agree to write-off an amount owing. As a result of the change in accounting policy, the movement in the value of debt not expected to be repaid within a financial year is now recorded in the net operating balance.

Administration of concessional loans

1.47 Five Australian Government entities are established for the purpose of issuing concessional loans, in addition to the HELP loans administered by DESE. The Commonwealth entities are as follows:

- Export Finance Australia (EFA) was established in its current form as a corporate Commonwealth entity in 1991. EFA provides and manages a loan portfolio to support Australian based companies seeking to grow internationally, and overseas infrastructure development.
- AOFM was established as a non-corporate Commonwealth entity in 1999 and undertakes debt management activities including the issuance of Government securities such as

⁷ Australian Government Actuary Report: Reporting for Help Receivable for 2019–20.

Treasury Bonds and Treasury Indexed Bonds. AOFM issues, manages and administers debt.

- National Housing Financing and Investment Corporation (NHFIC) was established as a corporate Commonwealth entity on 30 June 2018. NHFIC provides finance to the community housing sector and uses EFA to provide loan management services and other administrative support. During 2020–21, NHFIC raised \$805.0 million through a bond issue to fund the significant portion of the loans it issued. NHFIC reports the loan transactions in its financial statements.
- Regional Investment Corporation (RIC) was established as a corporate Commonwealth entity on 8 March 2018. The RIC administers farm business loans and engages Bendigo Bank as a third-party provider to provide loan management services. The loan balances are reported by the Department of Agriculture, Water and the Environment.
- Northern Australia Infrastructure Facility (NAIF) was established as a corporate Commonwealth entity on 1 July 2016. The primary objective of the entity is to assess infrastructure projects loans. The NAIF utilises the services of EFA to provide back office administrative support. Similar to the RIC, NAIF does not report the loan balances in its financial statements. The infrastructure project loans are reported by the Department of Industry, Science, Energy and Resources.⁸

1.48 During the financial year NHFIC, RIC and NAIF have either approved the commitment of loans, or made loan advances, as set out in Table 1.4 below. The value of loan commitments and advances made by these entities has increased during 2020–21 compared with 2019–20.

Table 1.4: Loan transactions during 2020–21

| Entity | Summary of loan transactions during 2020–21 |
|--|---|
| Northern Australia Infrastructure Facility | \$1.1 billion of commitments approved. |
| National Housing Finance Investment Commission | \$948.4 million in loans were advanced. |
| Regional Investment Corporation | \$2.1 billion of commitments approved. \$922.0 million in loans were advanced. |

Source: ANAO analysis of data provided by entities and 2020–21 annual reports.

Definitions used in this chapter

1.49 Table 1.5 below provides a glossary of the key fiscal aggregates and other terminology used in this chapter to explain the Australian Government’s net worth and financial performance.

Table 1.5: Definitions of terms used

| Name | Definition |
|-----------------------|---|
| Net operating balance | This is calculated as income from transactions minus expenses from transactions. It is equivalent to the change in net worth arising from transactions. |

⁸ The Administrative Arrangement Orders effective 2 July 2021, transferred Northern Australia Infrastructure Facility (NAIF) from the Industry, Science, Energy and Resources portfolio to the Infrastructure, Transport, Regional Development and Communications portfolio. From 2021–22, loan balances managed by NAIF will be reported by the Department of Infrastructure, Transport, Regional Development and Communications.

| Name | Definition |
|----------------------------------|---|
| Operating result | Income less expenses, excluding the components of other comprehensive income. Also known as 'profit and loss'. The operating result includes the net operating balance plus items including net write-down of assets, net gains/(losses) from the sale of assets, net foreign exchange gains/(losses), net interest on derivatives gains/(losses), net fair value gains/(losses) and net other gains/(losses). |
| Other economic flows | Changes in the volume or value of an asset or liability that do not result from transactions (e.g. revaluations). |
| Comprehensive result | Total change in net worth before transactions with owners in their capacity as owners. Also known as 'total change in net worth'. |
| Fiscal balance | The financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. A positive result reflects a net lending position and a negative result reflects a net borrowing position. Also known as net lending/(borrowing). |
| Net worth | Assets less liabilities and shares/contributed capital. The net worth of the Australian Government is defined as assets less liabilities. |
| Net debt | Net debt is equal to gross debt minus the stock position in financial assets corresponding to debt instruments. |
| Net financial worth | Net financial worth is equal to financial assets minus liabilities. It is a broader measure than net debt in that it incorporates provisions made (such as superannuation but excluding depreciation and bad debts) as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities, only some of which are included in net debt. |
| Australian Government Securities | All securities issued by the Australian Government at tenders conducted by the AOFM. They comprise Treasury Bonds, Treasury Notes, Treasury Indexed Bonds. |
| Investments for policy purposes | Acquisitions of financial assets for policy purposes are distinguished from investments by the underlying government motivation for acquiring the assets. Where assets are acquired for the purpose of implementing or promoting government policy (e.g. loans to assist industry development), the acquisition of the assets is treated as being for policy purposes. Acquisition of financial assets for policy purposes includes government policies encouraging the development of certain industries or assisting citizens affected by natural disaster. |
| Cash surplus/deficit | Net cash flows from operating activities plus net cash flows from acquisition and disposal of non-financial assets less distributions paid less the value of assets acquired under finance leases and similar arrangements. |
| Underlying cash balance | Net cash receipts from operations less net capital investment (including by finance lease). |

Source: Australian Bureau of Statistics (2015). Australian System of Government Finance Statistics: Concepts, Sources and Methods; AASB 101 *Preparation of Financial Statements*, paragraph 5 and 7; AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, Appendix A; and Reserve Bank of Australia (2017). Glossary RBA. [online] Available at: <https://www.rba.gov.au/glossary/> [Accessed 27 October 2021].

2. Financial audit results and other matters

Chapter coverage

This chapter provides a summary of the:

- 2020–21 auditor’s reports issued by the ANAO;
- observations regarding entities’ internal control environments;
- a summary of unadjusted audit differences;
- a summary of the reporting of key audit matters (KAM); and
- findings identified during the course of the 2020–21 financial statements audits of entities.

This chapter also provides analysis of the:

- quality and timeliness of financial statements preparation;
- timeliness of entities’ financial reporting;
- removal of user access; and
- financial sustainability of material entities.

Conclusion

The ANAO issued 241 unmodified auditor’s reports, including the Australian Government’s Consolidated Financial Statements (CFS), and one modified auditor’s report as at 19 November 2021. For the majority of entities, at the completion of the final audits, key elements of internal control were operating effectively to provide reasonable assurance that the entities were able to prepare financial statements that were free from material misstatement. For two entities, significant findings were identified which reduced the level of confidence and assurance that could be placed on key elements of internal control.

A quality financial statements preparation process will reduce the risk of untimely, inaccurate or unreliable reporting. Seventy-two per cent of entities delivered financial statements in line with an agreed timetable. The ANAO noted a decrease in findings relating to processes supporting financial statements preparation; improved delivery of draft financial statements in line with entity financial statements project plans; a decrease in the number of unadjusted audit differences; and a decrease in overall total value of unadjusted audit differences reported to entities in 2020–21 compared to 2019–20.

The financial statements were finalised and auditor’s reports issued for 89 per cent of entities within three months of financial year-end. On average it took entities 41 days after the auditor’s report was issued to table their annual reports in Parliament. Eighty-four per cent of entities that are required to table an annual report in Parliament tabled prior to or on the date that the portfolio’s Senate estimates hearing commenced. Of the remaining entities, eight per cent had not tabled an annual report as at 19 November 2021.

The ANAO has applied ASA 701 *Communicating Key Audit Matters in the Independent Auditor’s Report* for the 25 entities included in Auditor-General Report No.40 *Interim Report on Key Financial Controls of Major Entities* and the CFS. In 2020–21 a total of 58 key audit matters (KAM) were included across the 25 entities and seven KAM were included 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. This would enable an entity to assess its own financial sustainability against agreed parameters over time, and against like entities.

ISM *Security Control 0430* specifies that access is removed or suspended on the same day personnel no longer have a legitimate requirement for access. An assessment of the IT control environment was performed on 18 interim report entities. The assessment includes a review of Security Control 0430. The ANAO identified eight of these entities did not adequately implement Security Control 0430 which resulted in user accounts remaining active after staff no longer required the access. Five out of the eight entities had user accounts that were accessed after the date where access was no longer required.

A total of 164 findings were reported to entities as a result of the 2020–21 financial statements audits. These comprised two significant, 21 moderate, 127 minor findings and 14 legislative findings. The highest number of significant and moderate findings are in the categories of:

- IT security management and user access, in particular the management of privileged users; and
- accounting and control of non-financial assets.

Three significant legislative breaches were reported, one of which has remained open since 2012–13. Eight of the 14 legislative breaches related to remuneration of key management personnel.

Introduction

2.1 The Auditor-General is required to complete the financial statements audits of all Australian Government entities and controlled subsidiaries on an annual basis.⁹ This chapter summarises the results of the 2020–21 financial statements audits and provides commentary on specific topics which relate to the governance and administration of entities.

Summary of 2020–21 auditor’s reports

2.2 A comparison of the number and type of auditor’s reports issued by the Auditor-General and his delegates in 2019–20 and 2020–21 (as at 19 November 2021), including the CFS is summarised at Table 2.1. Additional detail relating to the financial reporting frameworks applicable to the Australian Government, and the form and content of auditor’s reports is outlined in appendices 3 and 4.

9 The Norfolk Island Health and Residential Aged Care Service (NIHRACS) is deemed to be Commonwealth controlled and is reported by the Department of Infrastructure, Transport, Regional Development and Communications as an administered investment. NIHRACS is a body corporate with perpetual succession under the *Norfolk Island Health and Residential Aged Care Act 1985*, a Norfolk Island continued law under section 16A of the *Norfolk Island Act 1979 (Cth)*. The *Public Governance, Performance and Accountability Act 2013* does not apply to NIHRACS and as a result the Auditor-General is not appointed as the auditor under the NIHRACS enabling legislation. Norfolk Island legislation also does not require the ANAO to act as the auditor. The ANAO undertakes the audit as an audit by arrangement under the *Auditor-General Act 1997*.

Table 2.1: Summary of auditor’s reports issued and outstanding as at 19 November 2021

| Auditor’s report | 2020–21 | 2019–20 |
|--|------------------------|------------------------|
| Unmodified | 241 | 232 |
| Included an emphasis of matter | 7 ^a | 5 |
| Included a Report on other legal and regulatory requirements | 0 | 0 |
| Modified | 1 ^b | 1 ^b |
| Auditor’s reports issued | 242 | 233 |
| Not yet issued | 3 ^c | 13 ^d |
| Total number of financial statements audits^e | 245^f | 246^f |

Note a: Australian Human Rights Commission, ANSTO Nuclear Medicine Pty Ltd, Department of Veterans’ Affairs, Gagudju Crocodile Hotel Trust, Indigenous Land and Sea Corporation, Kakadu Tourism (GCH) Pty Ltd, Voyages Indigenous Tourism Australia Pty Ltd.

Note b: National Australia Day Council. For further details of the current year qualification, refer to Chapter 4, paragraphs 4.12.60 – 4.12.64.

Note c: The 2020–21 financial statements audit had not been finalised for the following entities: Anindilyakwa Land Council, Australian Secret Intelligence Service and Tiwi Land Council.

Note d: As at 24 November 2020, the 2019–20 financial statements audit had not been finalised for the following entities: Darwin Hotel Partnership, Gagudju Crocodile Hotel Trust; Gagudju Lodge Cooinda Trust; Ikara Wilpena Enterprises Pty Ltd; Ikara Wilpena Holdings Trust; Kakadu Tourism (GCH) Pty Ltd; Kakadu Tourism (GLC) Pty Ltd; North Australia Aboriginal Corporation; Northern Australian Aboriginal Charitable Trust; Northern Land Council; Tennant Creek Land Holding Trust; Tjapukai Aboriginal Cultural Park Partnership and Wilpena Pound Aerodrome Services Pty Ltd.

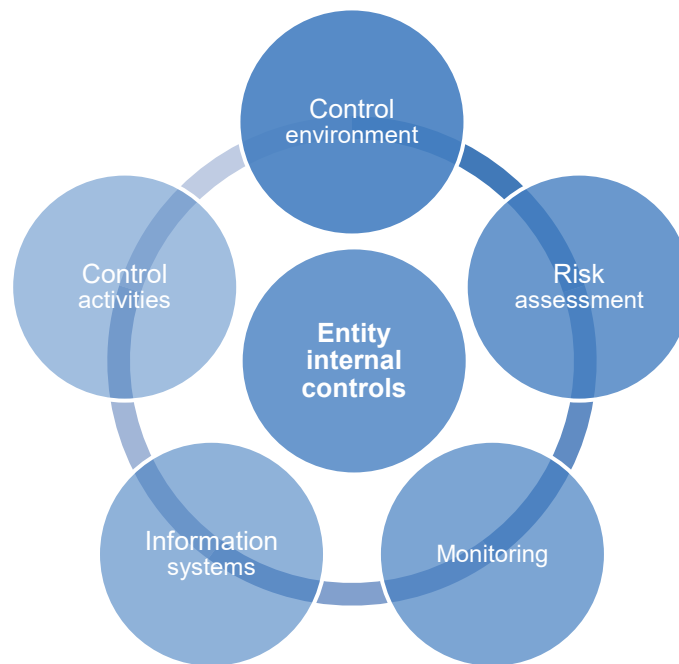
Note e: An additional Commonwealth entity existed at 30 June 2021 that was not included in the total number of financial statements audits in the table above. The Royal Australian Navy Central Canteens Board registered a new subsidiary, Win with Navy Ltd, on 13 April 2021. Under section 323D of the *Corporations Act 2001*, the directors of this new entity have the option of extending the initial financial year to 30 June 2022 if this extension is no longer than 18 months from the date of registration. On this basis, no financial statements were produced by Win with Navy Ltd for the year ended 30 June 2021.

Note f: The Consolidated Financial Statements was included in the total number of financial statements audits.

Source: 2019–20 and 2020–21 ANAO auditor’s reports.

Internal control environment

2.3 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 below 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 A59.

2.4 In assessing the effectiveness of an entity's control environment to support 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 the importance of these 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. For information relating to the assessment of the removal of user access, refer to paragraphs 2.35 to 2.50.

2.5 An effective internal control framework provides a level of assurance that entities are able to prepare financial statements that are free from material misstatement. For the majority of entities, key elements of internal control were operating effectively, providing the ANAO with reasonable assurance that the prepared financial statements were free from material misstatement.

2.6 For 11 entities, except for moderate finding/s outlined in Chapter 4, the key elements of internal control were operating effectively to support the preparation of financial statements free from material misstatement.¹⁰ ANAO identified significant findings for two entities which reduced the level of confidence and assurance that could be placed on the key elements of internal control.¹¹

10 The 11 entities were: Australian Federal Police, Australian Nuclear Science and Technology Organisation, Australian Taxation Office, Departments of: Defence; Health; Parliamentary Services; Social Services; and Veterans' Affairs, National Disability Insurance Scheme Launch Transition Agency, Northern Land Council, and Services Australia.

11 The two entities were the Australian Human Rights Commission and the Department of Defence.

Quality and timeliness of financial statements preparation

2.7 The primary purpose of financial statements is to provide relevant and reliable information to users about a reporting entity's financial position. Public sector auditors have additional responsibilities to report on compliance with law, regulation or other authority. As a result, their review of internal control may be broader and more detailed.¹²

2.8 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 the effectiveness of internal control when planning and performing the audit. Financial statements preparation is often a complex task, involving compliance with a number of requirements established by Australian accounting standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (the FRR).

2.9 In order to provide relevant and reliable financial information to the users, entities should prepare quality financial statements in a timely manner to support entities to meet legislative reporting obligations including the 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 financial statements throughout the audit process.

2.10 Each year the ANAO reports on the quality of financial statements preparation to entities. At the completion of the 2020–21 financial statements audit, the ANAO reported 8 minor findings relating to processes supporting financial statements preparation. This is a decrease from 2019–20 where 3 moderate and 10 minor findings were reported to entities.

2.11 In 2020–21, the ANAO also assessed the timeliness of financial statements preparation. Timeliness in preparation was assessed by comparing the date of delivery of the financial statements to agreed timeframes. The timeframe was established by entities and agreed with audit teams for the delivery of financial statements.

2.12 Timeliness in financial statements preparation improved compared to the prior year, with delivery of financial statements in line with the agreed timeframes achieved by 72 per cent of entities (compared with 64 per cent in 2019–20). A further 13 per cent of entities delivered financial statements within one week of the agreed timeframe (compared to 25 per cent in 2019–20). The remaining 15 per cent of entities provided their financial statements on average 16 working days after the agreed timeframe (compared with 11 days in 2019–20).

2.13 The quality of financial statements preparation was assessed by considering the number and value of audit differences identified. Throughout the financial statements audit process, audit differences other than those considered trivial are communicated to entities. Entities are encouraged to adjust all audit differences.¹³

12 Australian Auditing Standard ASA315 *Identifying and Assessing the Risks of Material Misstatements through Understanding the Entity and its Environment*: paragraph A 73.

13 ANAO Audit Manual, 112 Evaluating Misstatements: section 112.3: A misstatement is clearly trivial if it is clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. [ANAO Audit Manual — AASG Specific | Australian National Audit Office](#) [accessed 4 November 2021].

2.14 There was a decrease in the number of unadjusted audit differences in 2020–21, with 91 unadjusted audit differences reported (compared with 98 in 2019–20). Of these unadjusted differences, 50 related to material entities compared with 61 in 2019–20).¹⁴ With the exception of the National Australia Day Council, the unadjusted differences, both in aggregate and individually, did not result in a material misstatement to the financial statements of the audited entities.¹⁵

2.15 While there was a decrease in the total number of unadjusted audit differences compared to 2019–20, Table 2.2 shows that the net value impact has increased in 2020–21 for two of the five categories.

Table 2.2: Total value of unadjusted audit differences (\$ million)

| | 2020–21 | | | 2019–20 | | |
|-------------|--------------|---------------|------------|--------------|---------------|------------|
| | Debit impact | Credit impact | Net impact | Debit impact | Credit impact | Net impact |
| Revenue | 577.9 | (353.5) | 224.5 | 76.7 | (1,014.1) | (937.4) |
| Expenses | 526.9 | (457.3) | 69.6 | 981.6 | (106.2) | 875.4 |
| Assets | 326.2 | (644.9) | (318.8) | 198.2 | (112.2) | 86.0 |
| Liabilities | 345.9 | (276.2) | 69.7 | 135.6 | (106.6) | 29.0 |
| Equity | 514.4 | (559.5) | (45.0) | 31.1 | (84.1) | (53.0) |

Source: ANAO analysis of entity closing reports.

2.16 Of the unadjusted differences identified as a result of the 2020–21 financial statements audits, a total of five adjustments relating to two entities were made at the CFS level. The two entities were the Australian Taxation Office and the Department of Defence.

2.17 The ANAO reported a decrease in findings related to processes supporting financial statements preparation, a decrease in the number of unadjusted audit differences and a decrease in overall total value of unadjusted audit differences reported to entities in 2020–21 compared to 2019–20. Noting the reductions indicate some improvements have been made, there still remains an opportunity to improve quality assurance frameworks over financial statements processes.

2.18 The ANAO recommends that entities continue to enhance their quality assurance frameworks, to ensure that significant accounting policies, estimates and adjustments underpinning financial statements are reviewed as early as possible in the preparation process. In their assurance role, audit committees are encouraged to actively support management through the critical evaluation of accounting papers and holding entities to account for delivering on agreed timetables and taking up all identified audit adjustments.

14 Material entities are those entities and companies that comprise 99 per cent of revenues, expenses, assets and liabilities of the total General Government Sector. All Departments of State, Public Financial Corporations and Public Non-financial Corporations are classified material.

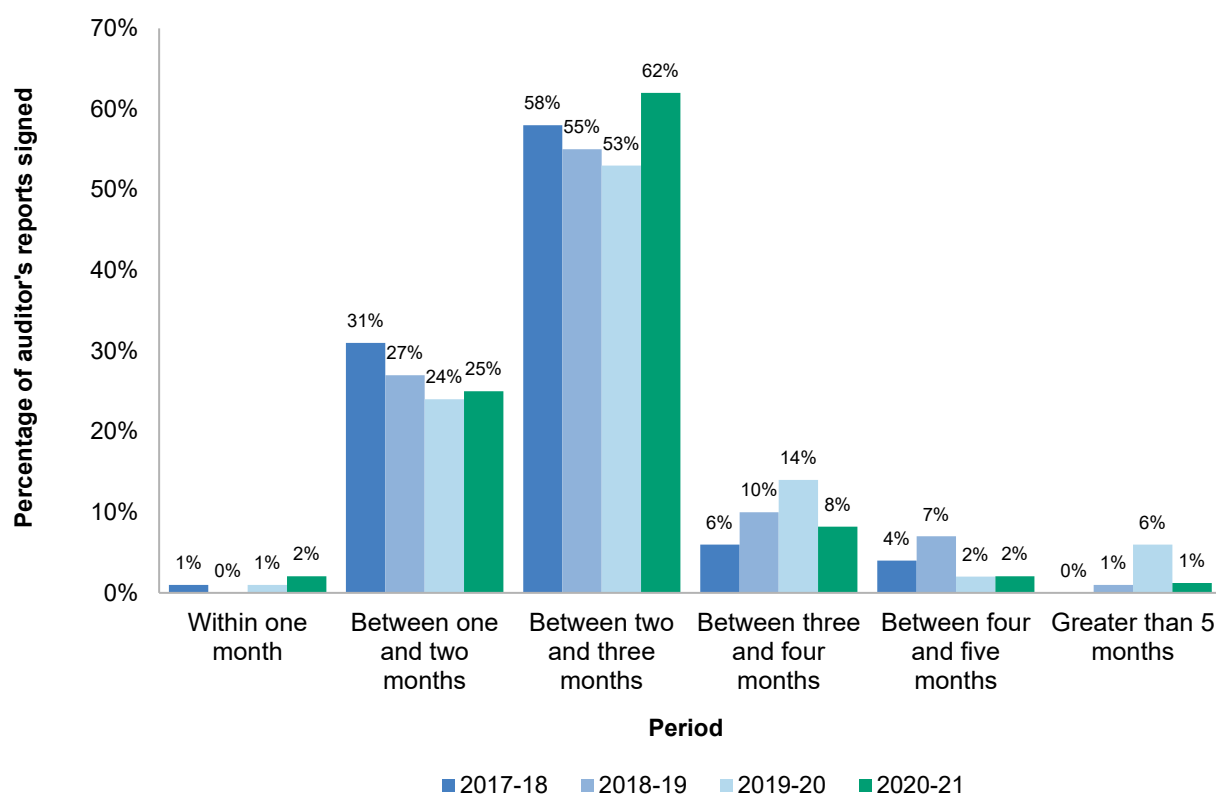
15 A material unadjusted difference was identified for the National Australia Day Council in the 2019–20 financial statements audit. This unadjusted difference also has a material current year impact. For further detail refer to Chapter 4 paragraph 4.12.60 to 4.12.64.

Timeliness of financial reporting

2.19 The finalisation of financial statements preparation and audit is marked by the signing of financial statements and associated auditor's report.

2.20 Figure 2.2 shows that the percentage of entities with financial statements and the associated auditor's report signed within three months of the reporting year-end has significantly improved between 2019–20 and 2020–21. Eighty-nine per cent of financial statements were signed and associated auditor's reports issued, within three months of year-end compared to 78 per cent in 2019–20. The ANAO issued 98 per cent of auditor's reports within two business days of the signing of the financial statements by the accountable authority, compared with 91 per cent in 2019–20.

Figure 2.2: Timeframes for auditor's report signing from the end of financial year



Source: ANAO data.

2.21 Annual reports inform the Parliament, the community and other stakeholders about the performance of entities. The publication of the annual report containing the audited financial statements is a key means to meet accountability and legislative obligations. Of the 244 mandated financial statements audits, 186 are required to present annual reports to the responsible minister under the *Public Governance, Performance and Accountability Act 2013*.¹⁶

2.22 Annual reports are approved by the entity's accountable authority before being provided to the minister and tabled in Parliament. The Resource Management Guides (RMG) 135 *Annual report for non-corporate Commonwealth entities*, and 136 *Annual report for corporate Commonwealth*

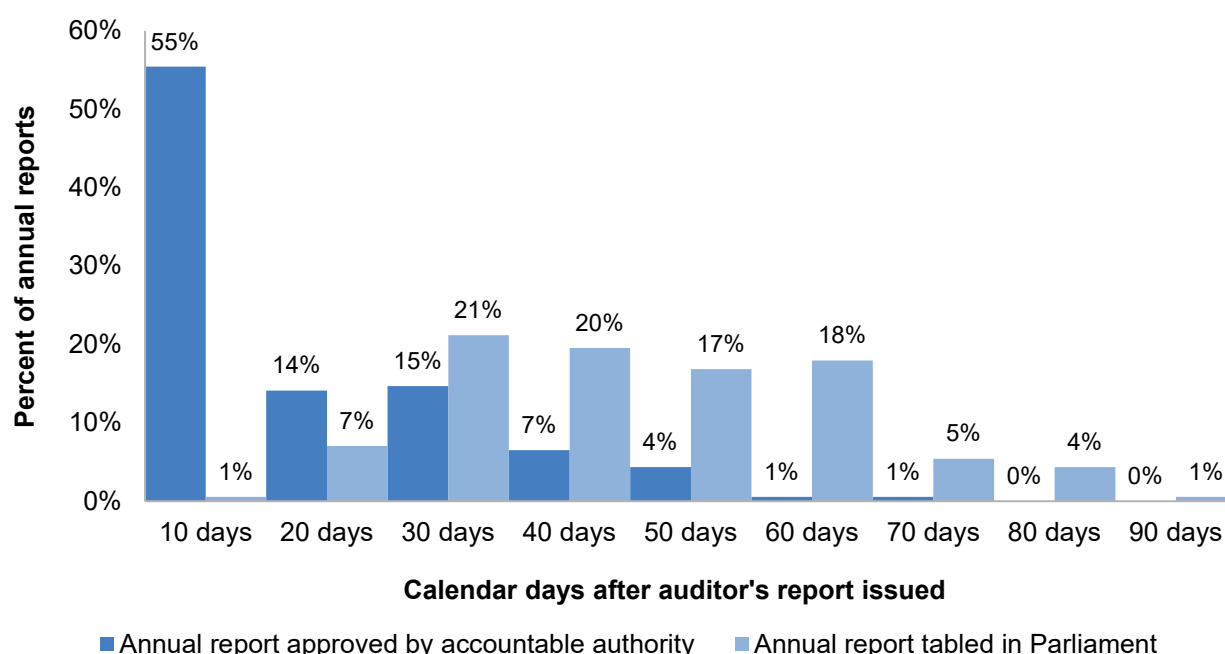
¹⁶ Under the *Public Governance, Performance and Accountability Act 2013*, 187 entities are required to present annual reports to the responsible minister. The analysis for this report excludes the Australian National Audit Office.

entities state 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. The RMG 137 *Annual report for Commonwealth companies* states that Commonwealth company directors must give the annual report to the responsible Minister the earlier of 21 days before the next annual general meeting after the end of the reporting period for the company or 4 months after the end of the reporting period for the company.

2.23 Figure 2.3 shows the time in days between the issue of the auditor's report 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 2020–21 annual reports from issuance of auditor's report



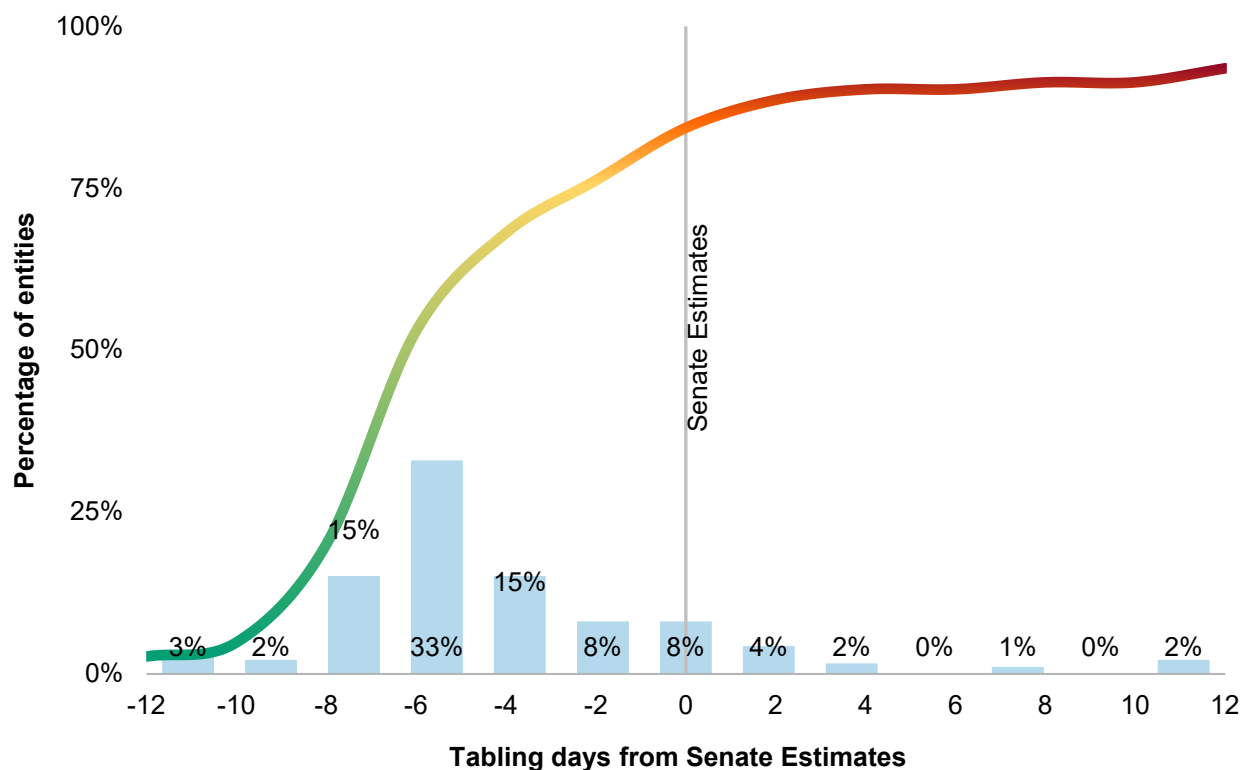
Source: ANAO analysis.

2.24 The analysis above shows that accountable authorities approved 55 per cent of annual reports within 10 days of the issue of the auditor's report (compared to 58 per cent in 2019–20), with an overall average of 12 days. The average days between the accountable authority's approval of the annual report and tabling in Parliament was 29 days (one day more than in 2019–20).

2.25 Twenty-nine per cent of annual reports were tabled within 30 calendar days from the issue of the auditor's report (compared to 35 per cent in 2019–20). The tabling of annual reports in Parliament occurred on average 41 days after the auditor's report was issued (one day less than compared with 2019–20). There are 12 entities that are required to table an annual report for 2020–21 which have not done so as at 19 November 2021.

2.26 Annual reports should be tabled in Parliament to allow sufficient time for review before Senate estimates hearings. The RMGs on annual reports indicate that normally annual reports are tabled on or before 31 October and it is expected annual reports are tabled prior to the October estimates hearings.

Figure 2.4: 2020–21 annual report tabling date in relation to Senate estimates hearing, as at 19 November 2021



Source: ANAO analysis.

2.27 Figure 2.4 above shows that 84 per cent of annual reports were tabled on or before the 2020–21 estimates hearing dates compared to 62 per cent in 2019–20. There were eight material entities across six portfolios which either tabled annual reports after the portfolio’s 2021–22 Senate estimates hearing (consistent with 2019–20) or had not tabled as at 19 November 2021. Table 2.3 includes further details about those entities that did not provide 2020–21 annual reports prior to Senate estimate hearings.

Table 2.3: Annual reports tabled after the portfolio’s Senate estimates hearings for material entities, as at 19 November 2021

| Reporting entity | Date auditor’s report issued | Approval of annual report ^a | Annual report tabling date | Senate estimates date ^b |
|--------------------------------------|------------------------------|--|----------------------------|------------------------------------|
| Attorney-General’s portfolio | | | | |
| High Court of Australia ^c | 25 Aug 21 | 8 Nov 21 | • | 26 Oct 21 |
| Defence portfolio | | | | |
| Australian War Memorial | 30 Aug 21 | 20 Sept 21 | 4 Nov 21 | 27 Oct 21 |
| Health portfolio | | | | |
| National Blood Authority | 2 Sept 21 | 12 Oct 21 | • | 27 Oct 21 |

| Reporting entity | Date auditor's report issued | Approval of annual report ^a | Annual report tabling date | Senate estimates date ^b |
|---|------------------------------|--|----------------------------|------------------------------------|
| Infrastructure, Transport, Regional Development and Communications portfolio | | | | |
| Moorebank Intermodal Company Limited | 8 Oct 21 | 30 Sept 21 | 29 Oct 21 | 25 Oct 21 |
| National Capital Authority | 31 Aug 21 | 12 Oct 21 | 29 Oct 21 | 25 Oct 21 |
| National Library of Australia | 13 Aug 21 | 13 Aug 21 | 26 Oct 21 | 25 Oct 21 |
| Prime Minister and Cabinet portfolio | | | | |
| Indigenous Business Australia | 22 Sept 21 | 28 Sept 21 | 26 Oct 21 | 25 Oct 21 |
| Treasury portfolio | | | | |
| Australian Office of Financial Management | 31 Aug 21 | 12 Oct 21 | 29 Oct 21 | 27 Oct 21 |

•: annual report not tabled as at 19 November 2021

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 date is the first appearance for the portfolio at the 2021–22 Senate budget estimates hearing.

Note c: The requirements for the tabling of the annual report for the High Court of Australia are outlined in s47(1) of the *High Court of Australia Act 1979* (Cth). The High Court of Australia must, as soon as practicable after 30 June, prepare and submit to the Minister a report relating to the administration of the affairs of the High Court under section 17 during the year that ended on that 30 June, together with financial statements in respect of that year in such form as the Minister for Finance approves.

Source: ANAO analysis.

Key audit matters

2.28 ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* (ASA 701) has been applicable since 2016–17. While ASA 701 only requires KAM reporting for listed entities, the Auditor-General considers including KAM to be good practice for financial statements auditing. The Auditor-General initially adopted inclusion of KAM in 2016–17 and has continued to include KAM in 2020–21 for the entities included in Auditor-General Report No. 40 *Interim Report on Key Financial Controls of Major Entities* (ANAO Report No.40). KAM have also been communicated for the Consolidated Financial Statements (CFS) from 2017–18.

2.29 In addition to the CFS, KAM have been reported for the following entities¹⁷:

- Australian Office of Financial Management;
- Australian Postal Corporation;
- Australian Taxation Office;
- Departments of: Agriculture, Water and the Environment; Defence; Education, Skills and Employment; Finance; Foreign Affairs and Trade; Health; Home Affairs; Industry, Science, Energy and Resources; Infrastructure, Transport, Regional Development and

¹⁷ Further details regarding each of these entities' individual KAM are provided in Chapter 4 of this report. KAM are reported for 24 of the 25 entities included in the ANAO Report No.40. There was no KAM reported for the Attorney-General's Department.

Communications; Parliamentary Services; Social Services; the Prime Minister and Cabinet; the Treasury; and Veterans' Affairs;

- Future Fund Management Agency and the Board of Guardians;
- National Disability Insurance Scheme Launch Transition Agency (National Disability Insurance Agency);
- National Indigenous Australians Agency;
- NBN Co Limited;
- Reserve Bank of Australia;
- Services Australia; and
- Snowy Hydro Limited.¹⁸

2.30 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 for 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.

2.31 At the commencement of each financial statements audit, an assessment is made on the relevance of KAM for that year. In 2020–21, a total of 58 KAM were reported across 24 entities (compared with 56 KAM reported from 23 entities in 2019–20). The number of KAM per entity for 2020–21 ranged from one to five (same as for 2019–20). 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.

2.32 The majority of KAM in 2020–21 related to the valuation assertion for assets and liabilities such as:

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

2.33 Other KAM included: completeness and accuracy of expenses relating to subsidies and personal benefits, and other payments; and completeness and accuracy of revenue relating to taxation, royalty and other revenue.

2.34 Snowy Hydro Limited was included in 2020–21. Three new KAM were reported:

- valuation, existence and completeness of financial instruments - energy derivatives;
- valuation of property, plant and equipment – construction in progress; and

18 Snowy Hydro Limited was included for the first time in Auditor-General Report No. 40 of 2020–21 *Interim Report on Key Financial Controls of Major Entities*.

- valuation of allowance for doubtful debts.¹⁹

Removal of user access

2.35 The operating environment has changed significantly since the Australian Government released the Digital Transformation Strategy in 2018.²⁰ The global COVID-19 pandemic has resulted in Australians shifting towards digital services and the Australian Government shifting its workforce to remote working arrangements to support the delivery of services and outcomes.

2.36 The changes in the operating environment have expanded the boundaries of government entities' computer networks and have increased the opportunities for malicious actors. The Australian Cyber Security Centre (ACSC) stated that cyber threats will continue to increase as technology is further utilised to support Australians, government and business activities.²¹ The persistent threats require organisations to control access to their computer networks and to reduce the risks of unauthorised access to important information.

2.37 The Protective Security Policy Framework (PSPF) and Australian Government Information Security Manual (ISM) assist organisations to use their risk management framework to protect information and systems from both internal and external threats. The PSPF governs the security of government Information Communications Technology (ICT) systems across non-corporate Commonwealth entities and the ISM provides the guidance to implementing appropriate security controls.

2.38 PSPF Policy 9 *Access to Information*, requires entities to control access to supporting ICT systems, networks, infrastructure, devices and applications.²² Entities must ensure access to sensitive information or resources is only provided to people with a need-to-know.

2.39 The ISM provides guidance on security controls that can assist with implementing the Policy 9 requirements, specifically preventing access to sensitive information when it is no longer required. ISM *Security Control 0430* specifies that access is removed or suspended on the same day personnel no longer have a legitimate requirement for access.²³

2.40 The review of information systems and related controls is an integral part of an entity's control environment. An assessment of the IT control environment was performed on 18 interim report entities. The assessment includes a review of Security Control 0430. The 18 entities were

19 Further details regarding Snowy Hydro Limited KAM are provided in Chapter 4 of this report from paragraph 4.9.67.

20 Digital Transformation Agency, *Digital Transformation Strategy 2018 – 2025*, available from <https://www.dta.gov.au/node/1084> [accessed 15 October 2021].

21 Australian Cyber Security Centre, *ACSC Annual Cyber Threat Report 2020–21*, available from <https://www.cyber.gov.au/acsc/view-all-content/reports-and-statistics/acsc-annual-cyber-threat-report-2020–21> [accessed 19 October 2021].

22 Attorney General's Department, *PSPF policy 9: Access to information 2018*, p. 2, available from https://www.protectivesecurity.gov.au/system/files/2021-06/pspf-policy-9-access-to-information_0.pdf [accessed on 19 October 2021].

23 Australian Cyber Security Centre, *Australian Government Information Security Manual (September 2021)*, p. 31, available from <https://www.cyber.gov.au/sites/default/files/2021-09/Australian%20Government%20Information%20Security%20Manual%20%28September%202021%29.pdf> [accessed 19 October 2021].

selected on the basis of their: contribution to the income, expenses, assets and liabilities of the 2020–21 CFS; requirement to annually report against the PSPF; and IT risk and complexity.²⁴

2.41 The ANAO's analysis identified that eight of the 18 selected entities did not adequately implement Security Control 0430 which resulted in user accounts of staff who no longer needed access to systems still being active.

2.42 The majority of the identified eight entities did not remove access in a timely manner from key financial and business applications. Some entities did not remove access for user accounts from both their computer networks and applications, which further increases the risk of unauthorised access in entities that have also implemented a single point of authentication. A user account that has not had access appropriately removed could be compromised and used to access sensitive information within the computer network and across business applications. The user accounts concerned did not have privileged access, which can reduce the impact of external and internal threats.

2.43 One of the eight entities had over 650 user accounts that were still active. Some of the 650 user accounts still had access 150 days after the date it was required to be removed. The large number of user accounts retaining access increases the potential points where cyber adversaries can enter or attack the entities' systems.²⁵

2.44 The user accounts identified comprised of government staff and contractors. The poor management of contractor access increases the risk of security compromise through supply chain networks. The persistent threats and focus reported by ACSC on supply chain networks gives further importance to reducing the number of user accounts required on a computer network and to remove contractor access when it is no longer required.²⁶ These results support ANAO's focus on reviewing entities' arrangements for administering contract obligations.²⁷

2.45 Five out of the eight entities had user accounts that were accessed after the date where access was no longer required.²⁸ The five entities did not have adequate mitigating controls to detect the unauthorised and inappropriate use of those user accounts. Mitigating controls for the

24 The interim report entities that were excluded were: Australian Office of Financial Management, Australian Postal Corporation, Future Fund Management Agency and the Board of Guardians, National Disability Insurance Scheme Launch Transition Agency, NBN Co Limited, Reserve Bank of Australia, and Snowy Hydro Limited.

25 An individual or organisation (including state-sponsored) that conducts malicious activity including cyber espionage, crime or attack, Australian Cyber Security Centre, available from <https://www.cyber.gov.au/acsc/view-all-content/glossary/cyber-adversary> [accessed 19 October 2021].

26 Australian Cyber Security Centre, *ACSC Annual Cyber Threat Report 2020–21*, available from <https://www.cyber.gov.au/acsc/view-all-content/reports-and-statistics/acsc-annual-cyber-threat-report-2020-21> [accessed 19 October 2021].

27 The ANAO has commenced three performance audits on the effectiveness of the management of contractors within the Departments of Defence and Veterans' Affairs and Services Australia. The details of the performance audits are available from <https://www.anao.gov.au/work/performance-audit/effectiveness-the-management-contractors-department-defence> [accessed 16 November 2021], <https://www.anao.gov.au/work/performance-audit/effectiveness-the-management-contractors-department-veterans-affairs> [accessed 19 November 2021] and <https://www.anao.gov.au/work/performance-audit/effectiveness-the-management-contractors-services-australia> [accessed 16 November 2021]

28 For further detail regarding these findings, refer to the detailed results in the Chapter 4 for the Australian Taxation Office and the Departments of: Health, Parliamentary Services, Social Services and Veterans' Affairs.

five entities, such as monitoring of user activities and periodic validation of user access, were not operating effectively during 2020–21, and in some instances had not been established.

2.46 The main contributing factor to failures in removal of access was the delay in notifications of the requirement to remove the access, such as when personnel change duties, leave the organisation or a contract is ceased. The lack of clarity around the roles and responsibilities between IT and business areas has resulted in controls not being consistently performed.

2.47 This was also an issue for Shared Services entities. The lack of clarity around the roles and responsibilities between IT and business areas has resulted in controls not being consistently performed. The entities were also not monitoring whether notifications were being actioned by the Shared Services entities. This has resulted in user accounts having access to systems provided by Shared Services entities, where that access was no longer required.

2.48 The ANAO noted instances where the business processes implemented allowed user accounts to remain active and entities accepted the level of associated risk based on mitigating controls. The instances related to processing of final payroll payments or the removal of access from multiple systems, with processing delays extending the timeframes for accounts remaining active. However, the entities did not effectively implement the mitigating controls.

2.49 Entities should establish robust mitigating controls to reduce the risks associated with failures in the operation of Security Control 0430. This risk-based approach to external and internal threats can assist in reducing the impact on the application controls relied upon in the preparation and audit of financial statements.

2.50 The ANAO performed additional audit procedures to gain assurance on the information being generated by relevant financial and business applications across the eight entities. The procedures did not identify any additional exceptions that would significantly increase the risk of material misstatement within each of the eight entities' financial statements.

Financial sustainability of material entities

2.51 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 an entity's resourcing or functions are not sustainable.

2.52 In 2018–19, the Department of Finance established a portal for centrally capturing publicly available corporate information for all Commonwealth entities.²⁹ The portal includes tools that enable users to compare and contrast financial results across all entities through the use of the following four ratios:

- total liabilities to total assets ratio which indicates the level of ownership of the entity's assets but can also be used to gain an understanding of the net equity of the entity;
- financial assets to total liabilities ratio which indicates the extent to which an entity's liabilities can be covered by its financial assets;

29 Australia Government Transparency portal, available from: <https://www.transparency.gov.au> [accessed 3 November 2021].

- current ratio which indicates whether an entity's current assets are greater than its current liabilities and indicates whether the entity is likely to be able to pay its short-term liabilities as they fall due; and
- capital turnover ratio which indicates whether an entity is replacing its assets at a sustainable rate.

2.53 The Department of Finance has not developed and communicated guidance to assist users in assessing whether the ratios indicate strong or weak financial performance in the context of the government sector.³⁰ Consistent with prior years, in the absence of government guidance, the ANAO has developed parameters based on generally accepted concepts of financial sustainability and applied these to the operating results and balance sheets of the 62 material entities.³¹ These parameters are described in Table 2.4 and Table 2.5 below.

Analysis of operating results

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

2.55 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.³² As a result, any entity in this category averaging a large deficit should be considered more closely.

2.56 The ANAO analysed the operating results of all material entities over a five-year period from 2016–17 to 2020–21. The analysis is based on reported surpluses or deficits after adjusting for unfunded expenses, where relevant, highlighting the full cost of operations.³³ Of the 62 material entities, 38 were not-for-profit and 24 were corporate or commonwealth companies or not-for-profit entities which have quasi-commercial operations or departmental functions operating on a for-profit basis.

2.57 For the purposes of this analysis, material entities are grouped into three operating result categories as part of this analysis, outlined in Table 2.4.

30 Consistent with previous ANAO reports. See Auditor General Report No. 25 2020–21 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2020*, paragraph 2.62.

31 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.

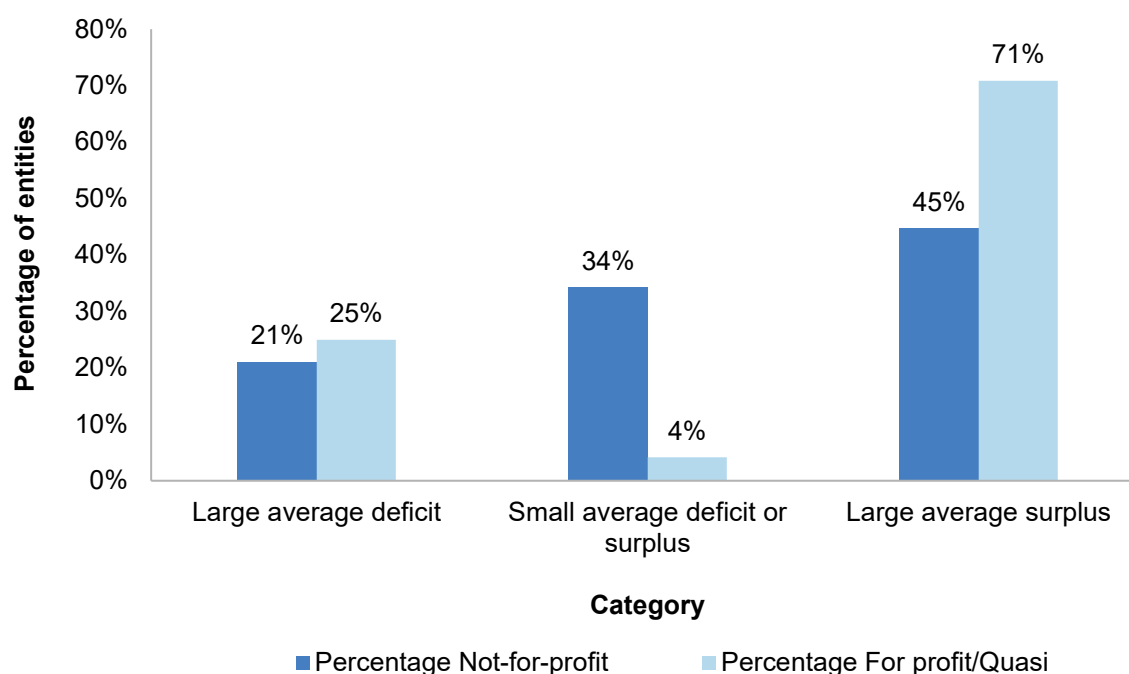
32 In the context of for-profit Commonwealth entities, the equivalent term for a surplus is profit and for a deficit is loss.

33 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.

Table 2.4: Operating result category

| 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. |

2.58 Figure 2.5 illustrates the summary of average operating results for not-for-profit and for profit/quasi-commercial entities and whether they had large or small average deficits or surpluses over the five-year period.

Figure 2.5: Operating result analysis

Source: ANAO analysis of 2020–21 material entities' operating results.

2.59 In 2020–21 there was a large average deficit recorded by 21 per cent of not-for-profit entities (compared to 27 per cent in 2019–20) and 25 per cent of for-profit/quasi-commercial entities (compared to 29 per cent in 2019–20). Forty-five per cent of not-for-profit entities and 71 per cent of for-profit/quasi-commercial entities recorded a large average surplus (compared with 42 per cent and 63 per cent respectively in 2019–20). Thirty-four per cent of material not-for-profit entities were classified as achieving small average deficits or surpluses and managing within their breakeven mandate (consistent with 2019–20) while four per cent of material for-profit/quasi-commercial entities were classified as achieving small deficits or surpluses (compared with 8 per cent in 2019–20).

2.60 The following discussion focuses on the common drivers for these entities' large average surpluses and large average deficits.

Large average deficit

2.61 Six for-profit/quasi-commercial entities recorded a large average deficit during the period: Australian Naval Infrastructure Pty; Australian Rail Track Corporation; Moorebank Intermodal Company Limited; National Housing Finance and Investment Corporation; NBN Co. Limited; and WSA Co Ltd.

- Four recorded large average deficits, consistent with the previous financial years due to being in the build phase of large infrastructure projects, and/or still in the process of increasing revenue. They were: Australian Naval Infrastructure Pty Ltd; Moorebank Intermodal Company Limited; NBN Co Limited; and WSA Co Ltd.³⁴
- The Australian Rail Track Corporation large average deficit is related to the increase in impairment expenses recognised for property, plant and equipment (including rail infrastructure) assets. These expenses increased in 2018–19 and have remained consistent in 2019–20 and 2020–21 as a result of impairments recognised on the assets being constructed for the Inland Rail network and on rail infrastructure assets in the Interstate and Hunter Valley rail networks. The impairment was a result of decreases in the expected net income for these assets on which the fair value is calculated.
- The National Housing Finance and Investment Corporation large average deficit is a result of the accounting treatment for the increase in concessional loans to eligible clients to \$2.1 billion in 2020–21.

2.62 The following four not-for-profit entities recorded a large average deficit during the period, primarily attributable to factors that occurred in a prior year that continue to have an effect on the five-year average to 2020–21:

- the Australian Broadcasting Corporation’s operating result in 2017–18 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 Review. This large deficit continues to skew the average results over the five-year period under review;
- the Department of Industry, Science, Energy and Resources transferred the Australian Astronomical Observatory functions to the Australian National University and Macquarie University resulting in significant asset write-offs in 2017–18;
- the Department of the Prime Minister and Cabinet is in the large average deficit category as a result of the prior year impact of AASB 16 *Leases*; and
- the Department of Veterans’ Affairs incurred an additional \$20.8 million in contractor expenses in 2019–20 to meet the increased demand for processing veteran claims.

2.63 Three not-for-profit entities remain in the large average deficit category due to factors occurring in current and prior years. Of these entities:

- The Australian Federal Police’s large average deficit is predominantly a result of: increased operating costs including additional protective equipment and cleaning of facilities in response to the COVID-19 pandemic; operations targeted at a dedicated encrypted

34 This is consistent with the period 2015–16 to 2019–20 as reported in the Auditor General Report No.25 of 2020–21 (*Audits of the Financial Statements of Government Entities for the Period Ended 30 June 2020*), paragraph 2.69.

communications platform used exclusively by organised crime; and increased employee entitlements expenses including additional provisions made for unpaid superannuation entitlements.

- The Australian Prudential Regulation Authority's (APRA) large average deficit is a result of increased employee benefits expenses from higher staffing levels for key operational work to expand and strengthen APRA's regulatory functions. This work included strengthening crisis readiness capabilities and oversight of cyber-resilience in APRA-regulated institutions.
- The National Capital Authority remains in the large average deficit category due to works on the National Police Memorial, where insurance funds were received and accounted for in 2015–16 but the majority of the work was undertaken in 2017–18. Additional contributors to the large average deficit are rent relief provided in response to the COVID-19 pandemic and asset write downs across a number of years.

2.64 The National Library of Australia moved from the large average surplus to the large average deficit category in 2020–21 following a decrease of \$165.9 million in the value heritage and cultural collection assets, as a result of a revised assumption used in the valuation approach due to changing conditions associated with the COVID-19 pandemic.

Large average surpluses

2.65 As illustrated in Figure 2.5, 45 per cent of material not-for-profit entities reported average surpluses of more than one per cent of total expenses over the five-year period (compared to 42 per cent in 2019–20). The following discussion focuses on the common drivers for these entities' large average surpluses.

- Consistent with prior years the following cultural institutions are included in the large average surplus category: Australian War Memorial, National Archives of Australia and National Gallery of Australia. Factors impacting the average surplus are the receipt of goods or donations for no or nominal consideration, and bequests of cash. 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.
- The Commonwealth Scientific and Industrial Research Organisation (CSIRO) continues to recognise large surpluses due to movements in the valuation of equity investments.
- The Australian Research Council's large average surplus is due to the timing and recognition of revenue received due to events or project milestones not aligning with the related expenditure.³⁵
- The Bureau of Meteorology continues to report a large average surplus due to prior operating results, notably additional funding received in 2019–20 to support the aviation industry. In 2020–21 the entity reported a small deficit resulting from higher employee

35 As reported in Auditor General Report No. 25 of 2020–21 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2020* paragraph 2.74

expenses due to an increased number of staff and higher supplier costs related to computer services, technical installation and networking costs for radars.

- The primary driver of Services Australia's large average surplus is the additional funding of \$521.0 million received in 2019–20 to deliver the Government's COVID-19 pandemic stimulus initiatives. This funding was not fully expended with the unspent amount of \$175.0 million returned to Government through equity, thus not impacting the operating results of the agency.
- The significant surplus for the National Health and Medical Research Council primarily relates to decreases in expenditure due to reduced activities during the COVID-19 pandemic in 2019–20 and in 2020–21, the reversal of impairment losses recognised in prior years.
- The Department of Social Services remains in the large average surplus category largely due to the resources received free of charge in 2018–19 for Aged Care Gateway IT systems application development services work completed by the Department of Health.
- The operating result of the National Disability Insurance Agency has been impacted by activity in the earlier years of the review period. Prior to 2019–20, the transition of participants to the National Disability Insurance Scheme was slower than expected and the utilisation of funds by participants was lower than anticipated which resulted in expenses incurred being lower than budgeted. Since then, there has been a significant increase in the number of participants, an increase in their utilisation rates and a reduction in the length of time it takes for claims to be lodged.
- The Australian Nuclear Science and Technology Organisation (ANSTO) remains in the large average surplus category due to prior years' results. In 2020–21 ANSTO recognised losses of approximately \$117.7 million attributable to the remeasurement of decommissioning and nuclear waste provisions compared to gains of approximately \$146.1 million in 2019–20.
- The Department of Agriculture, Water and the Environment remains in the significant surplus category in 2020–21 as a result of additional funding received that was not matched by expenditure due to operational delays.³⁶
- The Australian Office of Financial Management (AOFM) remains in the large average surplus category in 2020–21. The AOFM has received additional funding over the past two years for the implementation and management of the Australian Business Securitisation Fund and the Structured Finance Support Fund.³⁷ The associated expenditure has been lower than budgeted.
- Geoscience Australia's operating result places them in the large average surplus category due to delays in the Satellite-Based Augmentation System program relative to the original budget for this program.³⁸ The expenses for this program have not been fully realised in

36 For further details refer to Chapter 4 paragraph 4.1.7.

37 For further details relating to the Australian Business Securitisation Fund and the Structured Finance Support Fund refer to the following website: <https://aofm.gov.au/securitisation-investments> [accessed 3 November 2021].

38 For further details relating to the Satellite-Based Augmentation system refer to the following website: <https://www.ga.gov.au/scientific-topics/positioning-navigation/positioning-australia/about-the-program/satellite-based-augmentation-system> [accessed 3 November 2021].

the past two financial years. Geoscience Australia was first assessed as material by the Department of Finance in 2019–20. The ANAO analysis includes two years of data.

2.66 Three entities have moved from the small average surplus to large average surplus category in 2020–21.

- The Australian Securities and Investment Commission received \$25.0 million more than anticipated from other Australian government entities to fund the Modernising Business Registers and Global Switch Unit Exit programs.
- The Department of Education, Skills and Employment received significant revenue from government to assist in the delivery of the COVID-19 pandemic stimulus packages including school grants, university funding, increased funding for childcare payments to families and apprenticeship scheme payments including Jobactive. Funds have not been fully expended, resulting in a significant surplus for 2020–21 and a corresponding increase in appropriations receivable on the balance sheet.
- The High Court of Australia is in the large surplus category primarily as a result of assets transferred from the Law Courts Limited in 2016–17. In 2020–21 asset revaluation increments related to buildings have also contributed to the entity recording a significant surplus over the five-year period.

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.

2.68 The ANAO analysed the balance sheet positions of material Australian Government entities as at 30 June 2021. 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 and are consistent with the ratios published by the Department of Finance

- **Liquidity:** the extent to which an entity's liabilities are covered by cash or other financial assets. Where liabilities significantly exceed its financial assets, an entity 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 Based on the measures developed by the Department of Finance, the ANAO has reviewed an entity's ability to manage its underlying financial position. As the Department of Finance has not developed guidance to assist users in assessing whether the ratios indicate strong or weak financial performance in the context of the government sector, consistent with the prior year the ANAO has determined these parameters.

2.70 In 2019–20, as a result of the implementation of AASB 16 *Leases*, the ANAO revised the parameters previously applied. Whilst the net impact of AASB 16 *Leases* on the balance sheet was limited, as the right-of-use asset and lease liability were largely offset, both the liquidity and

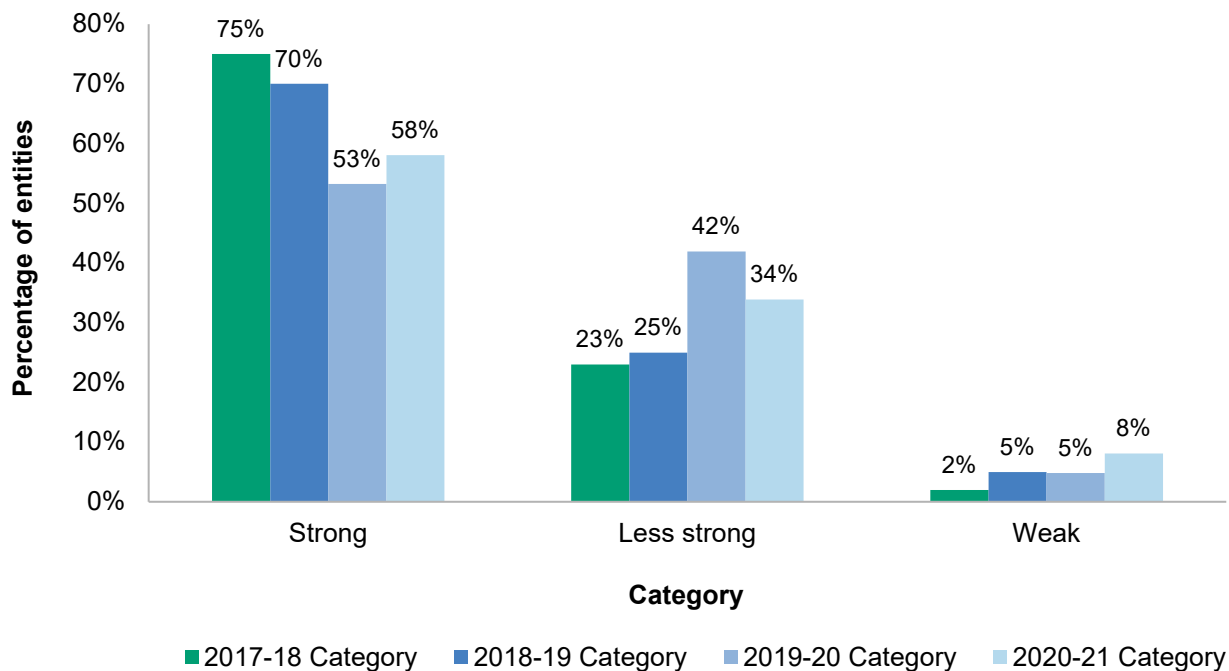
gearing ratios of most entities were affected. As entities are required to recognise lease liabilities on their balance sheet this resulted in entities' liquidity ratios deteriorating due to the increase in liabilities compared to financial assets. The revised parameters for determining balance sheet categories have been applied in 2020–21 and are set out in Table 2.5.

Table 2.5: ANAO parameters for balance sheet categories

| Category | Parameters |
|-------------|---|
| Strong | Entities where financial assets were at least 40 per cent of total liabilities and where total liabilities were less than 85 per cent of total assets. These entities have the strongest balance sheets. |
| Less strong | Entities where financial assets were less than 40 per cent of total liabilities OR where total liabilities were more than 85 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 40 per cent of total liabilities AND where total liabilities were more than 85 per cent of total assets. These entities are the most likely to need additional funding in the future. |

Source: ANAO balance sheet categories.

Figure 2.6: Balance sheet analysis



Source: ANAO analysis of entity balance sheets.

2.71 Fifty-eight per cent of material entities had strong balance sheets in 2020–21 with the amended parameters (compared to 53 per cent in 2019–20), while 34 per cent had less strong balance sheets (compared to 42 per cent in 2019–20). The main driver for the movement to the strong balance sheet category was improvement in gearing ratios stemming from increased asset values against relatively constant liabilities balances.

2.72 The entities with weak balance sheets are predominantly those whose operations are dependent on government policy and 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. Entities with weak balance sheets in 2020–21 include:

- the Australian Taxation Office (ATO) and Department of Social Services (DSS), consistent with prior years, both continue to have weak balance sheets, largely driven by the impact of the implementation of AASB 16 *Leases*. The initial recognition of \$1.4 billion and \$576.3 million in lease liabilities by the ATO and DSS respectively resulted in a deterioration of the liquidity ratio; and
- NBN Co Limited's balance sheet continues to be impacted by debt facilities for constructing the national broadband network.

2.73 Two entities have moved from a less strong to weak balance sheet position in 2020–21:

- The Australian Bureau of Statistics moved due to non-financial asset values reducing by \$27.3 million as a result of current year depreciation and impairment adjustments.
- Geoscience Australia had a reduced appropriation receivable as a result of \$40.1 million being withheld under section 51 of the PGPA Act and no longer available.

Audit findings

2.74 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 an entity's internal control processes or frameworks. Weaknesses in internal controls increase the possibility that an entity will not prevent or detect a material misstatement in its financial statements 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 2.6.³⁹

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. |
| Significant legislative breach (L1) | Instances of significant potential or actual breaches of the Constitution; and instances of significant non-compliance with the entity's enabling legislation, legislation that the entity is responsible for administering, and the PGPA Act. |
| Other non-compliance with legislation (L2) | Other instances of non-compliance with legislation the entity is required to comply with. |

³⁹ Definitions of each category of audit finding is available at <https://www.anao.gov.au/financial-statement-audit-information>.

| Rating | Description |
|--|--|
| Non-compliance with subordinate legislation (L3) | Instances of non-compliance with subordinate legislation, such as the PGPA Rule. |

Source: ANAO reporting policy.

2.75 A summary of findings identified for the period ended 30 June 2021 by category is presented in Table 2.7.

Table 2.7: Audit findings by category for the period ended 30 June 2021

| Category | Significant | Moderate | Minor | Main areas of weakness |
|--|-------------|----------|-------|---|
| Financial statements preparation | – | – | 8 | <ul style="list-style-type: none"> quality and timeliness of the preparation underlying financial statements |
| IT control environment | – | 14 | 47 | <ul style="list-style-type: none"> security management, particularly, user access and monitoring of privileged users; and change management process. |
| Compliance and quality assurance frameworks | – | 1 | 10 | <ul style="list-style-type: none"> appropriate quality assurance frameworks supporting financial reporting; and compliance frameworks addressing key business risks and program payments. |
| Accounting and control of non-financial assets | 1 | 2 | 20 | <ul style="list-style-type: none"> management of inventory balances; management and monitoring of assets including stocktakes, work in progress and capitalisation; and processes supporting the valuation and assessment of impairment of assets. |
| Revenue, receivables and cash management | – | – | 9 | <ul style="list-style-type: none"> recognition of revenue arising from multi-year contracts; and monitoring, management and review of bank accounts. |
| Human resources financial processes | – | 2 | 16 | <ul style="list-style-type: none"> management of leave entitlements; documentation and oversight of activities supporting payroll functions. |

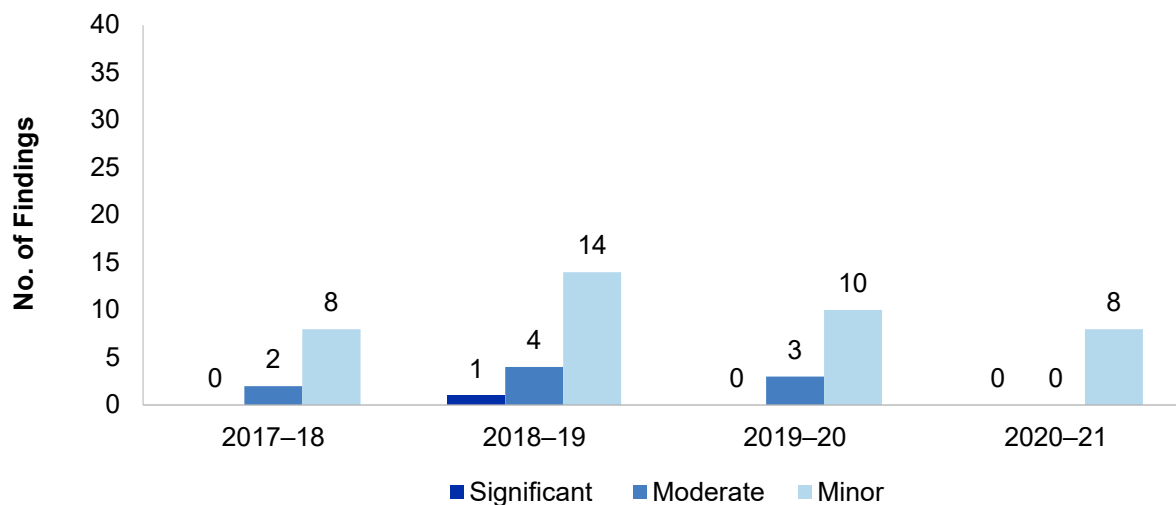
| Category | Significant | Moderate | Minor | Main areas of weakness |
|-----------------------------------|-------------|-----------|------------|--|
| Purchases and payables management | – | 1 | 8 | <ul style="list-style-type: none"> authorisation and oversight of expenditure; and segregation of duties. |
| Other audit findings | 1 | 1 | 9 | <ul style="list-style-type: none"> governance and compliance relating to engagement and termination of staff, staff remuneration and Board operations processing of journal transactions; financial arrangements for intercompany transactions and charging costs between Departmental and Administered funding; management of delegations; and governance arrangements with third parties. |
| Legislative breaches | 3 | 9 | 2 | <ul style="list-style-type: none"> failure to meet legislative requirements relating to payments; and remuneration of key management personnel. |
| Total | 5 | 30 | 129 | |

Source: ANAO compilation of findings.

Financial statements preparation

2.76 Financial statements are an important means of demonstrating how Commonwealth entities, both at an individual and whole-of-government level, meet their financial management responsibilities. In order to provide relevant and reliable financial information to the users, entities should prepare quality financial statements in a timely manner to support entities in meeting legislative reporting obligations including tabling of annual reports. Effective project management underpins successful financial statements preparation processes.

Figure 2.7: Financial statements preparation audit findings 2017–18 to 2020–21



Source: ANAO data.

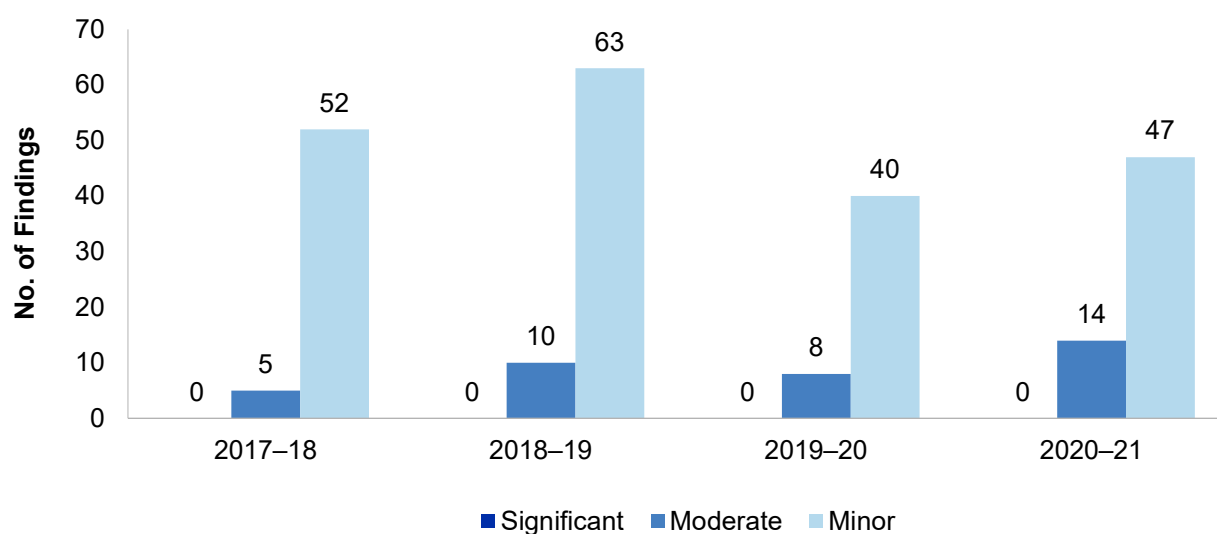
2.77 There are no significant or moderate findings for financial statements preparation for 2020–21. There were eight minor findings reported in this category, six were first reported in 2020–21 and two remain unresolved from prior years. There has been a decrease in financial statements preparation findings compared to the prior year. The minor findings relate to quality review processes and preparation of key position papers.

Information Technology control environment

2.78 The information technology (IT) control environment refers to the policies, procedures and controls that maintain the integrity of information and security of data in an entity. This includes:

- IT security management, which incorporates user access management, privileged user activity logging and monitoring as well as security configuration settings such as password controls; and
- IT change management and data centre and network operations, including management of backup and recovery processes.

2.79 The IT control environment is the environment in which applications run, and so it also supports the effective functioning of the application controls that may be relied on in the audit.

Figure 2.8: IT control environment audit findings 2017–18 to 2020–21

Source: ANAO data.

2.80 Twelve new moderate findings were reported during 2020–21.⁴⁰ Two moderate findings remain unresolved from 2019–20.⁴¹

2.81 User access management includes the processes and procedures to ensure that only authorised users are granted access to systems and data, and that access is removed when it is no longer required. Ten of the moderate findings relate to weaknesses in user access management with six pertaining to management of terminated user access.⁴²

2.82 Users with administrative privileges, commonly referred to as privileged users, are able to make significant changes to IT systems' configuration and operation, bypass critical security settings and access sensitive information. To reduce the risks associated with this access, the Information Security Manual requires that privileged user access be appropriately restricted and when provided, that the access is logged, regularly reviewed and monitored. There were eight minor findings reported relating to privileged user access.

2.83 Thirty-four of the forty-seven minor findings were raised in 2020–21 and thirteen were raised in prior years. Ten of the minor findings raised in prior years have been unresolved for two or more years.

2.84 IT security management continues to remain the most common area of weakness in the IT control environment, with almost 87 per cent of findings, and 100 per cent of the moderate findings, relating to this area. Sustained focus is required by entities to ensure that the risks of

40 Further details regarding the moderate findings can be found in the entity results section in Chapter 4 for: Australian Nuclear Science and Technology Organisation, Australian Taxation Office, Departments of: Defence, Social Services and Veterans' Affairs and the National Disability Insurance Agency.

41 For further details relating to the unresolved moderate findings, refer to the Australian Nuclear and Technology Organisation and Services Australia section in Chapter 4.

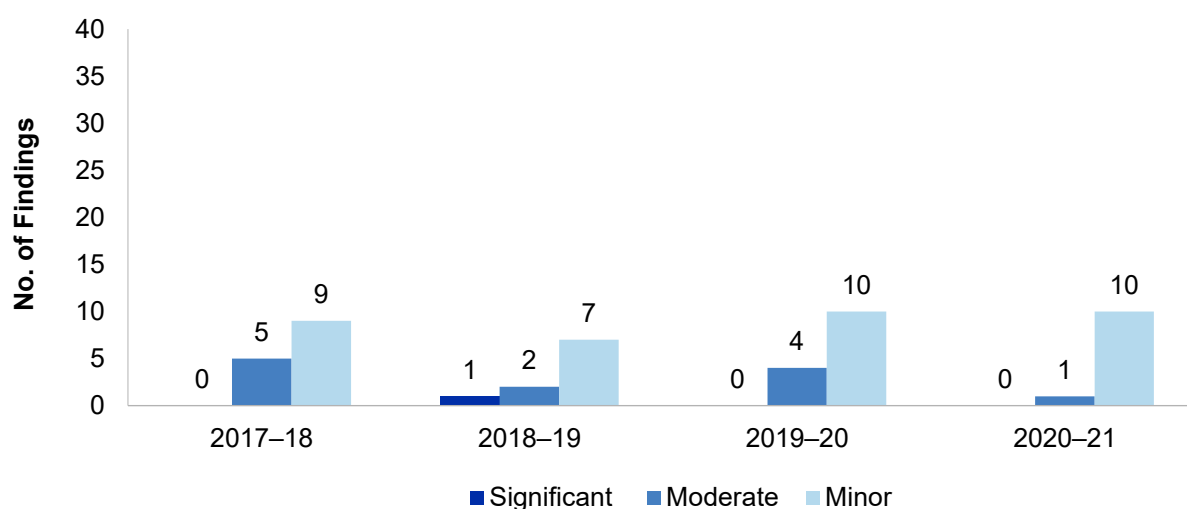
42 For further details please refer to the entity results section in Chapter 4 for: Australian Nuclear Science and Technology Organisation, Australian Taxation Office, Departments of: Parliamentary Services, Social Services, Veterans' Affairs and the National Disability Insurance Agency.

unauthorised changes to systems and data and unauthorised data leakage are being appropriately managed.

Compliance and quality assurance frameworks

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

Figure 2.9: Compliance and quality assurance framework audit findings 2017–18 to 2020–21



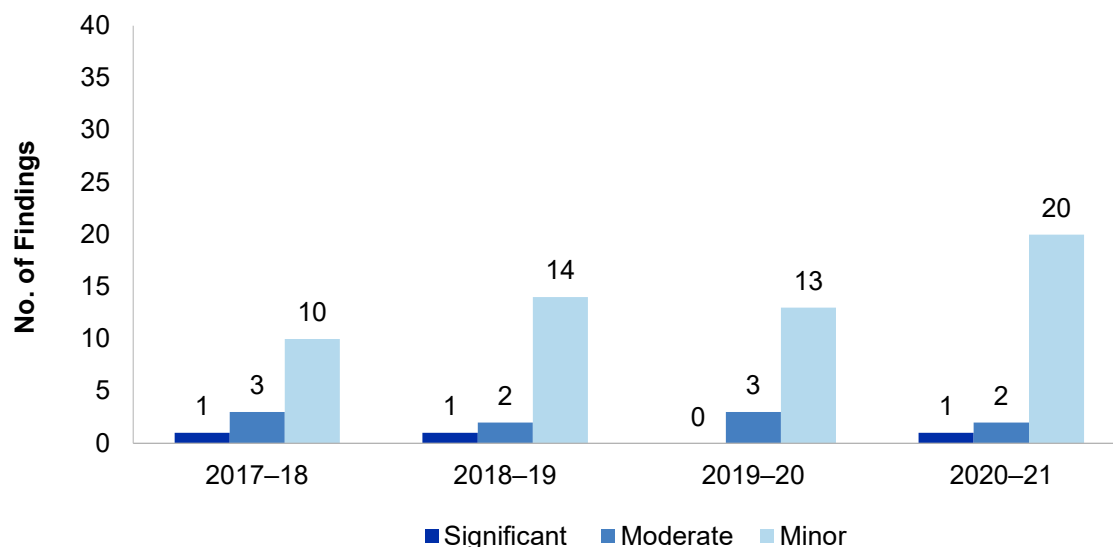
Source: ANAO data.

2.86 The only new moderate finding reported during 2020–21 related to assurance over administered programs.⁴³ Six of the ten minor findings were raised in 2020–21 and four were raised in prior years. Of the four prior year minor findings, one has been unresolved for two years.

Accounting and control of non-financial assets

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

43 Further details regarding the moderate findings can be found in the entity results section in Chapter 4 for the Australian Taxation Office.

Figure 2.10: Accounting and control of non-financial asset audit findings 2017–18 to 2020–21

Source: ANAO data.

2.88 There was one new significant finding reported in 2020–21. It relates to the valuation of the Department of Defence’s Specialised Military Equipment (SME) using the cost attribution model.⁴⁴

2.89 One new moderate finding was reported in 2020–21. It relates to the valuation methodology regarding SME. The other moderate finding was first reported in 2019–20 to the Department of Health and relates to the recording and management of the National Medical Stockpile.⁴⁵

2.90 Fourteen of the 20 minor findings were raised in the 2020–21 period. There were six unresolved findings from prior years. The minor findings relate to:

- valuation adjustments;
- assessments for impairment of assets and restoration obligations;
- data management and integrity;
- inventory management; and
- stocktake procedures.

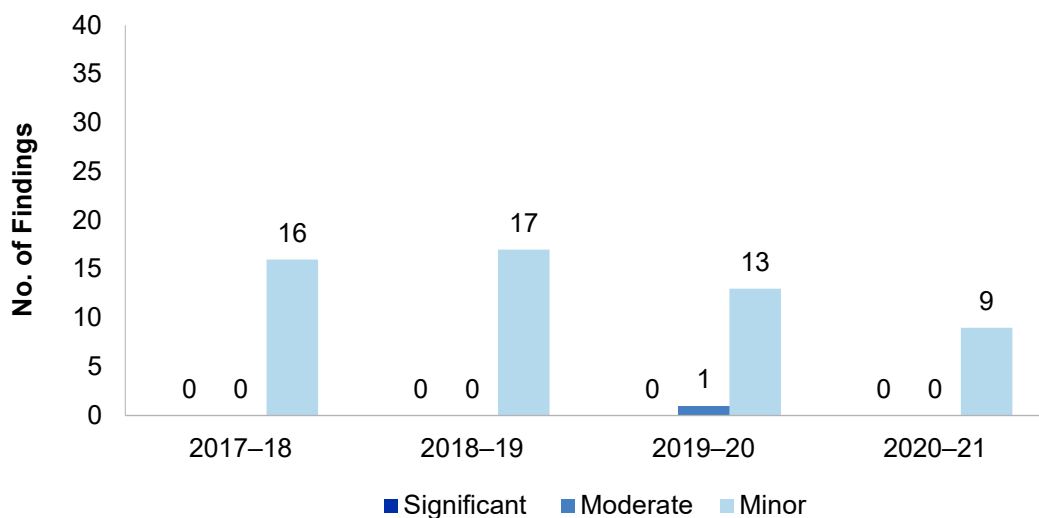
Revenue, receivables and cash management

2.91 Revenue and receivables include parliamentary appropriations, taxation revenue, customs and excise duties and administered levies. Commonwealth entities also generate revenue 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.

44 Further details regarding the significant finding can be found in the entity results section in Chapter 4 for the Department of Defence.

45 Further details regarding the moderate finding can be found in the entity results section in Chapter 4 for the Departments of: Defence and Health.

Figure 2.11: Revenue, receivables and cash management findings 2017–18 to 2020–21



Source: ANAO data.

2.92 There were seven new minor findings reported in 2020–21. Two of the nine findings remain unresolved from the prior year.

2.93 Six of the open minor findings relate to controls over revenue and receivables processes. Weaknesses in this category include:

- timeliness and completeness of reconciliations; and
- processes supporting completeness and accuracy of revenue reported including assessment and implementation of AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*.

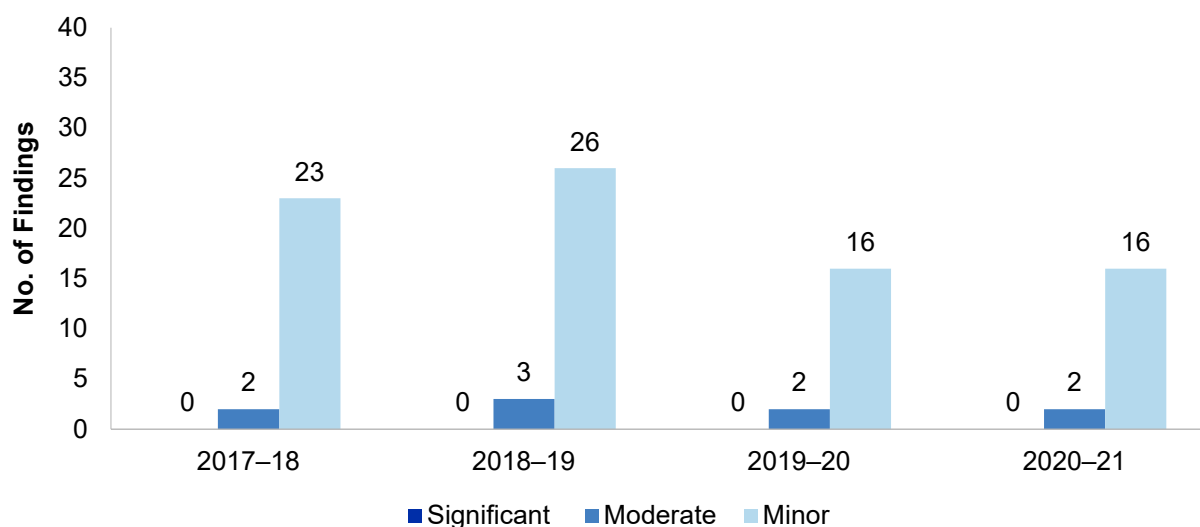
2.94 The three remaining minor findings relate to cash management controls. Cash controls are core processes expected to be in a mature state at every entity. The weaknesses in this category include:

- timeliness and completeness of reconciliations; and
- weaknesses relating to the management of credit card acquittals.

Human resource financial processes

2.95 Human resources encompass the day-to-day management and administration of employee entitlements and payroll functions. Employee benefits represent the most significant departmental expenditure for most Commonwealth entities, and the associated liability is subject to estimates and judgements in inputs.

2.96 Human resource transactions are high volume with both automated and manual processing. As a result, any control weaknesses can result in systematic errors increasing the risk of material misstatement.

Figure 2.12: Human resources financial processes audit findings 2017–18 to 2020–21

Source: ANAO data.

2.97 There was one new moderate audit finding reported to the Australian Federal Police in 2020–21 which related to the underpayment of superannuation on certain allowances. There was an unresolved moderate finding reported in 2019–20 to the Northern Land Council related to weaknesses in the management of staff leave and controls in payroll processes.⁴⁶

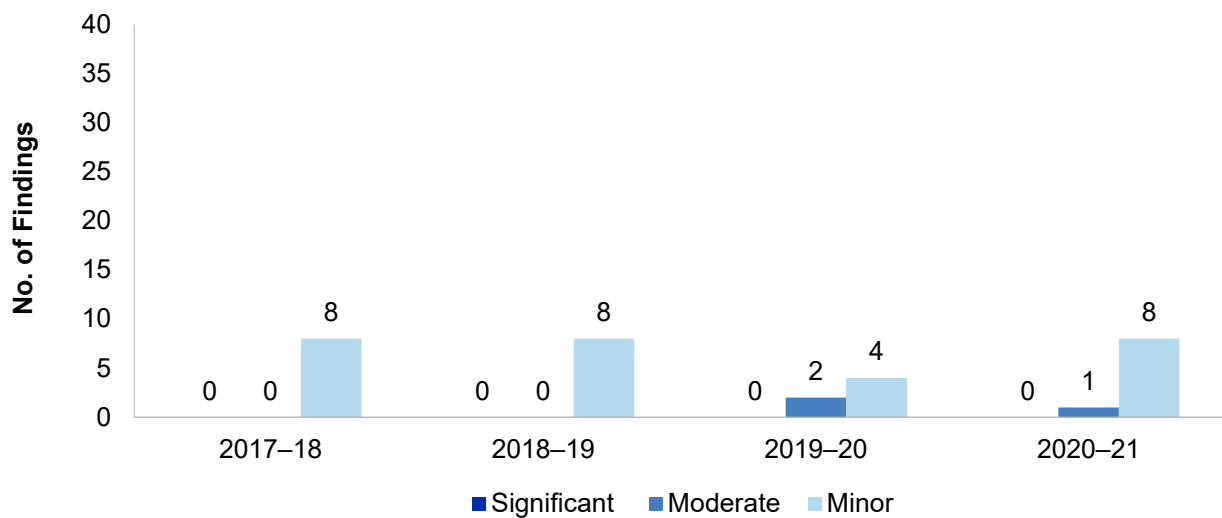
2.98 Nine of the sixteen minor findings were raised in 2020–21. They related to weaknesses in the management of leave balances, commencements and terminations, payroll variances and related party reporting. Seven minor findings remain unresolved from prior years and one of these findings has been unresolved since 2015–16.

Purchases and payables management

2.99 Purchases and payables are payments to, or due to suppliers, including contractor and consultancy expenses, lease payments and general administrative payments. These expenses typically comprise the second most significant departmental expenditure item of entities after employee benefits. These are illustrated below in Figure 2.13.

⁴⁶ Further details of the audit findings can be found in entity results section in Chapter 4 for the Australian Federal Police and the Northern Land Council.

Figure 2.13: Purchases and payables management audit findings 2017–18 to 2020–21



Source: ANAO data.

2.100 There was one new moderate finding reported in 2020–21 relating to weaknesses in the governance of Australian Defence Force (ADF) health services at the Department of Defence.⁴⁷ There were no unresolved moderate findings from prior years.

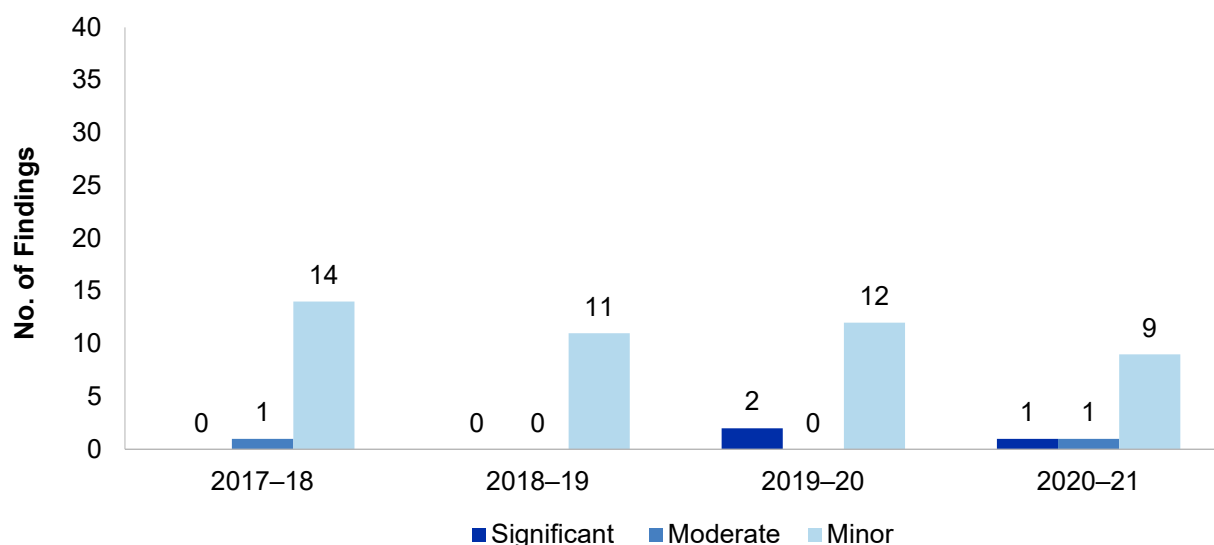
2.101 Seven of the eight minor audit findings were raised in 2020–21 and one minor finding remains unresolved from prior years. Common weaknesses in this category over the four-year period between 2017–18 and 2020–21 relate to:

- 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.

Other audit findings

2.102 Other audit findings typically include items relating to the: management and implementation of service level agreements or memoranda of understanding; updating or maintaining of key governance documentation. These are illustrated below in Figure 2.14.

⁴⁷ Further details regarding the findings can be found in the entity results section of Chapter 4 for the Department of Defence.

Figure 2.14: Other Audit Findings 2017–18 to 2020–21

Source: ANAO data.

2.103 There was one significant finding reported to the Australian Human Rights Commission in 2020–21 relating to budget and financial management processes.⁴⁸ There was one moderate audit finding reported in 2020–21 for other audit findings. This related to the review and updating of existing policy documentation for the Australian Nuclear Science and Technology Organisation.⁴⁹

2.104 Eight of the nine minor findings were raised in 2020–21 and one finding remains unresolved from the prior year. The findings in this category relate to weaknesses in:

- segregation of duties between processing and approving of manual journals;
- the formalisation of corporate documents including agreements with third parties and internal policies;
- charging of costs between departmental and administered fund sources; and
- fraud risk assessments and reporting of fraud to those charged with governance.

Legislative compliance

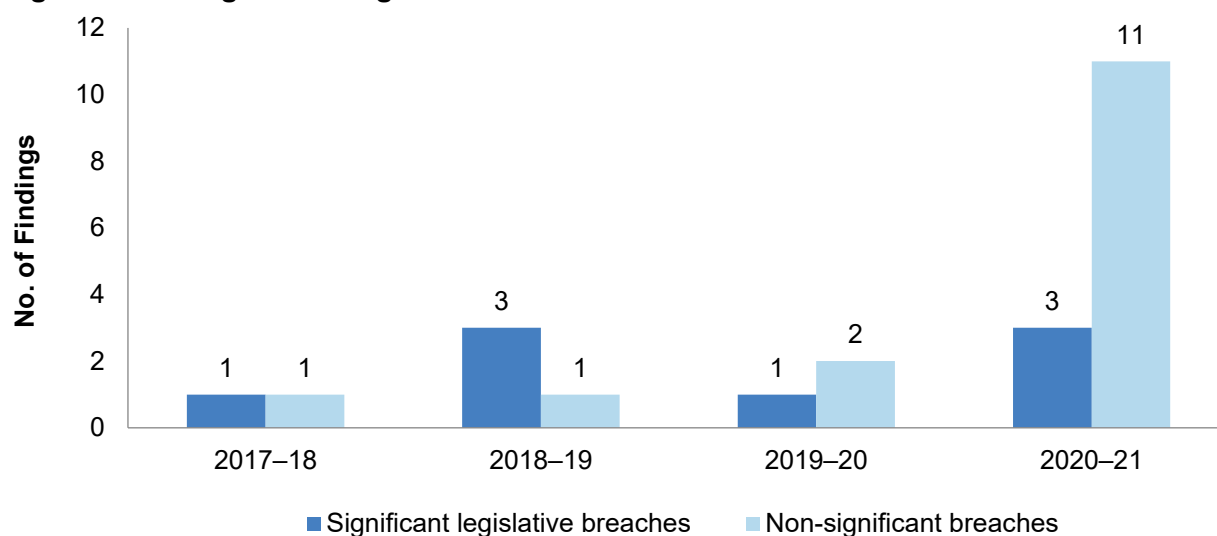
2.105 In accordance with ANAO policy, significant legislative breaches are reported to Parliament consistent with the reporting of significant and moderate audit findings.⁵⁰ Significant legislative breaches include: instances of significant potential or actual breaches of the Constitution; and instances of significant non-compliance with the entity’s enabling legislation, legislation that the entity is responsible for administering, and the PGPA Act. Figure 2.15 below illustrates the significant legislative breaches between 2017–18 to 2020–21.

48 Further details regarding the finding can be found in the entity results section of Chapter 4 for the Australian Human Rights Commission.

49 Further details regarding the finding can be found in the entity results section of Chapter 4 for the Australian Nuclear Science and Technology Organisation.

50 Definitions of each category of audit finding is available at <https://www.anao.gov.au/financial-statement-audit-information>.

Figure 2.15: Significant legislative breaches 2017–18 to 2020–21⁵¹



Source: ANAO data.

2.106 There were three significant breaches reported during 2020–21.⁵² Two of the breaches were raised during the current financial year and there was one that remained unresolved from prior years. The two new significant legislative breaches related to a potential section 83 breach of the constitution by the Department of the Treasury and a payment made to a related party by the Royal Australian Navy Relief Trust Fund.

2.107 The unresolved significant breach related to the Northern Land Council’s failure to fulfil its responsibilities in relation to the requirement for funds in its royalty trust account to be distributed to traditional owners within agreed timeframes. This unresolved breach was first raised in 2012–13 and related to the Northern Land Council’s 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. Instances of non-compliance continue to occur as not all of the funds in the Council’s royalty trust account had been distributed to traditional owners, within the agreed timeframe.

2.108 There were nine new moderate legislative breaches reported during 2020–21. Seven of the nine findings related to remuneration of Key Management Personnel (KMP). The increase in the number of breaches reported is the outcome of additional focus placed on KMP reporting as a result of prior year audit findings.

2.109 There was one breach reported relating to section 23 of the PGPA Act relating to entering arrangements and committing relevant money and one breach reported relating to monies owed by the entity to the Australian Taxation Office for repayment of JobKeeper overpayments.

51 For the purpose of this analysis L2 and L3 categories have been grouped together as non-significant breaches.

52 For further details please refer to the entity results section in Chapter 4: Department of the Treasury (paragraphs 4.14.15 to 4.14.16), Northern Land Council (paragraphs 4.12.67 to 4.12.72) and Royal Australian Navy Relief Trust Fund (paragraphs 4.3.97).

2.110 There were two new minor legislative breaches reported during 2020–21. One breach related to note disclosures surrounding KMP remuneration and the other related to compliance activities undertaken for administered programs.

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

As a result of the COVID-19 pandemic there have been ongoing changes to work arrangements at the ANAO, for example, increased use of remote access when conducting audits and changes to the way audit procedures are performed. In parallel the ANAO is increasing its use of data analytics solutions to improve the efficiency and quality of its audit work and conducting strategic data-related projects to continue to respond to the changing IT landscape.

There were no significant changes in accounting standards in 2020–21. A revised ASA 540 *Auditing Accounting Estimates and Related Disclosures* was issued in December 2018 and was implemented in ANAO audits of financial statements in 2020–21. The ANAO introduced new methodology templates to address the requirements. A real-time review identified a number of improvement opportunities for broader implementation going forward. A summary of future developments in audit and accounting standards is included in this chapter.

The auditing of performance information is an emerging area of interest for both national and international auditing standard setters. For the ANAO, this is an area of strategic priority as it enhances accountability and transparency to the Parliament. This chapter provides an update on ANAO's work in developing a performance audit framework.

This chapter includes a summary of the ANAO's quality assurance framework. The quality assurance framework is designed to provide the Auditor-General with reasonable assurance that the ANAO complies with its policies and procedures, applicable legal and regulatory requirements, and that reports issued by the ANAO are appropriate in the circumstances. The quality assurance framework emphasises that quality audits are reliant on the strength of the ANAO's independence and quality control processes.

Finally, data analytics continues to be a focus for the ANAO, and audits undertaken in 2020–21 have continued to build on previous initiatives to enhance audit quality and efficiency. In 2020–21, the ANAO applied four standardised data analytics solutions to audits, at least one of which was used by more than 35 audit teams.

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 sector and not-for-profit private sector. In doing so, it takes into account standards issued by the International Public Sector Accounting Standards Board.

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

3.4 The audits of the financial statements of Australian Government entities are conducted in accordance with the ANAO Auditing Standards, which are made by the Auditor-General under section 24 of the *Auditor-General Act 1997*. The ANAO Auditing Standards incorporate, by reference, the auditing standards made by the Australian Auditing and Assurance Standards Board (AUASB). The Australian Auditing and Assurance Standards Board 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 ANAO Auditing Standards were reissued in February 2021. The main change from the ANAO Auditing Standards made in February 2018 was allowing for the Auditor-General to elect, wholly or in part, to conduct a performance audit under Division 2 of Part 4 of the Act as a compliance engagement under ASAE 3100 Compliance Engagements (ASAE 3100).

3.6 For performance audits under Division 2 of Part 4 or Division 2 of Part 7 of the Act, the ANAO Auditing Standards incorporate ASAE 3100 for audits designated as performance engagements, except paragraph 56 relating to the assurance report content. Instead, the ANAO Auditing Standards have incorporated the reporting requirements specified by the International Standard of Supreme Audit Institutions ISSAI 4000 *Standard for Compliance Auditing* (ISSAI 4000). These reporting requirements are consistent with the practice of the ANAO in reporting conclusions, findings and recommendations in performance audit reports.

3.7 The financial reporting and auditing frameworks that applied in 2020–21 are illustrated in Appendices 3 and 4 of this report.

Changes to the Australian public sector reporting framework

The COVID-19 pandemic

3.8 Similar to 2019–20, the ANAO's experience with 2020–21 financial statements audits identified challenges for entities when dealing with material uncertainties arising in asset valuations and in performing physical compliance activities such as inventory stocktakes. Due to travel restrictions and lock downs, ANAO staff were restricted in their ability to physically access entities' premises leading to the increased use of remote access to entity financial management and relevant operational systems. Remote access allowed audit teams to undertake their audit work without the need to be onsite. It is expected that this increased use of remote access will continue in the 2021–22 audit cycle in support of a more agile and flexible approach to conducting audits.

3.9 The Government's increasing utilisation of online services in supporting the response to major events such as the COVID-19 pandemic necessitates that those charged with governance understand their information and data risks along with the need to protect critical information from malicious actors. As the IT control environment remains the category that consistently has the greatest number of financial audit findings, IT control and Commonwealth entity compliance

with mandatory Australian Government cybersecurity frameworks will continue to be a particular focus of ANAO's audit work for 2021–22.

Performance framework

3.10 The PGPA Act provides the basis for the Commonwealth performance framework. Commonwealth entities are required to publish planned financial and non-financial performance information with the aim of providing more transparent and meaningful information to the Parliament and the public. From 2016–17 to 2018–19, the ANAO completed three performance audits covering elements of 10 individual entity performance statements.⁵³

3.11 The *Independent Review into the operation of the Public Governance, Performance and Accountability Act 2013 and Rule*, released September 2018, recommended the Minister for Finance, in consultation with the Joint Committee of Public Accounts and Audit (JCPAA), should request that the Auditor-General pilot assurance audits of annual performance statements to trial an appropriate methodology for these audits.

3.12 Following a request from the Minister for Finance the Auditor-General commenced a program of pilot assurance audits of annual performance statements of Commonwealth entities subject to the PGPA Act, in consultation with the JCPAA. The pilot comprised assurance audits of the 2019–20 performance statements of three entities; the Attorney-General's Department, the Department of Social Security and the Department of Veterans' Affairs.⁵⁴

3.13 The ANAO assurance reports for the Attorney-General's Department and the Department of Veterans' Affairs were provided to the Minister for Finance in December 2020 and were tabled in the Parliament in February 2021. The ANAO withdrew from the Department of Social Services pilot assurance audit as the performance criteria included in the Department's 2019–20 Corporate Plan may not have been sufficiently relevant, reliable and complete to measure the achievement of the Department's purposes.

3.14 Under the same request from the Minister for Finance, the pilot was continued in 2020–21, with the same three entities being subject to an audit of their performance statements for the year ended 30 June 2021. The ANAO completed audits for the Attorney-General's Department, the Department of Social Services and the Department of Veterans' Affairs and it is expected that assurance reports will be provided to the Minister for Finance in late 2021.

Auditing under the performance framework

3.15 Assuring performance information is an emerging area of practice in the Australian and international audit profession. While assurance standards exist for the audit of non-financial historical information, more specific guidance from standard-setters is still in development. The International Auditing and Assurance Standards Board (IAASB) has published non-authoritative guidance on Extended External Reporting (EER) Assurance in April 2021. This release was

53 See Auditor-General Reports:

- No.58 2016–17, Implementation of the Annual Performance Statements Requirements 2015–16;
- No.33 2017–18, Implementation of the Annual Performance Statements Requirements 2016–17; and
- No.17 2018–19, Implementation of the Annual Performance Statements Requirements 2017–18.

54 <https://www.anao.gov.au/work-program/annual-performance-statements-audits-pilot-program> [accessed on 2 November 2020].

supported in Australia by the release of the *AUASB Bulletin Extended External Reporting (EER) Assurance Guidance* in August 2021. EER relates to various forms of reporting such as performance information, integrated reporting and other reporting by entities about matters additional to the information addressed in the financial statements.

3.16 In conducting its pilot audits of performance statements, the ANAO has applied ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ASAE 3000). The ANAO continues to refine its methodology for the conduct of these audits and to develop associated policy and guidance on the application of ASAE 3000 to the Commonwealth's performance reporting framework. This work also considers the output from the IAASB EER assurance project.

3.17 The audit of performance statements is similar to financial statements audits in that the auditor's overall objective is to form a view about whether the auditee's statements accurately report on the delivery of activities by the entity. However, performance statements reporting is not based on a detailed prescriptive framework supported by standards equivalent to the Australian Accounting Standards but rather a set of general principles defined by the PGPA Act and the Public Governance, Performance and Accountability Rule 2014 (the PGPA Rule). On 25 February 2020 the Minister for Finance amended the PGPA Rule to introduce revised requirements for Corporate Plans and Performance Statements with effect from the 2020–21 performance year⁵⁵. The performance framework continues to be designed to allow for a diverse range of performance objectives, measures, and results, originating from auditee systems and processes not previously subject to the rigors of audit. This presents audit challenges, including the need for a methodology suited to supporting a consistent audit approach across entities when assessing the appropriateness and completeness of performance measures, and when forming an opinion over whether results are fairly reported.

3.18 Auditing of performance statements is a strategic priority for the ANAO because of the significant potential benefits it has to the accountability and transparency to the Parliament.

3.19 The first of these key benefits is driving quality improvements in the reporting of non-financial performance information by Commonwealth entities. As an additional layer of scrutiny over entities' processes for developing and reporting performance information, external assurance by the ANAO would be expected to drive improvements to enhance the maturity of activities in this area. This may be achieved directly through the identification of findings and recommendations in individual audits to strengthen performance reporting practices that are subsequently implemented by auditees. It may also occur through increased auditee interest in performance reporting matters in anticipation of potential audits and in seeking to match emergent better practice in this area.

3.20 Secondly, audits of performance statements will help the sector enhance trust and credibility in the reporting of non-financial performance information. As with financial statements auditing in the public sector and the broader economy, the independent credibility provided by quality audit activity and reporting will give users of Australian Government performance information reasonable assurance of the compliance of performance information with the requirements of the performance reporting framework.

55 Public Governance, Performance and Accountability Amendment (2020 Measures No. 1) Rules 2020.

3.21 Finally, ANAO audit activity for performance statements will facilitate increased dialogue in the sector about performance information. As with financial statements and performance auditing, increased audit activity is expected to provide increased information to the sector about key challenges in the preparation and auditing of performance information. This will form the basis of ongoing dialogue between ANAO and key stakeholders such as the JCPAA, the Department of Finance, audit committees, Accountable Authorities and other Commonwealth entity senior executives.

3.22 The ANAO's methodology for performance statements audits is subject to the ANAO's overarching quality framework as described later in this chapter.

Auditor Reporting

3.23 Auditors share the results of completed audit work with users through the auditor's report which includes the auditor's opinion on the preparation and fair presentation of the financial statements. Auditor reports are intended to be broadly consistent and comparable to promote the credibility of the audit process, the understanding by users of the scope and nature of an audit and also assist users to identify unusual circumstances when they are reported.

3.24 The ANAO has now embedded its use of key audit matters (KAM) in the auditor's report for the Commonwealth Consolidated Financial Statements (CFS) and the significant Commonwealth entities and companies. KAM includes information about the most significant matters relevant to the audit and the procedures completed to address them to support the transparency of our work.

3.25 Where appropriate, the auditor's report on the financial statements may 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.

3.26 Most commonly, an 'emphasis of matter' paragraph is a tool available to auditors to highlight important information. Such a paragraph is included in the auditor's report when the auditor considers it necessary to draw to the readers' 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.

3.27 The circumstances in which an emphasis of matter is required by the auditing standards 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.

3.28 The auditor is also required to exercise their judgement to determine if an emphasis of matter paragraph is required in other circumstances where a matter is fundamental to the users' understanding of the financial statements. This may include restatement of comparative information because of material prior period errors, entities whose financial statements are

prepared on a non-going concern basis and circumstances where the financial statements have disclosed significant areas of judgement or uncertainty where the impact is particularly significant.

3.29 For further information about 'other matter' and 'material uncertainty related to going concern' paragraphs, refer to Appendix 2.

Changes to auditing standards

3.30 A revised ASA 540 *Auditing Accounting Estimates and Related Disclosures* was issued in December 2018 and applied to ANAO audits of financial statements for first time in 2020–21.

3.31 In 2020–21 the ANAO introduced revised methodology templates to address the standard requirements. To ensure that audit teams appropriately responded to the new standard requirements and methodology templates, the ANAO conducted a focused real-time Quality Assurance review on selected financial statements audits with significant estimates. The real-time review assessed the compliance with the auditing standards at the planning and final stages of the audit.

3.32 The real-time review identified a number of opportunities for improvement in relation to the application of the requirements of the revised standard, including more robust documentation around the assessment of audit risks and significant assumptions and inputs underlying the accounting estimates, as well as consideration of the oversight processes for management and those charged with governance oversight over the estimate.

3.33 A new version of ASA 315 *Identifying and Assessing the Risks of Material Misstatement* was issued by the AUASB in February 2020, effective for financial reporting periods commencing on or after 15 December 2021, this standard will apply to the 2021–22 audit cycle.

3.34 The revised standard responds to changes in the financial reporting environment including more complex financial reporting frameworks, technology being used to a greater extent, and entities and their governance structures becoming more complex. The standard significantly enhances the auditor's considerations in relation to an entity's use of information technology (IT) and its impact on the audit. This includes new definitions for 'general IT controls' and 'information processing controls'. Further, the standard now explicitly recognises the use of automated tools and techniques by auditors.

3.35 In addition to other changes, the revised standard also emphasises and strengthens the documentation requirements relating to the exercise of professional scepticism by the auditor.

Changes to accounting standards

3.36 There were no significant changes to accounting standards in 2020–21 that impacted on Commonwealth entities' financial statements. In 2021–22, a new standard AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 entities* applied from 1 July 2021. The changes to disclosures are expected to be minimal for Tier 2 Commonwealth entities with the recognition and measurement requirements in other Australian Accounting Standards retained. Changes to the FRR because of the adoption of AASB 1060 are currently being considered.

Quality Assurance Framework and Reporting

ANAO Quality Assurance Framework

3.37 The quality of ANAO audit work is reliant on the strength of its independence and quality control processes. The ANAO defines audit quality as the provision of timely, accurate and relevant audits, performed independently in accordance with the Auditor-General Act, ANAO auditing standards and methodologies, which are valued by the Parliament. Delivering quality audits results in improved public sector performance through accountability and transparency.

3.38 The [ANAO Quality Assurance Framework and Plan 2021–22](#) is published on the ANAO website and articulates the system of quality control that the ANAO has established to support the delivery of high-quality audit work and enables the Auditor-General to have confidence in the opinions and conclusions in the reports prepared for the Parliament.

3.39 The ANAO quality assurance framework complies with the requirements of Auditing Standard ASQC 1 – *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*. The AUASB has issued three revised Australian Quality Management Standards that become effective on 15 December 2022:

- ASQM 1 – Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements;
- ASQM 2 – Engagement Quality Reviews; and
- ASA 220 – Quality Management for an Audit of a Financial Report and Other Historical Information.

3.40 The revised standards introduce a quality management approach that is focused on proactively identifying and responding to risks of quality. The standards include enhanced requirements and focus on governance and leadership, monitoring and remediation. In the key deliverables set out in the [ANAO Quality Assurance Framework and Plan 2021–22](#), the ANAO will review the ANAO Quality Assurance Framework against the requirements of ASQM 1 and ASQM 2 by December 2021. The ANAO will then make enhancements to the framework to ensure that it responds to the quality risks that arise in audits of public sector entities.

3.41 The ANAO engages the Australian Securities and Investments Commission (ASIC) to conduct an annual review of the ANAO quality assurance framework and financial statements audit files, in a similar way to the review work conducted by ASIC on external auditors in the private sector. This review provides additional external oversight and scrutiny over the ANAO quality assurance framework and ensures that it is in compliance with auditing standards. The reports from the ASIC annual review are published on the [ANAO website](#). In 2020–21, the scope of the review completed by ASIC included a review of the policies and approvals in place regarding other services conducted by contracted firms. ASIC provided the ANAO with one good practice recommendation to ensure that the documentation regarding approvals of other services sufficiently captures the evaluation and conclusion reached.

Ethics, independence and integrity

3.42 Ethical requirements, with a focus on independence are core to the quality framework. The fundamental principles of professional ethics as set out in APES 110 *Code of Ethics for Professional Accountants* are integrity; objectivity; professional competence and due care; confidentiality; and professional behaviour. The ANAO maintains a continued focus on independence through the application of the ANAO Independence Policy that manages threats to independence in the conduct of the ANAO's work. The ANAO Integrity Framework sets out the ANAO's integrity control system, supporting our organisation's integrity. The framework encompasses the ANAO Integrity Statement, which describes five key principles of integrity that staff at the ANAO uphold — independence, honesty, accountability, openness and courage.

Quality control and consultation processes

3.43 In the conduct of their work ANAO auditors apply a robust methodology to drive consistent quality and compliance with the ANAO Auditing Standards. The ANAO audit methodology incorporates policies regarding direction, supervision and review, consultation on significant technical and ethical issues, engagement quality control review of high-risk audits and documentation of audit evidence and work performed.

ANAO Quality Reporting

3.44 The [Audit Quality Report 2020–21](#) demonstrates the ANAO assessment of the implementation and operating effectiveness of the elements of the ANAO Quality Assurance Framework. The report provides transparency in respect of the processes, policies, and procedures that support each element of the ANAO Quality Assurance Framework, and reports audit quality indicators measuring ANAO performance against target benchmarks. The report also includes the achievement of the quality assurance strategy and deliverables set out in the Quality Assurance Framework and Plan, including the results of internal and external quality assurance reviews.

Data Analytics 2020–21

3.45 Data analytics continues to be a focus for the ANAO, and audits undertaken in 2020–21 have continued to build on previous initiatives to enhance audit quality and efficiency. More than 80 per cent of the audits of major entities conducted in-house use data analytics as part of their financial statements audits to enhance efficiency, quality and effectiveness.

3.46 In 2021, the ANAO applied four standardised data analytics solutions to audits, at least one of which was used by more than 35 audit teams. Adopting standard procedures for common audit processes reduces duplication of effort and improves quality by simplifying review and ensuring a consistent approach. The solutions have been developed with common tests, documentation and data requirements and focus on areas that are applicable to many audits. These include:

- two analytics focused on different elements of employee entitlements;
- a tool for the risk assessment of journal entries, to enhance testing in response to fraud risk identified by audit teams; and
- a solution for the testing of appropriations, which was piloted in 2020–21.

3.47 An evaluation of the solutions is being undertaken to assess the realisation of benefits from the standardisation process. Additionally, the ANAO is undertaking strategic data-related projects to continue to respond to the changing data landscape and position audit teams for the needs of the future. These include new technology solutions that will allow:

- audited entities to securely provide the data required by audit teams more efficiently, in accordance with data quality and governance requirements; and
- audit teams to have easier access to the data and analytic results relevant to their audit.

3.48 Design work for these technology solutions is currently underway.

4. Results of financial statements audits by portfolio

Chapter coverage

This chapter outlines the results of the audits of the 2020–21 financial statements of individual entities by portfolio based on arrangements existing at 30 June 2021.

The chapter also details an overview of the portfolio and each material entity's primary role in the portfolio as well as:

- a summary of financial performance that provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items and commentary regarding significant movements;
- the number of audit differences reported to all entities within the portfolio;
- a summary of the key areas of financial statements risk and the factors contributing to those risks for all material entities. This includes identification of key audit matters (KAM) for relevant entities;
- the status of significant and moderate audit findings reported during 2020–21 and previous years for all entities; and
- the result of a review of the Administrative Appeals Tribunal (AAT) members' remuneration focusing on 'sessional members' in the Migration and Refugee Division.

Audit results

Two significant and 21 moderate audit findings were reported in 2020–21 (compared with two significant and 22 moderate 2019–20), and three significant legislative breaches (compared with one in 2019–20).

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

- completes its assessment of the effectiveness of controls for the full year;
- substantively tests material balances and disclosures in the financial statements; and
- finalises its audit opinion on the entity's financial statements.

4.0.2 In accordance with generally accepted auditing practice, the ANAO accepts a low level of risk that the audit procedures will fail to detect that the financial statements are materially misstated. This low level of risk is accepted because it is too costly to perform an audit that is predicated on no level of risk. Specific audit procedures are performed to ensure that the risk accepted is low. These procedures include:

- obtaining knowledge of the entity and its environment;

- reviewing the operation of internal controls;
- undertaking analytical reviews;
- testing a sample of transactions and account balances and/or conducting data analytics over entire populations; and
- confirming significant year end balances with third parties.

4.0.3 Where a performance audit was tabled during 2020–21 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. For audits tabled since 1 July 2021 onwards, relevant observations will inform the ANAO’s 2021–22 financial statements audit risk identification process.

4.0.4 This chapter reflects portfolio arrangements at 30 June 2021 as established by the June 2021 Administrative Arrangements Order, and outlines the following information for each portfolio:⁵⁶

- an overview including:
 - an analysis of income, expenses, assets and liabilities contributed to the 2020–21 CFS; and
 - a table of the number of audit differences reported to entities in the portfolio;
- for each material entity within the portfolio:
 - the primary role of the entity;
 - a summary of financial performance that provides a comparison of the 2019–20 and 2020–21 key financial statement items and commentary regarding significant movements;
 - key areas of financial statements risk including those areas identified as key audit matters (KAM);⁵⁷
- the status of significant and moderate audit findings reported during 2020–21 and previous years for all entities; and
- the result of a review of the Administrative Appeals Tribunal (AAT) members’ remuneration focusing on ‘sessional members’ in the Migration and Refugee Division.⁵⁸

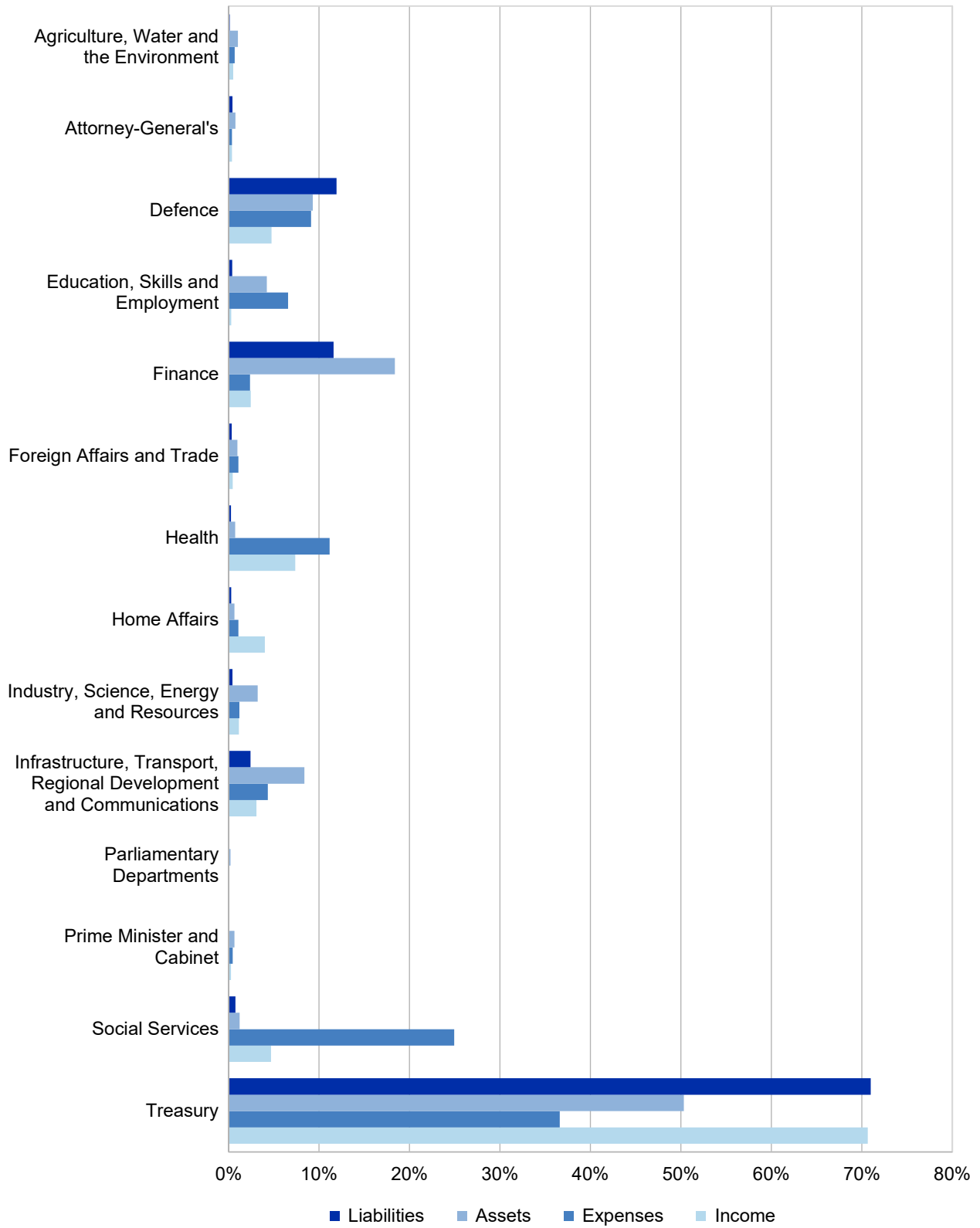
4.0.5 Figure 4.0.1 below provides each portfolio’s contribution, as a percentage of the Australian Government’s 2020–21 Consolidated Financial Statements (CFS).

56 Three subsidiary entities classified by the Department of Finance as material are consolidated into parent entities and a separate financial statements analysis has not been included in this chapter. These entities are: ANSTO Nuclear Medicine Pty Ltd (consolidated into Australian Nuclear Science and Technology Organisation; CSIRO General Partner Pty Ltd (consolidated into Commonwealth Scientific and Industrial Research Organisation); and Voyages Indigenous Tourism Australia (consolidated into Indigenous Land and Sea Corporation).

57 For further details on KAM refer to Chapter 2 paragraphs 2.28 to 2.34.

58 Sessional members refer to members that are part time and are paid on output basis, being the finalisation of a case, which are allocated a particular case weighting.

Figure 4.0.1: Portfolio's contribution as a percentage of the Australian Government's 2020–21 Consolidated Financial Statements



Source: ANAO analysis of 2020–21 CFS.

4.0.6 Table 4.0.1 below presents a summary of significant and moderate findings reported at 30 June 2021 and 30 June 2020 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.

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

| Portfolio | Entity | 30 June 2021 | | 30 June 2020 | |
|--|--|---------------------------|---|---------------------------|---|
| | | New findings ^a | Repeat/unresolved findings ^b | New findings ^a | Repeat/unresolved findings ^b |
| Agriculture, Water and the Environment | Department of Agriculture, Water and the Environment | – | – | – | – |
| | Bureau of Meteorology | – | – | – | – |
| | Great Barrier Reef Marine Park Authority | – | – | 1 | – |
| Attorney-General's | Australian Human Rights Commission | 1 | – | – | – |
| | High Court of Australia | – | – | 2 | – |
| Defence | Department of Defence | 3 | 1 | 1 | 2 |
| | Australian Signals Directorate | – | – | 1 | – |
| | Department of Veterans' Affairs | 6 | – | – | – |
| Education, Skills and Employment | Australian National University | – | – | 2 | – |
| Finance | Department of Finance | – | – | 1 | – |
| Foreign Affairs and Trade | Australian Trade and Investment Commission | – | – | 1 | – |
| Health | Department of Health | – | 1 | 2 | – |
| Home Affairs | Department of Home Affairs | – | – | 1 | 1 |
| | Australian Federal Police | 1 | – | – | – |

| Portfolio | Entity | 30 June 2021 | | 30 June 2020 | |
|--|---|---------------------------|---|---------------------------|---|
| | | New findings ^a | Repeat/unresolved findings ^b | New findings ^a | Repeat/unresolved findings ^b |
| Industry, Science, Energy and Resources | Australian Nuclear Science and Technology Organisation | 1 | 2 | – | 1 |
| Infrastructure, Transport, Regional Development and Communications | Moorebank Intermodal Company Limited | – | – | – | 1 |
| Parliamentary Departments | Department of Parliamentary Services | 1 | – | – | – |
| Prime Minister and Cabinet | Aboriginal Hostels Limited | – | – | 1 | – |
| | Kakadu Tourism (GLC) Pty Ltd | – | – | 1 | – |
| | Northern Land Council | – | 1 | – | 1 |
| Social Services | Department of Social Services | – | 1 | – | – |
| | National Disability Insurance Scheme Launch Transition Agency | 1 | – | 1 | – |
| | Services Australia | – | 1 | 2 | – |
| Treasury | Australian Securities and Investments Commission | – | – | 1 | – |
| | Australian Taxation Office | 2 | – | – | – |
| Total | | 16 | 7 | 18 | 6 |

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

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

Note: Legislative breaches are not included in the table above. Three significant legislative breaches were reported in 2020–21. For further details refer to individual entity contributions in this chapter for the Northern Land Council paragraphs 4.12.67 to 4.12.72, Royal Australian Navy Relief Trust Fund paragraph 4.3.97, and the Department of the Treasury paragraphs 4.14.15 to 4.14.16.

Source: ANAO correspondence 2019–20 and 2020–21.

4.1 Agriculture, Water and the Environment portfolio

Portfolio overview

4.1.1 The Agriculture, Water and the Environment portfolio is responsible for advising the government and implementing programs with respect to the environment, meteorological services, climate change adaptation strategy and science, water resources, rural adjustment and drought issues, plant and animal biosecurity, Antarctica and Australia's agricultural, fisheries, food and forestry industries. Table 4.1.1 identifies material and other entities specifically mentioned in this chapter.

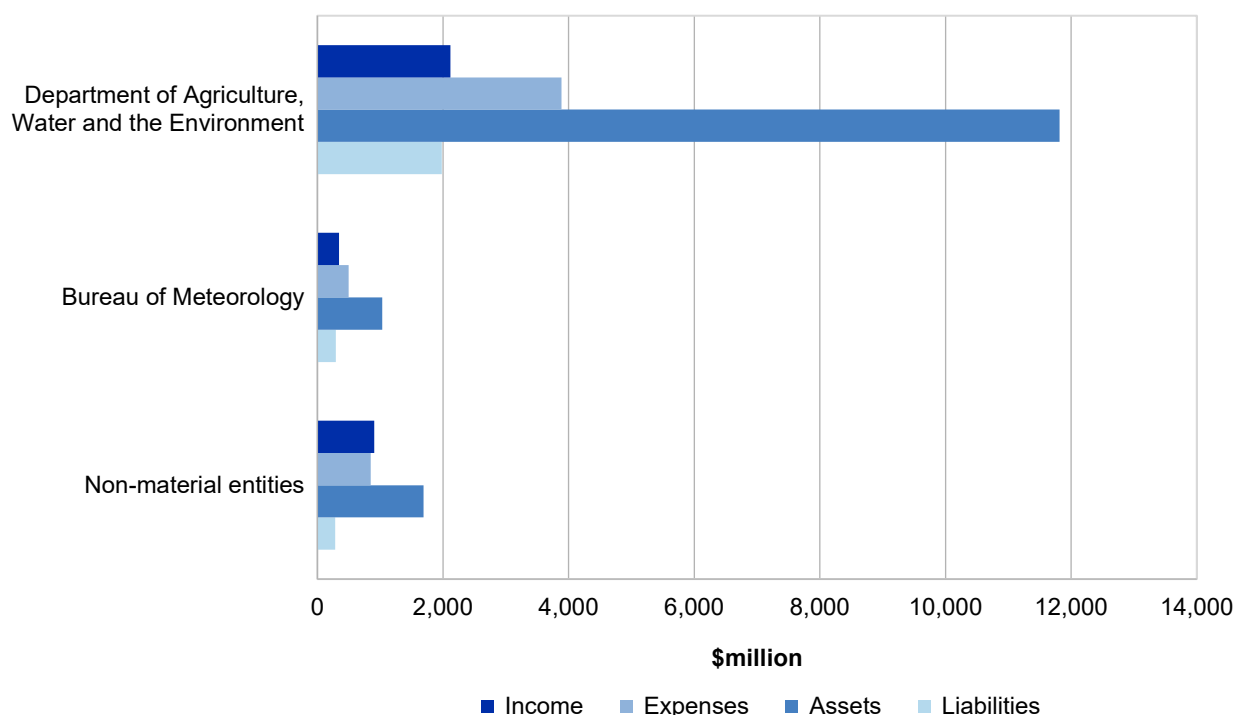
Table 4.1.1: Agriculture, Water and the Environment portfolio material and other entities discussed in this chapter

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified |
|--|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|---------------------------|
| Department of Agriculture, Water and the Environment | Yes | Moderate | ✓ | 9 Sept 21 | 13 Sept 21 | Nil |
| Bureau of Meteorology | Yes | Low | ✓ | 27 Aug 21 | 27 Aug 21 | Nil |
| Great Barrier Reef Marine Park Authority | No | Low | ✓ | 2 Sept 21 | 2 Sept 21 | ☐ |

✓: auditor's report not modified

☐: significant or moderate findings and/or legislative matters identified in previous periods, or the 2020–21 interim audit phase, now downgraded or resolved

4.1.2 Figure 4.1.1 below shows the Agriculture, Water and the Environment portfolio income, expenses, assets and liabilities.

Figure 4.1.1: Agriculture, Water and the Environment portfolio income, expenses, assets and liabilities

Source: ANAO analysis of 2020–21 CFS.

4.1.3 As previously outlined in Chapter 2, paragraph 2.7, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2020–21 financial statements audit. Table 4.1.2 provides a summary of those audit differences that relate to entities within the Agriculture, Water and the Environment portfolio.

Table 4.1.2: The number of audit differences for entities in the Agriculture, Water and the Environment portfolio

| | 2020–21 | | | 2019–20 | | |
|--|------------|----------|-------|------------|----------|-------|
| | Unadjusted | Adjusted | Total | Unadjusted | Adjusted | Total |
| Department of Agriculture, Water and the Environment | 1 | 3 | 4 | 4 | 2 | 6 |
| Australian Pesticides and Veterinary Medicines Authority | – | 1 | 1 | – | 5 | 5 |
| Bureau of Meteorology | 2 | 1 | 3 | 2 | – | 2 |
| Director of National Parks | – | – | – | 1 | – | 1 |
| Fisheries Research and Development Corporation | – | – | – | – | 1 | 1 |
| Grains Australia Limited | – | 2 | 2 | – | – | – |

| | 2020–21 | | | 2019–20 | | |
|---|------------|----------|-------|------------|----------|-------|
| | Unadjusted | Adjusted | Total | Unadjusted | Adjusted | Total |
| Grains Research and Development Corporation | – | 1 | 1 | – | 4 | 4 |
| Great Barrier Reef Marine Park Authority | – | 3 | 3 | – | 3 | 3 |
| Regional Investment Corporation | – | – | – | – | 3 | 3 |
| Rural Industries Research and Development Corporation | 1 | – | 1 | – | 1 | 1 |
| Sydney Harbour Federation Trust | – | – | – | – | 2 | 2 |
| Wine Australia | – | – | – | 1 | – | 1 |

Source: ANAO analysis of audit differences reported to entities in the DAWE Portfolio.

4.1.4 The following section provides a summary of the 2020–21 financial statements audit results for the Department of Agriculture, Water and the Environment, and findings for other material entities and non-material entities in the portfolio.

Department of Agriculture, Water and the Environment

4.1.5 The Department of Agriculture, Water and the Environment (DAWE) is responsible for conserving, protecting and sustainably managing Australia’s biodiversity, ecosystems, environment and heritage; advancing Australia’s interests in the Antarctic region; developing and implementing policies and programs to promote more sustainable, productive, internationally competitive and profitable Australian agricultural, food and fibre industries; safeguarding Australia’s animal and plant health status; and implementing water reforms to improve the health of rivers and freshwater ecosystems and water use efficiency.

Summary of financial performance

4.1.6 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by DAWE (as outlined in Table 4.1.3 and Table 4.1.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.1.3: Key departmental financial statements items

| Key financial statements items | 2020–21 DAWE (\$m) | 2019–20 DAWE (\$m) |
|---|--------------------------|--------------------------|
| Net (cost of)/contribution by services | (914.0) | (950.2) |
| Revenue from government | 966.1 | 818.5 |
| Surplus/(deficit) attributable to the Australian Government | 52.1 | (131.7) |
| Total other comprehensive income/(loss) | 139.1 | (17.9) |
| Total comprehensive income/(loss) attributable to the Australian Government | 191.1 | (149.7) |
| Total assets | 2,058.7 | 1,846.1 |
| Total liabilities | 1,381.2 | 1,493.2 |
| Total equity | 677.5 | 352.9 |

Source: DAWE's audited financial statements for the year ended 30 June 2021.

4.1.7 In 2020–21 there was an increase in total comprehensive income attributable to the Australian Government. The main drivers for the increase included:

- an increase of \$147.6 million in Revenue from Government with a portion remaining unspent at year-end;
- the remeasurement of the Antarctic restoration provision due to changes in economic assumptions, resulting in a gain of \$43.1 million compared to the prior year expense of \$18.7 million and other comprehensive income of \$66.2 million compared to a comprehensive loss of \$17.9 million in the prior year; and
- other comprehensive income of \$72.9 million, attributable to the current year valuation of assets primarily in the Antarctic.

4.1.8 Total assets increased by \$212.6 million primarily due to an increase in appropriation receivables. During 2020–21 DAWE received additional appropriation funding due to budget measures and part of this additional funding remained unspent as at 30 June 2021. The underspend was due to a combination of operational delays in the Antarctic program and delays in engaging external service providers to support activities for other departmental outcomes and capital projects.

4.1.9 Total liabilities decreased by \$112.0 million primarily due to a reduction in the Antarctic restoration provision. The decrease in the provision reflects updated economic assumptions compared to the prior year including more favourable interest rates, lower assumptions about cost escalation factors such as Consumer Price Index and Wage Price Index and an increase in the assumptions relating to long-term discount rate. The decrease in the provision is recognised as other gains and as a change in the asset revaluation reserve.

Table 4.1.4: Key administered financial statements items

| Key financial statements items | 2020–21 DAWE (\$m) | 2019–20 DAWE (\$m) |
|--|--------------------------|--------------------------|
| Total expenses | 2,477.1 | 2,035.1 |
| Total income | 719.5 | 758.7 |
| Net (cost of)/contribution by services | (1,757.6) | (1,276.4) |
| Total other comprehensive income/(loss) | 108.8 | 52.5 |
| Total comprehensive income/(loss) | (1,648.8) | (1,223.9) |
| Total assets administered on behalf of Government | 9,755.7 | 8,677.8 |
| Total liabilities administered on behalf of Government | 600.9 | 275.4 |
| Net assets | 9,154.8 | 8,402.4 |

Source: DAWE's audited financial statements for the year ended 30 June 2021.

4.1.10 The increase in total expenses is primarily due to a higher concessional loan discount expense as a result of increased loan advances at below-market interest rates to Farm Businesses and Farm-Related Small Businesses. The average concessional discount applied to each loan also increased, due to the two-year interest free period offered on a significant number of new loans settled during 2020–21.

4.1.11 Total income has reduced overall as a result of the following offsetting movements:

- an increase in levies and charges revenue of \$66.7 million, reflecting strong agricultural production and environmental factors such as increased rainfall, particularly for wheat, grains and seeds;
- new revenue of \$100.0 million for the Agriculture Future Drought Resilience Special Account;
- a reduction in dividend revenue of \$108.5 million. The prior year dividends were attributable to the Australian Government's interest in Snowy Hydro Limited and were received prior to the Administrative Arrangements Order effective 1 February 2020, when the energy functions were transferred to the Department of Industry, Science, Energy and Resources; and
- a reduction in other gains of \$75.0 million due to fewer water assets received for no cost compared to the prior year.

4.1.12 Total assets administered on behalf of the Government increased due to an additional \$580.1 million in loan receivables and an increase of \$326.5 million in cash and cash equivalents. The increase in loan receivables is in line with the higher concessional loans settled in 2020–21 compared to 2019–20. The increase in cash held in special accounts was due to:

- an increase in the balance of the Agriculture Future Drought Resilience Special Account of \$100.0 million, with \$58.2 million of expenditure under Future Drought Resilience programs. The delay in expenditure is driven by the Government's decision to open the Future Drought Fund Innovation program in 2021–22 instead of 2020–21; and

- a statutory increase of \$315.0 million to the Water for the Environment Special Account, with lower than budgeted expenditure of \$44.2 million. The lower expenditure was attributable to the Government's decision to end water buy backs through the Sustainable Rural Water Use and Infrastructure Program and delays by Basin states in bringing forward efficiency measures including the establishment of the off-farm efficiency programs.

Key areas of financial statements risk

4.1.13 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of DAWE's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided below in Table 4.1.5, including areas which were considered key audit matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.1.5: Key areas of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|--|-------------------|--|
| <i>Departmental</i> revenue from contracts with customers \$418.4 million | Accuracy and completeness of own-source revenue relating to import and export functions KAM | Higher | <ul style="list-style-type: none"> • large range of revenue streams, collected across the country through multiple systems; and • complex cost recovery arrangements. |
| <i>Administered</i> levies fees and charges \$541.0 million | Accuracy and completeness of primary industry levies and charges revenue KAM | Higher | <ul style="list-style-type: none"> • self-assessment nature of collections; and • complexities involved in estimating the level of agricultural production on which revenue is based. |
| <i>Departmental</i> other provisions \$650.3 million | Valuation of the Antarctic restoration provision KAM | Higher | <ul style="list-style-type: none"> • the balance is subject to judgement and estimation, particularly relating to discount rates, escalation factors, asset replacement costs and useful lives. |
| <i>Administered</i> loan receivables \$1.5 billion | Valuation of loans to the State and Territory Governments and farm businesses KAM | Higher | <ul style="list-style-type: none"> • variation in loan terms across jurisdictions; • potential changes in the accounting treatment for loans should they be deemed concessional in nature; • the level of estimation involved in determining any potential impairment of loans; and • subsequent management of loans to farm businesses is undertaken by a third party (the State or Territory Government, or the Regional |

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|---|-------------------|---|
| | | | Investment Corporation), under a service level agreement with DAWE. The third party is responsible for entering into loan agreements with eligible farm businesses, the approval of recipients, and the ongoing monitoring and maintenance of the loans. |
| <i>Administered</i> water entitlements \$4.0 billion | Valuation of water entitlements assets KAM | Moderate | <ul style="list-style-type: none"> the balance and impairment process is subject to estimation and judgement, and impacted by factors including the maturity and assessment of the water market; and information to support the valuation is provided by third parties. |

Source: ANAO 2020–21 audit results, and DAWE’s audited financial statements for the year ended 30 June 2021.

Audit results

4.1.14 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Bureau of Meteorology

4.1.15 The Bureau of Meteorology is responsible for gathering weather, water and atmospheric observations in order to provide forecasts, warnings and long-term weather and climatic outlooks.

Summary of financial performance

4.1.16 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by the Bureau of Meteorology (as outlined in Table 4.1.6 and Table 4.1.7) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.1.6: Key departmental financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Revenue from government | 269.9 | 263.3 |
| Net (cost of)/contribution by services | (422.5) | (348.2) |
| Surplus/(deficit) attributable to the Australian Government | (152.6) | (84.9) |
| Total other comprehensive income/(loss) | – | 58.9 |
| Total comprehensive income/(loss) attributable to the Australian Government | (152.6) | (26.0) |
| Total assets | 1 031.4 | 1 033.6 |
| Total liabilities | 294.4 | 307.0 |
| Total equity | 737.0 | 726.6 |

Source: Bureau of Meteorology's audited financial statements for the year ended 30 June 2021.

4.1.17 Net cost of services increased as a result of additional depreciation expenses following the capitalisation of new work in progress assets, an increase in employee costs due to employee separations and the cost of new staff, and an increase in the costs of information and communications technology (ICT) services.

4.1.18 Movements in other departmental balances were not significant.

Table 4.1.7: Key administered financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Total expenses | – | – |
| Total revenue | – | – |
| Surplus/(deficit) attributable to the Australian Government | – | – |
| Total other comprehensive income | – | – |
| Total comprehensive income/(loss) attributable to the Australian Government | – | – |
| Total assets | – | – |
| Total liabilities | 0.4 | 0.4 |
| Net assets/(liabilities) | (0.4) | (0.4) |

Source: Bureau of Meteorology's audited financial statements for the year ended 30 June 2021.

4.1.19 In 2018–19 the Bureau of Meteorology ceased activities in relation to the sale of third-party advertising which was reported as administered activities. There has been no further administered activity since 2018–19 however the Bureau of Meteorology is still to resolve administered accounts payable of \$366,000 relating to advertising related activities.

Key areas of financial statements risk

4.1.20 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Bureau of Meteorology's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.1.8. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.1.8: Key areas of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|--|-------------------|---|
| <i>Departmental</i> plant and equipment \$616.2 million | Valuation of specialised weather equipment | Moderate | <ul style="list-style-type: none"> involves complex valuation processes that involves significant judgement and estimation by valuation experts; and includes diverse types of assets such as radar, weather stations and super computers located across Australia. |
| <i>Departmental</i> computer software \$239.5 million | Valuation of computer software | Moderate | <ul style="list-style-type: none"> significant investment in software including meteorological applications and data management; 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. |
| <i>Departmental</i> right-of-use assets \$97.1 million lease liabilities \$103.8 million | Accounting for leases | Moderate | <ul style="list-style-type: none"> considerable number of leases with varying terms and conditions, and a high level of manual input and judgement required to estimate the value of lease liabilities and right-of-use assets at year-end. |

Source: ANAO 2020–21 audit results, and Bureau of Meteorology's audited financial statements for the year ended 30 June 2021.

Audit results

4.1.21 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Comments on non-material entities

Great Barrier Reef Marine Park Authority

4.1.22 The Great Barrier Reef Marine Park Authority (the Authority) is a non-corporate Commonwealth entity and operates as a statutory agency under the *Great Barrier Reef Marine Park Act 1975*. The Authority is responsible for the long-term protection of the Great Barrier Reef for all Australians and the international community through the care and development of the Marine Park.

Audit results

4.1.23 Table 4.1.9 below summarises the status of the audit findings reported by the ANAO in 2019–20 and 2020–21.

Table 4.1.9: Status of audit findings

| Category | Closing position (2019–20) | New findings (2020–21) | Findings resolved (2020–21) | Closing position (2020–21) |
|--------------|-------------------------------|---------------------------|--------------------------------|-------------------------------|
| Moderate (B) | 1 | – | (1) | – |
| Total | 1 | – | (1) | – |

Source: ANAO 2020–21 audit results.

Resolved moderate audit finding

Expenditure control environment

4.1.24 As part of the 2019–20 financial statements audit, the ANAO tested the operational effectiveness of controls related to procurement processes and IT access. The following weaknesses were identified:

- purchase requisitions to confirm the approval of the commitment of public money did not exist in several instances;
- evidence did not exist to confirm that expenditure incurred for employment agency suppliers had been reviewed or approved by a financial delegate confirming that the services had been rendered prior to payment;
- documentation did not exist to confirm that changes to employee and supplier masterfile data are reviewed on a regular basis by an independent reviewer; and
- access rights associated with the financial institution online platform were not reviewed and the vendor payment file was not securely stored prior to uploading to the financial institution online platform.

4.1.25 In 2019–20, the Authority agreed to the ANAO’s recommendation and advised during the final phase of the audit that it had commenced remedial action to strengthen the control framework. In 2020–21, the audit team completed testing over the controls and concluded that the Authority had remediated the issues and this finding has been resolved.

4.2 Attorney-General's portfolio

Portfolio overview

4.2.1 The Attorney-General's portfolio covers a range of functions and policy areas, including legal services; national security and criminal law; industrial relations; work health and safety; rehabilitation and compensation; integrity and anti-corruption matters; the Commonwealth justice system, including courts, tribunals, justice policy, and legal assistance, regulation and reform; protecting and promoting human rights; government records management; and support for Commonwealth royal commissions. Table 4.2.1 identifies material and other entities specifically mentioned in this chapter.

Table 4.2.1: Attorney-General's portfolio material and other entities discussed in this chapter

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified |
|---|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|---------------------------|
| Attorney-General's Department | Yes | Moderate | ✓ | 23 Sept 21 | 23 Sept 21 | Nil |
| Coal Mining Industry (Long Service Leave Funding) Corporation | Yes | Moderate | ✓ | 10 Sept 21 | 10 sept 21 | Nil |
| Comcare | Yes | Moderate | ✓ | 16 Sept 21 | 16 Sept 21 | Nil |
| High Court of Australia | Yes | Low | ✓ | 25 Aug 21 | 25 Aug 21 | □ |
| National Archives of Australia | Yes | Low | ✓ | 31 Aug 21 | 2 Sept 21 | Nil |
| Australian Human Rights Commission | No | Low | E | 19 Oct 21 | 19 Oct 21 | ◆ |

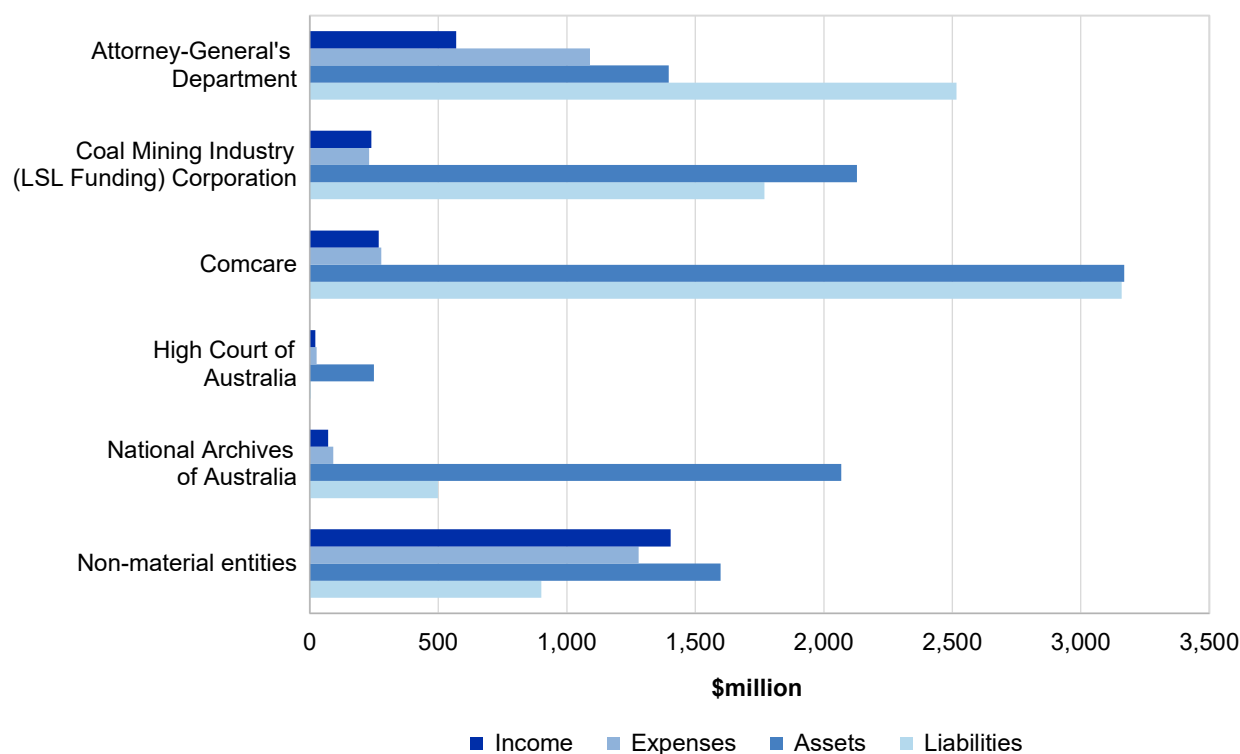
✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2020–21 interim audit phase, now downgraded or resolved

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

4.2.2 The Attorney-General's Department (AGD) is the lead entity in the portfolio and is responsible for Australia's law and justice framework and providing legal services to the Commonwealth. The department is also responsible for workplace relations and work health and safety, rehabilitation and compensation. Figure 4.2.1 below shows the Attorney-General's portfolio income, expenses, assets and liabilities.

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

Source: ANAO analysis of 2020–21 CFS.

4.2.3 As previously outlined in Chapter 2, paragraph 2.7, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2020–21 financial statements audit. Table 4.2.2 provides a summary of those audit differences that relate to entities within the Attorney-General's portfolio.

Table 4.2.2: The number of audit differences for entities in the Attorney-General's portfolio

| | 2020–21 | | | 2019–20 | | |
|---|------------|----------|-------|------------|----------|-------|
| | Unadjusted | Adjusted | Total | Unadjusted | Adjusted | Total |
| Asbestos Safety and Eradication Agency | – | 2 | 2 | – | 1 | 1 |
| Administrative Appeals Tribunal | 2 | – | 2 | 6 | – | 6 |
| Australian Building and Construction Commission | – | – | – | – | 1 | 1 |
| Australian Financial Security Authority | – | 3 | 3 | – | – | – |
| Australian Human Rights Commission | – | 4 | 4 | – | – | – |
| Australian Law Reform Commission | – | – | – | 2 | 1 | 3 |

| | 2020–21 | | | 2019–20 | | |
|--|------------|----------|-------|------------|----------|-------|
| | Unadjusted | Adjusted | Total | Unadjusted | Adjusted | Total |
| Coal Mining Industry (Long Service Leave Funding) Corporation | 1 | – | 1 | – | – | – |
| Federal Court of Australia | – | 1 | 1 | – | 1 | 1 |
| Fair Work Commission | – | 1 | 1 | – | – | – |
| Fair Work Ombudsman and Registered Organisations Commission Entity | – | 1 | 1 | 1 | 1 | 2 |
| National Archives of Australia | – | 1 | 1 | – | 1 | 1 |
| Office of the Australian Information Commissioner | – | 2 | 2 | – | – | – |
| Office of the Commonwealth Ombudsman | – | 1 | 1 | – | 1 | 1 |
| Office of the Inspector-General of Intelligence and Security | – | – | – | – | 2 | 2 |

Source: Audit differences reported to entities in the Attorney General's Portfolio.

4.2.4 The following sections provide a summary of the 2020–21 financial statements audit results for the AGD, other material entities and findings related to non-material entities in the portfolio.

Attorney-General's Department

4.2.5 The Attorney-General's Department supports the Attorney-General and Minister for Industrial Relations and the Assistant Minister to the Attorney-General and Assistant Minister for Industrial Relations. The roles of the department are to contribute towards a just and secure society by maintaining and improving Australia's law, justice, security and integrity frameworks, and to facilitate jobs growth through policies and programs that promote fair, productive and safe workplaces.

Summary of financial performance

4.2.6 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by AGD and includes commentary regarding significant movements between years contributing to overall performance as outlined in Table 4.2.3 and 4.2.4.

Table 4.2.3: Key departmental financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (220.2) | (221.0) |
| Revenue from government | 227.5 | 213.0 |
| Income tax expense/(benefit) | – | 0.2 |
| Surplus/(deficit) attributable to the Australian Government | 7.4 | (7.6) |
| Total other comprehensive income/(loss) | (2.0) | – |
| Total comprehensive income/(loss) attributable to the Australian Government | 5.4 | (7.6) |
| Total assets | 585.4 | 593.8 |
| Total liabilities | 427.7 | 459.4 |
| Total equity | 157.6 | 134.4 |

Source: AGD's audited financial statements for the year ended 30 June 2021.

4.2.7 The increase in revenue from government of \$14.4 million is largely due to the provision of new measures relating to the COVID-19 pandemic Response Package of \$14.5 million.

4.2.8 Total assets decreased mainly due to a reduction in land and building assets of \$45.5 million. The major transaction was the transfer of fitout and right-of-use totalling \$17.0 million to the Department of Home Affairs for the National Operations Centre (NOC) located in Symonston, ACT. The remaining reduction in assets related to the depreciation expense for right-of-use assets of \$27.9 million and other assets of \$9.8 million. These reductions have been offset by fitout acquisitions totalling \$6.9 million.

4.2.9 The decrease in total liabilities of \$31.7 million is principally due to the transfer of the right-of-use lease liabilities of \$16.4 million relating to the transfer of the NOC to the Department of Home Affairs and the expiration of all other lease liabilities during 2020–21.

Table 4.2.4: Key administered financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Total expenses | 713.5 | 897.9 |
| Total income | 187.5 | 293.1 |
| Surplus/(deficit) | (526.0) | (604.8) |
| Total other comprehensive income/(loss) | 244.2 | (79.4) |
| Total comprehensive income/(loss) attributable to the Australian Government | (281.8) | (684.3) |
| Total assets administered on behalf of Government | 811.0 | 626.0 |
| Total liabilities administered on behalf of Government | 2,088.3 | 2,136.3 |
| Net assets/(liabilities) | (1,277.3) | (1,510.3) |

Source: AGD's audited financial statements for the year ended 30 June 2021.

4.2.10 Total expenses decreased by \$184.4 million which is largely the result of the following:

- a decrease of \$70.1 million in personal benefit expenses relating to payments under the Fair Entitlements Guarantee special appropriation to provide financial assistance to certain unpaid employment entitlements and is a demand driven program; and
- a decrease of \$96.2 million for administered grant expenses primarily due to the Indigenous Legal Assistance Program moving to the National Legal Assistance Partnership Agreement in 2020–21.

4.2.11 Total income decreased by \$105.6 million which is largely due to a \$90.4 million reduction in personal benefit recoveries compared to the prior year in which a single recovery of \$67.9 million occurred.

4.2.12 Total other comprehensive income increased by \$323.6 million largely as the result of the gains on financial assets through comprehensive income due to an overall increase in the Commonwealth's administered investments in associate and jointly controlled entities of \$378.2 million. This was offset by a reduction in the gains on financial liabilities through comprehensive income relating to a decrease in the Commonwealth's Comcare payables of \$53.7 million.

4.2.13 The total assets increase of \$185.0 million is primarily due to an increase in the Commonwealth's investment in associate and jointly controlled entities of \$199.6 million that was offset by a reduction in land and buildings of \$8.8 million. Total liabilities decreased as a result of a reduction in the value of payables by the Commonwealth to Comcare for workers' compensation claims and management of asbestos related personal injury common law claims against the Commonwealth of \$44.3 million.

Key areas of financial statements risk

4.2.14 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of AGD's financial statements. The ANAO focused audit effort on those areas that are assessed as

having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.2.5. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.2.5: Key areas of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|--|------------------------|---|
| <p><i>Administered</i></p> <p>Fair Entitlements Guarantee (FEG) Scheme</p> <p>personal benefits</p> <p>\$106.4 million</p> <p>FEG liabilities are a component of personal benefits liabilities</p> <p>\$0.8 million</p> | <p>Accuracy and occurrence of administered personal benefits expenses</p> | <p>Moderate</p> | <ul style="list-style-type: none"> risks relating to claims eligibility, calculation of benefit amounts and subsequent payments; and the value of debts and liabilities that are recognised relating to the FEG Scheme. |
| <p><i>Departmental</i></p> <p>rendering of services</p> <p>\$154.9 million</p> <p>goods and services receivables (component of trade and other receivables)</p> <p>\$41.8 million</p> | <p>Accuracy of revenue, and the accuracy and completeness of trade receivables, from rendering of services</p> | <p>Moderate</p> | <ul style="list-style-type: none"> 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. |
| <p><i>Administered</i></p> <p>grant expenses</p> <p>\$289.3 million</p> <p>grant payables</p> <p>\$0.3 million</p> | <p>Accuracy and occurrence of administered grant expenses</p> | <p>Lower</p> | <ul style="list-style-type: none"> a significant component of the department's financial statements; and some grant programs are administered through the Department of Social Services' Community Grants Hub. |

Source: ANAO 2020–21 audit results, and AGD's audited financial statements for the year ended 30 June 2021.

Audit results

4.2.15 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Coal Mining Industry (Long Service Leave Funding) Corporation

4.2.16 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

4.2.17 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by Coal LSL and includes commentary regarding significant movements between years contributing to overall performance. Table 4.2.6 outlines the key financial statements items.

Table 4.2.6: Key financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | 77.5 | (324.5) |
| Revenue from government | 139.6 | 147.3 |
| Surplus/(deficit) attributable to the Australian Government | 217.1 | (177.1) |
| Total other comprehensive income/(loss) | – | – |
| Total comprehensive income/(loss) attributable to the Australian Government | 217.1 | (177.1) |
| Total assets | 2,128.9 | 1,862.7 |
| Total liabilities | 1,769.2 | 1,720.2 |
| Total equity | 359.7 | 142.6 |

Source: Coal LSL's audited financial statements for the year ended 30 June 2021.

4.2.18 The improved net cost of services is mainly due to an increase in the fair value of investments in unit trust arrangements. Total expenses also decreased as a result of a lower estimated long service leave provision compared to 2019–20.

4.2.19 Total assets increased primarily due to a \$194.5 million increase in the fair value of unit trusts investment as global investment markets have performed strongly over the 2020–21 financial year leading to increased asset valuations.

Key areas of financial statements risk

4.2.20 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Coal LSL's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.2.7. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.2.7: 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 \$2.0 billion | Valuation of investments | Higher | <ul style="list-style-type: none"> Coal LSL is continuing to increase its holdings of unlisted assets; and complexity surrounding the valuation of unlisted unit trusts warrant a higher degree of focus than listed equities and fixed interest investments. |
| Provisions \$1.8 billion | Valuation of provision for reimbursements | Higher | <ul style="list-style-type: none"> Coal LSL makes a provision for the expected reimbursement of employer's long service leave obligations, based on a complex methodology and estimation process. |

Source: ANAO 2020–21 audit results, and Coal LSL's audited financial statements for the year ended 30 June 2021.

Audit results

4.2.21 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Comcare

4.2.22 Comcare is the Commonwealth's work health and safety regulator, whose stated purpose is to 'promote and enable safe and healthy work'. It also administers the Commonwealth's workers compensation scheme and acts as an insurer and claims manager. Comcare's enabling role is focused on supporting engagement and better practice approaches to health and safety across its scheme.

Summary of financial performance

4.2.23 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by Comcare and includes commentary regarding significant movements between years contributing to overall performance as outlined in Table 4.2.8.

Table 4.2.8: Key financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (21.6) | 22.7 |
| Revenue from government | 51.2 | 61.2 |
| Available funding from movement in claims provision | (37.6) | (92.9) |
| Deficit attributable to the Australian Government | (8.0) | (9.0) |
| Total other comprehensive income | (0.1) | (0.1) |
| Total comprehensive income/(loss) attributable to the Australian Government | (8.1) | (9.2) |

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|-------------------------------|------------------|------------------|
| Total assets | 3,168.5 | 3,260.3 |
| Total liabilities | 3,159.4 | 3,243.1 |
| Total equity | 9.1 | 17.2 |

Source: Comcare's audited financial statements for the year ended 30 June 2021.

4.2.24 The decrease in the net contribution by services was largely due to a decrease of \$109.5 million attributable to changes in gains arising from the movements of workers' compensation claims offset by an increase of \$74.1 million attributable to changes in gains from the movement of asbestos-related disease claims provisions. These gains reflect changes in economic assumptions including inflation and discount rates impacting on the actuarial valuation.

4.2.25 Comcare has arrangements for special appropriations funding for claims to be returned to the Commonwealth when it is surplus to Comcare's requirements, after third party recoveries. This is reflected in the increase in the available funding from movement in claims provision.

4.2.26 Total assets decreased due to a reduction of \$44.3 million in appropriations receivable, and a reduction in Comcare's cash position of \$42.8 million as a result of increased expenses and reduced interest income.

4.2.27 The reduction in total liabilities was mainly due to a decrease of \$90.3 million in the workers' compensation claims provision as a result of the current year actuarial valuation.

Key areas of financial statements risk

4.2.28 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Comcare's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are 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 |
|--|---|-------------------|---|
| Workers' compensation claims provision \$1,938.9 million common law asbestos related disease claims provision \$830.2 million | Valuation of workers' compensation and asbestos related disease claims provisions | Higher | <ul style="list-style-type: none"> complex nature of the valuation of the provisions, including: the use of actuarial valuation models; the reliance on the accuracy of underlying assumptions 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. |

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|--|-------------------|--|
| workers' compensation claims expense \$185.7 million | | | |
| common law asbestos related disease claims expense. \$22.2 million | | | |
| Revenue from contracts with customers \$206.6 million | Accuracy of revenue collection and recognition | Moderate | <ul style="list-style-type: none"> complex nature of the legislative requirements due to the variety of criteria underpinning premium calculations. |

Source: ANAO 2020–21 audit results, and Comcare's audited financial statements for the year ended 30 June 2021.

Audit results

4.2.29 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

High Court of Australia

4.2.30 The High Court of Australia (the 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

4.2.31 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by the Court (as outlined in Table 4.2.10. and Table 4.2.11) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.2.10: Key financial statements items

| Key departmental financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (22.4) | (23.9) |
| Revenue from government | 16.1 | 15.6 |
| Surplus/(deficit) attributable to the Australian Government | (6.3) | (8.3) |
| Total other comprehensive income | 5.8 | 3.8 |
| Total comprehensive income/(loss) attributable to the Australian Government | (0.5) | (4.5) |
| Total assets | 249.1 | 245.0 |

| Key departmental financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total liabilities | 4.1 | 4.1 |
| Total equity | 245.0 | 241.0 |

Source: The High Court's audited financial statements for the year ended 30 June 2021.

4.2.32 The deficit attributed to the Australian Government in 2019–20 was partly due to the decrement recorded as a result of the completion of the three-yearly comprehensive valuation of the Court's library collection. A comprehensive valuation was not commissioned in 2020–21 for the library collection.

4.2.33 The increase in other comprehensive income and total assets was a result of the annual valuation of the Court's building.

Table 4.2.11: Key administered financial statements items

| Key administered financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | – | – |
| Total income | 2.5 | 1.7 |
| Surplus/(deficit) after income tax | 2.5 | 1.7 |
| Total other comprehensive income after income tax | – | – |
| Total comprehensive income/(loss) | 2.5 | 1.7 |
| Total assets administered on behalf of Government | 0.2 | – |
| Total liabilities administered on behalf of Government | – | 0.2 |
| Net assets/(liabilities) | 0.2 | (0.2) |

Source: The High Court's audited financial statements for the year ended 30 June 2021.

4.2.34 The Court's administered income relates to its hearing and filing fees. The increase in administered income is due in part to an increase in hearings and an increase in hearings attracting higher fees in 2020–21.

Key areas of financial statements risk

4.2.35 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 Court's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.2.12. No significant or moderate audit findings were identified relating to the key area of risk.

Table 4.2.12: Key area of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|-------------------------------|-------------------|---|
| <i>Departmental</i> land and buildings \$215.2 million | Valuation of land & buildings | Moderate | <ul style="list-style-type: none"> the valuation of land involves the exercise of judgement due to the restricted nature and unique characteristic of the land; and the valuation of buildings is subject to judgement due to the limited availability of observable inputs for the valuation due to the building's special purpose and heritage listing and the volume of individually significant components of the building which have different replacement costs and remaining useful lives. |

Source: ANAO 2020–21 audit results, and the High Court's audited financial statements for the year ended 30 June 2021.

Audit results

4.2.36 Table 4.2.13 below summarises the status of the audit findings reported by the ANAO in 2019–20 and 2020–21.

Table 4.2.13: Status of audit findings

| Category | Closing position (2019–20) | New findings (2020–21) | Findings resolved (2020–21) | Closing position (2020–21) |
|--------------|----------------------------|------------------------|-----------------------------|----------------------------|
| Moderate (B) | 2 | – | (2) | – |
| Total | 2 | – | (2) | – |

Source: ANAO 2020–21 audit results.

Resolved moderate audit findings

Security management

4.2.37 Maintaining and supporting IT systems requires some user accounts, both at the network and the application level, to have extensive access rights (privileged access). During 2019–20 the ANAO identified a number of weaknesses in the effectiveness of the Court's management of privileged users and access controls, including:

- a review of activities performed by privileged users was not performed;
- privileged accounts had internet access;
- processes were not implemented to revalidate that standard access to systems remained appropriate;
- instances where individuals were provided with privileged user access to the financial management information system (FMIS) to perform routine operations; and
- non-compliance with the Court's password policy.

4.2.38 The Court established separate user accounts for the users of the FMIS, implemented monitoring controls in relation to the activities performed by the privileged users in the FMIS and implemented a network change to ensure compliance with the Court's password policy.

4.2.39 At the conclusion of the 2019–20 audit, the Court advised that they would investigate the implementation of security changes that will negate the need for administrators accounts to have access to the internet. The Court also advised that management would consider the implementation of a review for activities performed by privileged users and the implementation of processes to confirm that users continue to have appropriate access to systems, applications and data in line with business requirements. This audit finding remained unresolved at the conclusion of the 2019–20 financial year.

4.2.40 In 2020–21, the Court disabled administrator's access to the internet. The Court also implemented a detective control associated with privileged users' activities. Monitoring activities have been implemented to confirm that users have appropriate access to system, applications and data in line with business requirements. The finding is now resolved.

Change management

4.2.41 Change management is a critical component of the information technology (IT) control environment, supporting the controlled progression of changes to IT systems. The implementation of a change management process provides management with assurance that data and calculations within systems that support decision-making and financial reporting can be relied upon. During 2019–20, the ANAO identified that processes to formally review the change management register were not implemented. The ANAO also noted that the activities of two generic user accounts to implement changes were not logged and monitored.

4.2.42 As part of the 2019–20 final audit, the Court disabled the generic user accounts. The Court advised that the change register would be reviewed on a monthly basis for appropriateness and completeness. This audit finding remained unresolved at the conclusion of 2019–20. In 2020–21, the Court implemented a review process to confirm the appropriateness and completeness of changes. The finding is now resolved.

National Archives of Australia

4.2.43 The National Archives of Australia (National Archives) is an Australian Government entity established under the *Archives Act 1983*. It sets information and data management policy and standards for Australian Government entities to meet in creating, retaining, maintaining, securing, preserving, appropriately disposing of, and providing appropriate access to trusted government information and data. The National Archives collects records of government decisions and actions.

Summary of financial performance

4.2.44 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by the National Archives (outlined in Table 4.2.14) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.2.14: Key financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (74.3) | (84.6) |
| Revenue from government | 67.3 | 67.6 |
| Surplus/(deficit) attributable to the Australian Government | (7.0) | (17.0) |
| Total other comprehensive income/(loss) | 46.9 | – |
| Total comprehensive income/(loss) attributable to the Australian Government | 39.9 | (17.0) |
| Total assets | 2,067.4 | 2,033.9 |
| Total liabilities | 498.2 | 512.7 |
| Total equity | 1,569.2 | 1,521.2 |

Source: The National Archive's audited financial statements for the year ended 30 June 2021.

4.2.45 Net cost of services decreased due to the recognition of the intake of records increasing from \$7.6 million to \$13.3 million. The intake is recorded as an asset received free of charge (revenue).

4.2.46 The movement in assets and other comprehensive income is largely due to the revaluation of the heritage and cultural assets and an increase of \$46.9 million in value. Movements in other balances reflect normal business activities.

Key areas of financial statements risk

4.2.47 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 National Archives' financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2020–21 is provided in Table 4.2.15. No significant or moderate audit findings were identified relating to the key area of risk.

Table 4.2.15: 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 \$1.54 billion | Valuation of the archival collection | Higher | <ul style="list-style-type: none"> the complex and unique nature of the archival collection. |
| Accounting for leases \$0.48 billion | Implementation of AASB 16 <i>Leases</i> | Moderate | <ul style="list-style-type: none"> represented a significant change in accounting for operating leases; and number of significant property leases across Australia. |

Source: ANAO 2020–21 audit results, and the National Archive's audited financial statements for the year ended 30 June 2021.

Audit results

4.2.48 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Comments on non-material entities

Australian Human Rights Commission

4.2.49 The Australian Human Rights Commission (the Commission) is Australia’s national human rights institution. Its purpose is to ensure that Australians have access to effective, independent complaint handling and public inquiry processes on human rights and discrimination matters, and benefit from human rights education, advocacy, monitoring and compliance activities.

Audit results

4.2.50 Table 4.2.16 below summarises the status of the audit findings reported by the ANAO in 2019–20 and 2020–21.

Table 4.2.16: Status of audit findings

| Category | Closing position (2019–20) | New findings (2020–21) | Findings resolved (2020–21) | Closing position (2020–21) |
|-----------------|----------------------------|------------------------|-----------------------------|----------------------------|
| Significant (A) | – | 1 | – | 1 |
| Total | – | 1 | – | 1 |

Source: ANAO 2020–21 audit results.

New significant finding

Weaknesses relating to financial management

4.2.51 The Commission has a history of operating deficits dating back to 2017–18. The continued operating deficits have resulted in the Commission’s net liability position at year-end for the last two successive years. The Commission’s net liability position as at 30 June 2021 was \$5.4 million.

4.2.52 In September 2021, the Attorney-General’s Department committed to establishing a steering committee, in conjunction with the Commission and the Department of Finance, to support the development of options and implementation of strategies to transition the Commission to a sustainable financial footing by the end of 2021–22.

4.2.53 The ANAO has recommended that the Commission review the design and effectiveness of its key financial management and budgetary controls, including:

- clarifying the roles, responsibilities and accountabilities of the key personnel involved in the Commission’s budget management process;
- improving the effectiveness of the Commission’s budget management process including establishing budget reporting standards and thresholds for budget variances and commentary; and

- strengthening budget monitoring mechanisms including scheduling regular discussions on budget management variance reports, reviewing for overspending and taking appropriate corrective action where required.

Emphasis of Matter

4.2.54 The auditor's report on the 2020–21 financial statements of the Commission includes an emphasis of matter paragraph drawing attention to the Going Concern note in the Overview section of the financial statements. The note identifies that there is material uncertainty as to whether the Commission will be able to establish a sustainable funding model and therefore whether it will be able to realise its assets and settle its liabilities in the ordinary course of business and at the amounts stated in the financial statements.

Administrative Appeals Tribunal

4.2.55 The Administrative Appeals Tribunal (AAT) conducts independent merits review of administrative decisions made by Australian Government ministers, departments and agencies and, in limited circumstances, state and territory government and non-government bodies.

Audit results

4.2.56 ANAO performed a review of AAT members' remuneration, focusing on 'sessional members' in the Migration and Refugee Division (MRD) as part of the 2020–21 financial statements audit.⁵⁹

Members' Remuneration Review

4.2.57 The ANAO found that a small number of members were paid more than the equivalent full-time salary.⁶⁰ However, the payments were within the AAT's guidelines and procedures. The ANAO reviewed six of the highly paid members by comparing cases finalised in the Case Management System to that paid in the payroll system. In all instances, the payments were consistent with the number of cases finalised by the member.

4.2.58 The review focused on the observation that the amounts paid to sessional members could only be justified if those members had completed at least seven hours of Tribunal work a day for more than five days per week despite the fact that these members are part-time members and may have other forms of employment. The ANAO made two observations as part of the review.

59 The Hon Mark Dreyfus QC, MP (Shadow Attorney-General and Shadow Minister for Constitutional Reform), wrote to the Auditor-General in relation to this issue. The letter highlighted the potential of over-payment of fees to part-time members in the Social Services and Child Support Division and 'sessional members' of the Migration and Refugee Division (MRD). It is important to note that the Administrative Appeals Tribunal (AAT) is the amalgamation of Tribunals which had various remuneration models. Some of these models and related practices still exist and as such the ANAO focused its review on the MRD. The sessional members in the MRD represent 27 of the 324 members at 30 June 2021 and remuneration for MRD sessional members was \$2.4 million (2020: \$3.3 million). The overall figure for all part-time members was \$23.4 million.

60 There are no clauses in the Determination preventing part-time members from earning more than full-time equivalent remuneration.

Observation one: Confirmation that AAT's guidelines and procedures align with the requirements of the Remuneration Tribunal Determination

4.2.59 The AAT advised it is currently seeking legal advice on the appropriateness of the guidelines and procedures employed by the AAT to remunerate members. The ANAO has limited its review to the AAT's current practices and guidelines to meet the Remuneration Tribunal Determination.

4.2.60 The ANAO's review identified some instances where members' fortnightly paid remuneration was for more than 14 days. There was limited documentation to evidence compliance with the requirements of the Remuneration Tribunal Determination (payment for no more than seven hours per day) given that cases may be finalised over an extended period in an output based remuneration model.

4.2.61 The legal advice being sought by AAT on the interpretation of the Remuneration Tribunal Determination will give better clarity to the matter identified above.

Observation two: Weighting used in remuneration model

4.2.62 The amount paid to sessional members on case finalisation, which is based on the case weighting, may not be consistent with actual time spent. The number of case weighting days paid for the members reviewed were above those of full-time staff days available. As MRD sessional members do not keep time records the ANAO could not readily verify the validity of weightings applied. AAT advised that it would move to time spent (timesheets) rather than case finalisation basis for all divisions in December 2021 for all part-time members.

4.3 Defence portfolio

Portfolio overview

4.3.1 The Defence portfolio includes a number of entities that together are responsible for the defence of Australia and its national interests. The principal entities within the portfolio are the Department of Defence (Defence), the Department of Veterans' Affairs (DVA), the Australian Signals Directorate and Defence Housing Australia (DHA). DVA and its associated bodies, including the Australian War Memorial (AWM), is administered separately to Defence. DVA is the primary service delivery entity with responsibility for implementing programs to assist the veteran and ex-service communities, including repatriation, rehabilitation and compensation, and war graves. Table 4.3.1 identifies material and other entities specifically mentioned in this chapter.

Table 4.3.1: Defence portfolio material and other entities discussed in this chapter

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified |
|---|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|---------------------------|
| Department of Defence | Yes | High | ✓ | 30 Sept 21 | 30 Sept 21 | ◆▲□ |
| Australian Signals Directorate | Yes | Moderate | ✓ | 23 Sept 21 | 23 Sept 21 | □ |
| Australian War Memorial | Yes | Low | ✓ | 27 Aug 21 | 30 Aug 21 | Nil |
| Defence Housing Australia | Yes | Moderate | ✓ | 2 Sept 21 | 2 Sept 21 | Nil |
| Department of Veterans' Affairs | Yes | Moderate | E | 6 Oct 21 | 8 Oct 21 | ◆ |
| Royal Australian Navy Relief Trust Fund | No | Low | ✓ | 30 Jul 21 | 30 Jul 21 | ◆ |

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

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

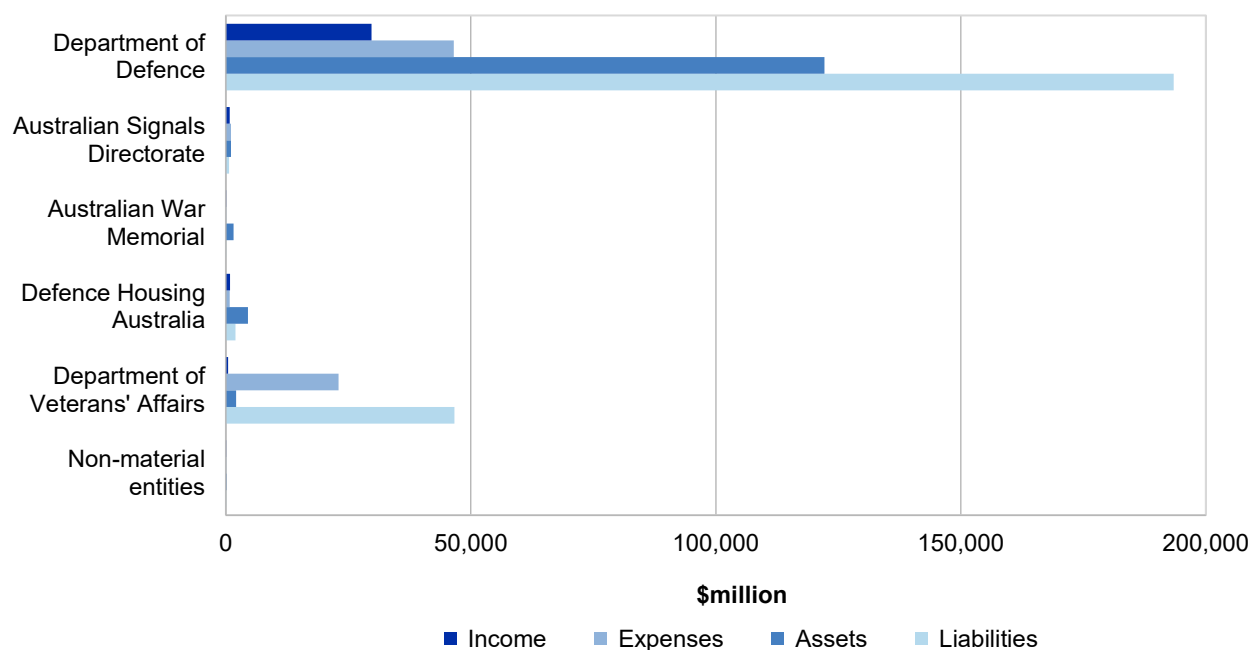
◆: new significant or moderate findings and/or legislative matters noted

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2020–21 interim audit phase, now downgraded or resolved

4.3.2 Defence, including the Australian Defence Force (ADF), is responsible for protecting and advancing Australia's strategic interests through the promotion of security and stability, the provision of military capabilities to defend Australia and its national interests, and the provision of support for the Australian community and civilian authorities as directed by the Australian Government. In 2020–21, support for the community and civilian authorities included support to state and territory authorities during Operation COVID-19 Assist, as well as related support provided by Defence to other parts of the Australian Public Service.

4.3.3 Figure 4.3.1 shows the Defence Portfolio's income, expenses, assets and liabilities.

Figure 4.3.1: Defence portfolio income, expenses, assets and liabilities



Source: 2020–21 CFS

4.3.4 As previously outlined in Chapter 2, paragraph 2.7, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2020–21 financial statements audit. Table 4.3.2 provides a summary of those audit differences that relate to entities within the Defence portfolio.

Table 4.3.2: The number of audit differences for entities in the Defence portfolio

| | 2020–21 | | | 2019–20 | | |
|--|-----------------|----------------|-----------------|------------|----------|-------|
| | Unadjusted | Adjusted | Total | Unadjusted | Adjusted | Total |
| Department of Defence | 12 ^a | 5 ^a | 17 ^a | 16 | 6 | 22 |
| Australian Signals Directorate | 2 | – | 2 | 2 | – | 2 |
| Australian Strategic Policy Institute Limited | – | 2 | 2 | – | 3 | 3 |
| Defence Housing Australia | – | 1 | 1 | 1 | – | 1 |
| Department of Veterans' Affairs | 1 | – | 1 | – | – | – |
| Defence Service Homes Insurance Scheme | – | – | – | – | 2 | 2 |
| Royal Australian Air Force Veterans' Residences Trust Fund | – | 1 | 1 | – | – | – |
| Royal Australian Navy Central Canteens Board | – | 2 | 2 | – | – | – |

Note a: The current year adjustments include adjustments identified in 2020–21 that relate to the prior year.

Source: Audit differences reported to entities in the Defence Portfolio.

4.3.5 The following sections provide a summary of the 2020–21 financial statements audit results for Defence and other material entities.

Department of Defence

4.3.6 Defence is responsible for protecting and advancing Australia’s strategic interests through the promotion of security and stability; the provision of military capabilities to defend Australia and its national interests; and the provision of support for the Australian community and civilian authorities as directed by the Australian Government.

Summary of financial performance

4.3.7 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by Defence (as outlined in Table 4.3.3 and 4.3.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.3: Key departmental financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) ^a |
|---|------------------|-------------------------------|
| Net (cost of)/contribution by services | (35,234.5) | (33,826.7) |
| Revenue from government | 27,365.6 | 34,290.2 |
| Surplus/(deficit) attributable to the Australian Government | (7,868.9) | 463.5 |
| Total other comprehensive income/(loss) | (793.1) | 105.8 |
| Total comprehensive income/(loss) attributable to the Australian Government | (8,662.0) | 569.3 |
| Total assets | 118,907.2 | 112,275.0 |
| Total liabilities | 12,924.3 | 11,468.6 |
| Total equity | 105,982.9 | 100,806.4 |

Note a: Defence has restated prior year figures in the 2020–21 financial statements and Table 4.3.3 has been adjusted to reflect these changes.

Source: Defence’s audited financial statements for the year ended 30 June 2021.

4.3.8 Revenue from government decreased due to changes in Defence’s funding. Revenue from government no longer includes the cost of depreciation, inventory consumption and associated net write-downs and impairment of assets. The acquisition of new assets and inventory is fully funded via capital appropriations that are recognised in equity.

4.3.9 Total assets increased mainly due to increases in the operational and capital appropriation receivable. The capital funding receivable has increased due to the impact of the COVID-19 pandemic on international supply chains. Restrictions on the movement of workers and shutdowns in jurisdictions slowed a number of Defence projects. The operational funding receivable increased as a result of an increase in unpaid creditors as at 30 June 2021.

Table 4.3.4: Key administered financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) ^a |
|--|------------------|-------------------------------|
| Total expenses | 9,900.1 | 10,062.5 |
| Total income | 1,532.8 | 1,604.0 |
| Surplus/(deficit) | (8,367.3) | (8,458.5) |
| Total other comprehensive income/(loss) | 14,451.0 | 625.0 |
| Total comprehensive income/(loss) | 6,083.7 | (7,833.5) |
| Total assets administered on behalf of Government | 3,276.8 | 3,678.7 |
| Total liabilities administered on behalf of Government | 180,497.4 | 188,305.8 |
| Net assets/(liabilities) | (177,220.6) | (184,627.1) |

Note a: Defence has had a prior year adjustment and Table 4.3.4 has been adjusted to reflect the changes.

Source: Defence's audited financial statements for the year ended 30 June 2021.

4.3.10 Total liabilities administered on behalf of government represent the present value of the Australian Government's expected future payments arising from four defined benefit superannuation plans. The liability is sensitive to movements in financial assumptions, including the interest rate and future salary and pension increases, and demographic assumptions. The demographic assumptions applied were assessed by the Australian Government Actuary as at 30 June 2020 and formed the basis of the valuation as at 30 June 2021.

4.3.11 The movement in other comprehensive income and liabilities is largely attributed to movements in the interest rate.

4.3.12 Assets administered on behalf of Government decreased as a result of the transfer of loans made to Defence Housing Australia to the Department of Finance as part of the determination made under subsection 78(1) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) to establish the DHA Borrowings Special Account 2020.

Key areas of financial statements risk.

4.3.13 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Defence's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.3.5, including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.3.5: Key areas of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|-----------------------------------|-------------------------------|-------------------|---|
| <i>Departmental</i> | Accuracy and valuation of the | Higher | <ul style="list-style-type: none"> the high degree of judgement applied by management to measure SME at fair value |

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|--|-------------------|--|
| specialist military equipment (SME) \$74.5 billion | SME balance which includes platform assets in use and under construction and spare parts for these assets KAM (valuation) | | <p>due to the highly specialised nature of these assets;</p> <ul style="list-style-type: none"> the 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, the selection and application of appropriate indices, the determination and assessment of appropriate useful lives, and the identification of indicators of impairment; management of assets under construction is dispersed across numerous projects that have complex multi-year contractual arrangements and project management requirements; the complexity and high degree of judgement in the cost attribution model that allocates accumulated capitalised costs on large scale acquisition projects between individual platform assets, associated spares and inventory;^a and large prepayments are often made in relation to the acquisition and sustainment of SME. |
| <i>Administered</i> employee provisions \$180.2 billion | Accuracy, valuation and disclosure of administered employee provisions KAM (valuation) | Higher | <ul style="list-style-type: none"> the measurement of the provision being complex, requiring significant professional judgement in the selection of key long-term assumptions (including such matters as salary growth and discount rates, pension indexation rate, pension take-up rate and invalidity retirements) to which the valuation of these plans is highly sensitive; and detailed disclosure requirements for the presentation and disclosure of defined benefit plans. |
| <i>Departmental</i> inventory \$7.8 billion including explosive ordnance (EO), fuel and general stores inventory (GSI) | Existence and completeness of inventory balances KAM (existence and completeness) | Moderate | <ul style="list-style-type: none"> variety and number of inventory items which are managed differently across a large number of geographically dispersed locations; and complexity and management expertise required to assess and identify obsolete stock. |
| <i>Departmental</i> general assets \$31.4 billion | Accuracy and valuation of general assets KAM (valuation) | Moderate | <ul style="list-style-type: none"> high degree of management judgement required in respect of classifying project costs as capital or expense and the selection of valuation methods to measure fair value; the valuation of Defence's land, buildings, infrastructure, plant and equipment and heritage and cultural assets being dependent |

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|--|------------------------|---|
| | | | <p>on assumptions that require significant management judgement. Significant judgements include capitalisation rates, current replacement costs, discount rates, and conditions of the assets. Where observable market data is not available, the valuation is subject to a higher level of judgement; and</p> <ul style="list-style-type: none"> the subjectivity in determining appropriate useful lives and the assessment of the financial impact of indicators of impairment. |
| <p><i>Departmental and Administered</i> all financial statements items</p> | <p>Accuracy and completeness of information processed by complex IT systems which are critical to key elements of financial statements</p> | <p>Moderate</p> | <ul style="list-style-type: none"> a number of complex IT systems which hold and generate information critical to the financial statements; IT systems which are bespoke or heavily customised for Defence; and ongoing major IT reform projects which include Enterprise Resource Planning increasing Defence's IT risk profile. |

Note a: A significant audit finding has been reported in respect of the cost attribution model that allocates accumulated capital costs between individual platforms assets, associated spares and inventory.

Source: ANAO 2020–21 audit results, and Defence's audited financial statements for the year ended 30 June 2021.

4.3.14 The following performance audits reports were tabled during 2020–21 and were relevant to the financial management or administration of Defence:

- Auditor-General Report No.6 of 2020–21 *Design and Implementation of the Defence Export Strategy*;
- Auditor-General Report No.12 of 2020–21 *Defence's Procurement of Offshore Patrol Vessels – SEA 1190 Phase 1*;
- Auditor-General Report No.18 of 2020–21 *Defence's Procurement of Combat Reconnaissance Vehicles (LAND 400 Phase 2)*;
- Auditor-General Report No.19 of 2020–21 *2019–20 Major Projects Report*;
- Auditor-General Report No.21 2020–21 *Delivery of Security Vetting Services Follow-up*;
- Auditor-General Report No.34 2020–21 *Implementation of ANAO and Parliamentary Committee Recommendations – Department of Defence*; and
- Auditor-General Report No.38 2020–21 *Defence's Implementation of Cultural Reform*.

4.3.15 These reports identified issues around the procurement, governance, risk management and quality assurance practices of Defence. Similar issues were noted in the financial statements audit and have been raised as findings involving a number of key accounting and business processes.

Audit results

4.3.16 Table 4.3.6 summarises the status of audit findings reported by the ANAO in 2019–20 and 2020–21.

Table 4.3.6: Status of audit findings

| Category | Closing position (2019–20) | New findings (2020–21) | Findings resolved (2020–21) | Closing position (2020–21) |
|-----------------|-------------------------------|---------------------------|--------------------------------|-------------------------------|
| Significant (A) | – | 1 | – | 1 |
| Moderate (B) | 3 | 3 ^a | (3) ^b | 3 |
| Total | 3 | 4 | (3) | 4 |

Note a: A moderate audit finding related to the governance of Australian Defence Force (ADF) health services was identified during the 2020–21 interim audit. A discussion of this finding can be found in the Auditor-General Report No.40 2020–21 *Interim Report on Key Financial Controls of Major Entities*. This finding remains unresolved.

Note b: Two moderate audit findings related to the management and monitoring of SME balances in ROMAN and MILIS and the monitoring and management of accounts with privileged access were resolved during the 2020–21 interim audit phase. A discussion of this finding can be found in the Auditor-General Report No.40 2020–21 *Interim Report on Key Financial Controls of Major Entities*.

Source: ANAO 2020–21 audit results.

4.3.17 For each of the findings listed below, the ANAO undertook additional audit procedures to gain assurance that Defence's 2020–21 financial statements were not materially misstated.

New significant audit finding

Valuation of Specialist Military Equipment using the cost attribution model

4.3.18 To support its primary outcomes, Defence undertakes a number of high value equipment acquisition projects. These projects are complex and span multiple financial years. Judgement is applied to allocate capitalised costs between individual platform assets, associated spares and inventory. As at 30 June 2021, the balance of SME assets under construction reported in the financial statements was \$18.2 billion.

4.3.19 Defence uses a cost attribution model (referred to by Defence as the Asset Valuation Model) to capture costs against applicable projects for SME assets under construction. The model uses a methodology to allocate project costs across the deliverables associated with the project. The Asset Valuation Model (AVM) captures both budget and actual costs.

4.3.20 As each project is unique, the methodology and content of the AVM is specific to the individual needs of each project and varies from project to project. Decentralised project managers within Defence are responsible for determining the appropriate methodology and the allocation basis of costs within the AVM.

4.3.21 The ANAO evaluated the cost attribution model and approval of cost allocations related to SME assets under construction. The ANAO identified internal control weaknesses in the methodology used by Defence to allocate costs relating to assets under construction. These included:

- limited policies and procedures outlining the approach to developing, maintaining, and recording transactions against the cost attribution model;
- the use of excel spreadsheets to record the AVM transactions, which have no evidenced controls or protection to prevent the accidental editing or deletion of data; and
- limited quality assurance mechanisms that could be relied upon to provide assurance over the asset allocations derived from the AVMs.

4.3.22 In addition, the ANAO noted that Defence does not capture employee-related costs as part of its asset under construction projects. There are currently no systems or processes to identify the time spent by officers on specific projects.⁶¹ Analysis of project employee costs estimate this to understate asset capitalisations by \$67.5 million in 2020–21.

4.3.23 Assets under construction are recorded at cost. The weaknesses noted increase the risk that the valuation of SME and the associated depreciation expense is misstated in the financial statements.

4.3.24 Additional audit procedures were performed by the ANAO to gain assurance that the SME balance and associated depreciation expense were not materially misstated.

4.3.25 The ANAO recommended that Defence:

- consider the development of an IT solution to transition project management from excel spreadsheets or consider ways to implement controls to reduce the risks associated with unintended or unauthorised changes to the spreadsheets;⁶²
- develop guidelines, policies and procedures to assist project managers with the development, maintenance and recording of transactions associated with the cost attribution model. The guidelines should also aim to increase consistency across projects, where appropriate;
- implement quality assurance processes to provide assurance for financial reporting purposes;
- develop and implement a year-end close process to ensure that projects are up to date and complete for reporting as at 30 June. This should include examining the appropriateness of using budget figures to adjust asset roll-out costs; and
- consider implementing a time recording system to capture employee costs associated with each project. Costs should be capitalised to projects in accordance with AASB 116 *Property, Plant and Equipment*.

61 Weakness associated with Defence's processes to attribute staff costs to projects have previously been reported to Defence in the Auditor-General's 2019–20 Major Projects Review, paragraphs 1.53 to 1.56; 2018–19 Major Projects Review, paragraph 1.53 to 1.55; and 2017–18 Major Projects Review, paragraph 1.45 to 1.49.

62 Risks around the use of excel spreadsheets have previously been reported to Defence in the Auditor-General's 2019–20 Major Projects Review, paragraphs 1.65 to 1.68; 2018–19 Major Projects Review, paragraph 1.61; 2017–18 Major Projects Review, paragraph 1.55; 2016–17 Major Projects Report, paragraph 1.49; and 2015–16 Major Projects Review, paragraph 1.43.

4.3.26 Defence has agreed to the recommendations made by the ANAO and has commenced a review and update of policies, processes and guidelines to improve the consistency of judgements across SME projects. The ANAO will review these processes as part of the 2021–22 audit cycle.

New moderate audit findings

SME Valuation Methodology

4.3.27 Defence holds a SME asset base to maintain its defence capability requirements and undertakes a fair value assessment of these assets in accordance with Australian Accounting Standard AASB 13 *Fair Value Measurement*. The SME balance at 30 June 2021 was \$74.5 billion.

4.3.28 SME is valued internally by Defence. Valuation techniques are either market approach or cost approach, with varying inputs, including but not limited to adjusted market transactions, replacement cost of new assets, comparable assets and indexation. Defence uses judgement when selecting inputs to estimate the fair value due to the limited availability of observable market inputs such as reliable market prices from orderly transactions between market participants.

4.3.29 The ANAO assessed whether the selection of the method for determining fair value was appropriate for each class of SME and whether the key assumptions used in the valuation methodology were reasonable and appropriately supported.

4.3.30 The ANAO identified instances where the judgements supporting the valuation estimates were inconsistently applied or were not supported by a documented rationale. The ANAO also identified instances where the indexes used in valuations were not as at 30 June.

4.3.31 The ANAO also identified the following:

- Defence had not considered whether capabilities of similar assets could be adjusted to arrive at the asset's current replacement cost when applying the comparator approach;
- Defence had not assessed the appropriateness of using adjusted market inputs when an asset had been constructed over an extended period of time;
- an assessment of the continued appropriateness of the application of indices for a particular asset had not been performed; and
- procedures to retrospectively assess whether estimates made in prior years were appropriate had not been implemented.

4.3.32 Weaknesses in the valuation methodology increase the risk of a material misstatement in the financial statements.

4.3.33 The ANAO recommended Defence:

- ensure documentation to support the valuation is comprehensive and demonstrates management's assessment of estimation uncertainty; the consideration of alternative methodologies and assumptions;
- undertake a retrospective review to confirm the reliability of estimates made in prior years;

- consider engaging an external expert to review the valuation methodology and key assumptions designed to support the judgement that assets are held at fair value;
- assess the continued appropriateness of cost as an input of fair value where assets are capitalised across multiple financial years; and
- documentation of assessment performed to confirm the carrying amount of assets not subject to the current year comparator valuation approach are not materially different to fair value.

4.3.34 Defence agreed with the recommendation and will review the appropriateness of judgements and indices applied in the annual fair value assessment process and assess the viability of engaging external experts to assist with SME valuation. The ANAO will review the progress made as part of the 2021–22 audit.

Management of privacy data

4.3.35 Management of personally identifiable data is a responsibility of all Australian Government entities subject to the *Privacy Act 1988*. Under the Act, various supplementary directions such as the Australian Government Agencies Privacy Code (the Code) and the Australian Privacy Principles (APP) define an entity's responsibility around the collection, use, storage and disclosure of personal information.

4.3.36 Defence has implemented a privacy policy which has been designed to inform individuals about the way Defence collects, stores, uses and discloses personal information. This policy also provides guidance to access, or seek correction of, personal information held by Defence.

4.3.37 In reviewing the privacy framework at Defence, the ANAO observed that:

- significant programs related to the management of personally identifiable information are outdated or scheduled for reviews that have not yet occurred;
- privacy impact assessments are not stored in an accessible format and are not searchable to discover known risks and impacts;
- there is no consistent data dictionary or data governance applied to allow for the discovery of specific data types across disparate applications and networks;
- information on historical data breaches is inconsistent across Defence, with no central repository or register to report against strategic risks; and
- compliance activities to ensure Defence is meeting the requirements are either not able to be performed or are not performed in a timely manner.

4.3.38 Defence was unable to provide evidence and assurance that personally identifiable information was being managed appropriately. The ANAO also identified that Defence has limited ability to discover systems that contain information that would be classified as personally identifiable information, as well as no systematic method for tracking changes, access or distribution of personally identifiable information.

4.3.39 The weaknesses observed increase the risk that privacy data may be accessed or modified by those without authorisation to do so, and discovery of this inappropriate activity may not be timely or accurate.

4.3.40 The ANAO has recommended that Defence:

- review its data governance framework and address control weaknesses surrounding the collection, use, storage and disclosure of personal information;
- establish a digital repository to index or record the locations, types of data, systems and other critical information relating to the management of personally identifiable information; and
- report regularly against compliance and application of the Privacy Policy as well as key indicators from the Code and APPs.

4.3.41 Defence advised that they will be instituting a number of remediation actions as part of the inaugural Defence Data Strategy 2021–23. The ANAO will review the implementation of the actions related to privacy data as part of the 2021–22 audit.

Resolved moderate audit finding

Segregation of duties' deficiencies within the purchase and payable function

4.3.42 During 2019–20, the ANAO identified a lack of segregation between the critical procurement functions involving the creation/modification of vendor data, the raising and approval of a purchase order, the goods receipting function, and the payment authorisation process. The segregation of duties weaknesses related to procurements which were not subject to panel arrangements. The lack of segregation of duties increases the risk of fraud and/or financial loss.

4.3.43 In 2020–21 Defence implemented automated and manual controls to prevent officers from performing incompatible procurement functions. The ANAO has confirmed the implementation and tested the operation of these controls. Based on testing performed, sufficient evidence of the operating effectiveness was obtained to confirm that the identified issues had been resolved.

Unresolved moderate audit finding

Weaknesses around the governance of ADF health services

4.3.44 The provision of health services to ADF members is managed under a contract with an external service provider. The contract commenced on 1 July 2019 and includes two broad categories of charges covering off-base and on-base services. Defence undertakes a review of the fees and charges associated with off-base services to provide assurance that the invoiced amounts are accurate and valid.

4.3.45 As part of the interim audit, the ANAO identified weaknesses associated with the processes implemented by Defence to confirm the accuracy and validity of the service provider's monthly invoices. The ANAO recommended Defence:

- examine and strengthen the design of processes to provide assurance over the accuracy and validity of the health service payments;
- extend assurance activities to include on-base services; and

- complete assurance activities in a timely manner and escalate issue to an appropriate level of management to ensure that issues can be dealt with promptly and recoveries initiated where required.

4.3.46 Defence has advised the ANAO that progress has been made to address the audit finding. The ANAO will examine the remediation activities undertaken as part of the 2021–22 audit.

Australian Signals Directorate

4.3.47 The purpose of the Australian Signals Directorate (ASD) is to defend Australia from global threats and advance Australia’s national interest through the provision of foreign signals intelligence, cybersecurity and offensive cyber operations, as directed by government. The Australian Cyber Security Centre, which is a part of ASD, provides support to government and the Australian community to improve Australia’s cyber resilience.

Summary of financial performance

4.3.48 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items (as outlined in Table 4.3.7) reported by ASD and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.7: Key financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (1,023.3) | (863.1) |
| Revenue from government | 805.7 | 763.9 |
| Surplus/(deficit) attributable to the Australian Government | (217.6) | (99.2) |
| Total other comprehensive income/(loss) | (5.7) | 18.1 |
| Total comprehensive income/(loss) attributable to the Australian Government | (223.3) | (81.1) |
| Total assets | 992.3 | 994.3 |
| Total liabilities | 636.5 | 574.3 |
| Total equity | 355.8 | 420.0 |

Source: ASD’s audited financial statements for the year ended 30 June 2021.

4.3.49 Net cost of services has increased mainly due to growth in employee benefits expenses of \$24.9 million; an increase in depreciation expenses of \$33.3 million reflecting the roll out of assets under construction during the period; and an additional \$95.8 million in supplier expenses incurred due to further procurement undertaken in 2020–21 compared with 2019–20 which was impacted by the COVID-19 pandemic.

4.3.50 Revenue from government increased as a result of new policy proposals being funded and indexation from the previous period. Total liabilities increased mainly due to growth in supplier payables of \$45.5 million reflecting the additional supplier expenses incurred during 2020–21 as noted above. Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.3.51 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of ASD's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage are outlined in Table 4.3.8.

Table 4.3.8: Key areas of financial statements risk

| Relevant financial statement item | Key areas of risk | Audit risk rating | Factors contribution to the risk assessment |
|--|---|-------------------|---|
| <i>Departmental</i> plant and equipment \$277.5 million buildings and infrastructure \$402.7 million intangibles \$64.8 million depreciation and amortisation expenses \$164.8 million | Measurement and recognition of non-financial assets, particularly assets under construction | Moderate | <ul style="list-style-type: none"> judgement applied by ASD in determining whether expenditure on assets, particularly those under construction, should be capitalised or expensed; valuation and impairment considerations for assets, particularly complex assets under construction, is subject to judgement by ASD; and moderate audit finding identified during the 2019–20 financial statements audit relating to weaknesses in the asset capitalisation and monitoring process. |
| All financial statement line items | Completeness and accuracy of transactions made by ASD's shared service provider (Department of Defence) | Moderate | <ul style="list-style-type: none"> significance of the reliance on the internal controls and IT processes that have been established by the shared service provider. |

Source: ANAO 2020–21 audit results, and ASD's audited financial statements for the year ended 30 June 2021.

Audit results

4.3.52 Table 4.3.9 summarises the status of audit findings reported by the ANAO in 2019–20 and 2020–21.

Table 4.3.9: Status of audit findings

| Category | Closing position (2019–20) | New findings (2020–21) | Findings resolved (2020–21) | Closing position (2020–21) |
|--------------|----------------------------|------------------------|-----------------------------|----------------------------|
| Moderate (B) | 1 | – | (1) | – |
| Total | 1 | – | (1) | – |

Source: ANAO 2020–21 audit results.

4.3.53 For the finding listed below, the ANAO undertook additional audit procedures to gain assurance that ASD's 2020–21 financial statements were not materially misstated.

Resolved audit finding

Asset Capitalisation and Monitoring Process

4.3.54 The ANAO's 2019–20 financial statements audit identified weaknesses in ASD's asset management and accounting framework relating to assets under construction. At 30 June 2020 a material proportion of the asset under construction balance was identified as being completed and in service, however, the necessary accounting process to transfer these assets to the asset register had not occurred. As a result, a manual process to estimate the impact of depreciation of these assets was required to correctly account for these assets in the financial statements. The ANAO considers the timely transfer of assets under construction to the asset register a key control that supports: the accuracy of the financial statements, internal and external budget processes and is an important element of the internal control framework supporting the custody of assets managed by ASD.

4.3.55 In addressing the audit finding and the ANAO's recommendations, ASD has:

- updated policies and procedures for project managers and asset custodians that explain accounting responsibilities and supported these procedures through the provision of training;
- reviewed the balance of assets under construction, identified completed and in service assets to be transferred to the asset register and updated the asset register with these details; and
- implemented revised monthly accounting processes to review and confirm with project managers that the assets under construction balance does not contain completed assets that otherwise require addition to the asset register.

4.3.56 As ASD has addressed the ANAO's recommendations this audit finding has been resolved.

Australian War Memorial

4.3.57 The Australian War Memorial (AWM) has responsibility for commemorating, interpreting and understanding the Australian experience of war and its enduring impact through maintaining and developing the national memorial and its collection, and exhibiting historical material, and undertaking commemorative ceremonies and research.

Summary of financial performance

4.3.58 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by the AWM (as outlined in Table 4.3.10) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.10: Key financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (46.5) | (43.7) |
| Revenue from government | 44.2 | 46.4 |
| Surplus/(deficit) attributable to the Australian Government | (2.3) | 2.7 |
| Total other comprehensive income/(loss) | 11.1 | 0.1 |
| Total comprehensive income/(loss) attributable to the Australian Government | 8.8 | 2.8 |
| Total assets | 1,559.2 | 1,491.4 |
| Total liabilities | 16.8 | 13.0 |
| Total equity | 1,542.4 | 1,478.4 |

Source: AWM's audited financial statements for the year ended 30 June 2021.

4.3.59 The increase in net cost of services was due to a reduction in revenue of \$6.1 million during the year with the AWM closed for portions of 2020–21 and a large decrease in collection donations of \$2.6 million. This was partially offset with lower staff and operating costs with the AWM's closure and reduced attendances due to the COVID-19 pandemic restrictions.

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 support the preparation of AWM's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.3.11. 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 |
|---|-----------------------------|-------------------|--|
| Heritage and cultural assets \$1,175.4 million | Valuation of the collection | Higher | <ul style="list-style-type: none"> valuation is subject to judgement and assumptions, including assessments for impairment and the unique nature of the collection having no active market; and judgement is involved in determining what costs should be capitalised. |

Source: ANAO 2020–21 audit results, and AWM's audited financial statements for the year ended 30 June 2021.

Audit results

4.3.61 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Defence Housing Australia

4.3.62 Defence Housing Australia (DHA) is responsible for providing housing and related services to members of the Australian Defence Force and their families, consistent with Defence's operational requirements. To meet these requirements, DHA is responsible for constructing, purchasing and leasing houses for Australian Defence Force personnel. Each year, DHA sells a portion of its properties through a sale and leaseback program, and those revenues are DHA's primary source of capital funding to acquire new properties.

Summary of financial performance

4.3.63 The following section provides a comparison of the 2019–20 and 2020–21 key financial statement items reported by the DHA (as outlined in Table 4.3.12) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.12: Key financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|-------------------------------|------------------|------------------|
| Total income | 867.5 | 922.8 |
| Total expenses | 758.9 | 863.1 |
| Profit before tax | 108.6 | 59.7 |
| Income tax expense | 30.0 | 17.1 |
| Net profit after income tax | 78.6 | 42.7 |
| Other comprehensive income | – | – |
| Total comprehensive income | 78.6 | 42.7 |
| Total assets | 3,460.1 | 3,899.3 |
| Total liabilities | 1,956.9 | 2,427.5 |
| Total equity | 1,503.2 | 1,471.8 |

Source: DHA's audited financial statements for the year ended 30 June 2021.

4.3.64 The decrease in income was mainly attributable to the decrease in sale of inventories as a result of holding back of inventory stock for investment purposes.

4.3.65 The decrease in total expenses related to a decrease in repairs and maintenance expense with the COVID-19 pandemic limiting the repairs and maintenance work undertaken during 2020–21, and the write-back of impairment of properties in the current year compared to write-down in last year due to uncertain market conditions. In addition, there has been a decrease in the cost of inventories sold which correlates to the decrease in sales.

4.3.66 The decrease in total assets is due to the repayment of loans, which also resulted in a corresponding decrease in total liabilities.

Key areas of financial statements risk

4.3.67 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 DHA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.3.13.

Table 4.3.13: Key areas of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|-------------------------------------|-------------------|--|
| Inventories \$563.1 million | Valuation of inventories | Higher | <ul style="list-style-type: none"> the high volume of properties and the complexity and detail of the model used to determine the correct valuation basis for inventory as either cost or net realisable value; the uncertainty associated with the market data, including the impact of the COVID-19 pandemic, 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 systems supporting the financial statements 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 \$2,580.9 million | Impairment of investment properties | Higher | <ul style="list-style-type: none"> complex valuation method, multiple data sources and assumptions subject to management judgement, including determining impairment; judgement to determine the correct classification of investment properties as either held for sale or non-current assets; the impact of the COVID-19 pandemic on the market which impacts the valuation; and complex calculations and judgements are involved to determine the right-of-use asset value and the corresponding lease liability balance. |

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|-----------------------------------|---------------------|-------------------|---|
| Revenue \$830.0 million | Revenue recognition | Higher | <ul style="list-style-type: none"> the nature and number of the revenue streams and complexity of transactions and systems used to capture and record the financial information; the number of revenue streams and volume and complexity of transactions increases the risk around the appropriateness of the recognition of revenue; and the splitting of income between revenue under AASB 15 <i>Revenue from Contracts with Customers</i> and leasing income under AASB 16 <i>Leases</i> involves judgements and assumptions. |

Source: ANAO 2020–21 audit results, and DHA's audited financial statements for the year ended 30 June 2021.

Audit results

4.3.68 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Department of Veterans' Affairs

4.3.69 The Department of Veterans' Affairs (DVA) is responsible for developing and implementing programs to assist the veteran and ex-service communities. This includes: granting pensions, allowances and other benefits, and providing treatment under the *Veterans' Entitlements Act 1986*; the administration of benefits and arrangements under the Military Rehabilitation and Compensation legislation and the Safety, Rehabilitation and Compensation (Defence-related Claims) legislation; administering the *Defence Service Homes Act 1918* and the *War Graves Act 1980*; and conducting commemorative programs to acknowledge the service and sacrifice of Australian servicemen and women.

Summary of financial performance

4.3.70 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by the DVA (as outlined in Table 4.3.14 and Table 4.3.15) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.3.14: Key departmental financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (393.7) | (422.3) |
| Revenue from government | 384.3 | 360.4 |
| Surplus/(deficit) attributable to the Australian Government | (9.4) | (62.0) |
| Total other comprehensive income | 1.1 | 2.9 |
| Total comprehensive income/(loss) attributable to the Australian Government | (8.3) | (59.1) |
| Total assets | 356.9 | 368.3 |
| Total liabilities | 287.0 | 310.5 |
| Total equity | 69.9 | 57.9 |

Source: DVA's audited financial statements for the year ended 30 June 2021.

4.3.71 The reduction in assets is due to the current year depreciation and amortisation of non-financial assets of \$47.4 million offset by the addition of \$12.4 million of assets. The reduction is offset by the increase in unspent appropriation of \$20.8 million in 2020–21.

4.3.72 The reduction in liabilities is due to the principal repayment for lease liabilities of \$18.7 million as well as a decrease in supplier payables of \$7.6 million due to timing of payments runs at year-end.

Table 4.3.15: Key administered financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | 22,562.0 | 21,520.0 |
| Total income | 16.0 | 19.0 |
| Surplus/(deficit) | (22,546.0) | (21,501.0) |
| Total other comprehensive income | 10.0 | 6.0 |
| Total comprehensive income/(loss) | (22,536.0) | (21,495.0) |
| Total assets administered on behalf of Government | 1,726.0 | 1,664.0 |
| Total liabilities administered on behalf of Government | 46,380.0 | 34,638.0 |
| Net assets/(liabilities) | (44,654.0) | (32,974.0) |

Source: DVA's audited financial statements for the year ended 30 June 2021.

4.3.73 The increase in total expenses of \$1,042.0 million is mainly attributed to the increase in the military compensation provision following an actuarial review offset by a reduction in personal benefit and health care payments as a result of a decline in client population.

4.3.74 Total liabilities increased due to the current year actuarial review of personal benefit and health care provisions of \$11,742.0 million as a result of changes in the discount rate and claims experience.

Key areas of financial statements risk

4.3.75 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 DVA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.3.16, including the area which was considered to be key audit matters (KAM) by the ANAO.

Table 4.3.16: Key areas of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|--|-------------------|---|
| <i>Administered</i> personal benefit and healthcare provisions \$46.3 billion | Valuation of military compensation provision KAM | Higher | <ul style="list-style-type: none"> judgements involved in determining the assumptions and calculations underpinning the actuarial assessment of the military compensation provision, including assumptions relating to future trends in medical costs, permanent incapacity, and inflation rates; increasing value of the provision as an unfunded liability; and completeness of data used to derive the valuation. |
| <i>Administered</i> personal benefits expense \$11.9 billion health care expenses \$10.5 billion | Accuracy of personal benefits and health care payments | Higher | <ul style="list-style-type: none"> complexity of overseeing and maintaining a large number of IT business systems which are supported by the shared services provider, Services Australia; complexity of legislation applicable to individual claims; reliance on accurate and complete veteran-provided information; and reliance on a risk-based quality assurance program to identify errors and initiate debt recovery arrangements in individual claims. |

Source: ANAO 2020–21 audit results, and DVA's audited financial statements for the year ended 30 June 2021.

Audit results

4.3.76 The following table summarises the status of audit findings reported by the ANAO in 2019–20 and 2020–21.

Table 4.3.17: Status of audit findings

| Category | Closing position (2019–20) | New findings (2020–21) | Findings resolved (2020–21) | Closing position (2020–21) |
|--------------|----------------------------|------------------------|-----------------------------|----------------------------|
| Moderate (B) | – | 6 | – | 6 |
| Total | – | 6 | – | 6 |

Source: ANAO 2020–21 audit results

4.3.77 For each of the findings listed below, the ANAO undertook additional audit procedures to gain assurance that DVA's 2020–21 financial statements were not materially misstated.

New moderate audit findings

Process direct implementation

4.3.78 In November 2020, income and student support payment processing functions were transferred to the Process Direct system from old systems. The move to Process Direct was a component of the Veteran Centric Reform (VCR) program.

4.3.79 ANAO identified weaknesses relating to security and data migration processes associated with the implementation of the upgrade. There was no authorisation to operate the system as required by the Protective Security Policy Framework and no system encryption. An authorisation to operate is important as it means that there is appropriate level of security over the system and that any residual risk has been accepted. The ANAO also noted that underlying activity to support an authorisation to operate, including approving of security documentation, testing for security vulnerabilities, documented security assessment, had not been performed.

4.3.80 DVA has advised that Process Direct was appropriately certified with all required security documentation in August 2021 and that a review of cybersecurity governance, including the development and strengthening of appropriate security policies will occur within 2021–22. The ANAO will review the work undertaken by DVA in relation to this issue during the 2021–22 audit.

Monitoring of high-risk activity in IT systems

4.3.81 DVA reviews all activities in IT systems that it classifies as high risk or a potential indicator of fraud. A software tool identifies this activity for review. As part of audit work undertaken, the ANAO identified that the software tool was no longer able to correctly identify high risk activity for review after a major IT change was implemented in November 2020.

4.3.82 DVA subsequently made changes to ensure that the software tool could correctly identify high risk activity and retrospectively reviewed all activity that had occurred from November 2020 to July 2021. The ANAO has recommended that DVA implement procedures to ensure that any future IT system changes do not compromise the software tool used to identify high risk activity for monitoring.

User terminations

4.3.83 The ANAO identified weaknesses in DVA's controls relating to terminated users. There were no processes in place to identify users who had access to systems, applications and/or data repositories after cessation of employment or contract. Consequently, there was also no process to monitor activities undertaken by any users after access should have been removed.

4.3.84 After the ANAO identified this issue, DVA investigated activity of users after they had terminated and concluded that neither its data nor IT systems had been comprised. DVA has advised that it has introduced technology that enables DVA staff to action terminations in a timelier manner and that a new process to identify and assess access after termination has been implemented.

4.3.85 The ANAO will review the implementation and effective operation of the new processes as part of the 2021–22 financial statements audit.

User revalidations

4.3.86 A key aspect of system user management that protects systems and applications from exploitation is a regular user revalidation process that confirms only legitimate users have access to DVA systems and applications. ANAO noted that DVA does not have a user revalidation process in place for seven systems that support the financial statements.

4.3.87 DVA has advised that it will review cybersecurity governance and security policies to ensure they provide clear guidance regarding user revalidation and prescribe specific roles and responsibilities.

4.3.88 The ANAO will confirm the implementation and effective operation of the new processes as part of the 2021–22 financial statements audit.

QUASARS Claim Populations

4.3.89 QUASARS is a system used by DVA to select and perform quality assurance testing of decisions and payments made in relation to Income Support and Rehabilitation and Compensation. The results of quality assurance testing are used as a basis for DVA to quantify the potential error rate in personal benefit and health care payments that are made.

4.3.90 The ANAO identified that there were no processes in place to ensure the completeness and accuracy of data extracted from business systems and uploaded into QUASARS. In addition, there were no documented instructions that outline the information required in each report extracted. The ANAO performed additional audit procedures to obtain assurance over the completeness and accuracy of data uploaded in the QUASARS system.

4.3.91 DVA has advised the ANAO that it will undertake a review to document processes undertaken to extract and upload data and develop stronger protocols to ensure uploaded data is complete and accurate. DVA conducted a review of the data subsequent to the ANAO identifying this matter and no issues with completeness and accuracy were identified in the 2020–21 data. The ANAO will review this work as part of the 2021–22 audit.

Financial delegations

4.3.92 Financial delegations are a key part of DVA's internal control framework and ensure appropriately skilled personnel perform key functions. In February 2021 changes were approved by the Secretary to financial delegations affecting spending limits. These approved changes were not updated in DVA's financial management information system (FMIS) until July 2021. The ANAO performed additional testing to gain sufficient and appropriate audit evidence that DVA's payments made through the FMIS were approved within the delegation limits set by the Secretary.

4.3.93 The department has advised the ANAO that it has subsequently performed a review of financial transactions between February 2021 and July 2021 and did not identify any approvals made that were above the delegation level. In addition, it has developed a process to ensure

future changes to delegation limits are reflected in the FMIS in a timely manner. The ANAO will confirm the implementation and effective operation of the new processes as part of the 2021–22 audit.

Emphasis of Matter

4.3.94 The auditor's report on the 2020–21 financial statements of DVA includes an emphasis of matter paragraph drawing attention to the significant uncertainty associated with a number of the assumptions used in the calculation of the personal benefit and health care provisions and to the sensitivity of the valuation of the provision to changes in these assumptions.

Comments on non-material entities

Royal Australian Navy Relief Trust Fund

4.3.95 The Royal Australian Navy Relief Trust Fund (the Fund) was established to provide interest free loans to current and ex-navy personnel to assist with small expenditure items. Interest free loans of up to \$7,000 may be approved where eligibility criteria have been met. In accordance with the *Services Trust Fund's Act 1947*, a person who is a Trustee or a dependant of a Trustee of any fund shall not receive benefits from the Fund.

Audit results

4.3.96 Table 4.3.18 below summarises the status of the audit findings reported by the ANAO in 2019–20 and 2020–21.

Table 4.3.18: Status of audit findings

| Category | Closing position (2019–20) | New findings (2020–21) | Findings resolved (2020–21) | Closing position (2020–21) |
|-------------------------------------|-------------------------------|---------------------------|--------------------------------|-------------------------------|
| Significant legislative breach (L1) | – | 1 | – | 1 |
| Total | – | 1 | – | 1 |

Source: ANAO 2020–21 audit results.

New significant legislative breach

Related party transaction

4.3.97 During the audit, the ANAO identified that a loan including an administration fee had been made to a related party in contravention of paragraph 14 of the *Services Trust Fund's Act 1947*. The ANAO recommended that the Fund strengthens its policies and procedures to prevent any payments being made in contravention of legislative obligations.

4.4 Education, Skills and Employment portfolio

Portfolio overview

4.4.1 The Education, Skills and Employment portfolio's purpose is to contribute to Australia's economic prosperity and social wellbeing by creating opportunities and driving better outcomes for people through education, skills and employment pathways. Table 4.4.1 identifies material and other entities specifically mentioned in this chapter.

Table 4.4.1: Education, Skills and Employment portfolio material and other entities discussed in this chapter

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified |
|--|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|---------------------------|
| Department of Education, Skills and Employment | Yes | Moderate | ✓ | 7 Sept 21 | 9 Sept 21 | Nil |
| Australian Research Council | Yes | Low | ✓ | 6 Sept 21 | 6 Sept 21 | Nil |
| Australian National University | No | Moderate | ✓ [☞] | 9 Apr 21 | 12 Apr 21 | ☐ |

✓: auditor's report not modified

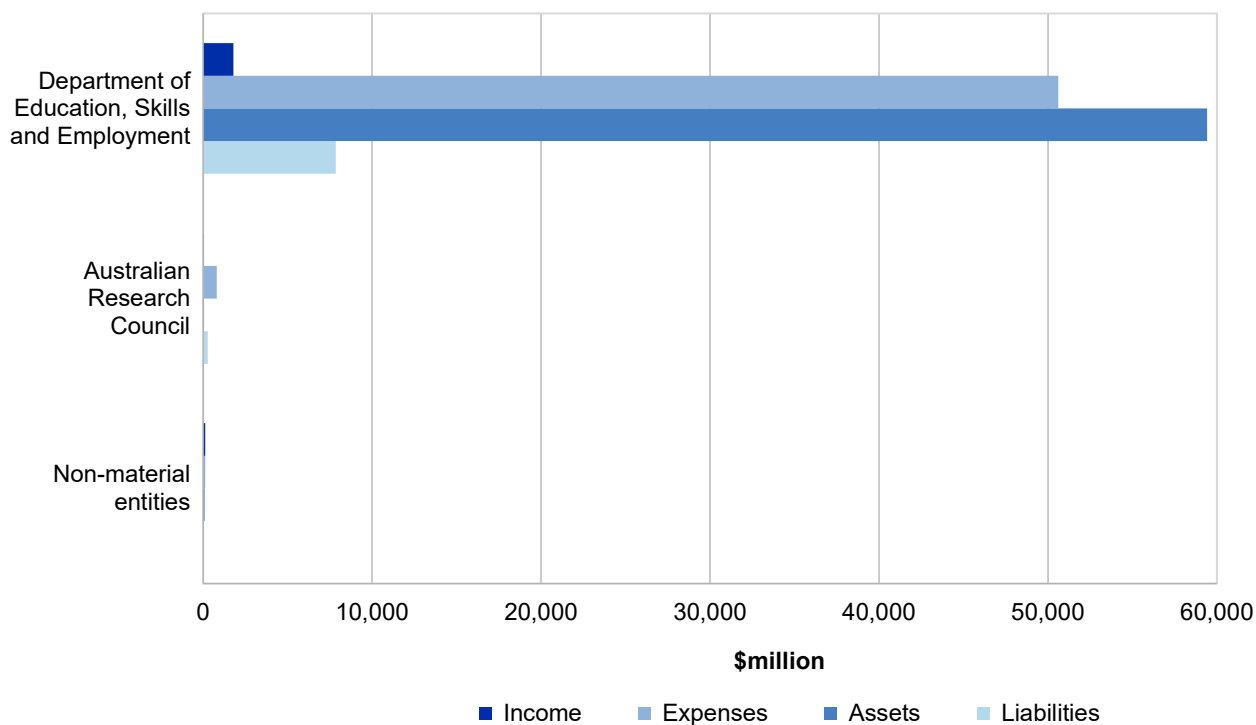
☐: significant or moderate findings and/or legislative matters identified in previous periods, or the 2020–21 interim audit phase, now downgraded or resolved

☞: financial year end date other than 30 June 2021

4.4.2 The Department of Education, Skills and Employment (DESE) is the lead entity in the portfolio and is responsible for ensuring Australians can experience the social wellbeing and economic benefits that quality education, training and employment provide.

4.4.3 In addition to DESE, there are six entities in the portfolio that have responsibility for working with state and territory governments, other Australian Government entities and service providers to provide policy advice and services to benefit Australians.

4.4.4 Figure 4.4.1 shows the Education, Skills and Employment portfolio's income, expenses, assets and liabilities.

Figure 4.4.1: Education, Skills and Employment portfolio income, expenses, assets and liabilities

Source: 2020–21 CFS.

4.4.5 As previously outlined in Chapter 2, paragraph 2.7, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2020–21 financial statements audit. Table 4.4.2 provides a summary of those audit differences that relate to entities within the DESE portfolio.

Table 4.4.2: The number of audit differences for entities in the Education, Skills and Employment portfolio

| | 2020–21 | | | 2019–20 | | |
|---|------------|----------|-------|------------|----------|-------|
| | Unadjusted | Adjusted | Total | Unadjusted | Adjusted | Total |
| Department of Education, Skills and Employment | – | – | – | – | 2 | 2 |
| Australian Skills Quality Authority | – | – | – | – | 1 | 1 |
| Australian Curriculum, Assessment and Reporting Authority | – | 1 | 1 | – | 2 | 2 |
| Australian National University | 2 | – | 2 | – | 2 | 2 |
| – ANU Enterprise Pty Limited | 1 | 7 | 8 | 1 | 2 | 3 |
| – Australian Scientific Instruments Pty Ltd | 1 | – | 1 | – | 1 | 1 |

| | 2020–21 | | | 2019–20 | | |
|---|------------|----------|-------|------------|----------|-------|
| | Unadjusted | Adjusted | Total | Unadjusted | Adjusted | Total |
| –Social Research Centre | 1 | 2 | 3 | – | 1 | 1 |
| Tertiary Education Quality Standards Agency | – | 1 | 1 | – | – | – |
| Australian Institute for Teaching and School Leadership Limited | 1 | 1 | 2 | 1 | – | 1 |

Source: Audit differences reported to entities in the DESE Portfolio.

4.4.6 The following sections provide a summary of the 2020–21 financial statements audit results for all material entities within the DESE portfolio and significant or moderate findings relating to non-material entities.

Department of Education Skills and Employment

4.4.7 The Department of Education, Skills and Employment (DESE) works with state and territory governments, other government entities and a range of stakeholders to ensure Australians can experience the social wellbeing and economic benefits that quality education, skills and employment provide.

4.4.8 DESE continues to support the formulation and delivery of initiatives including the ongoing response to the COVID-19 pandemic. The department is delivering key elements of the Government’s five-year JobMaker Plan, including supporting Australians back into jobs by investing in skills and higher education and helping job seekers reconnect with employment. The department also continues to support the provision of essential services on which Australians rely including childcare, schooling, training, higher education, and employment services.

4.4.9 The Administered Arrangement Order (AAO) of 18 March 2021, transferred responsibility for the coordination of youth affairs from the Health portfolio to the Education Skills and Employment portfolio.

Summary of financial performance

4.4.10 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by DESE (as outlined in Table 4.4.3 and Table 4.4.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.4.3: Key departmental financial statements items

| Key financial statements items | 2020–21 DESE (\$m) | 2019–20 Education (\$m) |
|---|--------------------------|-------------------------------|
| Net (cost of)/ contribution by services | (815.5) | (757.3) |
| Revenue from government | 858.1 | 673.0 |
| Surplus/ (deficit) attributable to the Australian Government | 42.6 | (84.4) |
| Total other comprehensive income | (0.5) | – |
| Total comprehensive income (loss) attributable to the Australian Government | 42.1 | (84.4) |
| Total assets | 1 149.8 | 899.6 |
| Total liabilities | 600.1 | 592.5 |
| Total equity | 549.7 | 307.1 |

Source: DESE's audited financial statements for the year ended 30 June 2021.

4.4.11 The \$58.2 million increase in the net cost of services was mainly the result of increased consultants' costs for the upgrade to the National Employer Service Management IT system.

4.4.12 Revenue from government increased by \$185.1 million due to additional funding for the JobMaker packages for higher education, skills, apprenticeships and employment services, and continuation of the COVID-19 pandemic response.

4.4.13 The increase in assets is primarily due to an increase in appropriation receivable, consistent with an underspend in departmental operations, and increased investment in IT systems such as: the new employment services model; and internally developed software in respect of the Employment Services System, Higher Education Integration Management System, and Schools Data Collections Migration System; and other asset replacements.

Table 4.4.4: Key administered financial statements items

| Key financial statements items | 2020–21 DESE (\$m) | 2019–20 Education (\$m) ^a |
|--|--------------------------|--|
| Total expenses | 48,687.0 | 47,251.9 |
| Total income | 1,473.4 | 950.9 |
| Surplus/(deficit) | (47,213.6) | (46,301.1) |
| Total other comprehensive income/(loss) | 104.8 | (112.1) |
| Total comprehensive income/(loss) | (47,108.3) | (46,413.2) |
| Total assets administered on behalf of Government | 58,268.2 | 55,299.5 |
| Total liabilities administered on behalf of Government | 7,256.1 | 7,765.9 |
| Net assets | 51,012.1 | 47,533.6 |

Note a: DESE has restated prior year figures in the 2020–21 financial statements and Table 4.4.4 has been adjusted to reflect these changes.

Source: DESE's audited financial statements for the year ended 30 June 2021.

4.4.14 The increase in total expenses related to \$1.0 billion increased support to universities for higher education research, increased childcare funding, and increased emergency assistance as part of the COVID-19 response initiatives.

4.4.15 The increase in administered income primarily relates to a \$589.6 million fair value gain that was recognised in 2020–21 for the estimated Higher Education Loan Program (HELP) receivables at year-end. This was partially offset by a decrease in interest income associated with HELP debt, due to a drop in interest rates compared to the prior year.

4.4.16 The increase in administered assets was primarily due to a \$3.1 billion increase in receivables, including advances and loans, for higher education and vocational students and trade support loans. The value of these receivables at year-end was based on actuarial assessments which relied on assumptions regarding the collectability of repayments and future employment and salary rates, and discount factors, that contain a significant degree of uncertainty and are influenced by the wider economic environment.

4.4.17 The reduction in administered liabilities was due to a decrease of \$372.8 million in the present value of the Commonwealth's total superannuation liabilities in respect of current and former university employees who are members of state superannuation schemes. The remaining movements related mainly to personal benefit provisions at year-end.

Key areas of financial statements risk

4.4.18 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of DESE's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.4.5, including areas which were considered key audit matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.4.5: Key area of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|---|----------------------|---|
| <p><i>Administered</i></p> <p>other financial assets: HELP receivable \$54.3 billion</p> <p>write-down and impairment of assets \$51.3 million</p> <p>HELP loans fair value losses \$866.8 million</p> | <p>The valuation of the outstanding HELP loan receivable</p> <p>KAM</p> | <p>Higher</p> | <ul style="list-style-type: none"> the balances of outstanding loans and impairment are derived from complex actuarial estimates and the estimate contains a degree of estimation uncertainty; the 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 |

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|---|-------------------|--|
| | | | <ul style="list-style-type: none"> payment data is reliant on sources external to DESE such as: the Australian Taxation Office; universities; and other third parties. |
| <p><i>Administered</i></p> <p>other receivables - Higher Education Superannuation Program (HESP) \$342.0 million</p> <p>provisions - Higher Education Superannuation Program (HESP) \$6.4 billion</p> | <p>The valuation of the HESP provision and receivable</p> <p>KAM</p> | Higher | <ul style="list-style-type: none"> the valuation of the HESP liability is subject to an actuarial estimation process and is highly sensitive to movements in discount factors and bond rates; and the valuation is complex and depends on the accurate provision of source data by universities. |
| <p><i>Administered</i></p> <p>personal benefit expenses \$8.7 billion</p> <p>other financial assets: personal benefits receivable \$469.6 million</p> <p>personal benefits payable \$87.6 million</p> <p>personal benefits provision \$469.5 million</p> | <p>Accuracy and valuation of assistance to families with children</p> <p>KAM</p> | Higher | <ul style="list-style-type: none"> complex legislation and administration arrangements that apply to childcare personal benefits; accounting and disclosure of year-end balances which are contingent on the lodgment of recipient's income tax returns; payments are reliant on self-assessed information provided by childcare 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 Services Australia. |
| Administered all financial statement items | <p>Completeness and accuracy of financial statement balances impacted by the complexity and range of IT systems used to maintain information and process payments</p> | Moderate | <ul style="list-style-type: none"> large and complex IT environment with business applications processing a high volume of transactions; many IT systems are bespoke or heavily customised to DESE; and reliance on customised reports to prepare financial statements balances. |

Source: ANAO 2020–21 audit results, and DESE's audited financial statements for the year ended 30 June 2021.

4.4.19 The following Auditor-General Reports were tabled during 2020–21:

- Auditor-General Report No.32 of 2020–21 *Cyber Security Strategies of Non-Corporate Commonwealth Entities (across entities)*;
- Auditor-General Report No.37 of 2020–21 *Monitoring the Impact of Government School Funding – follow up*; and

- Auditor-General Report No.48 of 2020–21 *Effectiveness of Planning and Implementation of Reform by the Australian Skills Quality Authority*.

4.4.20 While these reports did not include recommendations regarding risks to DESE’s financial administration as it relates to the financial statements, the observations of these reports were considered in designing audit procedures.

Audit results

4.4.21 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Australian Research Council

4.4.22 The Australian Research Council’s (ARC’s) purpose is to grow knowledge and innovation for the benefit of the Australian community through funding the highest quality research, assessing the quality, engagement and impact of research, and providing advice on research matters.

Summary of financial performance

4.4.23 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by ARC (as outlined below in Table 4.4.6 and Table 4.4.7) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.4.6: Key departmental financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (24.5) | (24.7) |
| Revenue from government | 21.3 | 21.2 |
| Surplus/(deficit) attributable to the Australian Government | (3.2) | (3.5) |
| Total other comprehensive income | – | – |
| Total comprehensive income/(loss) attributable to the Australian Government | (3.1) | (3.5) |
| Total assets | 37.6 | 41.5 |
| Total liabilities | 16.1 | 18.1 |
| Total equity | 21.5 | 23.5 |

Source: ARC’s audited financial statements for the year ended 30 June 2021.

4.4.24 The movement in balances reflect normal business activity.

Table 4.4.7: Key administered financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | 774.7 | 782.9 |
| Total income | 9.4 | 10.1 |
| Surplus/(Deficit) | (765.3) | (772.8) |
| Total other comprehensive income/(loss) | - | - |
| Total comprehensive income/(loss) | (765.3) | (772.8) |
| Total assets administered on behalf of Government | 2.8 | 1.4 |
| Total liabilities administered on behalf of Government | 247.8 | 194.2 |
| Net assets/(liabilities) | 245.0 | (192.8) |

Source: ARC's audited financial statements for the year ended 30 June 2021.

4.4.25 The increase in total liabilities is due to updated funding caps under the *Australian Research Council Act 2001* in May 2021, and delays in the grant programs due to the COVID-19 pandemic. Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.4.26 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of ARC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. The areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.4.8. No significant or moderate audit findings were identified relating to the 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 |
|---|--|-------------------|---|
| <i>Administered</i> grants expense \$771.2 million | Completeness and accuracy of grants payments | Moderate | <ul style="list-style-type: none"> the significance of the grant expenses balance and the high volume of grant payments and variations throughout the year; complex systems, processes and regulations exist for approval, payment and acquittal of grants; the disconnect between the financial statements reporting period and the grants program reporting period, with the latter being on a calendar year basis, resulting in a significant grant liability as at 30 June 2021; and the self-assessment nature of grants management by recipients. |

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|--------------------------------|-------------------|---|
| <i>Departmental computer software at \$8.8 million</i> | Valuation of intangible assets | Moderate | <ul style="list-style-type: none"> the determination of useful lives and assessment for impairment of intangible assets require consideration of various factors and application of judgement. |

Source: ANAO 2020–21 audit results, and ARC’s audited financial statements for the year ended 30 June 2021.

Audit results

4.4.27 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Comments on non-material entities

Australian National University

4.4.28 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 reporting date.

Audit results

4.4.29 Table 4.4.9 below summarises the status of the audit findings reported by the ANAO as a result of the audits for the years ending 31 December 2019 and 31 December 2020.

Table 4.4.9: Status of audit findings

| Category | Closing position (2019) | New findings (2020) | Findings resolved (2020) | Closing position (2020) |
|--------------|-------------------------|---------------------|--------------------------|-------------------------|
| Moderate (B) | 2 | – | (2) | – |
| Total | 2 | – | (2) | – |

Source: ANAO 2020 audit results.

Resolved moderate audit findings

Data integrity post the ANU data breach

4.4.30 In June 2019, it became public that there were cyber intrusions to the ANU’s systems and data. It was revealed that this access included a presence in the Enterprise System Domain (ESD) where data was held for the financial system and the human resources/payroll system (PeopleSoft).

4.4.31 During 2020 the ANU has undertaken work to uplift ANU’s capability to prevent, detect and respond to security incidents. This includes finalising operating procedures which establishes processes for how the ANU will respond to any future data breaches. The ANAO has confirmed that these processes have been implemented and as a result the issue is resolved.

Completeness of bank accounts in the general ledger

4.4.32 During the 2019 audit process of verifying bank accounts to external confirmations, it was noted that there was a bank account in existence which had been opened during July 2019 and had a balance of 15,000 Euro. This had not been reflected in the general ledger. On further investigation it was discovered that the bank account had been opened without following the due process which the ANAO understands, included the completion of a specific form which authorises the creation of the relevant ledger account. This represented a significant control breakdown.

4.4.33 In 2020 ANU strengthened controls around cash management for the opening and closing and reporting of ANU bank accounts. The ANAO has confirmed that these processes have been implemented and as a result the issue is resolved.

4.5 Finance portfolio

Portfolio overview

4.5.1 The Finance portfolio is responsible for a range of finance-related functions, including providing the Australian Government with budget policy advice, superannuation arrangements for government employees, and asset sales. Table 4.5.1 identifies material entities specifically mentioned in this chapter.

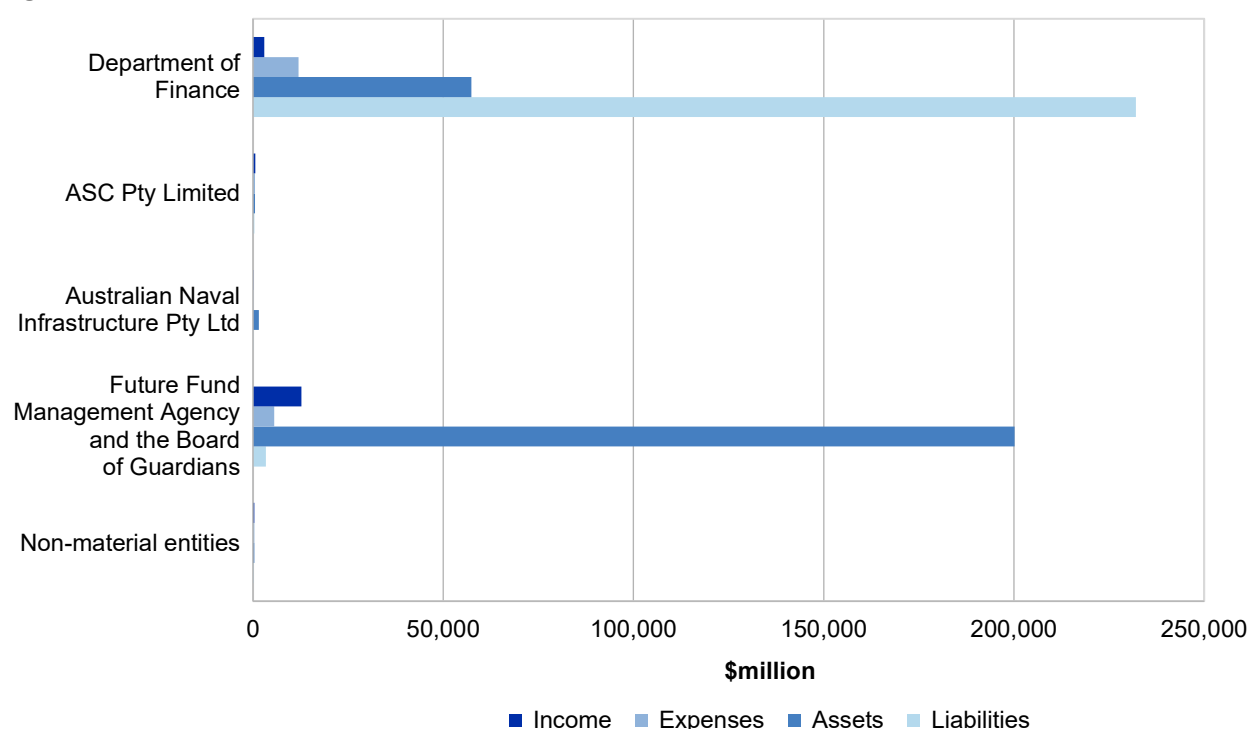
Table 4.5.1: Finance portfolio material entities discussed in this chapter

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified |
|--|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|---------------------------|
| Department of Finance | Yes | Moderate | ✓ | 31 Aug 21 | 31 Aug 21 | Nil |
| ASC Pty Ltd | Yes | Moderate | ✓ | 31 Aug 21 | 31 Aug 21 | Nil |
| Australian Naval Infrastructure Pty Ltd | Yes | Moderate | ✓ | 17 Sept 21 | 17 Sept 21 | Nil |
| Future Fund Management Agency and the Board of Guardians | Yes | Moderate | ✓ | 28 Sept 21 | 29 Sept 21 | Nil |

✓: auditor's report not modified

4.5.2 The Department of Finance (Finance) is the lead entity in the portfolio and is responsible for supporting the government's budget process and the development and implementation of the government's regulatory frameworks for public sector resource management, governance and accountability. Finance is also responsible for the preparation of the consolidated financial statements of the Australian Government, which includes the whole-of-government and the general government sector financial statements and the Australian Government's financial outcome. Finance also provides shared services through the Service Delivery Office.

4.5.3 Figure 4.5.1 shows the Finance portfolio's income, expenses, assets and liabilities.

Figure 4.5.1: Finance portfolio income, expenses, assets and liabilities

Source: 2020–21 CFS.

4.5.4 As previously outlined in Chapter 2, paragraph 2.7, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2020–21 financial statements audit. Table 4.5.2 provides a summary of those audit differences that relate to entities within the Finance portfolio.

Table 4.5.2: The number of audit differences for entities in the Finance portfolio

| | 2020–21 | | | 2019–20 | | |
|--|------------|----------|-------|------------|----------|-------|
| | Unadjusted | Adjusted | Total | Unadjusted | Adjusted | Total |
| ASC Pty Ltd | – | 3 | 3 | – | 1 | 1 |
| – ASC AWD Shipbuilder Pty Ltd | – | – | – | – | 1 | 1 |
| Australian Electoral Commission | – | – | – | 1 | 2 | 3 |
| Commonwealth Superannuation Corporation | 1 | 1 | 2 | – | – | – |
| Future Fund Management Agency and the Board of Guardians | 1 | – | 1 | 1 | – | 1 |
| Independent Parliamentary Expenses Authority | – | 1 | 1 | – | – | – |

Source: Audit differences reported to entities in the Finance Portfolio.

4.5.5 The following sections provide a summary of the 2020–21 financial statements audit results for the Department of Finance, and other material entities.

Department of Finance

4.5.6 Finance is responsible for supporting the government’s budget process and oversight of public sector resource management, and for governance and accountability frameworks, as well as the production of the Australian Government’s consolidated financial statements.

Summary of financial performance

4.5.7 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by Finance (as outlined in Table 4.5.3 and Table 4.5.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.5.3: Key departmental financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (805.3) | (345.8) |
| Revenue from government | 709.8 | 283.8 |
| Income tax equivalent | (3.4) | (3.7) |
| Surplus/(deficit) attributable to the Australian Government | (98.9) | (65.7) |
| Total other comprehensive income/(loss) | 5.5 | (4.5) |
| Total comprehensive income/(loss) attributable to the Australian Government | (93.3) | (70.3) |
| Total assets | 3,867.0 | 3,653.7 |
| Total liabilities | 1,752.8 | 1,304.7 |
| Total equity | 2,114.3 | 2,349.0 |

Source: Finance’s audited financial statements for the year ended 30 June 2021.

4.5.8 Finance is the Australian Government’s general insurer through the Comcover scheme. For 2020–21, Finance’s net cost of services increased due to higher insurance claims experience of \$402.8 million and investment property write-downs of \$33.5 million.

4.5.9 The increase in revenue from government is primarily due to additional budget measures including funding of \$418.0 million for Comcover general insurance activities for prior year liability claims.

4.5.10 Assets increased due to an increase in special account cash held relating to the additional funding for Comcover claims of \$418.0 million, offset by a reduction in the value of property holdings of \$49.6 million mainly attributable to the transfer of property to other Commonwealth entities and undrawn operating funding of \$47.4 million.

4.5.11 Liabilities increased due to an increase in outstanding Comcover insurance claims of \$504.1 million offset by a reduction in the return of funds in special accounts of \$42.7 million.

Table 4.5.4: Key administered financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | 10,854.8 | 11,415.4 |
| Total income | 4,984.8 | 2,377.3 |
| Surplus/(deficit) | (5,870.0) | (9,038.1) |
| Total other comprehensive income/(loss) | 17,978.8 | (5,346.8) |
| Total comprehensive income/(loss) | 12,108.8 | (14,384.9) |
| Total assets administered on behalf of Government | 53,549.4 | 49,913.7 |
| Total liabilities administered on behalf of Government | 230,252.5 | 244,760.7 |
| Net assets/(liabilities) | (176,703.1) | (194,847.0) |

Source: Finance's audited financial statements for the year ended 30 June 2021.

4.5.12 Total expenses decreased overall due to a reduction in superannuation expense of \$593.1 million, reduced fees charged by the Future Fund Management Agency to manage the investment funds and foreign exchange losses of \$424.1 million. This was offset by an increase in investment fund distributions of \$469.0 million.

4.5.13 Total income increased mainly due to higher investment fund distributions of \$127.9 million and an increase in the gains from the investment funds of \$2.5 billion.

4.5.14 The increase in total assets is predominately associated with the growth in the investment funds to \$49.5 billion from \$44.2 billion, partially offset by a reduction in cash held in the Official Public Account of \$2.1 billion.

4.5.15 Total liabilities decreased by \$14.5 billion primarily as a result of a decrease of \$15.3 billion in superannuation provisions driven by an increase in the discount rates applied to the provision balance calculations.

Key areas of financial statements risk

4.5.16 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 Finance's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.5.5, including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.5.5: Key area of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|--|-------------------|---|
| <i>Administered</i> superannuation provision \$226.4 billion | Valuation of the non-defence superannuation provision KAM | Higher | <ul style="list-style-type: none"> the measurement of the provision being complex, requiring significant professional judgement in the selection of long-term assumptions (including economic assumptions relating to the general economic environment and demographics of the schemes' members), to which the valuation of the schemes is highly sensitive. |
| <i>Departmental</i> insurance provision \$1.1 billion | Valuation of the outstanding claims liability under the Australian Government's self-managed general insurance fund KAM | Higher | <ul style="list-style-type: none"> the complex calculation of the liability that involves significant judgement over key assumptions including claim ratios, expected frequency of claims, severity of claims and discount rates. |
| <i>Departmental</i> land and buildings (including investment properties) \$1.9 billion | Valuation of properties KAM | Moderate | <ul style="list-style-type: none"> the valuations being dependent on assumptions that require significant judgement about fair market rents, discount rates, condition and use of the properties, and comparable properties; where observable market data is not available, the valuation is subject to a higher level of judgement; and the impact of the COVID-19 pandemic increases the level of uncertainty over these assumptions and the associated disclosures. |

Source: ANAO 2020–21 audit results, and Finance's audited financial statements for the year ended 30 June 2021.

Audit results

4.5.17 Table 4.5.6 summarises the status of the audit finding reported by the ANAO in 2020–21.

Table 4.5.6: Status of audit findings

| Category | Closing position (2019–20) | New findings (2020–21) | Findings resolved (2020–21) | Closing position (2020–21) |
|--------------|----------------------------|------------------------|-----------------------------|----------------------------|
| Moderate (B) | 1 | – | (1) ^a | – |
| Total | 1 | – | (1) | – |

Note a: The moderate audit finding was resolved during the 2020–21 interim audit phase. A discussion of this finding can be found in the Auditor-General Report No. 40 of 2020–21 *Interim Report on Key Financial Controls of Major Entities*.

Source: ANAO 2020–21 audit results.

4.5.18 There were no significant or moderate audit findings arising from the 2020–21 financial statements audit.

ASC Pty Ltd

4.5.19 ASC Pty Ltd (ASC) supports Australia’s naval capabilities. ASC built Australia’s Collins Class submarines and Air Warfare Destroyers (AWD) for the Royal Australian Navy (RAN) and is responsible for the ongoing design enhancements, maintenance and support of the Collins Class submarines through the in-service support contract.

4.5.20 ASC is also part of the alliance-based contract arrangement to deliver three AWDs for the RAN. 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. This program is winding down as the final destroyer was delivered to the RAN on 28 February 2020.

4.5.21 On 10 August 2018, ASC established a new subsidiary, ASC OPV Shipbuilder Pty Ltd. This company is constructing the first two ships in Australia’s new fleet of modern offshore patrol vessels.

Summary of financial performance

4.5.22 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by ASC (as outlined in Table 4.5.7) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.5.7: Key financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | 536.2 | 643.6 |
| Total income | 588.5 | 675.9 |
| Income tax expense | 15.6 | 9.7 |
| Profit/(loss) after income tax | 36.7 | 22.6 |
| Total other comprehensive income/(loss) after income tax | 0.1 | (0.4) |
| Total comprehensive income/(loss) after income tax | 36.8 | 22.2 |
| Total assets | 525.7 | 532.1 |
| Total liabilities | 349.1 | 385.9 |
| Net assets/(liabilities) | 176.6 | 146.3 |

Source: ASC’s audited financial statements for the year ended 30 June 2021.

4.5.23 The decrease in income and expenses is mainly due to lower activity on the AWD program. The decrease in total assets is mainly due to depreciation and amortisation on fixed assets being significantly greater than asset acquisitions.

4.5.24 The decrease in total liabilities is due to the repayment of lease liabilities.

Key areas of financial statements risk

4.5.25 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of ASC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.5.8. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.5.8: 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 continuing operations \$588.5 million | Revenue and profit recognition in relation to the Air Warfare Destroyer and Offshore Patrol Vessel projects and the Collins Class submarine in-service support contract | Higher | <ul style="list-style-type: none"> accounting for revenue, profit recognition, and claims in relation to these projects and contracts is complex due to the need to estimate and calculate many variables, including performance against targets. The amounts are subject to significant estimation and judgement. |

Source: ANAO 2020–21 audit results, and ASC's audited financial statements for the year ended 30 June 2021.

4.5.26 The performance audit report Auditor-General Report No.1 2020–21 *Cyber Resilience of Government Business Enterprises and Corporate Commonwealth Entities* was tabled during 2020–21 and was relevant to the financial management or administration of ASC. The results of the performance audit did not have significant implications for the financial statements audit.

Audit results

4.5.27 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Australian Naval Infrastructure Pty Ltd

4.5.28 Australian Naval Infrastructure Pty Ltd (ANI) was established to acquire, hold, manage and develop the infrastructure and related facilities used in connection with the Commonwealth's continuous Naval Shipbuilding Plan. The infrastructure held by ANI at Osborne in South Australia is used by Luerssen Australia Pty Ltd for the construction of two offshore patrol vessels; ASC Shipbuilding Pty Ltd for the Hunter Class Frigate Program and by ASC Pty Ltd for maintenance of the Collins class submarines under contract arrangements with the Commonwealth, represented by the Department of Defence.

4.5.29 ANI is a proprietary company limited by shares registered under the *Corporations Act 2001*. The Commonwealth represented by the Minister for Finance and Minister for Defence jointly owns shares in ANI.

4.5.30 ANI has recently completed a \$535.0 million project to expand the surface shipyard at Osborne in support of the Hunter Class Frigate Program and is also modernising existing facilities. ANI had been developing a new submarine yard, but work on this project has been largely suspended, pending an assessment of the implications of the Government's announcement to acquire nuclear submarines.

Summary of financial performance

4.5.31 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by the ANI (as outlined in Table 4.5.9) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.5.9: Key financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Total expenses | 55.9 | 44.9 |
| Total income | 45.7 | 21.4 |
| Income tax benefit/(expense) | 5.0 | 5.4 |
| Profit/(loss) after income tax | (5.2) | (18.1) |
| Total other comprehensive income after income tax | 41.4 | 34.9 |
| Total comprehensive income after income tax | 36.2 | 16.8 |
| Total assets | 1,518.6 | 1,252.4 |
| Total liabilities | 92.8 | 70.3 |
| Net assets/(liabilities) | 1,425.8 | 1,182.2 |

Source: ANI's audited financial statements for the year ended 30 June 2021.

4.5.32 The increase in expenses of \$9.6 million is mainly due to higher depreciation expense resulting from the increased asset base as construction work advances.

4.5.33 The increase in income is primarily due to increased rental income from ANI properties and the forgiveness of debt by the Government.

4.5.34 Total assets increased in 2020–21 as a result of capital expenditure of \$225.4 million on building shipyards and an upwards revaluation of buildings and infrastructure of \$41.4 million.

4.5.35 Total liabilities increased due to the higher trade payables, higher deferred tax liabilities and the deferral of revenue recognition for assets transferred by the Government, partly offset by the forgiveness of debt.

Key areas of financial statements risk

4.5.36 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of ANI's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.5.10.

Table 4.5.10: 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 (PPE) \$1,411.3 million | Valuation of PPE | Higher | <ul style="list-style-type: none">valuation requires significant judgements and estimates particularly in relation to assessing the highest and best use for the assets; andsignificant expansion of PPE holdings, including work-in-progress |

Source: ANAO 2020–21 audit results, and ANI's audited financial statements for the year ended 30 June 2021.

Audit results

4.5.37 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Future Fund Management Agency and the Board of Guardians

4.5.38 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, managed on behalf of the Department of Finance, under the following legislation for the benefit of future generations of Australians:

- *DisabilityCare Australia Fund Act 2013;*
- *Medical Research Future Fund Act 2015;*
- *Aboriginal and Torres Strait Islander Land and Sea Future Fund Act 2018;*
- *Emergency Response Fund Act 2019; and*
- *Future Drought Fund Act 2019.*

Summary of financial performance

4.5.39 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by the Future Fund (as outlined in Table 4.5.11) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.5.11: Key financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 ^a (\$m) |
|----------------------------------|------------------|-------------------------------|
| Total expenses | 353.6 | 271.6 |
| Total income | 36,175.6 | (1,102.3) |
| Income tax expense | 108.7 | 54.5 |
| Surplus/(deficit) | 35,713.3 | (1,428.5) |
| Total other comprehensive income | – | – |
| Total comprehensive income | 35,713.3 | (1,428.5) |
| Total assets | 198,828.8 | 162,564.6 |
| Total liabilities | 2,069.3 | 1,518.4 |
| Net assets/(liabilities) | 196,759.5 | 161,046.2 |

Note a: The Future Fund has restated prior year figures in the 2020–21 financial statements and Table 4.5.11 has been adjusted to reflect these changes.

Source: The Future Fund's audited financial statements for the year ended 30 June 2021.

4.5.40 Expenses have increased in 2020–21, driven by increases in investment management performance fees of \$35.5 million and other expenses of \$28.4 million. Investment manager performance fees increased due to external investment managers meeting certain performance targets. Other expenses were higher due to an increase in information technology costs including projects and depreciation on the agency's premises.

4.5.41 Total income increased by \$37.3 billion, primarily due to net gains on financial instruments held at fair value. This was due to the increase in net realised and unrealised gains on public and private market investments during the financial year.

4.5.42 Assets increased by \$36.3 billion when compared to the prior year, primarily due to an increase in investments of \$33.1 billion attributed to improvement in fair value. The private and public market portfolio recovered from the impacts of the COVID-19 pandemic priced into the prior year valuations. Other drivers include an increase to cash and cash equivalents of \$1.2 billion and an increase to receivables of \$1.9 billion when compared to the prior year.

4.5.43 Liabilities increased due to an increase in derivative liabilities of \$445.4 million. Further drivers include deferred tax liabilities increasing by \$52.1 million and lease liabilities increasing by \$42.7 million compared to the prior year.

Key areas of financial statements risk

4.5.44 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 Future Fund's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.5.12, including the area which was considered a key audit matter (KAM) by the ANAO.

Table 4.5.12: Key areas of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|--|-------------------|--|
| <i>Administered</i> investments - collective investments \$83.6 billion | Valuation of private market investments KAM | Higher | <ul style="list-style-type: none">the size of the investments and the inherent subjectivity and significant judgements and estimates required where market data is not available to determine the fair value of these investments. |
| <i>Administered</i> investments \$106.1 billion | Valuation of public market investments | Moderate | <ul style="list-style-type: none">the size of the investments and the reliance on the valuation undertaken by the custodian. |

Source: ANAO 2020–21 audit results, and the Future Fund’s audited financial statements for the year ended 30 June 2021.

Audit results

4.5.45 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audit.

4.6 Foreign Affairs and Trade portfolio

Portfolio overview

4.6.1 The objective of the Foreign Affairs and Trade portfolio is to advance Australia’s security and prosperity in a contested and competitive world, as supported by the implementation of the 2017 Foreign Policy White Paper. Table 4.6.1 identifies material and other entities specifically mentioned in this chapter.

Table 4.6.1: Foreign Affairs and Trade portfolio material and other entities discussed in this chapter

| Reporting entity | Material entity | Audit risk rating | Type of auditor’s report | Date financial statements signed | Date auditor’s report issued | Audit findings identified |
|--|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|---------------------------|
| Department of Foreign Affairs and Trade | Yes | Moderate | ✓ | 2 Sept 21 | 2 Sept 21 | Nil |
| Export Finance Australia | Yes | Moderate | ✓ | 26 Aug 21 | 27 Aug 21 | Nil |
| Australian Trade and Investment Commission | No | Low | ✓ | 28 Aug 21 | 30 Aug 21 | ☐ |

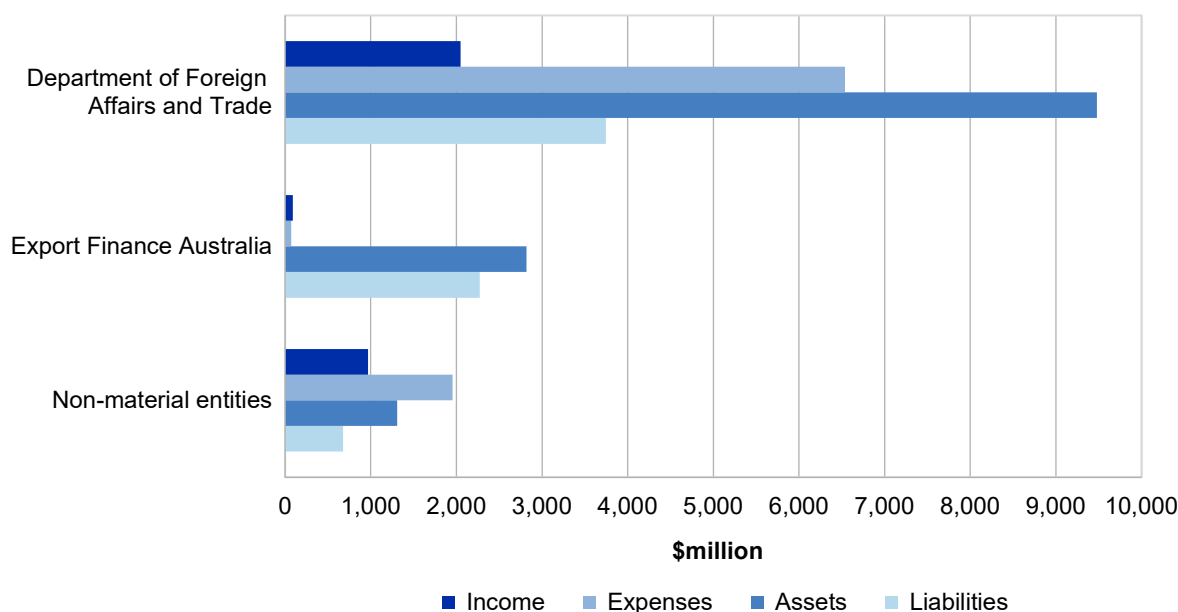
✓: auditor’s report not modified

☐: significant or moderate findings and/or legislative matters identified in previous periods, or the 2020–21 interim audit phase, now downgraded or resolved

4.6.2 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, leading the Australian Government’s international efforts to shape the regional and international environment, and supporting the welfare of Australians overseas.

4.6.3 Figure 4.6.1 shows the Foreign Affairs and Trade’s income, expenses, assets and liabilities.

Figure 4.6.1: Foreign Affairs and Trade portfolio income, expenses, assets and liabilities



Source: 2020–21 CFS.

4.6.4 As previously outlined in Chapter 2, paragraph 2.7, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2020–21 financial statements audit. Table 4.6.2 provides a summary of those audit differences that relate to entities within the Foreign Affairs portfolio.

Table 4.6.2: The number of audit differences for entities in the Foreign Affairs portfolio

| | 2020–21 | | | 2019–20 | | |
|---|------------|----------|-------|------------|----------|-------|
| | Unadjusted | Adjusted | Total | Unadjusted | Adjusted | Total |
| Department of Foreign Affairs and Trade | 3 | – | 3 | 1 | – | 1 |
| Australian Centre for International Agricultural Research | – | 1 | 1 | – | 2 | 2 |
| Australian Trade and Investment Commission | 5 | 3 | 8 | – | 1 | 1 |
| Tourism Australia | – | 2 | 2 | – | 2 | 2 |

Source: Audit differences reported to entities in the Foreign Affairs Portfolio.

4.6.5 The following sections provide a summary of the 2020–21 financial statements audit results for DFAT, and other material entities.

Department of Foreign Affairs and Trade

4.6.6 The Department of Foreign Affairs and Trade (DFAT) supports Australia’s foreign, trade and investment, development and international security policy priorities. DFAT is the lead agency managing Australia’s international presence and will lead efforts to maximise Australia’s security and prosperity through implementation of the Foreign Policy White Paper.

Summary of financial performance

4.6.7 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by DFAT (as outlined in Table 4.6.3 and Table 4.6.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.6.3: Key departmental financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (1,644.8) | (1,668.5) |
| Revenue from government | 1,581.8 | 1,473.2 |
| Surplus/(deficit) attributable to the Australian Government | (63.0) | (195.3) |
| Total other comprehensive income | (189.8) | 131.3 |
| Total comprehensive income/(loss) attributable to the Australian Government | (252.8) | (64.0) |
| Total assets | 6,052.2 | 6,192.1 |
| Total liabilities | 1,583.3 | 1,626.6 |
| Total equity | 4,468.9 | 4,565.5 |

Source: DFAT's audited financial statements for the year ended 30 June 2021.

4.6.8 Net cost of contribution by services remained relatively consistent year-on-year, with a small decrease due to reduced travel and activity at DFAT's international posts as a result of the COVID-19 pandemic.

4.6.9 Revenue from government increased due to an increase in funding received in order to fund rising departmental costs attributed to COVID 19 support and structural funding for property costs.

4.6.10 Total assets decreased due to the revaluation of the asset portfolio, which saw a decline in value of \$189.8 million. This was largely due to the strengthening Australian currency against various international currencies in economies where the land and building assets are located.

4.6.11 Total liabilities decreased due to a \$79.6 million reduction in lease liabilities due to repayments on existing leases.

Table 4.6.4: Key administered financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | 4,709.9 | 4,404.7 |
| Total income | 323.7 | 583.7 |
| Net cost of services | (4,386.2) | (3,820.9) |
| Total other comprehensive income | 5.9 | 140.6 |
| Total comprehensive income/(loss) | (4,380.3) | (3,680.3) |
| Total assets administered on behalf of Government | 3,425.9 | 3,385.5 |
| Total liabilities administered on behalf of Government | 2,163.5 | 1,960.6 |
| Net assets | 1,262.4 | 1,424.9 |

Source: DFAT's audited financial statements for the year ended 30 June 2021.

4.6.12 Total income decreased primarily as a result of the decrease in passport revenues due to the limitations on overseas travel, and as a consequence, demand for passports.

4.6.13 The increase in expenses is due to increased international development assistance, largely due to international assistance in responding to the COVID-19 pandemic.

Key areas of financial statements risk

4.6.14 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of DFAT's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.6.5, including areas which 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 4.6.5: Key area of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|--|-------------------|--|
| <i>Departmental</i> land and buildings \$4.5 billion | Valuation of the department's overseas property portfolio KAM | Higher | <ul style="list-style-type: none"> subject to complex estimation and judgements affected by market conditions at overseas locations and foreign exchange adjustments; variety of valuation methodologies applied; and the management of overseas property is undertaken by a third party through contract arrangements. |
| <i>Departmental</i> | Accuracy of revenue for rental | Higher | <ul style="list-style-type: none"> multiple sources of revenue; |

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|--|-------------------|---|
| revenue from sale of goods and rendering of services \$152.9 million | accommodation and other services provided to other Government entities at overseas posts | | <ul style="list-style-type: none"> multiple memorandums of understanding with the respective departments, each of which may contain unique clauses; and revenue is assessed based on attached agencies' staffing profiles at post, agreed floor space and other factors, creating a degree of complexity in determining the correct revenue figure. |
| <i>Administered and Departmental</i> all financial statement line items | Completeness and accuracy of financial information associated with overseas posts KAM | Moderate | <ul style="list-style-type: none"> financial information is collected through decentralised operations at over 100 locations; and locally engaged staff payments are subject to various employee conditions and benefits based on local laws and regulations. |

Source: ANAO 2020–21 audit results, and DFAT's audited financial statements for the year ended 30 June 2021.

Audit results

4.6.15 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Export Finance Australia

4.6.16 Through loans, guarantees, bonds and insurance options, Export Finance Australia enables small to medium-sized enterprises, large corporate entities and governments to take on export-related opportunities, win business, grow internationally and achieve export success. From 1 July 2019, the Export Finance and Insurance Corporation (the government's export credit agency) began trading under the name of Export Finance Australia. Export Finance Australia provides financial expertise and solutions to drive sustainable growth that benefits Australia and its partners.

4.6.17 In April 2019, changes to the *Export Finance and Insurance Corporation Act 1991* provided a \$1.0 billion increase in callable capital and a new overseas infrastructure financing power. This enabled Export Finance Australia to both finance more and larger projects, and expand its capabilities to regional infrastructure projects that have a broad national benefit for Australia, including for Australian businesses.

Summary of financial performance

4.6.18 The following section provides a comparison of the 2019–20 and 2020–21 key departmental financial statements items reported by Export Finance Australia. These have been split to provide detail on the commercial account (see Table 4.6.6) and the national interest

account (see Table 4.6.7) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.6.6: Commercial account financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | 78.4 | 163.7 |
| Total income | 94.6 | 179.7 |
| Net profit/(loss) before tax equivalent | 16.2 | 16.0 |
| Income tax equivalent charge | 4.9 | 4.8 |
| Net profit/(loss) available to the Commonwealth | 11.3 | 11.2 |
| Total other comprehensive income/(loss) | – | – |
| Total comprehensive income/(loss) for the period available to the Commonwealth | 11.3 | 11.2 |
| Total assets | 2,816.8 | 3,340.4 |
| Total liabilities | 2,274.0 | 2,803.3 |
| Total equity | 542.8 | 537.1 |

Source: Export Finance Australia's audited financial statements for the year ended 30 June 2021.

4.6.19 The decrease in income and expenses is reflective of normal business activity and attributable to decrease in average interest rates on investments and borrowings over the period. This is consistent with the movement in interest rates seen in the wider market.

4.6.20 The decrease in total assets is a result of lower balances in deposits held as well as a lower loan to the National Interest Account within Export Finance Australia.

Table 4.6.7: National interest account financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Total expenses | 22.2 | 19.2 |
| Total income | 52.7 | 51.7 |
| National Interest Account attributable to the Australian Government | 30.5 | 32.5 |
| Total assets administered on behalf of Government | 404.9 | 851.0 |
| Total liabilities administered on behalf of Government | 404.9 | 851.0 |
| Net assets | – | – |

Source: Export Finance Australia's audited financial statements for the year ended 30 June 2021.

4.6.21 The increase in expenses is due to a \$12.0 million expected credit loss expense recognised in relation to loans receivable. This was partially offset by a \$9.8 million decrease in interest expenses as a result of lower interest rates on borrowings.

4.6.22 The offsetting decreases in total assets and total liabilities is due to repayment of loans during the period. Loans from the commercial account represent \$389.2 million of the national interest account liabilities as at 30 June 2021.

Key areas of financial statements risk

4.6.23 The ANAO completed appropriate audit procedures on all material items as part of the 2020–21 audit. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Export Finance Australia’s financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided Table 4.6.8. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.6.8: Key area of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|---|-------------------|---|
| Commercial account loans and receivables \$1.2 billion | Impairment of loans and receivables | Moderate | <ul style="list-style-type: none"> • complex measurement, classification and disclosure requirements; and • subject to estimation and judgement including the credit risk exposure for key loans which has increased due to the COVID-19 pandemic. |
| Commercial account financial assets \$1.1 billion financial liabilities \$2.1 billion | Valuation and classification of financial instruments | Moderate | <ul style="list-style-type: none"> • complex measurement which involves derivatives, 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 total net interest income \$16.3 million | Completeness and accuracy of interest income recognised | Moderate | <ul style="list-style-type: none"> • multiple loans with different terms, conditions and counterparties; • reliance on the loan management system (Reval) to correctly calculate interest due; • accuracy of inputs recorded in the Reval system for new loans; and • completeness and accuracy of data transfer from Reval to the Financial Management System. |

Source: ANAO 2020–21 audit results, and EFA’s audited financial statements for the year ended 30 June 2021.

Audit results

4.6.24 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Comments on non-material entities

Australian Trade and Investment Commission

4.6.25 The Australian Trade and Investment Commission (Austrade) is responsible for promoting Australian trade, investment and education to the world, as well as helping secure Australia's tourism industry. It undertakes this responsibility by promoting Australian exports and international education, strengthen the Australia's tourism sector, and attract investment into Australia.

Audit results

4.6.26 Table 4.6.9 below summarises the status of the audit findings reported by the ANAO in 2019–20 and 2020–21.

Table 4.6.9: Status of audit findings

| Category | Closing position (2019–20) | New findings (2020–21) | Findings resolved (2020–21) | Closing position (2020–21) |
|--------------|-------------------------------|---------------------------|--------------------------------|-------------------------------|
| Moderate (B) | 1 | – | (1) | – |
| Total | 1 | – | (1) | – |

Source: ANAO 2020–21 audit results.

Resolved moderate audit finding

Timeliness of financial statement preparation

4.6.27 During the 2019–20 final phase of the audit, the ANAO identified that there were inadequate resources to provide completed financial statements and associated supporting workpapers. This led to significant changes in the financial statement disclosures and late adjustments, but also a deficiency in the timely preparation of workpapers to support the financial statements and associated notes.

4.6.28 In 2020–21 Austrade provided additional resourcing to financial statements preparation process which included significant effort into the development and execution of a detailed financial statements preparation program. As a result, the process has dramatically improved and the matter has been resolved.

4.7 Health portfolio

Portfolio overview

4.7.1 The Health portfolio works towards achieving better health and wellbeing for all Australians, now and for future generations. Table 4.7.1 identifies material entities specifically mentioned in this chapter.

Table 4.7.1: Health portfolio material entities discussed in this chapter

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified |
|--|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|---------------------------|
| Department of Health | Yes | Moderate | ✓ | 9 Sept 21 | 10 Sept 21 | ▲□ |
| National Blood Authority | Yes | Low | ✓ | 2 Sept 21 | 2 Sept 21 | Nil |
| National Health and Medical Research Council | Yes | Low | ✓ | 31 Aug 21 | 1 Sept 21 | Nil |

✓: auditor's report not modified

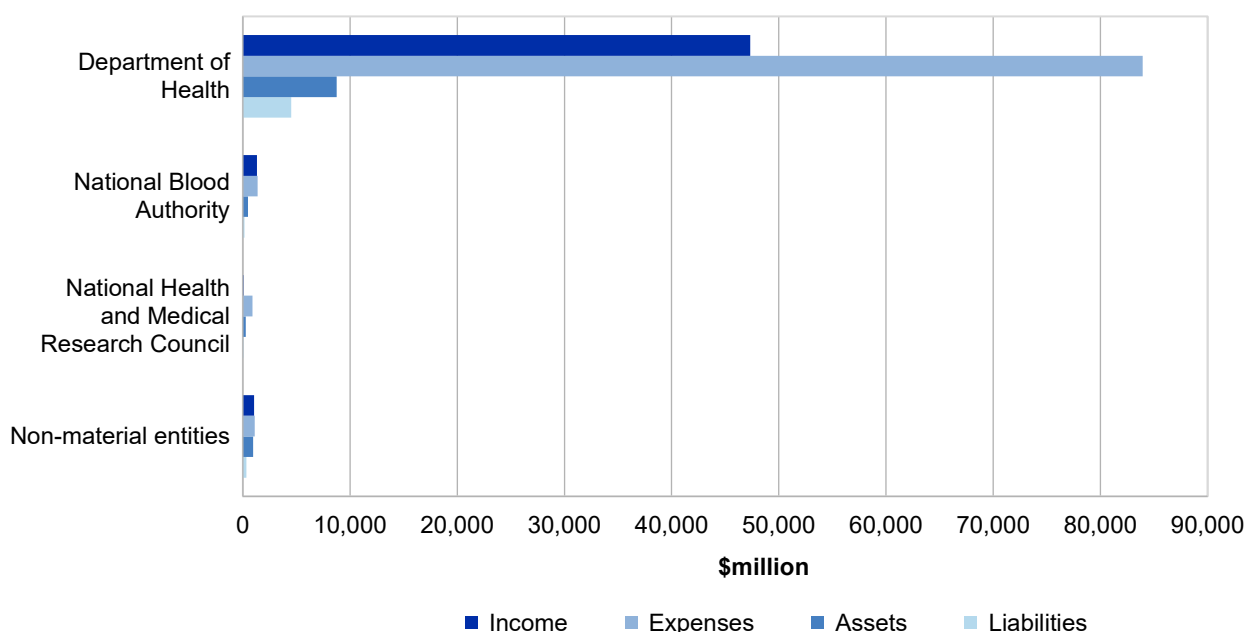
▲: significant or moderate findings and/or legislative matters reported previously not yet resolved

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2020–21 interim audit phase, now downgraded or resolved

4.7.2 The Department of Health (Health) is the lead entity in the portfolio. It is responsible for achieving the Australian Government's health outcomes in the areas of health system policy, design and innovation; health access and support services; sport and recreation; individual health benefits; regulation, safety and protection; and ageing and aged care. This includes administering programs and services, such as Medicare and the Pharmaceutical Benefits Scheme, and forming partnerships with the states and territories as well as other stakeholders.

4.7.3 Figure 4.7.1 shows the Health portfolio's income, expenses, assets and liabilities.

Figure 4.7.1: Health portfolio income, expenses, assets and liabilities



Source: 2020–21 CFS.

4.7.4 As previously outlined in Chapter 2, paragraph 2.7, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2020–21 financial statements audit. Table 4.7.2 provides a summary of those audit differences that relate to entities within the Health portfolio.

Table 4.7.2: The number of audit differences for entities in the Health portfolio

| | 2020–21 | | | 2019–20 | | |
|--|----------------|----------------|----------------|------------|----------|-------|
| | Unadjusted | Adjusted | Total | Unadjusted | Adjusted | Total |
| Department of Health | 4 ^a | 2 ^a | 6 ^a | 4 | – | 4 |
| Aged Care Quality and Safety Commission | – | 1 | 1 | – | 2 | 2 |
| Australian Institute of Health and Welfare | – | – | – | – | 1 | 1 |
| Cancer Australia | – | – | – | – | 1 | 1 |
| Independent Hospital Pricing Authority | – | – | – | 2 | – | 2 |
| National Blood Authority | – | – | – | – | 9 | 9 |
| National Health Funding Body | – | 5 ^a | 5 ^a | – | 3 | 3 |
| National Mental Health Commission | – | – | – | – | 1 | 1 |

| | 2020–21 | | | 2019–20 | | |
|--|------------|----------|-------|------------|----------|-------|
| | Unadjusted | Adjusted | Total | Unadjusted | Adjusted | Total |
| Australian Organ and Tissue Donation and Transplantation Authority | – | – | – | – | 1 | 1 |
| Professional Services Review Scheme | – | – | – | – | 1 | 1 |
| Australian Sports Foundation Limited | – | – | – | 1 | – | 1 |

Note a: The current year adjustments include adjustments identified in 2020–21 that relate to the prior year.

Source: Audit differences reported to entities in the Health Portfolio.

4.7.5 The following sections provide a summary of the 2020–21 financial statements audit results for Health, other material entities and findings related to non-material entities in the portfolio.

Department of Health

4.7.6 The Department of Health (Health) is responsible for 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

4.7.7 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by Health (as outlined in Table 4.7.3 and Table 4.7.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.7.3: Key departmental financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (836.7) | (714.9) |
| Revenue from government | 802.9 | 674.0 |
| Surplus/(deficit) attributable to the Australian Government | (33.8) | (40.9) |
| Total other comprehensive income/(loss) | (8.4) | (0.4) |
| Total comprehensive income/(loss) attributable to the Australian Government | (42.2) | (41.3) |
| Total assets | 1,047.9 | 1,051.6 |
| Total liabilities | 856.9 | 870.9 |
| Total equity | 191.0 | 180.7 |

Source: Health's audited financial statements for the year ended 30 June 2021.

4.7.8 The increase in the net cost of services from the prior year is primarily due to the continued work in supporting the national response to the COVID-19 pandemic. This work resulted in a \$49.3 million increase in employee benefit costs due to the growth in staffing, as well as a \$64.2 million increase in supplier costs primarily related to additional contractor and consultant expenditure to assist with the COVID-19 vaccine rollout and logistical support.

4.7.9 Revenue from government increased by \$128.9 million as a result of additional funding provided in response to the COVID-19 pandemic, the COVID-19 vaccine rollout and additional support for Aged Care programs.

4.7.10 The decrease in assets was primarily due to a decrease of \$67.3 million in land and buildings from a full year of depreciation on the right-of-use assets offset primarily by \$21.9 million asset additions in computer software and a \$17.4 million higher cash balance.

4.7.11 The decrease in liabilities is due to the reduction in lease liabilities of \$41.7 million from a number being paid off, offset by increases in employee provisions of \$9.5 million due to increased staffing level and fewer people taking leave during the financial year, supplier payables of \$9.5 million primarily due to an adjustment in the placement of contract liabilities within the financial statements and timing differences and \$5.5 million increase in employee payables due to higher employee numbers and associated superannuation.

Table 4.7.4: Key administered financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | 82,898.2 | 73,387.1 |
| Total income | 46,320.2 | 41,803.1 |
| Surplus/(deficit) | (36,578.0) | (31,584.0) |
| Total other comprehensive income/(loss) | (2.5) | 33.2 |
| Total comprehensive income/(loss) | (36,580.5) | (31,550.8) |
| Total assets administered on behalf of Government | 6,005.8 | 6,427.1 |
| Total liabilities administered on behalf of Government | 3,661.0 | 3,039.1 |
| Net assets/(liabilities) | 2,344.8 | 3,388.0 |

Source: Health's audited financial statements for the year ended 30 June 2021.

4.7.12 The increase in expenses was primarily due to a \$5.3 billion increase in personal benefits primarily reflecting increases in Medicare funding of \$2.9 billion to strengthen the system with lower out of pocket expenses and protect the community from COVID-19, a \$1.4 billion increase in the Pharmaceutical Benefits Scheme (PBS) due to investment in new medicine listings and \$845.0 million additional investment in aged care funding. In addition, there was a \$1.5 billion increase in grants expenses primarily due to additional grants offered as part of the COVID-19 pandemic response and a \$1.4 billion increase in the impairment of inventories primarily associated with the requirement within the Australian Accounting Standard AASB 102 *Inventories*

to measure the value of inventory at 30 June 2021 at the lower of cost or current replacement value relating to personal protective equipment for the National Medical Stockpile (NMS).

4.7.13 The personal benefit expenses were partially matched by higher revenue for Medicare and PBS funding.

4.7.14 The decrease in assets is primarily due to the \$1.2 billion decrease in accrued recoveries revenue associated with PBS drug recoveries resulting from the introduction of more regular invoicing. This is offset by the \$413.0 million increase in inventories and prepayments associated with the NMS as part of the Government's continued response to the COVID-19 pandemic and COVID-19 vaccine procurement processes.

Key areas of financial statements risk

4.7.15 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 Health's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.7.5, including areas which were considered key audit matters (KAM) by the ANAO.

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 |
|--|---|-------------------|--|
| <i>Administered</i> subsidies \$14.1 billion | Accuracy of Residential Care subsidies KAM | Higher | <ul style="list-style-type: none"> payment of aged care subsidies to nursing home providers are based on Aged Care Funding Instrument assessments prepared by the same providers and involve judgements regarding the level of patient care. |
| <i>Administered</i> personal benefits \$53.9 billion | Accuracy of personal benefit payments including medical benefits and pharmaceutical benefit payments KAM | Higher | <ul style="list-style-type: none"> volume and complexity of health care payments with varying eligibility requirements; and processed by Services Australia on complex IT systems. |
| <i>Administered</i> inventory \$1.4 billion other non-financial assets \$1.1 billion | Accuracy, existence and completeness of inventory and Prepayment balances KAM | Higher | <ul style="list-style-type: none"> significant increase in the value related to purchases of COVID-19 vaccines; and significant complexities and management expertise involved in recording, managing and accounting for the balances. |
| <i>Administered</i> recoveries \$3.9 billion | Completeness and accuracy of Pharmaceutical Benefits Scheme recovery revenue | Moderate | <ul style="list-style-type: none"> manual calculation of complex information in spreadsheets; and reliance on data sourced from the Services Australia and complex |

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|--|-------------------|--|
| | | | arrangements in place with pharmaceutical companies for recovery of expenditure. |
| <i>Administered</i> personal benefits provisions \$1.1 billion subsidies provision \$508.0 million | Valuation of the Medical Indemnity and Medicare and Pharmaceuticals Outstanding Claims provisions KAM | Moderate | <ul style="list-style-type: none"> judgements over future claims and economic assumptions including discount rate and future claims that underpin the estimation indemnity provisions and rely on the quality of underlying data. |
| <i>Administered</i> grants expense \$10.8 billion | Accuracy and occurrence of grant payments. | Moderate | <ul style="list-style-type: none"> significant number of grant programs are administered by Health with different eligibility criteria. |
| <i>Departmental</i> revenue from contracts with customers \$200.9 million | Estimation of Revenue related to the Therapeutic Goods Administration | Moderate | <ul style="list-style-type: none"> the estimation of revenue under the <i>Therapeutic Goods Act (TGA) 1989</i> involves judgements and assumptions related to the assessment of registration and conformity fees. |

Source: ANAO 2020–21 audit results, and Health’s audited financial statements for the year ended 30 June 2021.

Audit results

4.7.16 The following table summarises the status of the audit finding reported by the ANAO in 2019–20 and 2020–21.

Table 4.7.6: Status of audit findings

| Category | Closing position (2019–20) | New findings (2020–21) | Findings resolved (2020–21) | Closing position (2020–21) |
|--------------|----------------------------|------------------------|-----------------------------|----------------------------|
| Moderate (B) | 2 | – | (1) ^a | 1 |
| Total | 2 | – | (1) | 1 |

Note a: The moderate audit finding was resolved during the 2020–21 interim audit phase. A discussion of this finding can be found in the Auditor-General Report No.40 2020–21 *Interim Report on Key Financial Controls of Major Entities*.

Source: ANAO 2020–21 audit results.

4.7.17 For the findings listed below, the ANAO undertook additional audit procedures to gain assurance that the department’s 2020–21 financial statements were not materially misstated.

Unresolved moderate audit finding

National Medical Stockpile—recording and management

4.7.18 During the 2019–20 audit, the ANAO’s testing identified weaknesses in Health’s recording and management of the NMS. These included:

- the inventory management system supporting the NMS not being fit for purpose;

- the absence of reconciliations between the Health FMIS and inventory records and financial reporting by product and location for the last quarter of the financial year;
- a number of errors in the manually entered excel inventory register; and
- lack of frequency in stock taking processes, delays in provisions of stock take methodology and timely resolution of stock take variation.

4.7.19 During 2020–21, there were delays in implementing a fit for purpose inventory management system, resulting in the continued reliance on the manual inventory register. This resulted in continued weaknesses associated with regular reconciliation between key source reports, stock take validation reporting and the extent of quality assurance processes over the excel solution.

4.7.20 Health intends to address these issues as part of system solution, anticipated to be introduced in 2021–22 financial year.

Resolved moderate audit finding

User Access Controls—Terminated Users

4.7.21 During the 2019–20 interim audit, the ANAO’s testing identified weaknesses in the Health’s security controls relating to terminated users being removed or suspended on the same day as they no longer have legitimate requirement for access. During the final phase the ANAO identified that there were a number of users who retained access to the financial management information system post termination and a small number of these had accessed the system to print, email and access human resource self-service post termination.

4.7.22 During 2020–21, Health has implemented significant control improvements, which included educating the departmental staff of the importance of timely removal of terminated users and implementation of processes which highlights departmental staff who has accessed the systems subsequent to their termination. However, the ANAO did identify minor weakness in the processes underpinning the timely communication of a terminated staff to the IT division. Recognising the improvement in processes, the finding has been downgraded to a minor issue.

National Blood Authority

4.7.23 The National Blood Authority (NBA) is responsible for securing 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

4.7.24 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by the NBA (as outlined in Table 4.7.7 and Table 4.7.8) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.7.7: Key departmental financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (6.0) | (6.0) |
| Revenue from government | 5.5 | 5.7 |
| Surplus/(deficit) attributable to the Australian Government | (0.5) | (0.3) |
| Total other comprehensive income | - | 0.1 |
| Total comprehensive income/(loss) attributable to the Australian Government | (0.5) | (0.2) |
| Total assets | 12.4 | 13.3 |
| Total liabilities | 4.0 | 5.1 |
| Total equity | 8.4 | 8.2 |

Source: NBA's audited financial statements for the year ended 30 June 2021.

4.7.25 Total assets and liabilities decreased as a result of the depreciation of right-of-use assets and payments on lease liabilities.

Table 4.7.8: Key administered financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | 1,368.3 | 1,177.6 |
| Total income | 1,306.4 | 1,214.4 |
| Surplus/(deficit) | (61.9) | 36.8 |
| Total other comprehensive income/(loss) | - | - |
| Total comprehensive income/(loss) | (61.9) | 36.8 |
| Total assets administered on behalf of Government | 463.8 | 549.9 |
| Total liabilities administered on behalf of Government | 133.5 | 159.7 |
| Net assets/(liabilities) | 330.3 | 390.2 |

Source: NBA's audited financial statements for the year ended 30 June 2021.

4.7.26 Expenses increased due to an increase in demand for blood products and increases in costs to produce blood products. The increase in demand for blood products has resulted in lower inventory levels contributing to the decrease in assets. Total assets have also decreased due to lower cash holdings as a result of the operating loss in the current year.

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 support the preparation of NBA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in

2020–21 is provided in Table 4.7.9. No significant or moderate audit findings were identified relating to the key area of risk.

Table 4.7.9: Key areas of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|--------------------------------------|-------------------|---|
| <i>Administered</i> inventories \$96.0 million | Existence and Valuation of Inventory | Moderate | <ul style="list-style-type: none"> judgements and assumptions involved in the valuation of blood and blood products; and the geographical spread of inventory and reliance on service providers to manage the inventory holdings. |

Source: ANAO 2020–21 audit results, and NBA's audited financial statements for the year ended 30 June 2021.

Audit results

4.7.28 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

National Health and Medical Research Council

4.7.29 The National Health and Medical Research Council (NHMRC) is the Australian Government's key entity for managing investment in, and integrity of, health and medical research. NHMRC is also responsible for developing health advice for the Australian community, health professionals and governments, and for providing advice on ethical practice in health care and in the conduct of health and medical research.

Summary of financial performance

4.7.30 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by the NHMRC (as outlined in Table 4.7.10 and Table 4.7.11) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.7.10: Key departmental financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (35.4) | (32.3) |
| Revenue from government | 36.6 | 37.5 |
| Surplus/(deficit) attributable to the Australian Government | 1.2 | 5.2 |
| Total other comprehensive income | 1.4 | – |
| Total comprehensive income/(loss) attributable to the Australian Government | 2.6 | 5.2 |
| Total assets | 58.1 | 56.4 |
| Total liabilities | 34.2 | 35.3 |
| Total equity | 23.9 | 21.1 |

Source: NHMRC's audited financial statements for the year ended 30 June 2021.

4.7.31 The increase in net cost of services is mainly due to an increase in suppliers' expenses of \$1.7 million and an increase in depreciation and amortisation expenses of \$1.5 million.

4.7.32 Total assets have increased as a result of expenditure on internally developed intangible assets for a new grants management solution which totalled \$8.9 million during 2020–21. After depreciation and amortisation and other movements, this corresponded to a net increase in the property, plant and equipment and intangibles balance of \$3.8 million. This increase was partially offset by a decrease in trade and other receivables of \$2.1 million.

4.7.33 The decrease in total liabilities predominately relates to a decrease in lease liabilities of \$2.3 million due to principal repayments made during the year, which is partially offset by a \$1.0 million increase in trade creditors and accruals.

Table 4.7.11: Key administered financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | 858.2 | 909.9 |
| Total income | 5.5 | 5.7 |
| Deficit | (852.7) | (904.1) |
| Total other comprehensive income/(loss) | – | – |
| Total comprehensive income/(loss) | (852.7) | (904.1) |
| Total assets administered on behalf of Government | 220.1 | 198.9 |
| Total liabilities administered on behalf of Government | 16.5 | 11.1 |
| Net assets/(liabilities) | 203.6 | 187.8 |

Source: NHMRC's audited financial statements for the year ended 30 June 2021.

4.7.34 Total expenses decreased by \$51.7 million predominantly due to lower grant commitments due to the impact of the COVID-19 pandemic. This in turn contributed to an increase in cash of \$19.2 million.

4.7.35 Total liabilities increased largely due to an increase in unearned revenue of \$6.2 million associated with funds received for certain grants programs.

Key areas of financial statements risk

4.7.36 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of NHMRC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.7.12.

Table 4.7.12: Key areas of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|--|-------------------|--|
| <i>Administered</i> grant expenses \$858.2 million | Management and accounting of grant expenditure | Moderate | <ul style="list-style-type: none"> management of, and accounting for, a range of grants payments that constitute a significant expense reported in the NHMRC's financial statements; and complexities associated with the indexing of grant payments. |
| <i>Departmental</i> intangibles \$25.5 million | Management and valuation of intangible assets | Moderate | <ul style="list-style-type: none"> 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 2020–21 audit results, and NHMRC's audited financial statements for the year ended 30 June 2021.

Audit results

4.7.37 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

4.8 Home Affairs portfolio

Portfolio overview

4.8.1 The Home Affairs portfolio brings together Australia’s federal law enforcement, national and transport security, criminal justice, cybersecurity, border protection, immigration and citizenship, emergency management, multicultural affairs, and settlement services. Table 4.8.1 identifies material entities specifically mentioned in this chapter.

Table 4.8.1: Home Affairs portfolio material entities discussed in this chapter

| Reporting entity | Material entity | Audit risk rating | Type of auditor’s report | Date financial statements signed | Date auditor’s report issued | Audit findings identified |
|---|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|---------------------------|
| Department of Home Affairs | Yes | High | ✓ | 8 Sept 21 | 8 Sept 21 | Nil |
| Australian Federal Police | Yes | Moderate | ✓ | 9 Sept 21 | 9 Sept 21 | ◆ |
| Australian Security Intelligence Organisation | Yes | Moderate | ✓ | 25 Aug 21 | 25 Aug 21 | Nil |

✓: auditor’s report not modified

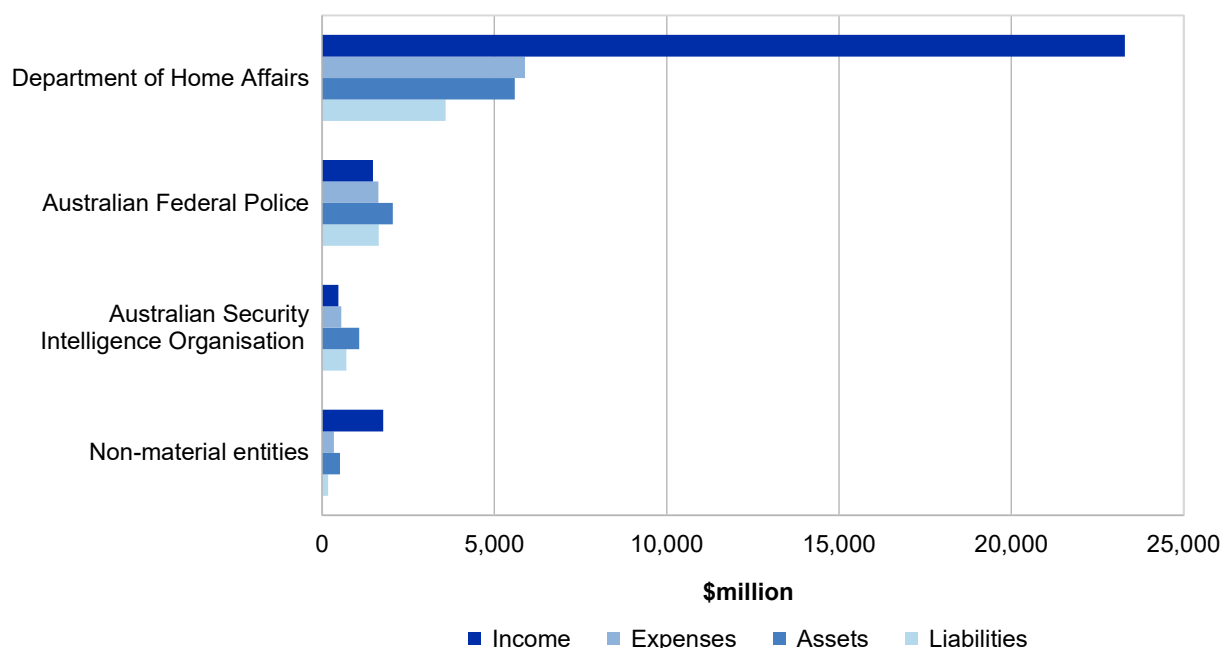
◆: new significant or moderate findings and/or legislative matters noted

4.8.2 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, coordination of critical infrastructure protection, protective services at Commonwealth establishments and diplomatic and consular premises in Australia, and cyber policy coordination, as well as emergency management and natural disaster assistance.

4.8.3 The department also includes the Australian Border Force, which is responsible for border, investigatory, 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, including compliance, is critical.

4.8.4 In addition to the Department of Home Affairs, there are six entities in the portfolio: the Australian Federal Police, the Australian Criminal Intelligence Commission, the Australian Institute of Criminology, the Australian Security Intelligence Commission, the Australian Transaction Reports and Analysis Centre, and the Office of the Special Investigator.

4.8.5 Figure 4.8.1 shows the Home Affairs portfolio’s income, expenses, assets and liabilities.

Figure 4.8.1: Home Affairs portfolio income, expenses, assets and liabilities

Source: 2020–21 CFS.

4.8.6 As previously outlined in Chapter 2, paragraph 2.7, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2020–21 financial statements audit. Table 4.8.2 provides a summary of those audit differences that relate to entities within the Home Affairs portfolio.

Table 4.8.2: The number of audit differences for entities in the Home Affairs portfolio

| | 2020–21 | | | 2019–20 | | |
|--|----------------|----------|----------------|------------|----------|-------|
| | Unadjusted | Adjusted | Total | Unadjusted | Adjusted | Total |
| Department of Home Affairs | 3 | – | 3 | 1 | 2 | 3 |
| Australian Criminal Intelligence Commission | – | 1 | 1 | – | – | – |
| Australian Federal Police | 1 | – | 1 | – | 2 | 2 |
| Australian Institute of Criminology | – | – | – | – | – | – |
| Australian Security and Intelligence Organisation | – | – | – | – | 2 | 2 |
| Australian Transaction Reports and Analysis Centre | 2 ^a | 1 | 3 ^a | 1 | 3 | 4 |

Note a: The current year adjustments include adjustments identified in 2020–21 that relate to the prior year.

Source: Audit differences reported to entities in the Home Affairs Portfolio.

4.8.7 The following sections provide a summary of the 2020–21 financial statements audit results for Home Affairs, and other material entities.

Department of Home Affairs

4.8.8 The Department of Home Affairs (Home Affairs) coordinates policy and operations for Australia's national and transport security, federal law enforcement, criminal justice, cyber security, border, immigration, multicultural affairs, emergency management and trade-related functions.

Summary of financial performance

4.8.9 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by Home Affairs (as outlined in Table 4.8.3 and Table 4.8.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.8.3: Key departmental financial statements items

| Key departmental financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (3,076.5) | (3,148.4) |
| Revenue from government | 2,753.6 | 2,723.9 |
| Surplus/(deficit) attributable to the Australian Government | (322.9) | (424.5) |
| Total other comprehensive income | 56.9 | 32.9 |
| Total comprehensive income/(loss) attributable to the Australian Government | (266.0) | (391.6) |
| Total assets | 4,313.7 | 3,669.3 |
| Total liabilities | 3,136.5 | 2,500.7 |
| Total equity | 1,177.2 | 1,168.6 |

Source: Home Affairs audited financial statements for the year ended 30 June 2021.

4.8.10 The movement in net cost of services predominantly relates to a decrease in depreciation and amortisation of \$44.2 million. The decrease is the result of Home Affairs extending the assessment of the useful life of a number of assets. The assessment of useful lives is based on the outcome of an independent valuation of property, plant and equipment in 2020–21, supported by management's assessment. The movement is further impacted by a decrease in supplier expenses of \$16.5 million and employee benefits of \$14.0 million. The reduction in these expenses is largely the result of the COVID-19 pandemic resulting in lower travel expenses and living away from home allowances.

4.8.11 The movement in total other comprehensive income is attributable to the movement in the asset revaluation reserve, resulting from an independent valuation of property, plant and equipment and associated makegood provisions in 2020–21. The independent valuation resulted in a net increment of \$56.9 million recognised through total other comprehensive income and the asset revaluation reserve.

4.8.12 The increase in total assets and liabilities is predominantly the result of Home Affairs entering into new lease agreements for office premises in Canberra. The new agreements resulted in an increase in lease liabilities of \$720.2 million and the associated right-of-use assets of \$625.0 million, with the difference relating to the treatment of lease incentives for office fit outs.

Table 4.8.4: Key administered financial statements items

| Key administered financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | 2,595.4 | 2,582.9 |
| Total income | 20,376.2 | 23,030.3 |
| Surplus/(deficit) | 17,780.8 | 20,447.3 |
| Total other comprehensive income | 117.0 | (42.6) |
| Total comprehensive income/(loss) | 17,897.8 | 20,404.7 |
| Total assets administered on behalf of Government | 1,278.8 | 1,286.1 |
| Total liabilities administered on behalf of Government | 451.6 | 438.4 |
| Net assets/(liabilities) | 827.2 | 847.7 |

Source: Home Affairs' audited financial statements for the year ended 30 June 2021.

4.8.13 Total income decreased as a result of:

- a reduction in customs duty revenue of \$1.4 billion, reflecting the national year-on-year decline in tobacco consumption. Additionally, from 1 July 2019 changes were implemented relating to duty collected on tobacco as a result of the Black Economy Package—combating illicit tobacco. This resulted in a one-off increase in customs duty revenue for the year ended 30 June 2020, which has not occurred in 2020–21; and
- a decrease in visa application charges of \$524.2 million and passenger movement charges of \$824.1 million. The reduction in these revenue streams is the result of international travel restrictions in response to the COVID-19 pandemic.

4.8.14 The movement in total other comprehensive income is the result of an independent valuation of property, plant and equipment in 2020–21. The independent valuation resulted in a total increment of \$164.6 million comprising \$47.6 million recognised as a gain to offset a previous valuation decrement and \$117.0 million recognised through total other comprehensive income and the asset revaluation reserve.

4.8.15 The movement in total liabilities reflects an increase in suppliers payable of \$51.1 million, consistent with an increase in operating costs associated with the management of onshore detention centres. The increase was partially offset by a decrease in other payables of \$30.8 million, largely reflecting a prior year refund associated with the implementation of changes relating to duty collected on tobacco as a result of the Black Economy Package—combating illicit tobacco.

Key areas of financial statements risk

4.8.16 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 Home Affairs' financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.8.5, including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.8.5: Key areas of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|---|-------------------|---|
| <i>Administered</i> customs duty revenue \$18.1 billion taxation receivable— customs duty \$130.1 million | Completeness and accuracy of customs duty collections and refunds KAM | Higher | <ul style="list-style-type: none"> the significant value of customs duty revenue; the self-assessment nature of the import declaration process; reliance on compliance risk management processes over the completeness of revenue; and the complexity of the information technology (IT) environment used to manage customs duty. |
| <i>Administered</i> visa application charges \$1.6 billion | Completeness and accuracy of the collection of visa revenue KAM | Higher | <ul style="list-style-type: none"> 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. |
| <i>Administered</i> services rendered - detention (component of supplier expenses) \$1.6 billion | Accuracy of detention and regional processing centres expenses KAM | Higher | <ul style="list-style-type: none"> the significance of expenses and complexity of contracts associated with managing the detention and regional processing centres; and 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 these people. |
| <i>Administered</i> SRSS personal benefits expenses (a component of personal benefits expenses) \$556.9 million | Completeness and accuracy of payments of personal benefits under the Status Resolution Support Services | Moderate | <ul style="list-style-type: none"> complex eligibility criteria for the categories of allowable personal benefits; payments are made under third-party arrangements with Services Australia and other providers; and the self-assessment nature of the personal benefits process. |

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|---|-------------------|---|
| | (SRSS) program | | |
| <i>Administered</i> non-financial assets relating to detention and regional processing centres (i.e. excluding computer software and prepayments) \$897.7 million | Valuation of detention and regional processing centres | Moderate | <ul style="list-style-type: none"> the complexity of performing valuations in a range of markets given the geographically dispersed land, buildings and equipment including assets located overseas; and the financial implications of the closure of regional processing centres. |
| <i>Administered and Departmental</i> multiple financial statement line items | Completeness and accuracy of financial information associated with overseas posts | Moderate | <ul style="list-style-type: none"> decentralised nature of operations and controls; and managed under third party arrangements through service level agreements with the Department of Foreign Affairs and Trade, and the Australian Trade and Investment Commission (Austrade). |
| <i>Departmental</i> employee benefits expense \$1.5 billion employee provisions \$525.4 million | Completeness and accuracy of employee entitlements | Moderate | <ul style="list-style-type: none"> selected Home Affairs staff are entitled to a range of allowances, subject to a number of conditions; and staff are located both in Australia and overseas, including locally engaged staff who may be entitled to varying employment conditions and benefits based on local laws and regulations. |

Source: ANAO 2020–21 audit results, and Home Affairs' audited financial statements for the year ended 30 June 2021.

Audit results

4.8.17 The following table summarises the status of audit findings reported by the ANAO in 2019–20 and 2020–21.

Table 4.8.6: Status of audit findings

| Category | Closing position (2019–20) | New findings (2020–21) | Findings resolved (2020–21) | Closing position (2020–21) |
|--------------|----------------------------|------------------------|-----------------------------|----------------------------|
| Moderate (B) | 2 | – | (2) ^a | – |
| Total | 2 | – | (2) | – |

Note a: The moderate audit findings were resolved during the 2020–21 interim audit phase. A discussion of these findings can be found in the Auditor-General Report No.40 of 2020–21 *Interim Report on Key Financial Controls of Major Entities*.

Source: ANAO 2020–21 audit results.

4.8.18 There are no significant or moderate findings at the completion of the 2020–21 audit.

Australian Federal Police

4.8.19 The Australian Federal Police (AFP) is responsible for the provision of police services in relation to laws of the Commonwealth, the provision of policing services to the Australian Capital Territory and external territories, combatting transnational serious organised crime and terrorism, disrupting crime offshore, supporting regional security, and protecting Australian interests and assets.

Summary of financial performance

4.8.20 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by the AFP (outlined in Table 4.8.7 and Table 4.8.8) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.8.7: Key departmental financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (1,294.1) | (1,264.8) |
| Revenue from government | 1,157.9 | 1,128.3 |
| Surplus/(deficit) attributable to the Australian Government | (136.2) | (136.5) |
| Total other comprehensive income | (0.2) | 22.9 |
| Total comprehensive income/(loss) attributable to the Australian Government | (136.4) | (113.6) |
| Total assets | 2,053.4 | 2,055.2 |
| Total liabilities | 1,639.9 | 1,602.5 |
| Total equity | 413.5 | 452.7 |

Source: AFP's audited financial statements for the year ended 30 June 2021.

4.8.21 The increase in revenue from government is mainly due to new funding for national security measures.

4.8.22 The increase in liabilities is predominantly due to an increase in employee provisions of \$12.2 million and an increase in lease liabilities of \$22.9 million, primarily due to new leases for office space.

Table 4.8.8: Key administered financial statements items

| Key administered financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | 9.4 | 8.1 |
| Total income | 0.4 | 0.9 |
| Surplus/(deficit) after income tax | (9.0) | (7.2) |
| Total other comprehensive income after income tax | – | – |
| Total comprehensive income/(loss) | (9.0) | (7.2) |
| Total assets administered on behalf of Government | 0.1 | 0.1 |
| Total liabilities administered on behalf of Government | 1.0 | 1.0 |
| Net assets/(liabilities) | (0.9) | (0.9) |

Source: AFP's audited financial statements for the year ended 30 June 2021.

4.8.23 The increase in total administered expenses is primarily due to a \$3.4 million increase in police equipment gifted to international police jurisdictions which was partially offset by a decrease of \$1.4 million in training expenses.

Key areas of financial statements risk

4.8.24 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of AFP's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.8.9.

Table 4.8.9: Key areas of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|---|-------------------|--|
| <i>Departmental</i> employee benefits \$974.3 million employee provisions \$429.4 million | Recognition and measurement of payroll. | Moderate | <ul style="list-style-type: none"> size and complex nature of the payroll function. Payroll expenses include a large number of sworn personnel, variable and extended work hours (i.e. penalty rates) and a wide variety of allowances; and the identification of an underpayment of superannuation on certain allowances. |
| All financial statement line items | Operating effectiveness of IT general controls (ITGCs). | Moderate | <ul style="list-style-type: none"> previous audit findings. |

Source: ANAO 2020–21 audit results, and AFP's audited financial statements for the year ended 30 June 2021.

Audit results

4.8.25 Table 4.8.10 summarises the status of audit findings reported by the ANAO in 2019–20 and 2020–21.

Table 4.8.10: Status of audit findings

| Category | Closing position (2019–20) | New findings (2020–21) | Findings resolved (2020–21) | Closing position (2020–21) |
|--------------|-------------------------------|---------------------------|--------------------------------|-------------------------------|
| Moderate (B) | – | 1 | – | 1 |
| Total | – | 1 | – | 1 |

Source: ANAO 2020–21 audit results.

4.8.26 For each of the findings listed below, the ANAO undertook additional audit procedures to gain assurance that the AFP's 2020–21 financial statements were not materially misstated.

New moderate audit finding

Underpayment of superannuation on certain allowances

4.8.27 During 2017–18, the AFP identified an underpayment of superannuation expenses dating back to 2007, which resulted in the understatement of employee expenses and liabilities. The underpayment primarily related to obligations to pay superannuation on certain allowances which arose as a result of lack of clarity of obligations in enterprise agreements. An estimate of the resulting liability for specific allowances was reported in 2017–18. Updates to the estimate were made in 2018–19 and 2019–20.

4.8.28 This issue was reported as a moderate audit finding in both 2017–18 and 2018–19. The issue was downgraded to a minor audit finding in 2019–20 on the basis that the AFP was expected to advance the project during 2020–21 to quantify the actual liability and commence settlement of the liabilities ahead of 30 June 2021.

4.8.29 At 30 June 2021, the AFP had not yet quantified the actual liabilities for impacted members and had not commenced settlement of the liabilities to fully remediate the known underpayment of superannuation. Consequently, the issue has been escalated to a moderate audit finding in 2020–21.

4.8.30 The ANAO understands that the AFP is expected to continue to progress the superannuation project during 2021–22. The ANAO will review the progress of this work as part of the 2021–22 financial statements audit.

Australian Security Intelligence Organisation

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

Summary of financial performance

4.8.32 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by the ASIO (as outlined in Table 4.8.11) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.8.11: Key financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net cost of/(contribution by) services | 537.4 | 563.1 |
| Revenue from government | 455.2 | 473.0 |
| Surplus/(deficit) attributable to the Australian Government | (82.2) | (90.1) |
| Total other comprehensive income/(loss) | – | 20.5 |
| Total comprehensive income/(loss) attributable to the Australian Government | (82.2) | (69.6) |
| Total assets | 1,081.9 | 1,113.0 |
| Total liabilities | 703.0 | 744.7 |
| Total equity | 378.9 | 368.3 |

Source: ASIO's audited financial statements for the year ended 30 June 2021.

4.8.33 The decrease in net cost of services is due to a: lower level of staffing compared with the previous period; a reduction in the impact of discounting on employee leave provisions due to changes in actuarial factors (discount rate) applied in the calculation of leave liabilities; and a decrease in supplier expenses arising from the impact of the COVID-19 pandemic on planned expenditure.

4.8.34 The decrease in total liabilities relates mainly to lease liabilities, as lease contracts had one less year remaining in their term and there were no major new lease contracts signed during 2020–21. Movements in other balances reflect the normal course of operations for ASIO.

Key areas of financial statements risk

4.8.35 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 ASIO's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2020–21 is provided in Table 4.8.12. No significant or moderate audit findings were identified relating to the key areas of risk.

Table 4.8.12: Key areas of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|--|-------------------|---|
| Employee benefits expenditure \$265.3 million employee leave provisions \$93.0 million | Accuracy and completeness of employee benefits | Moderate | <ul style="list-style-type: none">• limitations in the payroll system mean that some entitlements require manual calculation. |

Source: ANAO 2020–21 audit results, and ASIO audited financial statements for the year ended 30 June 2021.

Audit results

4.8.36 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

4.9 Industry, Science, Energy and Resources portfolio

Portfolio overview

4.9.1 The Industry, Science, Energy and Resources portfolio is responsible for supporting science and its commercialisation; growing business investment and improving business capability; developing Northern Australia; streamlining regulation; developing and implementing a national response to climate change; improving Australia's energy supply, efficiency, quality, performance and productivity; and facilitating the growth of small and family business. Table 4.9.1 identifies material entities specifically mentioned in this chapter.

Table 4.9.1: Industry, Science, Energy and Resources portfolio material entities discussed in this chapter

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified |
|---|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|---------------------------|
| Department of Industry, Science, Energy and Resources | Yes | Moderate | ✓ | 31 Aug 21 | 31 Aug 21 | Nil |
| Australian Nuclear Science and Technology Organisation | Yes | Moderate | ✓ | 16 Sept 21 | 17 Sept 21 | ◆□ |
| Australian Nuclear Science and Technology Organisation Nuclear Medicine Pty Ltd | Yes | Moderate | E | 14 Sept 21 | 17 Sept 21 | Nil |
| Clean Energy Finance Corporation | Yes | Moderate | ✓ | 27 Aug 21 | 27 Aug 21 | Nil |
| Commonwealth Scientific and Industrial Research Organisation | Yes | Moderate | ✓ | 31 Aug 21 | 01 Sept 21 | Nil |
| Geoscience Australia | Yes | Low | ✓ | 27 Aug 21 | 27 Aug 21 | Nil |
| Snowy Hydro Limited | Yes | Moderate | ✓ | 3 Sept 21 | 3 Sept 21 | Nil |

✓: auditor's report not modified

E: auditor's report contains an emphasis of matter

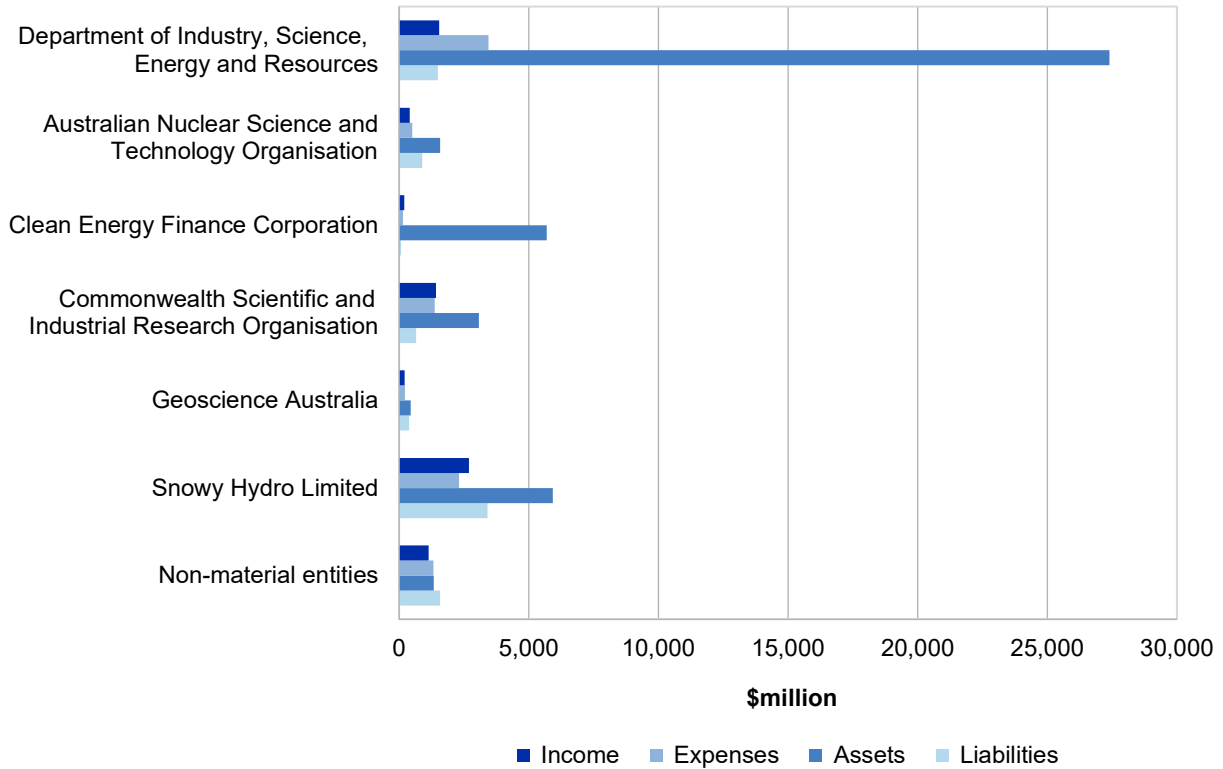
◆: new significant or moderate findings and/or legislative matters noted

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2020–21 interim audit phase, now downgraded or resolved

4.9.2 The Department of Industry, Science, Energy and Resources (Industry) is responsible for supporting economic recovery, productivity and growth, and job creation by supporting manufacturing, business capability, technology, science and innovation; the operation of energy markets and transition to lower emissions technologies; and the development of mineral and energy resources.

4.9.3 Figure 4.9.1 shows the Industry, Science, Energy and Resources Portfolio’s income, expenses, assets and liabilities.

Figure 4.9.1: Industry, Science, Energy and Resources portfolio income, expenses, assets and liabilities



Note: In the figure above, the Australian Nuclear Science and Technology Organisation Nuclear Medicine Pty Ltd is consolidated into the Australian Nuclear Science and Technology Organisation.

Source: 2020–21 CFS.

4.9.4 As previously outlined in Chapter 2, paragraph 2.7, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2020–21 financial statements audit. Table 4.9.2 provides a summary of those audit differences that relate to entities within the Industry, Science, Energy and Resources portfolio.

Table 4.9.2: The number of audit differences for entities in the Industry portfolio

| | 2020–21 | | | 2019–20 | | |
|--|------------|----------|-------|------------|----------|-------|
| | Unadjusted | Adjusted | Total | Unadjusted | Adjusted | Total |
| Department of Industry, Science, Energy and Resources | – | 3 | 3 | – | 3 | 3 |
| Australian Nuclear Science and Technology Organisation | – | – | – | 3 | 6 | 9 |

| | 2020–21 | | | 2019–20 | | |
|---|----------------|----------|-------|------------|----------|-------|
| | Unadjusted | Adjusted | Total | Unadjusted | Adjusted | Total |
| – ANSTO Nuclear Medicine Pty Ltd | – | 1 | 1 | – | 3 | 3 |
| Clean Energy Finance Corporation | – | – | – | 4 | – | 4 |
| Commonwealth Scientific and Industrial Research Organisation | 2 ^a | – | 2 | – | – | – |
| – National ICT Australia Limited | – | 2 | 2 | – | 1 | 1 |
| Clean Energy Regulator | – | – | – | 1 | – | 1 |
| National Offshore Petroleum Safety and Environmental Management Authority | – | 1 | 1 | – | 3 | 3 |
| Snowy Hydro Limited | 1 | 1 | 2 | – | – | – |

Note a: The current year adjustments include adjustments identified in 2020–21 that relate to the prior year.

Source: Audit differences reported to entities in the Industry Portfolio.

4.9.5 The following sections provide a summary of the 2020–21 financial statements audit results for Industry and other material entities.

Department of Industry, Science, Energy and Resources

4.9.6 The Department of Industry, Science, Energy and Resources (Industry) is responsible for supporting economic recovery, productivity and growth, and job creation by supporting manufacturing, business capability, technology, science and innovation; the operation of energy markets and transition to lower emission technologies; and the development of mineral and energy resources.

Summary of financial performance

4.9.7 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by Industry (as outlined in Table 4.9.3 and Table 4.9.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.9.3: Key departmental financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (635.1) | (519.7) |
| Revenue from government | 603.0 | 474.0 |
| Surplus/(deficit) attributable to the Australian Government | (32.1) | (45.7) |
| Total other comprehensive income | 0.6 | 8.6 |
| Total comprehensive income/(loss) attributable to the Australian Government | (31.5) | (37.1) |
| Total assets | 695.5 | 706.9 |
| Total liabilities | 483.5 | 504.8 |
| Total equity | 212.0 | 202.1 |

Source: Industry's audited financial statements for the year ended 30 June 2021.

4.9.8 Net cost of services increased predominately due to an increase in employee benefits of \$51.5 million and supplier expenses of \$47.5 million due to the full year effect of the Administrative Arrangements Orders (AAOs) of 5 December 2019. The increase in supplier expenses can also be partially attributed to an increase in the use of contractors and consultants to deliver a range of programs and management driven initiatives.

4.9.9 Revenue from government increased by \$129.0 million mostly due to the gain of functions as a result of the AAOs.

4.9.10 Total assets are relatively stable decreasing by \$11.4 million following a decrease in the carrying amount of land and buildings of \$36.9 million as a result of unwinding leases in accordance with AASB 16 *Leases*, which has been partially offset by an increase in debtors of \$23.0 million.

4.9.11 The decrease in liabilities is primarily due to the unwinding of lease liabilities in accordance with AASB 16 *Leases*.

Table 4.9.4: Key administered financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | 2,720.9 | 1,923.3 |
| Total income | 853.1 | 1,604.7 |
| Surplus/(deficit) | (1,867.8) | (318.6) |
| Total other comprehensive income (loss) | 624.0 | (219.2) |
| Total comprehensive income/(loss) | (1,243.8) | (537.8) |
| Total assets administered on behalf of Government | 26,701.8 | 25,246.9 |
| Total liabilities administered on behalf of Government | 1,007.4 | 226.5 |
| Net assets/(liabilities) | 25,694.4 | 25,020.4 |

Source: Industry's audited financial statements for the year ended 30 June 2021.

4.9.12 Total expenses increased by \$797.6 million partially as a result of the full year effect of the AAOs. Grant expenditure increased by \$251.5 million due to new measures valued at \$130.0 million and the Cooperative Research Centres program valued at \$45.0 million. There was also an increase in funding to the Commonwealth Scientific and Industrial Research Organisation (CSIRO) of \$133.0 million. Expenses also increased \$182.0 million to recognise increases in the loan commitment provision for the new Kidston Hydro project and \$97.2 million as a result of expenditure associated with the Northern Endeavour Program.

4.9.13 Total income decreased by \$336.5 million due to the continued reduction in Royalty revenue of as a result of lower petroleum commodity prices and volumes attributable to the COVID-19 pandemic. A further decrease in total income of \$454.0 million was due to the recognition in 2019–20 of the Ranger Security Funds paid to fund the rehabilitation works following the mine's closure in January 2021.

4.9.14 Assets increased by \$1,454.9 million predominately due to an increase in the value of other investments, including Snowy Hydro Limited which increased by \$750.0 million, Clean Energy Finance Corporation which increased by \$389.8 million, and the CSIRO which increased by \$315.0 million. Liabilities increased by \$780.9 million predominately as a result of an increase in the loan commitment provision under the NAIF loan program for the new Kidston Hydro project, and the recognition of a provision for the rehabilitation of the Ranger Uranium Mine.

Key areas of financial statements risk

4.9.15 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 Industry's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.9.5, including areas which 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 4.9.5: Key areas of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|--|-------------------|--|
| <i>Administered</i> other investments \$20.3 billion | Valuation of the Australian Government's investment in Snowy Hydro Ltd KAM | Higher | <ul style="list-style-type: none"> a unique asset that is not readily traded in the open market, subject to complex estimation and significant judgement relating to forecasts of future cash flows. |
| <i>Administered</i> royalties revenue \$633.2 million accrued revenue | Completeness and accuracy of offshore petroleum and uranium royalties KAM | Higher | <ul style="list-style-type: none"> reliance on data reporting and administrative functions performed by third parties, including state and foreign governments and other federal government agencies; and calculations are dependent on information provided by taxpayers in a self-assessment regime. |
| <i>Departmental</i> own-source income \$92.3 million | Completeness and accuracy of Industry's other revenue streams | Higher | <ul style="list-style-type: none"> diversity of revenue streams; reliance on manual calculations to quantify some revenue amounts; and cash based transactions. |
| <i>Administered</i> grants expense \$592.0 million grants payable \$90.8 million | Accuracy, occurrence and completeness of grant payments | Moderate | <ul style="list-style-type: none"> significant number of individual grant programs which operate under separate grant agreements and are subject to different eligibility criteria; and reliance on third party acquittals to confirm validity of grant payments. |
| <i>Administered</i> rehabilitation provision \$591.6 million | Valuation of the Ranger Rehabilitation Security and accuracy of cost of rehabilitation works | Moderate | <ul style="list-style-type: none"> complexity of the valuation; judgement involved in the valuation; and reliance on data provided by third parties. |

Source: ANAO 2020–21 audit results, and Industry's audited financial statements for the year ended 30 June 2021.

Audit results

4.9.16 There were no significant or moderate unresolved audit findings at the conclusion of the 2020–21 financial statements audit.

Australia Nuclear Science and Technology Organisation

4.9.17 The Australian Nuclear Science and Technology Organisation (ANSTO) is Australia's national nuclear research and development organisation. ANSTO operates Australia's only nuclear research reactor and the Australian Synchrotron, contributes to radiopharmaceutical production and supply, and conducts research into areas of national priority, including human health, the environment and the nuclear fuel cycle. ANSTO also provides advice to government and other stakeholders on matters relating to nuclear science, technology and engineering.

Summary of financial performance

4.9.18 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by ANSTO (as outlined in Table 4.9.6) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.9.6: Key departmental financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (439.5) | (157.5) |
| Revenue from Government | 278.8 | 281.9 |
| Income tax benefit/(expense) | – | (0.2) |
| Surplus/(deficit) attributable to the Government | (160.7) | 124.2 |
| Total other comprehensive income/(loss) | 116.9 | (2.7) |
| Total comprehensive income/(loss) attributable to the Australian Government | (43.8) | 121.5 |
| Total assets | 1,579.7 | 1,473.7 |
| Total liabilities | 1,029.7 | 900.2 |
| Total equity | 550.0 | 573.4 |

Source: ANSTO's audited financial statements for the year ended 30 June 2021.

4.9.19 Net cost of services increased by \$282.0 million. In 2020–21 there were losses of approximately \$117.7 million attributable to the remeasurement of decommissioning and nuclear waste management provisions, compared to gains of approximately \$146.1 million in 2019–20.

4.9.20 Assets have increased by \$106.0 million, primarily due to completion of assets under construction and the full revaluation undertaken in 2020–21:

- ANSTO reported \$121.6 million of asset additions relating to assets under construction across buildings, plant and equipment and software asset classes. The asset additions were offset by depreciation and amortisation expense of \$83.7 million and impairment loss of \$54.5 million; and
- the result of the full valuation included an increase in the fair value of land of \$85.8 million and an increase in the fair value of property plant and equipment of \$31.1 million.

4.9.21 Liabilities have increased due to the updated assumptions applied in the calculation of the decommissioning and nuclear waste management provisions in 2020–21, in particular a higher inflation of the nominal costs compared to 2019–20, reflecting updated forward looking economic assumptions.

Key areas of financial statements risk

4.9.22 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 ANSTO's financial statements. The ANAO focused audit effort on those areas that are assessed as

having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.9.7.

Table 4.9.7: Key areas of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|--|-------------------|---|
| Decommissioning and waste management provisions \$872.0 million | Valuation of the decommissioning provision including radioactive waste | Higher | <ul style="list-style-type: none"> complexity of the calculation and reliance upon the exercise of significant judgement relating to the decommissioning of unique assets and materials. |
| Property, plant and equipment \$1,208.8 million intangibles \$67.2 million parent entity disclosures - investment in subsidiaries \$3.0 million | Valuation and subsequent depreciation of non-financial assets | Moderate | <ul style="list-style-type: none"> the valuation of non-financial assets is subjective and requires significant judgement particularly given the unique nature of assets held; and judgement in determining value of the Molybdenum 99 (Mo-99) facility, with potential reduction in domestic and international demand as a result of the local COVID-19 pandemic safety measures implemented in these jurisdictions, which may limit the need for Mo-99 if nuclear medicine procedures are considered to be non-essential. |
| Financial statement disclosures | Cash flow and going concern | Moderate | <ul style="list-style-type: none"> cash flow issues were identified in the ANSTO Nuclear Medicine subsidiary casting doubt on the ability of this entity to continue as a going concern with reliance on ANSTO to provide financial support. |
| Total own-source revenue \$111.4 million | Completeness and accuracy of material streams of commercial revenue | Moderate | <ul style="list-style-type: none"> the number of revenue streams from both commercial and government sources and complexity of funding arrangements; and ongoing judgement in the application of AASB 15 <i>Revenue from Contracts with Customers</i> for ANSTO's subsidiaries. |

Source: ANAO 2020–21 audit results, and ANSTO's audited financial statements for the year ended 30 June 2021.

Audit results

4.9.23 Table 4.9.8 summarises the status of audit findings reported by the ANAO in 2019–20 and 2020–21.

Table 4.9.8: Status of audit findings

| Category | Closing position (2019–20) | New findings (2020–21) | Findings resolved (2020–21) | Closing position (2020–21) |
|--------------|----------------------------|------------------------|-----------------------------|----------------------------|
| Moderate (B) | 1 | 3 | (1) ^a | 3 |
| Total | 1 | 3 | (1) | 3 |

Note a: This finding was resolved during the interim audit phase of the 2020–21 audit.

Source: ANAO 2020–21 audit results

New moderate audit findings

Formal documented approval process for granting privileged user access

4.9.24 Maintaining and supporting IT systems requires some user accounts, both at the network and application level, to have extensive access rights (privileged access). Privileged user accounts can be used to circumvent security controls to make direct changes, either to system settings or systems data, or to access files and accounts used by others.

4.9.25 The ANAO identified privileged user access was granted to the financial management information system (FMIS) for one user with no approved access forms indicating the required business needs and dates for the privileged access. The user retained privileged user access for four months during 2020–21, increasing the risk that inappropriate activities were performed. In addition, no audit logs were retained to demonstrate and retrospectively review or monitor the activities performed by the privileged user.

4.9.26 ANSTO management advised that it would update the process to provide privileged user access via a dedicated role for the privileged user profile, with a nominated start and expiry date for each use. The ANAO will confirm the implementation and effective operation of the new process as part of the 2021–22 financial statements audit.

Unresolved moderate audit findings

Terminated users and audit logging

4.9.27 During the 2020–21 audit the ANAO identified weaknesses in ANSTO's controls relating to terminated users being removed. One employee's user account was accessed after the termination date due to delays with the off-boarding process as a result of the year-end shut down and the COVID-19 related lockdowns.

4.9.28 ANSTO management advised that the user was deactivated in a timely manner once advice was received from the business and human resources teams. ANSTO management has implemented a cessation process to track deactivation cases, particularly around year-end shut down or other periods of extended leave. The ANAO will confirm the implementation and effective operation of the new process as part of the 2021–22 financial statements audit.

IT security, change management and computer operations documentation

4.9.29 To support the effective operation of IT general controls, it is important to undertake periodic reviews of policy documentation outlining IT security, change management and computer operations processes. As part of the review process, management should communicate responsibilities for performing key internal controls to employees.

4.9.30 During the 2019–20 audit the ANAO reported a minor audit finding to ANSTO management regarding a number of outdated IT documents. During the 2020–21 audit, the ANAO upgraded the audit finding to a moderate risk rating on the basis of further critical IT policy and procedure documents that require review and updating, including:

- the FMIS user account and security manual had not been updated since 2012 and was not reviewed periodically. In addition, the FMIS user account and security manual referred to five procedural documents that did not exist; and
- a process document supporting the IT computer operations and change management had not been updated for three years.

4.9.31 ANSTO management has developed a program to review all controlled IT documents by March 2022.

Resolved moderate audit finding

Financial statement process and position papers preparation process

4.9.32 As part of the 2017–18 financial statements audit, the ANAO identified weaknesses in ANSTO’s financial statements preparation process. There were issues in relation to the preparation of accounting position papers for key accounting and disclosure issues. While improvements were noted during the 2019–20 financial statements audit, there continued to be significant audit differences particularly in relation to the measurement of ANSTO’s decommissioning and waste management provisions. In addition, accounting position papers from management did not always appropriately support assumptions used for significant areas of estimation and judgement, and accounting position papers were not provided to audit committee or the ANAO in a timely manner.

4.9.33 The ANAO noted improvements in ANSTO’s financial statements preparation process during 2020–21. As a result, this finding has been downgraded. ANSTO’s management plans further improvements in relation to the timeliness of position papers for 2021–22.

ANSTO Nuclear Medicine Pty Ltd

4.9.34 ANSTO Nuclear Medicine Pty Ltd (ANM) is a subsidiary of the Australian Nuclear Science and Technology Organisation (ANSTO). ANM was established to own and operate the new Molybdenum 99 (Mo-99) production facility at ANSTO’s Lucas Heights campus.

Audit results

4.9.35 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Emphasis of matter

4.9.36 The auditor’s report for ANM’s 2020–21 financial statements included an emphasis of matter paragraph to draw the attention of users to the notes of the financial statements which indicate that a material uncertainty exists that may cast significant doubt on ANM’s ability to continue as a going concern.

Clean Energy Finance Corporation

4.9.37 The Clean Energy Finance Corporation (CEFC) is a corporate Commonwealth entity established under the *Clean Energy Finance Corporation Act 2012*. The 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 level of risk relative to the sector.

4.9.38 The CEFC seeks to mobilise capital investment in renewable energy, low-emissions technologies and energy efficiency in Australia through commercial loans, concessional loans, equity investments and loan guarantees.

4.9.39 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 Direction 2020, the responsible ministers have also strongly encouraged the CEFC Board to prioritise investments that support reliability and security of electricity supply and make available from its original \$10.0 billion of funding, 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 a Sustainable Cities Investment Program;
- \$200.0 million for debt and equity investment through the Clean Energy Innovation Fund;
- \$100.0 million for an Australian Recycling Investment Fund; and
- \$300.0 million in concessional finance through the Advancing Hydrogen Fund.

Summary of financial performance

4.9.40 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by the CEFC (as outlined in Table 4.9.9) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.9.9: Key financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | 143.9 | 149.6 |
| Revenue from government | 4.3 | 1.9 |
| Shares in associates and joint ventures | (3.7) | 2.3 |
| Surplus/(deficit) attributable to the Australian Government | 144.5 | 153.8 |
| Total other comprehensive income/ (loss) | 5.5 | (7.0) |
| Total comprehensive income/(loss) attributable to the Australian Government | 150.0 | 146.8 |
| Total assets | 5,696.4 | 5,291.6 |
| Total liabilities | 74.5 | 64.7 |
| Total equity | 5,621.9 | 5,226.9 |

Source: CEFC's audited financial statements for the year ended 30 June 2021.

4.9.41 The decrease in the net contribution by services is due to lower interest and fee revenue as a result of the decrease in the market interest rate environment and higher concessional and loan modification charges. This was partially offset by increased distributions from equity investments, and lower impairment provision charges on loans and receivables given the large charges in 2019–20, primarily as a result of changes in industry specific factors, including the impacts of lower electricity prices on electricity related investments and the COVID-19 pandemic on property investments.

4.9.42 Revenue from government increased due to funding received towards the Grid Reliability Fund. The shares in associates and joint ventures fluctuate from year to year as a result of movements in the underlying net assets of the associates.

4.9.43 Total assets increased due to net increases in loan and advances investment activity by \$499.0 million which was partially offset by sales of debt securities exceeding new purchases by \$328.0 million, a \$60.0 million decrease in the cumulative fair value of debt securities and a \$74.0 million decrease in cash and cash equivalents. In addition, there were over \$295.0 million of additional equity investments in 2020–21 and a \$52.0 million increase in the cumulative fair value of equity investments.

Key areas of financial statements risk

4.9.44 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 CEFC’s financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.9.10. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.9.10: 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 interest and loan fees and distributions from trusts and equity investments \$194.0 million | Revenue recognition | Higher | <ul style="list-style-type: none"> • calculation of revenue from a diverse set of financial assets, some of which are complex in nature and some of which are concessional; and • amounts received for establishment and other fees may be in a form other than cash (for example, shares), raising valuation issues. |

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|---|-------------------|---|
| Loans and advances \$2.8 billion other debt securities \$1.1 billion other financial assets \$788.2 million provision for concessional loans \$19.8 million unamortised loan modification charge \$21.8 million | Accounting for complex finance agreements including the adequacy of impairment provisions and concessional loan adjustments | Higher | <ul style="list-style-type: none"> • complex lending scenarios to entities undertaking new or emerging technologies in the clean energy 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, loan modification and concessional loan 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. |

Source: ANAO 2020–21 audit results, and CEFC's audited financial statements for the year ended 30 June 2021.

Audit results

4.9.45 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Commonwealth Scientific and Industrial Research Organisation

4.9.46 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

4.9.47 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by CSIRO (as outlined in Table 4.9.11) and includes commentary on significant movements between years contributing to overall performance.

Table 4.9.11: Key financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Net (cost of)/contribution by services | (774.7) | (797.1) |
| Revenue from government | 960.5 | 837.9 |

| | | |
|-----------------------------------|---------|---------|
| Surplus/(deficit) | 185.8 | 40.8 |
| Total other comprehensive income | 49.4 | (176) |
| Total comprehensive income/(loss) | 235.2 | 40.6 |
| Total assets | 3,361.1 | 3,057.2 |
| Total liabilities | 664.3 | 675.4 |
| Total equity | 2,696.8 | 2,381.8 |

Source: CSIRO's audited financial statements for the year ended 30 June 2021.

4.9.48 The decrease in the net cost of services was primarily related to a reduction in employee benefit expenses of \$45.8 million compared to the prior year, which was partially offset by an increase in gains from the valuation of the Innovation Funds and other unlisted equity investments of \$18.5 million compared to the prior year.

4.9.49 The movement in assets was mainly due to an increase in cash and cash equivalents of \$134.1 million as a result of the increase in receipts from Government. The increase in the fair value of the Innovation Funds and other unlisted equity investments of \$173.4 million flows from the performance and continued investment by CSIRO in key early-stage companies.

Key areas of financial statements risk

4.9.50 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 CSIRO's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.9.12. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.9.12: 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 contracts with customers \$431.1 million trade and other receivables—contract assets \$25.9 million suppliers—contract liabilities \$168.1 million | Completeness and accuracy of research project revenue and associated measurement of work-in-progress and unearned revenue | Higher | <ul style="list-style-type: none"> revenue is recorded with reference to contracted milestones or elapsed time for research projects; and significant judgement is required to determine the appropriate revenue recognition method in accordance with Australian Accounting Standards for CSIRO's many contracts, revenue streams and the variety of sources and funding models. |
| Unlisted companies (a component of other investments) \$123.4 million | Valuation and disclosure of unlisted companies | Higher | <ul style="list-style-type: none"> fair value of early-stage entities requires significant estimation and judgement as by their nature the entities are not publicly listed and |

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|---|-------------------|--|
| | | | require alternate valuation techniques; and <ul style="list-style-type: none"> • CSIRO applies the International Private Equity Valuation and Venture Capital (IPEV) guidelines to value these entities in accordance with AASB 13 <i>Fair Value Measurement</i>. |
| Land and buildings \$1,618.4 million plant and equipment \$540.6 million investment properties \$49.0 million | Valuation of land and buildings, investment properties, and plant and equipment | Moderate | <ul style="list-style-type: none"> • investment property and plant and equipment valuations require estimates and judgments and are supported by external experts due to the following complexities: <ul style="list-style-type: none"> ○ determination of the most appropriate valuation technique; ○ adjustments to market evidence to account for the specialised or restricted nature of use for some property assets; and ○ identifying the principal market and assessing the applicability of recent market transactions and ensuring the appropriate selection of observable inputs (where available) to support the valuation. |
| Provision for remediation \$62.8 million | Valuation of the provision for remediation | Moderate | <ul style="list-style-type: none"> • inherent uncertainty associated with remediation works to be undertaken on waste material; and • significant judgement required in the selection of the valuation model assumptions. |

Source: ANAO 2020–21 audit results, and CSIRO's audited financial statements for the year ended 30 June 2021.

Audit results

4.9.51 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Geoscience Australia

4.9.52 Geoscience Australia delivers information and advice on Australia's geology and geography to support faster and smarter decision-making. Geoscience Australia develops applications and solutions in response to Australia's challenges by bringing together observations, data and knowledge from across geoscience disciplines.

Summary of financial performance

4.9.53 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by Geoscience Australia (as

outlined in Table 4.9.13) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.9.13: Key departmental financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (182.1) | (181.5) |
| Revenue from government | 171.2 | 191.3 |
| Surplus/(deficit) attributable to the Australian Government | (10.9) | 9.9 |
| Total other comprehensive income | 0.3 | 2.4 |
| Total comprehensive income/(loss) attributable to the Australian Government | (10.5) | 12.3 |
| Total assets | 445.1 | 507.5 |
| Total liabilities | 381.6 | 395.9 |
| Total equity | 63.5 | 111.6 |

Source: Geoscience Australia's audited financial statements for the year ended 30 June 2021.

4.9.54 Revenue from government decreased as a result of the delay in the timing of the Satellite-Based Augmentation System program which resulted in the funding moving to future years.

4.9.55 Total assets decreased primarily as a result of lower trade and other receivables due to a reduction in the prior year appropriation for the Satellite Based Augmentation System program resulting from reprofiling of the program.

4.9.56 Total assets and liabilities decreased as result of a decrease in right-of-use assets of \$27.5 million due to depreciation and a decrease in lease liabilities of \$21.4 million due to principal repayment during the year. The decrease in liabilities was slightly offset by an increase of \$2.0 million in supplier payables and an increase of \$5.3 million in unearned income from contracts with customers.

Key areas of financial statements risk

4.9.57 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Geoscience Australia's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.9.14. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.9.14: 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 \$3.2 million plant and equipment \$39.4 million | Valuation of collections / plant and equipment | Moderate | <ul style="list-style-type: none"> valuation of non-financial assets requires judgement and accounting estimation. |
| Unearned income from contracts with customers \$32.1 million | Deferred revenue and related income | Moderate | <ul style="list-style-type: none"> recognition of revenue related to long-term contracts and the relevant deferred revenue balances at 30 June 2021 is a relatively complex process and requires judgement. |

Source: ANAO 2020–21 audit results, and Geoscience Australia's audited financial statements for the year ended 30 June 2021.

Audit results

4.9.58 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Snowy Hydro Limited

4.9.59 Snowy Hydro Limited (Snowy Hydro) is a government business enterprise whose primary business includes energy generation activities to supply the National Electricity Market and operating as a retail energy provider to over one million customers through the Red Energy and Lumo Energy brands. Snowy Hydro's energy generation capacity of 5,500 megawatts supplies New South Wales, Victoria and South Australia, primarily through the generating capacity of the Snowy Mountains hydroelectric scheme.

4.9.60 Snowy Hydro is currently progressing Snowy 2.0, a pumped hydro project that will add 2,000 megawatts of on-demand generation and approximately 350,000 megawatt hours of large-scale storage to the National Electricity Market.

4.9.61 In the 2021–22 Budget the Australian Government announced that Snowy Hydro will construct and operate a 660 megawatt open cycle gas turbine power station at Kurri Kurri, New South Wales. There was no material impact arising from this decision on Snowy Hydro's financial report in 2020–21. The ANAO will consider the financial impacts and identification of any risks of material misstatement related to the Hunter Power Project as part of the 2021–22 financial statements audit.

Summary of financial performance

4.9.62 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by Snowy Hydro (as outlined in Table 4.9.15) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.9.15: Key financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) ^a |
|--|------------------|-------------------------------|
| Total expenses | 2,312.4 | 2,600.3 |
| Total revenue | 2,690.0 | 2,710.3 |
| Income tax expense | 112.5 | 33.0 |
| Profit for the period | 265.1 | 77.0 |
| Other comprehensive income | 84.9 | (140.9) |
| Total other comprehensive income attributable to the Australian Government | 350.0 | (63.3) |
| Total assets | 5,927.2 | 4,898.6 |
| Total liabilities | 3,405.2 | 3,162.9 |
| Total equity | 2,522.0 | 1,735.7 |

Note a: Snowy Hydro has restated prior year figures in the 2020–21 financial statements and Table 4.9.15 has been adjusted to reflect these changes.

Source: Snowy Hydro's audited financial report for the year ended 30 June 2021.

4.9.63 Total profit increased mainly due to the impact of a reduction in expenses associated with the change in fair value of financial instruments of \$202.9 million. The change in the value of financial instruments reflected changes in the key valuation inputs relating to economic and electricity market price forecasts at 30 June 2021. The impact of the change in these assumptions was to reduce the overall liability position of certain derivative accounted contracts compared with the previous period. Income tax expense increased in line with the total profit for the period.

4.9.64 Total other comprehensive income increased due to the impact of fluctuating market changes on exchange and interest rate hedges recorded through other comprehensive income. Compared with the previous period the overall liability position for derivative accounted interest rate swaps held by Snowy Hydro (to hedge risks associated with Snowy Hydro's loan facilities) reduced given the increase in the forward interest rate market curve which was suppressed at 30 June 2020 as a result of the impact of the COVID-19 pandemic.

4.9.65 The increase in total assets is due mainly to:

- \$1,007.6 million in assets under construction capitalised during the period. These capitalised costs predominantly related to the construction of the Snowy 2.0 project; and
- an increase of \$173.5 million in prepayments and other assets. These costs were mainly associated with Snowy 2.0 (such as insurance and contractual payments).

4.9.66 The increase in total liabilities is primarily due to the drawdown of the \$437.0 million loan facilities to fund construction of Snowy 2.0. This increase was partially offset by a \$245.8 million decrease in the liability position mainly associated with energy derivatives and interest rate hedges. The change in the value of energy derivatives relates mainly to increases in the forecast of electricity market prices across the term of the electricity contract. The change in the value of interest rate hedges relates to the impact of increased forecast interest rate curves

applied in the valuation of these contracts. The resulting impact was to reduce the overall liability position of these derivatives compared with the previous period.

Key areas of financial statements risk

4.9.67 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 Snowy Hydro's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.9.16, including areas which were considered key audit matters (KAM). No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.9.16: Key area of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|--|-------------------|---|
| Other financial assets \$128.9 million other financial liabilities \$535.3 million decrease in the fair value of financial instruments \$1.5 million increase in other comprehensive income \$119.6 million | Valuation of financial instruments KAM | Higher | <ul style="list-style-type: none"> increased level of management judgement required to determine fair value of derivative contracts which are underpinned by complex data models to calculate financial instrument values; valuation process requires the use of observable and unobservable inputs to calculate fair value. The nature and uniqueness of some energy market derivatives recognised by Snowy Hydro requires an increased level of judgement to determine unobservable valuation model inputs; and the valuation of financial instruments is sensitive to inputs such as electricity prices, electricity supply volumes and market data such as interest and exchange rates. Some of the inputs were impacted by the economic effects of the COVID-19 pandemic. |
| Part of balance of construction in progress \$2.0 billion | Capitalisation of work in progress for Snowy 2.0 KAM | Higher | <ul style="list-style-type: none"> Snowy 2.0 is a complex infrastructure project delivered over a number of financial periods; and judgement applied by Snowy Hydro in determining which costs associated with project establishment and delivery, meet the relevant technical requirements for capitalisation. |
| Trade receivables \$529.9 million (includes unbilled receivable of \$260.0 million) allowance for doubtful debts \$68.0 million | Completeness and accuracy of the impairment of retail debtors KAM | Higher | <ul style="list-style-type: none"> level of judgement applied by management in determining the estimate of expected life time credit loss on trade and other receivables. Management was required to consider the economic impact of events such as natural disasters and the COVID-19 pandemic in making these judgements which increased estimation uncertainty. |

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|--|-------------------|--|
| Environmental certificate assets \$85.4 million | Valuation of renewable energy certificates | Higher | <ul style="list-style-type: none"> increased level of judgement applied by Snowy Hydro in determining the appropriate accounting treatment for renewable energy certificates and their valuation at balance date. |
| Unbilled revenue receivable \$260.0 million | Valuation and existence of unbilled retail revenue | Higher | <ul style="list-style-type: none"> estimation required due to services provided not yet billed arising from timing of electricity meter reads for customers and the date of preparing the financial statements; and estimation process involves increased management judgement underpinned by a complex data model with a number of inputs, significant number of customers and data sources. |
| Capitalised customer acquisition costs \$88.1 million amortisation \$38.8 million | Valuation of customer acquisition costs | Moderate | <ul style="list-style-type: none"> level of management judgement applied in determining which costs outlaid to acquire retail customers meet relevant technical requirements for capitalisation; and complexity of estimation process and judgement applied to determine an appropriate amortisation rate reflective of the expected time a customer will continue to procure services from Snowy Hydro. |
| Intangible assets - goodwill \$383.2 million | Valuation and impairment of non-financial assets | Moderate | <ul style="list-style-type: none"> the impairment estimation process is complex and judgemental due to the nature of the impairment model which requires assumptions to be made related to future cash flows and discount rates. |

Source: ANAO 2020–21 audit results, and Snowy Hydro's audited financial report for the year ended 30 June 2021.

Audit results

4.9.68 There were no significant or moderate audit findings arising from the 2019–20 and 2020–21 financial statements audits.

4.10 Infrastructure, Transport, Regional Development and Communications portfolio

Portfolio overview

4.10.1 The Infrastructure, Transport, Regional Development and Communications 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; road, rail and freight transport systems; communication services; digital technologies; and public access to the arts and culture. Table 4.10.1 identifies material entities specifically mentioned in this chapter.

Table 4.10.1: Infrastructure, Transport, Regional Development and Communications portfolio material entities discussed in this chapter

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified |
|--|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|---------------------------|
| Department of Infrastructure, Transport, Regional Development and Communications | Yes | Moderate | ✓ | 16 Sept 21 | 16 Sept 21 | Nil |
| Airservices Australia | Yes | Moderate | ✓ | 15 Sept 21 | 15 Sept 21 | Nil |
| Australian Broadcasting Corporation | Yes | Moderate | ✓ | 25 Aug 21 | 25 Aug 21 | Nil |
| Australian Communications and Media Authority | Yes | Low | ✓ | 17 Sept 21 | 20 Sept 21 | Nil |
| Australian Postal Corporation | Yes | Moderate | ✓ | 26 Aug 21 | 27 Aug 21 | Nil |
| Australian Rail Track Corporation Limited | Yes | High | ✓ | 24 Aug 21 | 24 Aug 21 | Nil |
| Moorebank Intermodal Company Limited | Yes | High | ✓ | 6 Oct 21 | 8 Oct 21 | □ |
| National Capital Authority | Yes | Low | ✓ | 30 Aug 21 | 31 Aug 21 | Nil |
| National Gallery of Australia | Yes | Moderate | ✓ | 23 Aug 21 | 23 Aug 21 | Nil |
| National Library of Australia | Yes | Low | ✓ | 13 Aug 21 | 13 Aug 21 | Nil |
| NBN Co Limited | Yes | High | ✓ | 5 Aug 21 | 5 Aug 21 | Nil |
| WSA Co Limited | Yes | Moderate | ✓ | 26 Aug 21 | 26 Aug 21 | Nil |

✓: auditor's report not modified

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2020–21 interim audit phase, now downgraded or resolved

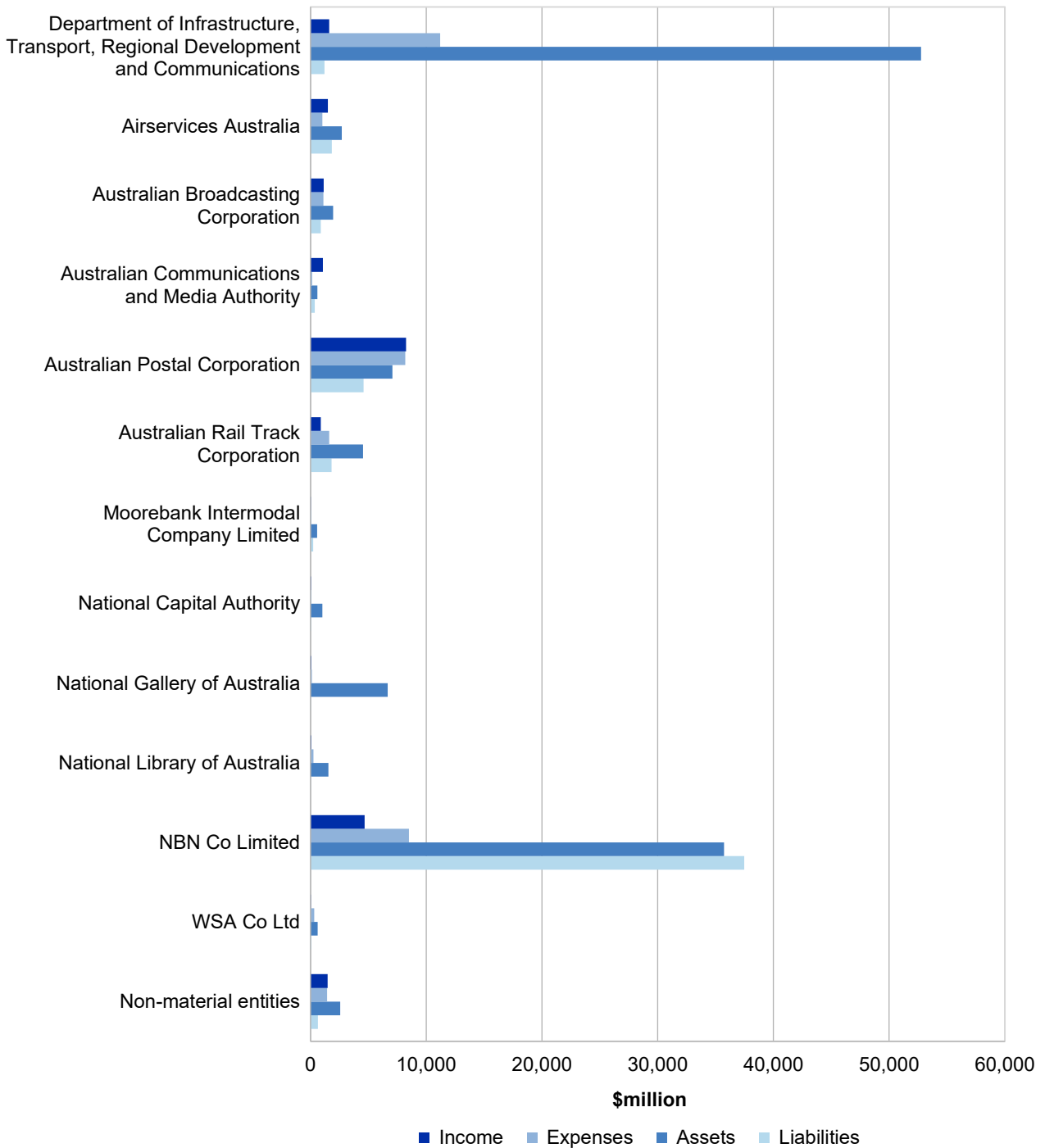
4.10.2 The Department of Infrastructure, Transport, Regional Development and Communications is the lead entity in the portfolio and supports the Australian Government's policies on cities, regions and connecting Australians, and also supports an environment in which

all Australians can access and benefit from communication services, creative experiences and culture. Further information is available from the department's website at infrastructure.gov.au.

4.10.3 In addition to the department, there are 28 entities within the portfolio with responsibility for matters such as: maritime, transport and civil aviation safety; infrastructure planning and delivery, including development of the Western Sydney Airport, national broadband network infrastructure and Inland Rail project; postal services; public broadcasting; access to cultural activities and the arts; and strategic planning for the national capital.

4.10.4 Figure 4.10.1 shows the Infrastructure, Transport, Regional Development and Communications portfolio income, expenses, assets and liabilities.

Figure 4.10.1: Infrastructure, Transport, Regional Development and Communications portfolio income, expenses, assets and liabilities



Source: 2020–21 CFS.

4.10.5 As previously outlined in Chapter 2, paragraph 2.7, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2020–21 financial statements audit. Table 4.10.2 provides a summary of those audit differences that relate to entities within the Infrastructure portfolio.

Table 4.10.2: The number of audit differences for entities in the Infrastructure portfolio

| | 2020–21 | | | 2019–20 | | |
|---|------------|----------|-------|------------|----------|-------|
| | Unadjusted | Adjusted | Total | Unadjusted | Adjusted | Total |
| Australian Broadcasting Corporation | – | – | – | – | 5 | 5 |
| Australian Communications and Media Authority | – | 2 | 2 | – | 1 | 1 |
| Australian Film and Television Radio School | – | 1 | 1 | 1 | – | 1 |
| Australian Maritime Safety Authority | – | – | – | – | 1 | 1 |
| Australian National Maritime Museum | 1 | – | 1 | – | – | – |
| Australian Postal Corporation | 1 | – | 1 | 1 | – | 1 |
| Australian Rail Track Corporation | – | – | – | 1 | 2 | 3 |
| Australian Transport Safety Bureau | 1 | – | 1 | – | 3 | 3 |
| Bundanon Trust | – | 2 | 2 | 2 | 4 | 6 |
| Creative Partnerships Australia Limited | – | – | – | – | 3 | 3 |
| Moorebank Intermodal Company Limited | – | – | – | 2 | 2 | 4 |
| National Capital Authority | – | – | – | 1 | – | 1 |
| National Film and Sound Archive of Australia | 1 | – | 1 | 1 | 2 | 3 |
| National Galley of Australia | 1 | 1 | 2 | – | – | – |
| National Library of Australia | – | 1 | 1 | – | 1 | 1 |
| National Museum of Australia | – | 2 | 2 | – | 1 | 1 |
| National Portrait Gallery of Australia | 1 | 2 | 3 | 1 | – | 1 |
| National Transport Commission | 2 | – | 2 | 2 | 1 | 3 |
| NBN Co Limited | – | – | – | – | 1 | 1 |
| WSA Co Ltd | – | – | – | – | 2 | 2 |

Source: Audit differences reported to entities in the Infrastructure Portfolio.

4.10.6 The following sections provide a summary of the 2020–21 financial statements audit results for the Department of Infrastructure, Transport, Regional Development and Communications and other material entities.

Department of Infrastructure, Transport, Regional Development and Communications

4.10.7 The Department of Infrastructure, Transport, Regional Development and Communications (Infrastructure) is responsible for improving infrastructure across Australia through funding coordination of transport and other infrastructure; providing an efficient, sustainable, competitive and safe transport system for all transport users; strengthening the sustainability, capacity and diversity of regional economies; providing advice on population policy; implementing the national policy on cities; and promoting an innovative and competitive communications sector. The department also promotes participation in and access to Australia's arts and culture through developing and supporting cultural expression and supports governance arrangements in the Australian territories.

4.10.8 In addition to these ongoing responsibilities, in 2020–21 Infrastructure continued to deliver economic stimulus to the aviation and creative arts sectors and to regional Australian communities as a result of the COVID-19 pandemic. This support is through the provision of direct financial assistance in the form of subsidy and grant payments.

4.10.9 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by Infrastructure (as outlined in Table 4.10.3 and Table 4.10.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.10.3: Key departmental financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Net (cost of)/contribution by services | (360.4) | (395.6) |
| Revenue from government | 366.8 | 364.6 |
| Surplus/(deficit) attributable to the Australian Government | 6.4 | (31.0) |
| Total other comprehensive income | – | 1.3 |
| Total comprehensive loss attributable to the Australian Government | 6.4 | (29.7) |
| Total assets | 404.1 | 396.4 |
| Total liabilities | 226.2 | 246.0 |
| Total equity | 177.9 | 150.4 |

Source: Infrastructure's audited financial statements for the year ended 30 June 2021.

4.10.10 The decrease in the value of net cost of service is mainly related to the one-off impact of \$33.5 million of emergency drought funding for the Drought Community Support Initiative paid in 2019–20. Fluctuations in other balances are considered to be a result of normal activities.

Table 4.10.4: Key administered financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | 10,830.7 | 8,272.6 |
| Total income | 1,218.5 | 1,145.9 |
| Surplus/(deficit) | (9,612.2) | (7,126.7) |
| Total other comprehensive income/(loss) | 2,731.5 | 4,297.7 |
| Total comprehensive income/(loss) | (6,880.7) | (2,829.0) |
| Total assets administered on behalf of Government | 52,362.4 | 54,343.2 |
| Total liabilities administered on behalf of Government | 976.0 | 541.4 |
| Net assets | 51,386.4 | 53,801.8 |

Source: Infrastructure's audited financial statements for the year ended 30 June 2021.

4.10.11 Total administered expenses increased by \$2,558.1 million mainly due to:

- subsidy payments of \$1,067.8 million to support the aviation industry through the COVID-19 pandemic;
- subsidy payments of \$334.5 million for the Regional Broadband Scheme which commenced on 1 January 2021; and
- a \$865.8 million increase in grants expenses mainly due to additional grant funding rounds as a result of announced additional budget measures, including for the Local Roads and Community Infrastructure program.

4.10.12 Total assets decreased by \$1,980.8 million due mainly to the impact of a reduction in the balance of loans and advances, offset by increases in the value of investments in portfolio entities and companies administered on behalf of the Australian Government, as follows:

- during 2020–21 NBN Co repaid \$6,300.0 million of principal of the loan facility administered by Infrastructure. At 30 June 2021 the outstanding principal to be repaid no later than 30 June 2024 is \$13,200.0 million;
- a \$4,200.0 million increase in the value of NBN Co Limited. Infrastructure's investment in NBN Co is recognised using an income-based valuation model that considers discounted future cash flows attributable to the company which were updated in line with NBN's corporate plan (refer to paragraph 4.10.13);
- a \$293.0 million decrease in the value of the Australian Postal Corporation due to changes in cash flow forecasts for required capital investment to service continued growth in parcel volumes arising due to changing consumer behaviour as a result of the COVID-19 pandemic;
- a \$101.6 million decrease in the value of Airservices Australia due to the continued impact of the COVID-19 pandemic in the short-term forecast revenue for the entity; and
- a \$192.3 million decrease in the value of the Australian Rail Track Corporation due to continued challenging market conditions and changes in long-term cash flows to reflect decreases in the longevity of certain revenue streams and an increase in operational costs.

4.10.13 The valuation of NBN Co Limited is undertaken in accordance with an income based approach (discounted cash flow methodology) prescribed by AASB 13 *Fair Value Measurement*. The increase in the fair value of the investment at 30 June 2021 related to updated valuation assumptions impacting future cash flows, as follows: a revision to the estimate of the future gearing and financing structure of NBN Co to reflect a ratio of debt to earnings before interest, tax, depreciation and amortisation (EBIDTA) of 7.0x (2020: 5.0x); changes to the discount rate applied in the valuation following an assessment of risk and other market factors that require consideration in determining an appropriate rate; and the impact of the modelled period commencement date moving to 1 July 2021, thus no longer including the lower margin 2020–21 cash flow forecasts.

4.10.14 The increase in liabilities of \$434.6 million reflects the impact of:

- additional expenditure incurred during 2020–21, particularly an increase in payables for subsidies to the aviation industry and recipients of grants (\$91.9 million); and
- recognition of a provision for payments to be made under the Regional Broadband Scheme, which commenced on 1 January 2021 (\$334.5 million).

Key areas of financial statements risk

4.10.15 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 Infrastructure’s financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.10.5, including areas considered key audit matters (KAM) by the ANAO.

Table 4.10.5: Key area of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|--|-------------------|--|
| <i>Administered</i> investments – NBN Co Limited \$18.0 billion | Valuation of the Australian Government’s investment in NBN Co Limited KAM | Higher | <ul style="list-style-type: none"> • valuations are subject to a complex and specialised estimation process using a discounted cash flow model which was implemented for the first time at 30 June 2020. Governance arrangements supporting the valuation were maturing during 2020–21; • the valuation model is characterised by increased complexity and application of management judgement. The use of this model requires Infrastructure to make significant judgements in the selection of assumptions and inputs, such as projected future cash flows, revenue and expenditure growth, technological developments, future consumer behaviour and market competition, financing and debt assumptions, weighted average cost of capital, terminal values and discount rates that are based on primarily |

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|--|-------------------|--|
| | | | <p>unobservable data. The resultant outcome is that the valuation is sensitive to incremental changes in these assumptions and results in a larger valuation range; and</p> <ul style="list-style-type: none"> the significance of the balance of the investment in NBN Co Limited to the Australian Government's financial statements. |
| <p><i>Administered</i> investments – Australian Postal Corporation \$2.3 billion investments – Australian Rail Track Corporation \$2.7 billion investments – Airservices Australia \$246.7 million</p> | <p>Valuation of the Australian Government's investment in the Australian Postal Corporation, Australian Rail Track Corporation and Airservices Australia KAM</p> | Higher | <ul style="list-style-type: none"> valuations are subject to complex estimation processes using a discounted cash flow valuation model. The use of this model requires Infrastructure to make significant judgements in the selection of assumptions and inputs, such as estimated future cash flows, weighted average cost of capital, terminal values and discount rates that are based on primarily unobservable data. Small changes in some key inputs can have a material impact on the valuation outcome; level of estimation uncertainty created in the estimation of future cash flows, as noted above, due to the economic impacts of the COVID-19 pandemic, particularly on the revenue generating activities of each entity, specifically Airservices Australia given the exposure of revenues to international travel and Australia Post due to the exposure to increased parcel volumes and e-commerce activity; and judgement applied in determining the appropriate valuation approach for the Australian Rail Track Corporation due to the construction and delivery of the significant \$14.1 billion Inland Rail project being undertaken by the company. |
| <p><i>Administered</i> advances and loans \$15.3 billion loan interest revenue \$790.8 million</p> | <p>Recognition and measurement of loans and advances KAM</p> | Moderate | <ul style="list-style-type: none"> the significance of the balance of the loans administered by Infrastructure, mainly the \$19.5 billion facility available to NBN Co Limited, and the \$2.0 billion facility available to the proponents of the Westconnex Motorway project; level of management judgement involved in calculating expected credit losses including the recoverability of the loans at balance date (particularly determining whether any deterioration in credit quality of loan recipients has occurred); and complexity of the valuation and required calculations for loan balances which attract concessional terms, including the level of estimation required to determine the |

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|--|-------------------|--|
| | | | appropriate market rate for the concessional component of new loans. |
| <i>Administered</i> grants expense \$5.7 billion grants payable \$94.7 million | Occurrence of grant expenses | Moderate | <ul style="list-style-type: none"> complex, significant and diverse range of programs that include a number of different administrative and legislative arrangements and conditions which impact payments; and level of subjectivity and judgement applied in determining whether a recipient meets eligibility and funding milestone requirements. |
| National Partnership Payments \$8.4 billion as reported as grants expenses by the Department of the Treasury | Occurrence of National Partnership Payment expenses | Moderate | <ul style="list-style-type: none"> complex and financially significant programs subject to detailed legislative conditions; and level of subjectivity and judgement applied in determining whether a recipient meets eligibility and funding milestone requirements. |
| All financial statements line items | Accuracy, completeness and validity of data transferred from the former Department of Communications and Arts (Communications) Financial Management Information System (FMIS) and Human Resources Management Information System (HRMIS) on 1 July 2020 | Moderate | <ul style="list-style-type: none"> process to transfer complete and accurate data to the Infrastructure FMIS for non-financial assets, accounts payable and accounts receivable increases the complexity of the financial statements preparation process; and complexity of the process to transfer employee payroll, service and leave entitlement data to the Infrastructure HRMIS in order to record complete and accurate employee benefits expenses and leave provisions. |

Source: ANAO 2020–21 audit results, and Infrastructure’s audited financial statements for the year ended 30 June 2021.

Audit results

4.10.16 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Airservices Australia

4.10.17 Airservices Australia is responsible for 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 Australia is funded through domestic charges levied on its customers and borrowings from debt markets. Due to the COVID-19 pandemic related downturn in aviation traffic, Airservices Australia has received funding from government and revenue substitution in lieu of charges from external customers to cover the reduction in revenues for 2020–21.

Summary of financial performance

4.10.18 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by Airservices (as outlined in Table 4.10.6) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.10.6: Key financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Total expenses | 1,023.3 | 1,058.0 |
| Total income | 1,482.1 | 1,021.5 |
| Income tax expense | 137.7 | (11.5) |
| Profit/(loss) after income tax | 321.1 | (25.0) |
| Total other comprehensive income/(loss) after tax | 42.2 | (30.2) |
| Total comprehensive income/(loss) | 363.4 | (55.2) |
| Total assets | 2,686.4 | 2,312.3 |
| Total liabilities | 1,826.1 | 1,815.5 |
| Total equity | 860.3 | 496.7 |

Source: Airservices' audited financial statements for the year ended 30 June 2021.

4.10.19 Total income has been significantly impacted by the COVID-19 pandemic with a reduction of approximately \$418.8 million of revenue from the charges to external customers offset by receipt of \$1,131.8 million from government to provide urgent support during their next stages of recovery from the pandemic.

4.10.20 Total expenses decreased due to a \$30.7 million reduction in supplier costs and lower impairment loss on financial investments of \$14.4 million compared to the prior year that had been slightly offset by higher finance costs of \$9.8 million.

4.10.21 Total assets increased primarily as a result of increases in cash and cash equivalents of \$273.7 million and in trade and other receivables of \$34.0 million, and an increase in the value of the defined benefit superannuation scheme assets of \$42.1 million. Additions to assets under construction of \$127.7 million was partially offset by \$124.0 million in depreciation and amortisation expenses on other non-current assets.

4.10.22 Total liabilities have decreased due to reductions in borrowings of \$94.1 million, trade and other payables of \$14.5 million and other non-current liabilities of \$35.9 million. This was

offset by an increase in income tax payable on the government's pandemic assistance funding of \$155.1 million.

Key areas of financial statements risk

4.10.23 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 Airservices' financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.10.7. No significant or moderate audit findings were identified 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 |
|--|---|-------------------|--|
| Various line items and disclosures | Impact of the COVID-19 pandemic | Higher | <ul style="list-style-type: none"> in response to the pandemic and the impact on the aviation industry, the Australian Government has provided financial assistance for 2019–20 and 2020–21 and Airservices has undertaken a number of steps in response to the new operating environment. |
| Airways revenue \$327.0 million | Completeness and accuracy of airways revenue | Higher | <ul style="list-style-type: none"> complexity of the flight traffic data captured that is used as the basis for customer billings; and dependence on multiple integrated IT systems. |
| Property, plant and equipment \$882.8 million assets under construction \$624.2 million intangibles \$76.1 million | Management, recognition and valuation of assets under construction, and existing, completed property, plant and equipment and intangibles | Higher | <ul style="list-style-type: none"> sensitivity of the valuation 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. |
| Fair value of defined benefit plan assets \$865.3 million present value of the defined benefit obligation \$679.7 million | Valuation of defined benefit superannuation obligations | Moderate | <ul style="list-style-type: none"> complexities associated with the valuation of the defined benefit asset requiring the use of an actuary; and judgement required in estimating future liabilities and the sensitivities of the fund to economic and |

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|---|-------------------|---|
| | | | demographic assumptions supporting the estimate. |
| Aviation Rescue and Fire Firefighting Services (ARFFS) decontamination provision \$58.5 million | Calculation of provisions for legal obligations and related contingencies | Moderate | <ul style="list-style-type: none"> complexity of the underlying event that gave rise to a potential legal obligation associated with ARFFS decontamination; and significant judgement required in valuing the ARFFS decontamination provision and contingent liability. |
| Other financial assets \$8.8 million borrowings \$1.1 billion unused credit facilities \$1.0 billion | Management of and accounting for, a range of financial instruments | Moderate | <ul style="list-style-type: none"> complex nature of financial instruments held by Airservices, including interest rate swaps and forward exchange contracts; and extensive and complex presentation and disclosure requirements, including foreign currency and interest rate exposures and the fair value of complex financial instruments. |

Source: ANAO 2020–21 audit results, and Airservices' audited financial statements for the year ended 30 June 2021.

Audit results

4.10.24 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Australian Broadcasting Corporation

4.10.25 The Australian Broadcasting Corporation (ABC) is responsible for informing and 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

4.10.26 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by the ABC (as outlined in Table 4.10.8) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.10.8: Key financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | 1,114.5 | 1,135.6 |
| Net cost of services | 1,061.2 | 1,070.7 |
| Revenue from government | 1,065.3 | 1,062.2 |
| Surplus/(deficit) attributable to the Australian Government after income tax | 4.1 | (8.5) |
| Total other comprehensive income/(loss) | (1.7) | (10.0) |
| Total comprehensive income/(loss) attributable to the Australian Government | 2.3 | (18.4) |
| Total assets | 1,944.6 | 2,017.5 |
| Total liabilities | 889.0 | 964.2 |
| Total equity | 1,055.6 | 1,053.3 |

Source: ABC's audited financial statements for the year ended 30 June 2021.

4.10.27 The reduction in total assets and liabilities is largely attributed to the amortisation of right-of-use plant and equipment and repayments of the ABC's lease liabilities.

Key areas of financial statements risk

4.10.28 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of the ABC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.10.9. No significant or moderate audit findings were identified relating to this key area of risk.

Table 4.10.9: Key area of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|---|-------------------|--|
| Total ABC owned assets land and buildings \$669.4 million | Valuation and accuracy of land and buildings and assets held for sale | Moderate | <ul style="list-style-type: none"> valuations are sensitive to changes in the assumptions used in the valuation models and contain highly specialised components. |

Source: ANAO 2020–21 audit results and ABC's audited financial statements for the year ended 30 June 2021.

Audit results

4.10.29 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Australian Communications and Media Authority

4.10.30 The Australian Communications and Media Authority (ACMA) is responsible for the regulation of broadcasting, radio communications (spectrum management), telecommunications and online content.

Summary of financial performance

4.10.31 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by the ACMA (as outlined in Tables 4.10.10 and 4.10.11) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.10.10: Key departmental financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (111.4) | (107.2) |
| Revenue from government | 101.0 | 96.0 |
| Surplus/(deficit) attributable to the Australian Government | (10.4) | (11.2) |
| Total other comprehensive income/(loss) | – | 0.6 |
| Total comprehensive income/(loss) attributable to the Australian Government | (10.4) | (10.6) |
| Total assets | 139.3 | 118.6 |
| Total liabilities | 100.1 | 82.1 |
| Total equity | 39.2 | 36.6 |

Source: ACMA's audited financial statements for the year ended 30 June 2021.

4.10.32 The increase in the net cost of services relates to a \$3.3 million increase in employee benefits due to a two percent pay rise, payments for redundancies, and additional employer superannuation contributions. In addition, there was an increase in contractors expense relating to the eSafety program. This has also been offset by a \$0.9 million reduction in travel costs due to the COVID-19 pandemic travel restrictions.

4.10.33 The movement in asset and liabilities is primarily due to the new Sydney lease, recognising a \$19.5 million right-of-use asset and lease liability, associated with AASB 16 *Leases*.

Table 4.10.11: Key administered financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | 13.8 | 10.7 |
| Total income | 957.8 | 1,415.3 |
| Surplus/(deficit) after income tax | 944.0 | 1,404.6 |
| Total comprehensive income/(loss) | 944.0 | 1,404.6 |
| Total assets administered on behalf of Government | 454.3 | 57.5 |
| Total liabilities administered on behalf of Government | 256.6 | 131.2 |
| Net assets/(liabilities) | 197.7 | (73.7) |

Source: ACMA's audited financial statements for the year ended 30 June 2021.

4.10.34 The decrease in total income in 2020–21 is due to no sale activity of spectrum access licences compared to \$852.9 million received in 2019–20. On 1 January 2021 the Regional Broadband Scheme (RBS) tax levy charge was introduced and \$324.8 million of accrued revenue was recognised at 30 June 2021 for the first time. This also led to the increase in total assets administered on behalf of government.

4.10.35 Total expenses increased as a result of \$4.8 million more in grants expenditure relating to the Online Safety Grants Program. The increase was also offset by a \$1.7 million decrease in expenditure payments relating to the Digital Literacy Program for Seniors.

4.10.36 The increase in total liabilities administered on behalf of the government was due to the \$126.0 million increase in unearned revenue balances relating to radio communication licence fees paid up front which is primarily due to industry demand and timing of payments.

Key areas of financial statements risk

4.10.37 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of ACMA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2020–21 is provided in Table 4.10.12. No significant or moderate audit findings were identified relating to this key area of risk.

Table 4.10.12: Key area of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|---|-------------------|---|
| Administered income \$957.8 million receivables and accrued revenue \$454.3 million payables – unearned income \$256.6 million | Recognition and measurement of administered income, receivables and unearned income | Higher | <ul style="list-style-type: none"> 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 2020–21 audit results, and ACMA’s audited financial statements for the year ended 30 June 2021.

Audit results

4.10.38 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Australian Postal Corporation

4.10.39 The Australian Postal Corporation (Australia Post) is a government business enterprise responsible for operating post offices and distributing mail and parcels in Australia and internationally.

Summary of financial performance

4.10.40 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by Australia Post (as outlined Table 4.10.13) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.10.13: Key financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total revenue and income | 8,273.7 | 7,499.2 |
| Total expenses | 8,129.1 | 7,393.3 |
| Profit/(loss) before income tax | 100.7 | 53.6 |
| Income tax benefits/(expenses) | (31.1) | (10.7) |
| Net profit/(loss) for the year | 69.6 | 42.9 |
| Total other comprehensive income/(loss) | 261.4 | (110.6) |
| Total comprehensive profit/(loss) for the year | 331.0 | (67.7) |
| Total assets | 7,064.9 | 6,785.3 |
| Total liabilities | 4,577.0 | 4,582.2 |
| Total equity | 2,487.9 | 2,203.1 |

Source: Australia Post's audited financial statements for the year ended 30 June 2021.

4.10.41 Australia Post reported an increase in total comprehensive income during 2020–21 as a result of strong growth in parcels, express post, eCommerce and global revenue all of which increased from the previous year. Despite the decline in mail products (letters) and revenue from sectors affected by the COVID-19 pandemic such as passports and the increase in delivery costs, being primarily employees and supplier expenses, Australia Post's profit before tax increased by 88 per cent from year-end 2019–20.

4.10.42 The increase in assets in 2020–21 reflects the result of the performance of the assets held by the Australia Post Superannuation Scheme amounting to a gain of \$304.3 million and largely due to acquisitions as part of the motor vehicle replacement program and acquisitions related to telecommunication, transformation and parcel automation.

4.10.43 The overall movement in liabilities has decreased nominally \$5.2 million across current and non-current classes reflecting business as usual activities.

Key areas of financial statements risk

4.10.44 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 focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.10.14, including areas which 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 4.10.14: Key area 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 \$127.1 million | Recognition of Revenue cut off and accuracy of goods and services revenue and the valuation of unearned postage revenue KAM | Higher | <ul style="list-style-type: none"> 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. |
| Intangible assets goodwill \$507.8 million | Valuation and impairment of goodwill and indefinite life intangible assets KAM | Higher | <ul style="list-style-type: none"> the estimation process is complex and judgemental and includes assumptions related to future cash flows and discount rates. |
| Net superannuation asset \$931.2 million | Valuation of the Australia Post Superannuation Scheme KAM | Higher | <ul style="list-style-type: none"> the complexity of the valuation including the sensitivity of the economic and demographic assumptions supporting the calculation. |

Source: ANAO 2020–21 audit results, and Australia Post’s audited financial statements for the year ended 30 June 2021.

4.10.45 There were no performance audit reports tabled during 2020–21 relevant to the financial management or administration of Australia Post.

Audit results

4.10.46 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Australian Rail Track Corporation

4.10.47 The Australian Rail Track Corporation (ARTC) is responsible for the development, maintenance, management and delivery of some of Australia’s major rail networks, including the national interstate rail network, the Hunter Valley coal rail network, and the construction of the Inland Rail network. The Australian Government has announced it will invest up to \$14.5 billion in equity funding into ARTC in order for the company to deliver the Inland Rail network. Inland Rail is a 1,700-kilometre rail line that will link Brisbane and Melbourne through regional Australia. Inland Rail is the largest rail freight infrastructure project ever undertaken in Australia.

Summary of financial performance

4.10.48 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by ARTC (as outlined Table 4.10.15) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.10.15: Key financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Total expenses | 1,595.4 | 1,628.9 |
| Total revenue and other income | 888.7 | 852.3 |
| Income tax expense/(benefit) | 29.4 | (83.7) |
| Profit/(loss) attributable to the Australian Government | (677.3) | (860.3) |
| Total other comprehensive income/(loss) | (97.0) | (29.5) |
| Total comprehensive income/(loss) attributable to the Australian Government | (774.3) | (889.9) |
| Total assets | 4,354.6 | 4,405.2 |
| Total liabilities | 1,635.5 | 1,578.7 |
| Total equity | 2,719.1 | 2,826.5 |

Source: ARTC's audited financial statements for the year ended 30 June 2021.

4.10.49 Total expenses and revenue fluctuated in the normal course of operations.

4.10.50 The decrease in total assets is mainly due to the valuation of property, plant and equipment, with ARTC recognising \$729.3 million of impairment charges during 2020–21. ARTC recognises non-financial assets on a fair value basis determined using an income based discounted cash flow analysis with impairments recognised where the carrying value of assets exceeds the calculated fair value. The impairment was impacted in 2020–21 by:

- changes in key inputs to the discounted cash flow analysis for the Interstate and Hunter Valley network mainly relating to: challenging market conditions; reconsideration of the expected longevity of future revenue streams; and expectations of increased future costs of services; and
- the increased expenditure on Inland Rail assets and reflecting the future cash flows and forecast level of return to ARTC in relation to this construction and operation of this asset.

4.10.51 Total liabilities have increased by \$56.8 million mainly due to government grants increasing by \$165.6 million offset by partial repayment of ARTC's debt facilities of \$97.8 million.

Key areas of financial statements risk

4.10.52 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 ARTC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in

2020–21 are provided in Table 4.10.16. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.10.16: 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 \$3.8 billion impairment expenses \$314.0 million | Valuation of infrastructure assets | Higher | <ul style="list-style-type: none"> the fair value of infrastructure assets is estimated using a complex discounted cash flow model; and the fair value model is subject to increased judgement and is sensitive to changes in assumptions, including forecasts of business performance, cash flows in future years and discount rates. |
| Impairment expenses \$415.3 million | Recognition and valuation of assets under construction for the Inland Rail network | Higher | <ul style="list-style-type: none"> judgement and estimation required by ARTC in apportioning capital and operating costs across the whole of term construction of the Inland Rail given the nature of the project, significance of the investment value and expected future returns on investment; and judgement and estimation applied in determining whether assets for Inland Rail are impaired. ARTC estimates impairment on these assets using several methods, most significantly a complex discounted cash flow model which incorporates management's judgements on future cash flows, revenue and discount rates. |
| Access Revenue \$766.0 million trade receivables \$55.8 million | Completeness of access revenue | Higher | <ul style="list-style-type: none"> subject to management estimates and judgement to determine the amount of revenue recognised due to impact of regulatory access undertakings; and complexity of underlying process for recognition of access revenue from rail operators. |
| Deferred tax assets (net) \$156.2 million income tax expense \$29.4 million | Recognition and measurement of taxation related balances | Moderate | <ul style="list-style-type: none"> tax liabilities and deferred tax assets (DTAs) arise predominantly from asset revaluations, which are subject to judgement and uncertainty; and increased judgement applied in recognising the amount of the DTAs that ARTC will be able to utilise to offset future taxation expense. |

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|---|-------------------|--|
| Deferred income—government grants \$823.4 million grant income \$62.6 million | Occurrence and classification of grants in the income statement | Moderate | <ul style="list-style-type: none"> judgement is involved in determining the appropriate recognition point for grant contributions in accordance with the relevant requirements of the accounting standards and nature of the grant funded assets; and the nature of some grants from government means that ARTC recognise revenue (in accordance with the accounting standards) over a significant period of the operating life of an asset constructed. |
| Impacts multiple financial statements line items | Complexity of IT environment | Moderate | <ul style="list-style-type: none"> complexity and number of IT systems that support the recognition and processing of transactions and balances which have significant impact on the preparation of the financial statements. |

Source: ANAO 2020–21 audit results, and ARTC's audited financial report for the year ended 30 June 2021.

Audit results

4.10.53 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Moorebank Intermodal Company Limited

4.10.54 The 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.

Summary of financial performance

4.10.55 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by MIC (as outlined Table 4.10.17) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.10.17: Key financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Total expenses | 56.1 | 52.9 |
| Total revenue | 13.7 | 17.9 |
| Income tax benefit | 3.3 | 8.2 |
| Income/(loss) for the year | 9.1 | (26.8) |
| Total other comprehensive income/(loss) | 3.3 | 8.2 |
| Total income/(loss) for the year | 12.4 | (18.6) |
| Total assets | 553.3 | 515.3 |
| Total liabilities | 231.8 | 220.2 |
| Total equity | 321.4 | 295.2 |

Source: MIC's audited financial statements for the year ended 30 June 2021.

4.10.56 The decrease in total revenue is due to a one-off effect of a \$7.5 million gain on the recognition of finance leases in the prior year. This was partially offset by a \$3.5 million gain from a reimbursement awarded by arbitration to recover legal fees incurred in prior years during the 2020–21 financial year.

4.10.57 Total liabilities have increased due to an increase in the provisions for land and site costs relating to preparing land for use, upgrades to Moorebank Avenue and voluntary planning contributions. Total expenses increased from the prior year as a result of the increase in provisions for land and site costs.

4.10.58 Total assets have increased due to a valuation increase in the Precinct Land Trust of \$54.2 million that was offset by a reduction in the cash and cash equivalent balance of \$29.7 million as a result of funding enabling works at the Moorebank Logistics Park.

Key areas of financial statements risk

4.10.59 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 MIC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.10.18. MIC had an unresolved moderate risk finding relating to the support and quality assurance over the financial statement close process.

Table 4.10.18: Key areas of financial statements risk

| Relevant financial statements item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|--|-------------------|--|
| Non-financial liabilities – provisions \$205.1 million | Valuation of the land preparation; Moorebank Avenue works and voluntary planning contribution provisions | Higher | <ul style="list-style-type: none"> judgements and estimates involved in capturing land preparation costs, including assessing the level of work required for the completion of these projects. |
| Non-financial assets – equity accounted investments \$234.3 million | Recognition and disclosure of the value of the Precinct Land Trust | Moderate | <ul style="list-style-type: none"> 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. |
| Non-financial assets – assets under construction \$1.4 million | Valuation and recoverability of assets under construction | Moderate | <ul style="list-style-type: none"> complexities in capturing costs associated with the development of capital projects; and judgements in respect to the recoverability of capital costs. |
| Deferred tax assets \$76.0 million | Valuation of deferred tax assets | Moderate | <ul style="list-style-type: none"> judgements involved the assessment of recoverability of deferred tax assets against future forecast profits; and judgements involved in the apportionment of deductible costs for the derivation of the deferred tax asset. |
| Non-financial assets – finance lease \$179.6 million | Valuation of the finance lease receivable for rail access charges | Moderate | <ul style="list-style-type: none"> valuation of the rail access lease is subject to judgements and estimates associated with a discounted cash flow methodology, including future cash flows, rates of return and discounting. |
| All financial statement items | Going concern – available funding is insufficient to cover remaining project costs | Moderate | <ul style="list-style-type: none"> judgements involved in the identification of going concern indicators; and judgements involved in going concern assessments including the impact of any project changes |

Source: ANAO 2020–21 audit results, and MIC's audited financial statements for the year ended 30 June 2021.

Audit results

4.10.60 Table 4.10.19 summarises the status of audit findings reported by the ANAO in 2019–20 and 2020–21.

Table 4.10.19: Status of audit findings

| Category | Closing position (2019–20) | New findings (2020–21) | Findings resolved (2020–21) | Closing position (2020–21) |
|--------------|-------------------------------|---------------------------|--------------------------------|-------------------------------|
| Moderate (B) | 1 | – | (1) | – |
| Total | 1 | – | (1) | – |

Source: ANAO 2020–21 audit results.

4.10.61 For the finding listed below, the ANAO undertook additional audit procedures to gain assurance that the MIC’s 2020–21 financial statements were not materially misstated.

Resolved moderate audit finding

Support and Quality Assurance over the financial statement close process

4.10.62 During the 2017–18 final audit, the ANAO identified weaknesses in the financial statements 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.

4.10.63 These weaknesses highlighted opportunities for improvements regarding management’s quality assurance and support processes to enhance the quality of its financial reporting and reduce the risk of error and the potential for material misstatement to the Group’s consolidated financial statements. This audit finding remained unresolved at the conclusion of the 2019–20 financial year.

4.10.64 In 2020–21 the ANAO observed that MIC had prepared detailed accounting position papers on material transactions and any areas that required significant judgements. All relevant supporting documentation for the financial statement preparation process, including the draft financial statements were provided in a timely manner. This assisted the overall timeliness of the audit process. The finding is now resolved.

4.10.65 There were no significant or moderate audit findings arising from the 2020–21 financial statements audit.

National Capital Authority

4.10.66 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

4.10.67 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by the NCA (as outlined in

Table 4.10.20 and Table 4.10.21) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.10.20: Key departmental financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (12.9) | (12.2) |
| Revenue from government | 10.9 | 10.4 |
| Surplus/(deficit) attributable to the Australian Government | (1.9) | (1.8) |
| Total other comprehensive income | (0.4) | (0.1) |
| Total comprehensive income/(loss) attributable to the Australian Government | (2.3) | (1.9) |
| Total assets | 23.0 | 24.0 |
| Total liabilities | 7.4 | 6.6 |
| Total equity | 15.6 | 17.4 |

Source: NCA's audited financial statements for the year ended 30 June 2021.

4.10.68 The increase in the net cost of services in 2020–21 is due to an increase in supplier expenses of \$1.9 million offset by an increase in own source revenue of \$1.0 million. The increase in supplier expenses was mainly due to the appointment of a new information and communication technology (ICT) provider that resulted in additional expenses being incurred during the transition period and increased data storage costs.

Table 4.10.21: Key administered financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | 41.7 | 42.4 |
| Total income | 22.8 | 22.8 |
| Surplus/(deficit) | (18.9) | (19.6) |
| Total other comprehensive income | 39.6 | 129.2 |
| Total comprehensive income/(loss) | 20.7 | 109.6 |
| Total assets administered on behalf of Government | 1,001.3 | 969.5 |
| Total liabilities administered on behalf of Government | 27.2 | 30.0 |
| Net assets/(liabilities) | 974.1 | 939.5 |

Source: NCA's audited financial statements for the year ended 30 June 2021.

4.10.69 The movement in the total other comprehensive income in 2020–21 of \$88.9 million is a result of a lower asset revaluation movement in 2020–21 following a high movement in the comprehensive revaluation undertaken in 2019–20. The NCA engaged Preston Rowe Paterson Sydney Pty Ltd to undertake an independent valuation in both years.

4.10.70 Total assets have increased by \$31.8 million, largely due to the increase in non-financial assets.

Key areas of financial statements risk

4.10.71 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 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 2020–21 are provided in Table 4.10.22. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.10.22: Key areas of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|---|-------------------|--|
| <i>Administered</i> other payables \$21.4 million non-financial assets \$998.7 million <i>Departmental</i> revenue from contracts with customers (construction works) \$0.3 million other payables \$1.8 million | Classification and valuation of the construction activities relating to NCA’s responsibility to develop, further enhance and replace assets on national land. | Moderate | <ul style="list-style-type: none"> complexities in determining the value of work in progress at balance date as works are often between defined construction milestones and professional judgement is required. |
| <i>Administered</i> non-financial assets \$998.7 million | Valuation of land, buildings and infrastructure located within the National Capital Estate. | Moderate | <ul style="list-style-type: none"> complexities in determining the fair value of land, buildings, infrastructure and related capital works deemed for the special purposes of Canberra as the national capital. |

Source: ANAO 2020–21 audit results, and NCA’s audited financial statements for the year ended 30 June 2021.

Audit results

4.10.72 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

National Gallery of Australia

4.10.73 The National Gallery of Australia (the Gallery) is responsible for 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

4.10.74 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by the Gallery (as outlined in Table 4.10.23) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.10.23: Key financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (77.3) | (61.8) |
| Revenue from government | 49.7 | 59.2 |
| Surplus/(deficit) attributable to the Australian Government | (27.5) | (2.6) |
| Total other comprehensive income/(loss) | 0.6 | 299.3 |
| Total comprehensive income/(loss) attributable to the Australian Government | (27.0) | 296.7 |
| Total assets | 6,667.0 | 6,665.1 |
| Total liabilities | 14.2 | 13.5 |
| Total equity | 6,652.8 | 6,651.6 |

Source: The Gallery's audited financial statements for the year ended 30 June 2021.

4.10.75 The increase in net cost of services is largely due to a \$17.3 million increase in the write down and impairment of assets. In 2020–21, assets with a net book value of \$17.6 million were identified through the Gallery's provenance governance framework as having no future economic benefit and were derecognised and written off.

4.10.76 Revenue from government decreased by \$9.5 million. Additional government revenue of \$12.7 million was received in 2019–20 by the Gallery for support whilst there was a decline in commercial revenue due to the COVID-19 pandemic.

4.10.77 Total assets increased predominantly as a result of an increase in cash offsetting the decrease in heritage and cultural assets due to write down and impairment. Total liabilities increased due to an increase in supplier payables offsetting a decrease in the provision for redundancies.

Key areas of financial statements risk

4.10.78 The ANAO completed appropriate audit procedures on all material items. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.10.24. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.10.24: 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 \$6,134.2 million | Valuation of items in the heritage and cultural collection | Higher | <ul style="list-style-type: none">• 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. |
| Buildings \$402.6 million | Valuation of buildings | Higher | <ul style="list-style-type: none">• 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 2020–21 audit results, and the Gallery’s audited financial statements for the year ended 30 June 2021.

Audit results

4.10.79 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

National Library of Australia

4.10.80 The National Library of Australia (the Library) is responsible for 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

4.10.81 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by the Library (as outlined in Table 4.10.25) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.10.25: Key financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (231.0) | (63.4) |
| Revenue from government | 58.8 | 54.5 |
| Surplus/(deficit) attributable to the Australian Government | (172.2) | (8.8) |
| Total other comprehensive income/(loss) | (12.0) | (7.5) |
| Total comprehensive income/(loss) attributable to the Australian Government | (184.2) | (16.4) |
| Total assets | 1,537.2 | 1,705.0 |
| Total liabilities | 24.7 | 18.1 |
| Total equity | 1,512.5 | 1,687.0 |

Source: The Library's audited financial statements for the year ended 30 June 2021.

4.10.82 The increase in net cost of services is mainly due to a \$165.9 million increase in the write down and impairment of assets due to a significant decline in the estimated fair value of heritage and collection assets.

4.10.83 The decrease in total assets reflects decline in value of the heritage and collection assets. In 2020–21, valuers were able to perform asset inspections unable to be performed in the prior year due to the COVID-19 pandemic restrictions. The 2020–21 valuation relied on an updated methodology that included adoption of a mid-range estimate, rather than the higher range estimate adopted in the previous year.

Key areas of financial statements risk

4.10.84 The ANAO completed appropriate audit procedures on all material items. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2020–21 is provided in Table 4.10.26.

Table 4.10.26: 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 \$1.1 billion | Valuation of the national collection | Higher | <ul style="list-style-type: none"> significant judgement and expertise required to assess the value of items in the collection, due to the unique nature of the collection assets and lack of a market of comparable assets. |

Source: ANAO 2020–21 audit results, and the Library's audited financial statements for the year ended 30 June 2021.

Audit results

4.10.85 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

NBN Co Limited

4.10.86 The primary objective of NBN Co Limited (NBN Co) is to provide wholesale services to internet service providers. NBN Co is a government business enterprise incorporated under the *Corporations Act 2001*.

Summary of financial performance

4.10.87 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by the NBN Co (as outlined in Table 4.10.27) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.10.27: Key departmental financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---------------------------------------|------------------|------------------|
| Total income | 4,666.0 | 3,881.0 |
| Total expenses | 8,504.0 | 9,119.0 |
| Profit/(Loss) before income tax | (3,838.0) | (5,238.0) |
| Income tax benefit/(expense) | 1.0 | (1.0) |
| Net Profit/(loss) for the year | (3,837.0) | (5,239.0) |
| Total other comprehensive gain/(loss) | (3.0) | 2.0 |
| Total comprehensive loss for the year | (3,840.0) | (5,237.0) |
| Total assets | 35,738.0 | 36,850.0 |
| Total liabilities | 37,478.0 | 34,750.0 |
| Total equity | (1,740.0) | 2,100.0 |

Source: NBN Co's audited financial statements for the year ended 30 June 2021.

4.10.88 In 2020–21 NBN Co generated revenue and income of \$4.7 billion and reported a net loss of \$3.8 billion after taxation. Revenue increased by \$0.8 billion primarily driven by higher activations during the year (0.9 million premises) and movements by users to higher speed tiers. The net loss after taxation decreased due to higher revenue and reduced subscriber costs resulting from a decrease in brownfield activations.

4.10.89 As at 30 June 2021, NBN Co reported total assets of \$35.7 billion, a decrease of \$1.1 billion across a number of balances, the largest decrease being in property, plant and equipment of \$0.6 billion due to depreciation being greater than additions.

4.10.90 As at 30 June 2021, NBN Co reported total liabilities of \$37.5 billion, an increase of \$2.7 billion primarily due to increased borrowings through private debt and the issuance of medium-

term notes. This is offset by a decrease in the Government loan as a result of repayments during the year, funded by the external borrowings.

4.10.91 As at 30 June 2021, the contributed equity of \$29.5 billion has been offset by accumulated losses of \$31.2 billion.

Key areas of financial statements risk

4.10.92 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 NBN Co's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. During the year, developments in the business, including those pertaining to external borrowings, required us to update our risk assessment and those areas considered as key audit matters (KAM). Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.10.28, including which areas were considered KAM by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.10.28: Key areas of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|--|-------------------|---|
| Telecommunications revenue \$4.4 billion | Accounting for and reporting telecommunications revenue KAM (accuracy and occurrence of telecommunications revenue) | Higher | <ul style="list-style-type: none"> revenue has increased significantly as the network continues to roll out with IT systems and controls continuing to evolve with scale. |
| Property, plant and equipment \$33.1 billion intangibles \$1.9 billion depreciation and amortisation expense \$3.6 billion | Accounting for network assets including accuracy and completeness of depreciation. KAM (accuracy and completeness of depreciation and amortisation expense) | Higher | <ul style="list-style-type: none"> estimation of useful lives and cost allocations in the depreciation and amortisation calculations, involves significant judgement and the use of complex manual depreciation models; and accounting for the valuation of network assets is subject to a high degree of judgement and complexity. |
| Derivative financial asset \$136.0 million derivative financial liability \$16.0 million borrowings \$10.6 billion | Valuation and disclosure of financial instruments KAM (valuation; presentation and disclosure of borrowings, related party borrowings and derivatives) | Higher | <ul style="list-style-type: none"> the volume, quantum and complexity of the derivative arrangements entered into; and the inherent judgements involved in the fair valuation and accounting of the financial instruments and borrowings. |

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|--|-------------------|--|
| related party borrowings \$13.2 billion | | | |
| Network assets \$32.8 billion lease liabilities \$10.8 billion | Accounting treatment of rights and obligations under significant contractual arrangements. | Higher | <ul style="list-style-type: none"> the agreements include arrangements for the lease of infrastructure; and these contracts are significant and complex in nature and represent a significant portion of the associated financial statements items |

Source: ANAO 2020–21 audit results, and NBN Co's audited financial statements for the year ended 30 June 2021.

Audit results

4.10.93 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

WSA Co Limited

4.10.94 WSA Co Limited (WSA) was established to construct and operate Western Sydney International (Nancy-Bird Walton) Airport in Badgerys Creek, in south-western Sydney, to the functional specifications determined by the Australian Government. WSA is a government business enterprise wholly owned by the Australian Government, represented by the Minister for Finance and the Minister for Communications, Urban Infrastructure, Cities and the Arts as shareholder ministers.

4.10.95 The Australian Government currently plans to invest up to \$5.3 billion of equity funding into WSA to build the Western Sydney International Airport. This investment covers WSA's work on the earthworks and construction of the airport (runway and terminal infrastructure) in accordance with the conditions of the project deed agreed by the Australian Government and WSA. Bulk earthworks to prepare the airport commenced in early 2020 and continued through 2020–21. Construction of the airport terminal and runway is expected to commence in 2021–22.

Summary of financial performance

4.10.96 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by WSA (as outlined in Table 4.10.29) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.10.29: Key financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|-----------------------------------|------------------|------------------|
| Total expenses | 324.1 | 364.3 |
| Total income | 14.6 | 0.9 |
| Income tax benefit | – | – |
| Income/(loss) for the year/period | (309.5) | (363.5) |
| Total other comprehensive income | – | – |
| Total comprehensive income/(loss) | (309.5) | (363.5) |
| Total assets | 612.2 | 295.5 |
| Total liabilities | 73.0 | 91.7 |
| Total equity | 539.2 | 203.8 |

Source: WSA's audited financial statements for the year ended 30 June 2021.

4.10.97 Total expenses decreased mainly due to the stage of construction of the airport. During 2019–20 WSA recognised an increase to the provision for decontamination of \$37.0 million. During 2020–21 decontamination activities were substantially completed and no additional contamination that necessitated the recognition of further expenses was identified.

4.10.98 Total income increased due to the reversal of previously recognised provision for decontamination of \$14.2 million for the airport site following the substantial completion of decontamination activities on the airport site during 2020–21. The cost of decontamination incurred was less than originally estimated.

4.10.99 The total comprehensive loss reflects the nature of funding available to WSA. WSA has 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. During 2020–21 WSA received \$645.0 million of this funding from the Commonwealth. These funds are recorded as share capital and were not recognised in the statement of comprehensive income.

4.10.100 The increase in total assets of \$316.7 million is mainly due to increases in:

- the capitalisation of assets under construction in accordance with WSA's capitalisation policy. During 2020–21 significant construction and earthworks was undertaken at the airport site resulting in higher levels of expenditure and capitalisation of work in progress (\$227.5 million); and
- an equivalent increase in the balance of cash drawn and held in the WSA bank account (funded by the equity subscription agreement) to allow for additional working capital for the payment of larger invoices associated with increased activity and volume of earthworks and other construction activities (\$92.2 million).

4.10.101 The decrease in total liabilities mainly relates to the provision for decontamination of the airport site. During the period WSA undertook decontamination activities while undertaking site earthworks with costs incurred deducted from the provision.

Key areas of financial statements risk

4.10.102 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 2020–21 are provided in Table 4.10.30. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.10.30: Key areas of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|---|-------------------|--|
| Assets under construction \$370.9 million supplier expenses \$296.5 million | Recognition of capital work in progress for airport construction activities | Higher | <ul style="list-style-type: none"> judgement and estimation required by WSA in apportioning capital and operating costs across the whole of term construction of the airport given the nature of the project and method of project delivery; and quantum of expenditure and attribution of expenditure that will be incurred in the construction of the airport. |
| Multiple financial statement line items. | Procurement policies and processes | Moderate | <ul style="list-style-type: none"> weaknesses in procurement and contract management processes can increase the risk of unapproved expenditure or budgeted cost overruns being incurred by WSA. |

Source: ANAO 2020–21 audit results, and WSA's audited financial report for the year ended 30 June 2021.

Audit results

4.10.103 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

4.11 Parliamentary Departments

Portfolio overview

4.11.1 The Parliamentary Departments support the operation of the Parliament of Australia, its committees and members. There are four parliamentary entities: the Department of Parliamentary Services; the Department of the Senate; the Department of the House of Representatives; and the Parliamentary Budget Office. Table 4.11.1 identifies the material entity specifically mentioned in this chapter.

Table 4.11.1: Department of Parliamentary Services

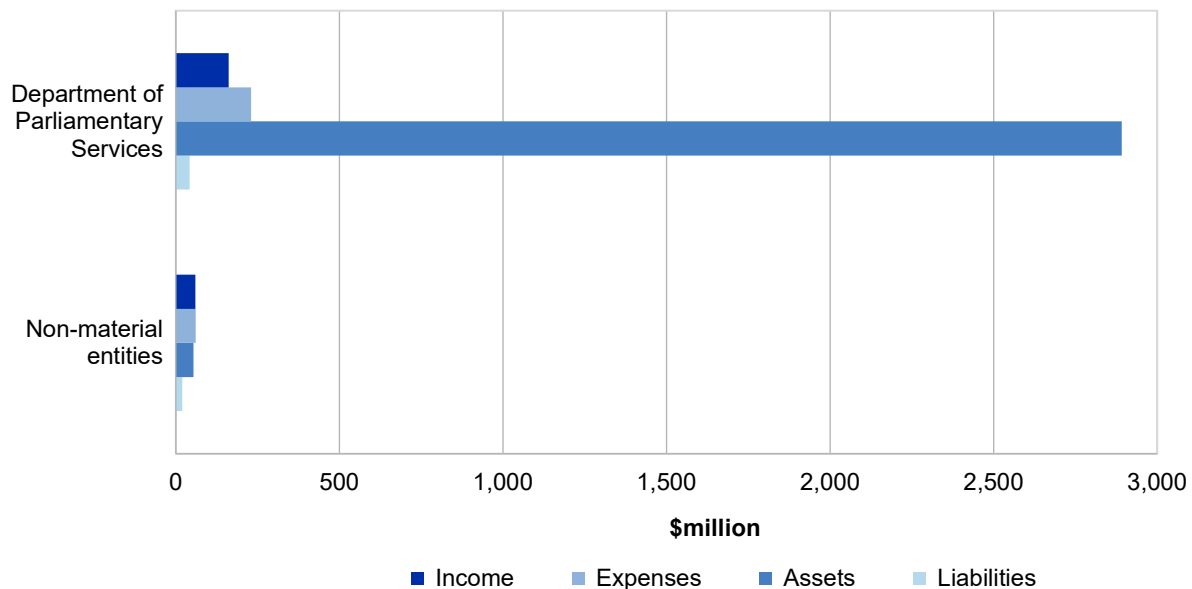
| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified |
|--------------------------------------|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|---------------------------|
| Department of Parliamentary Services | Yes | Low | ✓ | 9 Sept 21 | 9 Sept 21 | ◆ |

✓: auditor's report not modified

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

4.11.2 Figure 4.11.1 shows the Parliamentary Departments' income, expenses, assets and liabilities.

Figure 4.11.1: Parliamentary Departments' income, expenses, assets and liabilities



Source: 2020–21 CFS.

4.11.3 As previously outlined in Chapter 2, paragraph 2.7, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2020–21 financial statements audit. Table 4.11.2 provides a summary of those audit differences that relate to entities within the Parliamentary Departments.

Table 4.11.2: The number of audit differences for entities in the Parliamentary Departments

| | 2020–21 | | | 2019–20 | | |
|--------------------------------------|------------|----------|-------|------------|----------|-------|
| | Unadjusted | Adjusted | Total | Unadjusted | Adjusted | Total |
| Department of Parliamentary Services | – | 1 | 1 | – | – | – |
| Parliamentary Budget Office | 1 | – | 1 | – | 1 | 1 |

Source: Audit differences reported to entities in the Parliamentary Departments.

4.11.4 The following sections provide a summary of the 2020–21 financial statements audit results for the Department of Parliamentary Services, and findings related to non-material entities in the portfolio.

Department of Parliamentary Services

4.11.5 The Department of Parliamentary Services (DPS) is responsible for supporting the Parliament through the provision of a range of services, including library, Hansard, broadcasting, telecommunications, building security and maintenance.

Summary of financial performance

4.11.6 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by DPS (as outlined in Table 4.11.3 and Table 4.11.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.11.3: Key departmental financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (164.9) | (155.3) |
| Revenue from government | 151.2 | 124.6 |
| Surplus/(deficit) attributable to the Australian Government | (13.7) | (30.7) |
| Total other comprehensive income/(loss) | (1.7) | (0.2) |
| Total comprehensive income/(loss) attributable to the Australian Government | (15.4) | (30.9) |
| Total assets | 132.2 | 123.0 |
| Total liabilities | 38.6 | 36.8 |
| Total equity | 93.6 | 86.2 |

Source: DPS's audited financial statements for the year ended 30 June 2021.

4.11.7 Net cost of services has increased due to reduced revenue as a result of the closure of Australian Parliament House (APH) resulting in lower than anticipated revenues, largely from lower catering revenues and function events.

4.11.8 The increase in appropriation revenue is due additional funding provided to the DPS to support its operations, further improve security, enhance video conferencing capabilities and maintain service levels while the COVID-19 pandemic health restrictions and precautions impact external revenue. The additional funding was \$32.0 million for 2020–21.

Table 4.11.4: Key administered financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | 55.5 | 53.1 |
| Total income | 1.5 | 5.5 |
| Surplus/(deficit) | (54.0) | (47.6) |
| Total other comprehensive income/(loss) | 84.7 | 25.2 |
| Total comprehensive income/(loss) | 30.7 | (22.4) |
| Total assets administered on behalf of Government | 2,758.7 | 2,668.0 |
| Total liabilities administered on behalf of Government | 3.8 | 19.6 |
| Net assets/(liabilities) | 2,754.9 | 2,648.4 |

Source: DPS's audited financial statements for the year ended 30 June 2021.

4.11.9 The increase in assets and other comprehensive income is due the revaluation adjustment for APH. DPS undertook an asset valuation during 2020–21 that resulted in an increment for land of \$28.0 million, buildings of \$52.0 million and heritage and cultural assets of \$4.8 million.

Key areas of financial statements risk

4.11.10 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2020–21 is provided in Table 4.11.5 and is considered a key audit matter (KAM) by the ANAO.

Table 4.11.5: Key area of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|--|-------------------|---|
| <i>Administered</i> buildings \$2.5 billion | Valuation of non-financial assets KAM | Higher | <ul style="list-style-type: none"> the valuation is complex due to the unique nature of each building component that comprises Parliament House; and significant judgement is exercised in making the estimation, which is based on current replacement cost and useful life. |

Source: ANAO 2020–21 audit results, and DPS's audited financial statements for the year ended 30 June 2021.

Audit results

4.11.11 Table 4.11.6 summarises the status of audit findings reported by the ANAO in 2019–20 and 2020–21. There were no significant or moderate audit findings arising from the 2019–20 audit.

Table 4.11.6: Status of audit findings

| Category | Closing position (2019–20) | New findings (2020–21) | Findings resolved (2020–21) | Closing position (2020–21) |
|--------------|----------------------------|------------------------|-----------------------------|----------------------------|
| Moderate (B) | – | 1 | – | 1 |
| Total | – | 1 | – | 1 |

Source: ANAO 2020–21 audit results

New moderate audit finding

Removal of IT access for former employees

4.11.12 During 2020–21, the ANAO identified a number of users were not terminated after their employment ceased. In eight cases the users attempted to access the FMIS system in order to complete timesheets after they had left the organisation. Access had been removed from the SAP system at the date of termination but access to the active directory, which manages access to all DPS systems, remained post-termination.

4.11.13 Removing access when the user no longer has a requirement, such as upon departure from an entity, can prevent unauthorised access. Unauthorised access to networks or systems increases the risk of inappropriate access to data, programs, and business and financial transactions.

4.11.14 DPS has commenced changing its control framework to strengthen the offboarding process including automation of some processes. In addition, a review of all instances identified by ANAO has been completed by DPS to ensure there is no evidence of misuse of the access or malicious acts. The ANAO will review the change in the framework for the 2021–22 audit.

4.12 Prime Minister and Cabinet portfolio

Portfolio overview

4.12.1 The Prime Minister and Cabinet portfolio is responsible for providing support and policy advice to the Prime Minister, the Cabinet and ministers on public and government administration matters, including policy development and whole-of-government coordination, and providing services to Indigenous Australians. Table 4.12.1 identifies material and other entities specifically mentioned in this chapter.

Table 4.12.1: Prime Minister and Cabinet portfolio material and other entities discussed in this chapter

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified |
|--|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|---------------------------|
| Department of the Prime Minister and Cabinet | Yes | Moderate | ✓ | 17 Sept 21 | 20 Sept 21 | Nil |
| Indigenous Business Australia | Yes | Moderate | ✓ | 22 Sept 21 | 22 Sept 21 | Nil |
| Indigenous Land and Sea Corporation | Yes | Moderate | E | 20 Sept 21 | 21 Sept 21 | Nil |
| National Indigenous Australians Agency | Yes | Moderate | ✓ | 28 Sept 21 | 28 Sept 21 | Nil |
| Voyages Indigenous Tourism Australia Pty Ltd | Yes | High | E | 20 Sept 21 | 21 Sept 21 | Nil |
| Aboriginal Hostels Limited | No | Moderate | ✓ | 28 Sept 21 | 29 Sept 21 | □ |
| Gagudju Crocodile Hotel Trust | No | Low | E | 23 Sept 21 | 23 Sept 21 | Nil |
| Kakadu Tourism (GCH) Pty Ltd | No | Moderate | E | 29 Sept 21 | 30 Sept 21 | Nil |
| Kakadu Tourism (GLC) Pty Ltd | No | Moderate | ✓ | 29 Sept 21 | 30 Sept 21 | □ |
| National Australia Day Council Ltd | No | Low | Q | 28 Sept 21 | 28 Sept 21 | Nil |
| Northern Land Council | No | Moderate | ✓ | 15 Oct 21 | 16 Oct 21 | ▲ |

✓: auditor's report not modified

Q: audit report contains qualification

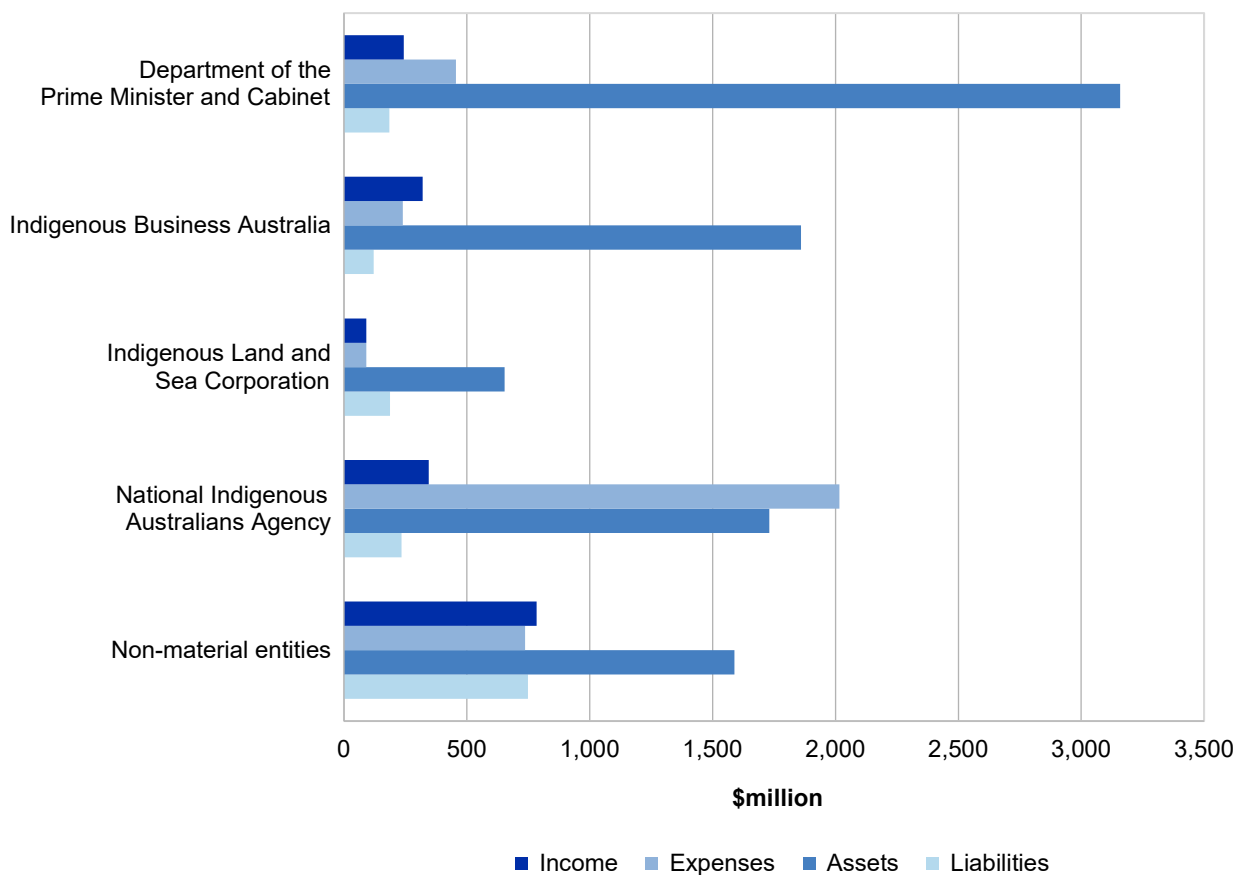
E: auditor's report contains an emphasis of matter

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

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2020–21 interim audit phase, now downgraded or resolved

4.12.2 Figure 4.12.1 shows the Prime Minister and Cabinet portfolio's income, expenses, assets and liabilities.

Figure 4.12.1: Prime Minister and Cabinet portfolio income, expenses, assets and liabilities



Note: In the figure above, Voyages Indigenous Tourism Australia Pty Ltd is consolidated into the Indigenous Land and Sea Corporation.

Source: 2020–21 CFS.

4.12.3 As previously outlined in Chapter 2, paragraph 2.7, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2020–21 financial statements audit. Table 4.12.2 provides a summary of those audit differences that relate to entities within the Prime Minister and Cabinet portfolio.

Table 4.12.2: The number of audit differences for entities in the Prime Minister and Cabinet portfolio

| | 2020–21 | | | 2019–20 | | |
|--|------------|----------|-------|------------|----------|-------|
| | Unadjusted | Adjusted | Total | Unadjusted | Adjusted | Total |
| Department of the Prime Minister and Cabinet | – | 1 | 1 | 1 | 1 | 2 |
| Aboriginals Benefit Account | 1 | – | 1 | – | – | – |
| Aboriginal Hostels Limited | – | – | – | 1 | 1 | 2 |
| Anindilyakwa Land Council | – | – | – | – | 1 | 1 |

| | 2020–21 | | | 2019–20 | | |
|--|------------|----------|-------|------------|----------|-------|
| | Unadjusted | Adjusted | Total | Unadjusted | Adjusted | Total |
| Australian Institute of Aboriginal and Torres Strait Islander Studies | – | – | – | 1 | – | 1 |
| Australian Public Service Commission | – | – | – | 1 | 2 | 3 |
| Central Land Council | 1 | 1 | 2 | 1 | 1 | 2 |
| Indigenous Land and Sea Corporation | – | – | – | 1 | 8 | 9 |
| Indigenous Business Australia | 2 | – | 2 | – | – | – |
| - Bookitja Pty Ltd & IBA Northam Solar Pty Ltd (Northam Solar Project Partnership) | 4 | 1 | 5 | – | – | – |
| - Gagudju Crocodile Hotel Trust | – | 1 | 1 | – | – | – |
| - Ikara Wilpena Holdings Trust | 1 | – | 1 | – | – | – |
| - Indigenous Economic Development Trust | – | 1 | 1 | – | – | – |
| - Kakadu Tourism (GCH) Pty Ltd | 1 | 2 | 3 | 6 | 2 | 8 |
| - Kakadu Tourism (GLC) Pty Ltd | 1 | 2 | 3 | 1 | – | 1 |
| - Tennant Creek Land Holding Trust | – | 1 | 1 | – | – | – |
| - Tennant Food Barn | – | 3 | 3 | – | – | – |
| National Australia Day Council Ltd | 1 | – | 1 | 1 | – | 1 |
| National Centre of Indigenous Excellence Ltd | – | – | – | – | 1 | 1 |
| National Indigenous Australians Agency | – | – | – | 1 | 2 | 3 |
| Northern Land Council | 2 | 2 | 4 | – | 3 | 3 |
| - North Australia Aboriginal Corporation | – | 2 | 2 | 1 | 4 | 5 |
| - Northern Australian Aboriginal Charitable Trust | – | 1 | 1 | 1 | 1 | 2 |
| Old Parliament House | – | – | – | – | 1 | 1 |
| Outback Stores Pty Ltd | 2 | 1 | 3 | – | 2 | 2 |

| | 2020–21 | | | 2019–20 | | |
|--|------------|----------|-------|------------|----------|-------|
| | Unadjusted | Adjusted | Total | Unadjusted | Adjusted | Total |
| Torres Strait Regional Authority | – | 2 | 2 | – | 3 | 3 |
| Voyages Indigenous Tourism Australia Pty Ltd | – | 1 | 1 | – | 2 | 2 |
| Wreck Bay Aboriginal Community Council | – | – | – | 1 | – | 1 |

Note: — Financial statements not signed as at 19 November 2021.

Source: Audit differences reported to entities in the Prime Minister and Cabinet portfolio.

4.12.4 The following sections provide a summary of the 2020–21 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

4.12.5 The Department of the Prime Minister and Cabinet (PM&C) is responsible for coordinating policy development across government in economic, domestic and international affairs, and for public service stewardship.

4.12.6 Consistent with the Australian Government’s response to the COVID-19 pandemic, the Department of the Prime Minister and Cabinet has hosted the National COVID-19 Commission Advisory Board (formerly the National COVID-19 Co-ordination Commission) since its announcement on 25 March 2020. The Board coordinates advice to the Australian Government on actions to anticipate and mitigate the economic and social impacts of the COVID-19 pandemic. The activities of the Board are funded from the appropriations to the department.

Summary of financial performance

4.12.7 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by PM&C (as outlined in Table 4.12.3 and Table 4.12.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.3: Key departmental financial statements items

| Key departmental financial statement items | 2020–21 (m) | 2019–20 (\$m) |
|---|----------------|------------------|
| Net (cost of)/contribution by services | (210.1) | (178.3) |
| Revenue from government | 191.6 | 165.4 |
| Surplus/(deficit) attributable to the Australian Government | (18.5) | (13.0) |
| Total other comprehensive income | 0.3 | 0.5 |
| Total comprehensive income/(loss) attributable to the Australian Government | (18.2) | (12.4) |
| Total assets | 218.9 | 235.8 |
| Total liabilities | 167.8 | 174.4 |
| Total equity | 51.1 | 61.4 |

Source: PM&C's audited financial statements for the year ended 30 June 2021.

4.12.8 The increase in the net cost of services and in revenue from government reflects additional resourcing being provided by the Government to PM&C in the 2020–21 Budget.

4.12.9 The decrease in total assets results from depreciation and amortisation expense being significantly greater than the purchase of new assets.

4.12.10 The decrease in total liabilities reflects the repayment of lease liabilities.

Table 4.12.4: Key administered financial statements items

| Key administered financial statement items | 2020–21 (m) | 2019–20 (\$m) |
|--|----------------|------------------|
| Total expenses | 187.2 | 146.4 |
| Total income | – | 0.7 |
| Surplus/(deficit) | (187.2) | (145.7) |
| Total other comprehensive income/(loss) | 179.7 | 26.0 |
| Total comprehensive income/(loss) | (7.5) | (119.7) |
| Total assets administered on behalf of Government | 2,926.1 | 2,650.3 |
| Total liabilities administered on behalf of Government | 17.4 | 20.7 |
| Net assets/(liabilities) | 2,908.7 | 2,629.6 |

Source: PM&C's audited financial statements for the year ended 30 June 2021.

4.12.11 The main reason for the increase in total expense is the payment of additional grants, including an additional \$14.6 million for the National Australia Day Council's Strategic Communication campaign as part of the Coronavirus Economic Response Package.

4.12.12 The increase in total assets is mainly due to the upwards revaluation of the investment in Corporate Commonwealth entities, which reflects the increase in the net assets of these entities, particularly Indigenous Business Australia which increased by \$187.2 million.

4.12.13 The decrease in total liabilities is mainly due to the reduction in the net present value of the provision for non-cash benefits of former Governors-General, resulting from the death of Major-General Jeffrey in December 2020, and to an increase in the interest rate used to discount future payments.

Key areas of financial statements risk

4.12.14 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of PM&C's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.12.5, including the areas which were considered a key audit matter (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.12.5: Key area of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|---------------------------------|-------------------|---|
| <i>Departmental</i> revenue for contracts with customers \$51.0 million | Shared Services | Moderate | <ul style="list-style-type: none"> PM&C provides services to a number of Commonwealth entities. The revenue from these services is a significant component of departmental revenue; and revenue recognition requires judgements under AASB 15 on when services are provided and the timing and amount of revenue recognition. |
| <i>Administered</i> investments in Commonwealth entities \$2.6 billion | Valuation of investments KAM | Moderate | <ul style="list-style-type: none"> judgment is required in the selection of valuation techniques and underlying assumptions applied by PM&C to determine fair value for investments in Commonwealth entities. |

Source: ANAO 2020–21 audit results, and PM&C's audited financial statements for the year ended 30 June 2021.

Audit results

4.12.15 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Indigenous Business Australia

4.12.16 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 to advance the commercial and economic interests of Aboriginal and Torres Strait Islander peoples by accumulating and using a substantial capital base for their benefit. IBA has 18 actively trading subsidiaries, which are audited by the ANAO.

Summary of financial performance

4.12.17 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by the IBA (as outlined in Table 4.12.6) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.6: Key financial statements items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | 95.7 | 20.8 |
| Revenue from government | 9.5 | 9.5 |
| Surplus/(deficit) before income tax on continuing operations | 105.3 | 30.3 |
| Surplus/(deficit) attributable to non-controlling interest | 24.5 | 0.3 |
| Surplus/(deficit) attributable to the Australian Government | 80.6 | 30.0 |
| Total other comprehensive income/(loss) | (0.7) | (1.0) |
| Total comprehensive income/(loss) attributable to the Australian Government | 79.9 | 29.0 |
| Total assets | 1,860.2 | 1,684.5 |
| Total liabilities | 120.5 | 132.0 |
| Total equity | 1,739.7 | 1,552.5 |

Source: IBA's audited financial statements for the year ended 30 June 2021.

4.12.18 Net contribution by services primarily increased as a result of: a decrease in finance costs of \$22.3 million relating to discount expenses on lower than expected home and business loans advanced; an increase in the unwinding of concessional discount of \$16.3 million relating to higher level of repayments and discharges; an increase in other revenue of \$20.0 million relating to recognition of grant revenue and insurance recoveries; and an increase in other gains of \$23.8 million relating fair value increments of financial assets and investment properties.

4.12.19 Total assets increased by \$175.7 million primarily due to an increase in other investments of \$202.8 million relating to increased holdings of short-term deposits and managed funds to maximise return on funds for amounts in excess of demand for loans, partially offset by a \$21.7 million reduction in cash and cash equivalents that contributed to the increase in other investments.

4.12.20 Total liabilities decreased primarily due to a decrease in other payables of \$11.6 million due to grant revenue recognised.

Key areas of financial statements risk

4.12.21 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of IBA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in

2020–21 are provided in Table 4.12.7. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.12.7: Key areas of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|--|-------------------|--|
| Loans – Home Ownership program \$948.7 million loans – Business Development and Assistance program \$34.7 million | Valuation of loan portfolio | Moderate | <ul style="list-style-type: none"> • 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 • application of an amortised cost basis after initial recognition involves manual processes that are subject to the risk of compilation and calculation error. |
| Loans – Home Ownership program \$948.7 million loans – Business Development and Assistance program \$34.7 million | Valuation of expected credit losses relating to the loan portfolio | Moderate | <ul style="list-style-type: none"> • the estimate for expected credit losses is subject to judgement; and • credit risk margin is subject to significant estimation sensitivity as small variations in key inputs can have a material impact on the carrying value of loans receivable. |
| Investment property \$174.2 million property, plant and equipment \$20.0 million | Valuation of investments | Moderate | <ul style="list-style-type: none"> • fair value calculation includes forecast earnings and capitalisation rates derived for regional areas, which are subject to judgement; • complex accounting requirements associated with investments in associate entities and assessment of impairment and gains on revaluation; and • unaudited management accounts are used for valuation of unlisted investments in associated entities. |

Source: ANAO 2020–21 audit results, and IBA’s audited financial statements for the year ended 30 June 2021.

Audit results

4.12.22 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Indigenous Land and Sea Corporation

4.12.23 The Indigenous Land and Sea Corporation’s (ILSC’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. The ILSC's purpose also includes investing in water-based projects to generate social, cultural, environmental and economic opportunities that land and water ownership can bring to Indigenous Australians.

Summary of financial performance

4.12.24 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by ILSC (as outlined in Table 4.12.8) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.8: Key financial statement items

| Key financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (61.4) | (56.3) |
| Revenue from government | 63.2 | 62.7 |
| Surplus/(deficit) before income tax attributable to the Government | 1.9 | 6.4 |
| Income tax expenses/(benefit) | (3.5) | 1.4 |
| Surplus/(deficit) attributed to the Government | 5.3 | 5.0 |
| Total other comprehensive income/(loss) | 5.9 | (35.8) |
| Total comprehensive income/(loss) attributable to the Australian Government | 11.2 | (30.8) |
| Total assets | 828.4 | 809.8 |
| Total liabilities | 368.7 | 361.3 |
| Total equity | 459.7 | 448.5 |

Source: ILSC's audited financial statements for the year ended 30 June 2021.

4.12.25 The COVID-19 pandemic has impacted on ILSC's operations and underlying result for 2020–21. Areas that were particularly affected were the operations of subsidiaries, Voyages Indigenous Tourism Australia Pty Ltd and the National Centre of Indigenous Excellence Ltd, which reported reductions in revenue with corresponding decreases in expenditure throughout the period. The impact is expected to be temporary, however the recovery period remains uncertain.

4.12.26 The increase in net cost of services and decrease in surplus before income tax is largely attributable to a decrease in revenue of the subsidiary, Voyages Indigenous Tourism Australia Pty Ltd (Voyages), and an increase in the provision of grant funding to indigenous groups, in line with the objectives of ILSC. This is partially offset by a decrease in expenditure related to operations across the ILSC group, as a result of the COVID-19 pandemic. The movement in revenue is the result of significantly lower tourist numbers to Ayers Rock Resort (the Resort) throughout 2020–21 due to travel restrictions and the temporary closure of the Resort due to the COVID-19 pandemic.

4.12.27 The income tax benefit arising in 2020–21 reflected operating losses at Voyages resulting from the COVID-19 pandemic. In addition, a decrease in deferred tax liabilities during 2020–21 resulted from lower financial liabilities partially offset by the impact of a higher valuation of the Resort.

Key areas of financial statements risk

4.12.28 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of ILSC’s financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 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 |
|---|---|-------------------|---|
| Property, plant and equipment \$416.4 million land \$77.2 million | Valuation of Ayers Rock Resort | Higher | <ul style="list-style-type: none"> complexities in valuing Ayers Rock Resort due to the judgements and assumptions involved in determining future cash inflows driven by occupancy, room rates and uncertainties due to the travel restrictions as a result of the COVID-19 pandemic. |
| Interest bearing loans \$125.0 million | Financing of Ayers Rock Resort | Moderate | <ul style="list-style-type: none"> significant value of loans; a concessional loan which 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. |
| Property, plant and equipment \$416.4 million biological assets \$35.0 million | Valuation of property, plant, equipment and livestock | Moderate | <ul style="list-style-type: none"> complexities in valuing property, plant and equipment due to the judgements and assumptions involved, including the complexities associated in valuing the agribusiness assets; and impact of market conditions for valuing livestock. |
| Total revenue \$202.9 million total expenses | Revenue and expenditure | Moderate | <ul style="list-style-type: none"> varying revenue and purchasing streams with differing processes and controls due to the separation between the front and back office which are in different locations; and |

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|--|-------------------|---|
| \$201.0 million | | | <ul style="list-style-type: none"> impact of the COVID-19 pandemic on the operations of the ILSC Group. |
| Income tax benefit \$3.5 million deferred tax liability \$3.6 million | Tax effect accounting and tax loss recognition | Moderate | <ul style="list-style-type: none"> complexities in the calculation of tax balances. |
| Biological assets \$35.0 million | Existence of livestock | Moderate | <ul style="list-style-type: none"> the remoteness and size of cattle stations make the mustering of cattle inherently difficult. |

Source: ANAO 2020–21 audit results, and ILSC's audited financial statements for the year ended 30 June 2021.

Audit results

4.12.29 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Emphasis of Matter

4.12.30 The auditor's report on the 2020–21 financial report of the Indigenous Land and Sea Corporation (ILSC) includes an emphasis of matter paragraph drawing attention to the entity's disclosures in respect of valuation uncertainties affecting its wholly owned subsidiary, Voyages Indigenous Tourism Australia Pty Ltd (Voyages). The financial statements disclosure describes the significant uncertainty surrounding the assumptions used in the valuation of the Resort and the subsequent impact on the ILSC Group's financial statement balances resulting from this uncertainty.

Voyages Indigenous Tourism Australia Pty Ltd

4.12.31 Voyages is a wholly owned subsidiary of Indigenous Land and Sea Corporation. Voyages owns and operates the Ayers Rock Resort (the Resort) in the Northern Territory. It also operates Mossman Gorge Centre located in Northern Queensland. These businesses operate tourism and hospitality training and employment initiatives to benefit Indigenous people.

Audit results

4.12.32 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Emphasis of matter

4.12.33 For the year ended 30 June 2021, as a result of the COVID-19 pandemic, there was continued uncertainty in the assumptions used in relation to the future forecasts assumed in the models used to value the Resort. As a result, an emphasis of matter paragraph has been included in the 2020–21 auditor's report, drawing attention to the disclosure within the financial

statements. The financial statements disclosure describes the significant uncertainty surrounding the assumptions used in the valuation of the Resort.

National Indigenous Australians Agency

4.12.34 The National Indigenous Australians Agency (NIAA) was established on 29 May 2019 by an executive order of the Governor-General. The primary functions of NIAA, which were previously performed by the Department of the Prime Minister and Cabinet (PM&C), are to:

- lead and coordinate Commonwealth policy development, program design and implementation and service delivery for Aboriginal and Torres Strait Islander peoples;
- provide advice to the Prime Minister and the Minister for Indigenous Australians on whole-of-government priorities for Aboriginal and Torres Strait Islander peoples;
- lead and coordinate the development and implementation of Australia’s Closing the Gap targets in partnership with Indigenous Australians; and
- lead Commonwealth activities to promote reconciliation.

4.12.35 NIAA relies on several Australian Government agencies for the IT infrastructure to make payments under its programs, and for a range of corporate services. The majority of NIAA’s assets and liabilities were transferred from the Department of the Prime Minister and Cabinet.

Summary of financial performance

4.12.36 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by PM&C (as outlined in Table 4.12.10 and Table 4.12.11) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.12.10: Key departmental financial statements items

| Key departmental financial statement items | 2020–21 (\$m) | 2019-20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (262.8) | (261.3) |
| Revenue from government | 256.8 | 243.3 |
| Surplus/(deficit) attributable to the Australian Government | (6.0) | (17.9) |
| Total other comprehensive income | 13.4 | (1.5) |
| Total comprehensive income/(loss) attributable to the Australian Government | 7.4 | (19.4) |
| Total assets | 299.0 | 287.0 |
| Total liabilities | 195.0 | 205.2 |
| Total equity | 104.0 | 81.8 |

Source: NIAA’s audited financial statements for the year ended 30 June 2021.

4.12.37 The increase in revenue from government and total assets is a result of reprofiling of departmental appropriation funding and of supplementation for legal costs.

4.12.38 The decrease in liabilities reflects repayments of lease liabilities.

Table 4.12.11: Key administered financial statements items

| Key administered financial statement items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | 1,742.1 | 1,655.9 |
| Total income | 82.0 | 97.7 |
| Surplus/(deficit) after income tax | (1,660.1) | (1,558.2) |
| Total other comprehensive income after income tax | – | – |
| Total comprehensive income/(loss) | (1,660.1) | (1,558.2) |
| Total assets administered on behalf of Government | 1,431.2 | 1,297.5 |
| Total liabilities administered on behalf of Government | 39.2 | 25.1 |
| Net assets/(liabilities) | 1,392.0 | 1,272.4 |

Source: NIAA's audited financial statements for the year ended 30 June 2021.

4.12.39 The increase in total expenditure results from an economic stimulus package worth \$60.0 million provided to the four Aboriginal Land Councils and a general increase in activities relating to Indigenous Advancement Strategy (IAS) grant programs.

4.12.40 The increase in total assets reflects the increase in term deposits funded from royalty payments to the Aboriginals Benefit Account. The increase in total liabilities reflects a higher level of grant payables at 30 June 2021 as a result of timing of year-end payment runs.

Key areas of financial statements risk

4.12.41 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of NIAA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.12.12, including the areas which were considered a key audit matter (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.12.12: Key area of financial statements risk

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|--|-------------------|--|
| <i>Administered</i> grants expense \$1,380.8 million | Performance of grantees in meeting grant conditions KAM | Higher | <ul style="list-style-type: none"> significant number and value of grants paid; performance by grantees is delivered around Australia, often in remote areas; and payments rely on several IT systems operated by different Australian Government entities. |

| Relevant financial statement item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|-----------------------------------|-------------------|--|
| <i>Administered</i> included in grants expense (above) | Compliance by CDP providers | Moderate | <ul style="list-style-type: none"> reliance on data submitted by providers; and instances in 2019–20 of incorrect claims. |
| <i>Departmental</i> property, plant and equipment \$195.7 million | Valuation of non-financial assets | Moderate | <ul style="list-style-type: none"> substantial holding of land, buildings, plant and equipment; and assets are dispersed around Australia, often in regional areas where information on fair value is less accessible. |

Source: ANAO 2020–21 audit results, and NIAA’s audited financial statements for the year ended 30 June 2021.

Audit results

4.12.42 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Comments on non-material entities

Aboriginal Hostels Limited

4.12.43 Aboriginal Hostels Limited (AHL) provides safe, culturally appropriate and affordable accommodation for Indigenous Australians who need to be away from home to access services and economic opportunities.

Audit results

4.12.44 Table 4.12.13 below summarises the status of the audit findings reported by the ANAO in 2019–20 and 2020–21.

Table 4.12.13: Status of audit findings

| Category | Closing position (2019–20) | New findings (2020–21) | Findings resolved (2020–21) | Closing position (2020–21) |
|-----------------|----------------------------|------------------------|-----------------------------|----------------------------|
| Significant (A) | 1 | – | (1) | – |
| Total | 1 | – | (1) | – |

Source: ANAO 2020–21 audit results.

Resolved significant audit finding

Corporate governance arrangements

4.12.45 In 2019–20, the ANAO identified that the key processes required by the AHL Constitution were not followed in regards to the termination of the previous Chief Executive Officer (CEO) and the appointment of a new CEO. The ANAO also identified an absence of appropriate controls surrounding a number of procurements and a lack of evidence of conflict-of-interest declarations. Issues were also identified in relation to the engagement of non-ongoing staff through processes that did not involve bringing the vacancies to the attention of the community in circumstances where there appeared to be an ongoing need for particular roles.

4.12.46 The ANAO recommended that AHL implement an improved governance framework, human resource policies and procurement policies to address the issues identified.

4.12.47 During 2020–21, AHL has enhanced its governance processes by revising its Constitution. Further, AHL has also developed a new legislative compliance register, improved its record-keeping practices and issued new procurement and human resources manuals. This has resulted in a shift towards a greater proportion of staff being engaged on an on-going basis. As a result, this finding is considered resolved.

Gagudju Crocodile Hotel Trust

4.12.48 Gagudju Crocodile Hotel Trust (the Trust) is a subsidiary of IBA. The Trust's primary source of revenue is sub-lease income from leasing the land underlying the Kakadu Crocodile Hotel to Kakadu Tourism (GCH) Pty Ltd. As a result of legislative change, the Trust's sub-lease to Kakadu Tourism (GCH) Pty Ltd for the operation of the Kakadu Crocodile Hotel expired. The Trust is currently sub-leasing a transitional occupancy license to Kakadu Tourism (GCH) Pty Ltd and negotiations for the finalisation of a long-term lease are ongoing.

Audit results

4.12.49 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Emphasis of matter

4.12.50 An emphasis of matter paragraph has been included in the 2020–21 auditor's report to draw users' attention to the material uncertainty that exists that may cast significant doubt over the Trust's ability to continue as a going concern. The ability of the Trust to continue to operate depends upon the granting of a new lease which has not yet occurred.

Kakadu Tourism (GCH) Pty Ltd

4.12.51 Kakadu Tourism (GCH) Pty Ltd is a subsidiary of IBA. The Gagudju Crocodile Hotel Trust (the Trust) sub-leases the land underlying the Kakadu Crocodile Hotel to Kakadu Tourism (GCH) Pty Ltd. As a result of legislative change, Kakadu Tourism (GCH) Pty Ltd's lease of land from the Trust for the Kakadu Crocodile Hotel expired. Kakadu Tourism (GCH) Pty Ltd is currently sub-leasing a transitional occupancy license from the Trust and negotiations for the finalisation of a long-term lease are ongoing.

Audit results

4.12.52 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Emphasis of matter

4.12.53 An emphasis of matter paragraph has been included in the 2020–21 auditor's report to draw users' attention to the material uncertainty that exists that may cast significant doubt over

Kakadu Tourism (GCH) Pty Ltd's ability to continue as a going concern. The ability of the entity to continue to operate depends upon entering into a new lease which has not yet occurred.

Kakadu Tourism (GLC) Pty Ltd

4.12.54 Kakadu Tourism (GLC) Pty Ltd is a for profit Company limited by shares. The shareholders of the company are IBA and Gagudju Association Incorporated. The principal activities are the operation of water and land based tours, accompanied by accommodation and hospitality services.

4.12.55 The 2019–20 audit of Kakadu Tourism (GLC) Pty Ltd was completed after the 2019–20 End of Year Report to Parliament was finalised, therefore the details relating to the resolution of the prior year moderate finding have been included below.

Audit results

4.12.56 Table 4.12.14 below summarises the status of the audit findings reported by the ANAO in 2019–20 and 2020–21.

Table 4.12.14: Status of audit findings

| Category | Closing position (2019–20) | New findings (2020–21) | Findings resolved (2020–21) | Closing position (2020–21) |
|--------------|-------------------------------|---------------------------|--------------------------------|-------------------------------|
| Moderate (B) | 1 | – | (1) | – |
| Total | 1 | – | (1) | – |

Source: ANAO 2020–21 audit results.

Resolved moderate audit finding

Financial statements preparation

4.12.57 During the audit of the 2018–19 financial statements, the ANAO identified a number of weaknesses in the systems and controls used to produce information used to support the financial statements. The ANAO recommended that Kakadu Tourism (GLC) Pty Ltd implement quality control policies and assurance procedures to ensure the quality and validity of financial statements presented for audit. This finding was closed in the 2019–20 Closing Letter following an assessment by ANAO that the matter was satisfactorily resolved.

National Australia Day Council

4.12.58 The core mission of the National Australia Day Council (NADC) is to help build national pride and unity through key annual programs - Australia Day and the Australian of the Year Awards. The NADC also actively supports citizenship through promotion of the Australian Citizenship Affirmation.

Audit results

4.12.59 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Qualification

4.12.60 In 2019–20 the NADC recognised \$2.66 million of revenue as deferred revenue under AASB 15 *Revenue from Contracts with Customers* (AASB 15) based on advice received from an external consultant. AASB 15 establishes criteria that must be met for revenue to be included within the scope of this standard.

4.12.61 The ANAO assessed that the terms and conditions of the underlying contract did not meet the criteria to be included within the scope of AASB 15, and as such Australian Accounting Standards required that the NADC recognise revenue for this contract when it received cash under AASB 1058 *Income of Not-for-Profit Entities* (AASB 1058).

4.12.62 The ANAO considered the impact of the misstatement on the 2019–20 financial report and determined that the amount was material. As the amount was considered material, but not pervasive to the financial report, the ANAO issued a qualified audit report in 2019–20.

4.12.63 In 2020–21, the NADC did not correct the misstatement, resulting in the 2019–20 comparative figures being materially misstated in 2020–21. The accounting treatment applied by the NADC for the year ended 30 June 2020 also had consequential impacts for the year ended 30 June 2021. Had the NADC recognised the revenue at the time it received the cash, an additional amount of \$2.66 million would have been recognised as revenue for the year ended 30 June 2020. The NADC has recognised the \$2.66 million as revenue for the year ended 30 June 2021 resulting in an overstatement of revenue and comprehensive income of \$2.66 million. Additionally, the NADC has recognised a profit of \$0.17 million in comparison to a loss of \$2.49 million had the revenue been recognised in the correct year.

4.12.64 The ANAO considered the impact of the misstatement on the 2020–21 financial report and determined that the amount was material. As the amount was considered material, but not pervasive to the financial report, the ANAO issued a qualified audit report in 2020–21.

Northern Land Council

4.12.65 The Northern Land Council (NLC) is a corporate Commonwealth entity formed under section 21 of the *Aboriginal Land Rights (Northern Territory) Act 1976* (ALRA). The NLC is responsible for assisting Aboriginal people in the top end of the Northern Territory to acquire and manage their traditional lands and seas.

Audit results

4.12.66 Table 4.12.15 below summarises the status of the audit findings reported by the ANAO in 2019–20 and 2020–21.

Table 4.12.15: Status of audit findings

| Category | Closing position (2019–20) | New findings (2020–21) | Findings resolved (2020–21) | Closing position (2020–21) |
|-------------------------------------|-------------------------------|---------------------------|--------------------------------|-------------------------------|
| Significant legislative breach (L1) | 1 | – | – | 1 |
| Moderate (B) | 1 | – | – | 1 |
| Total | 2 | – | – | 2 |

Source: ANAO 2020–21 audit results.

Unresolved significant legislative breach

Royalty Trust Account

4.12.67 Previous audits have identified non-compliance with the ALRA. 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.

4.12.68 Consistent with prior years, based on the sample testing performed in 2020–21 the ANAO identified instances of non-compliance with the requirement for funds in NLC's royalty trust account to be distributed to traditional owners within the agreed timeframes.

4.12.69 NLC commenced a royalty reform project in 2016–17 to address the legislative requirements. The project was aimed at reducing incidents of non-compliance with the ALRA and reconciling outstanding balances in the royalty trust account to identify the appropriate owners for distribution.

4.12.70 The unreconciled balance of \$1.73 million in the royalty trust account as at 30 June 2020 has remain unchanged at 30 June 2021. The ANAO reviewed the royalty trust account reconciliation in the current year and on a sample basis, testing was performed over the reconciliation and interest allocation process. Based on the samples tested, no issues were noted for the interest allocation process as at 30 June 2021.

4.12.71 In November 2020, the NLC received an independent business case report on the establishment of a restructured and reformed Royalty Unit, the Benefits Distribution Unit. Post the receipt of budgetary approval in July 2021, recruitment for two key positions was finalised by August 2021 and additional recruitment is currently in progress. NLC management will be implementing additional strategies from October to December 2021 to ensure that procedures are in place to support distributions being made within the six months in accordance with the Act.

4.12.72 In October 2021, NLC management advised that the legal process was in progress to seek direction from the court on how to allocate the unallocated funds. The ANAO will review the NLC's progress as part of the 2021–22 audit.

Unresolved moderate audit finding

Payroll exceptions

4.12.73 Since 2014–15, the ANAO has identified and reported to the NLC management a number of minor findings and weaknesses in relation to the internal controls and processes within the NLC for payroll. In 2018–19, the ANAO continued to identify a number of internal control weaknesses and identified a number of non-material errors in payments to staff. The identified control weakness, together with a lack of implementation of recommendations from prior years to improve the internal control processes for payroll, increases the likelihood that inaccurate or inappropriate payments are made and not detected. The finding was upgraded to a moderate finding in 2018–19. In 2020–21, the ANAO continued to identify internal control weaknesses.

4.12.74 The NLC management advised that NLC is developing a formal plan to improve the deficiencies in internal controls. A new recruitment system and payroll processes have been implemented towards the end of 2020–21. The formal plan, new recruitment system and payroll processes will be tested by the ANAO in 2021–22 to determine operating effectiveness. Progress in addressing this finding will be reviewed as part of the 2021–22 audit.

4.13 Social Services portfolio

Portfolio overview

4.13.1 The Social Services portfolio is responsible for achieving the Australian Government's social policy outcomes and delivering social security priorities through policy advice, program administration and research. Table 4.13.1 identifies material entities specifically mentioned in this chapter.

Table 4.13.1: Social Services portfolio material entities discussed in this chapter

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified |
|---|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|---------------------------|
| Department of Social Services | Yes | Moderate | ✓ | 3 Sept 21 | 3 Sept 21 | ▲□ |
| Australian Hearing Services | Yes | Low | ✓ | 17 Aug 21 | 17 Aug 21 | Nil |
| National Disability Insurance Scheme Launch Transition Agency | Yes | Moderate | ✓ | 10 Sept 21 | 14 Sept 21 | ◆□ |
| Services Australia | Yes | Moderate | ✓ | 31 Aug 21 | 31 Aug 21 | ▲ |

✓: auditor's report not modified

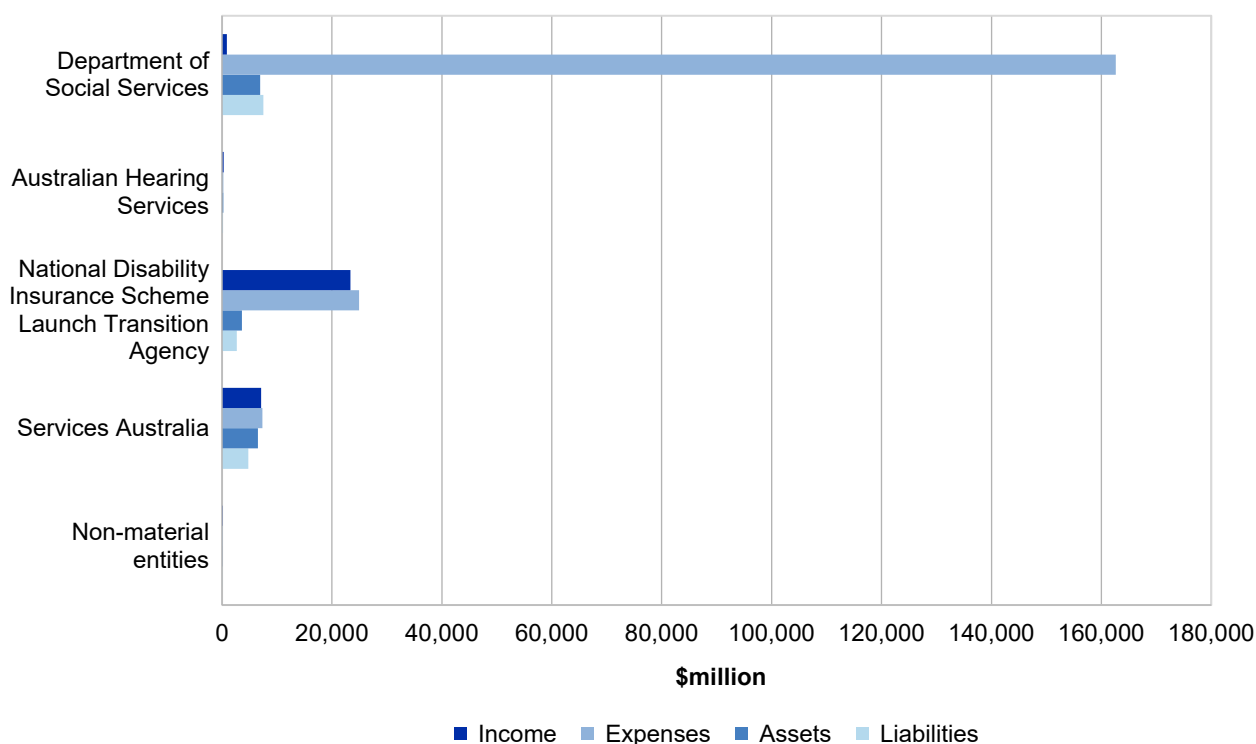
▲: significant or moderate findings and/or legislative matters reported previously not yet resolved

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

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2020–21 interim audit phase, now downgraded or resolved

4.13.2 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. In addition to DSS, the portfolio includes Services Australia, Australian Hearing Services, National Disability Insurance Scheme (NDIS) Launch Transition Agency (the National Disability Insurance Agency), the Australian Institute of Family Studies and the NDIS Quality and Safeguards Commission. The entities within the Social Services portfolio administer services and programs with other government entities, non-government organisations, program participants and other stakeholders.

4.13.3 Figure 4.13.1 shows the Social Services portfolio's income, expenses, assets and liabilities.

Figure 4.13.1: Social Services portfolio income, expenses, assets and liabilities

Source: 2020–21 CFS.

4.13.4 As previously outlined in Chapter 2, paragraph 2.7, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2020–21 financial statements audit. Table 4.13.2 provides a summary of those audit differences that relate to entities within the Social Services portfolio.

Table 4.13.2: The number of audit differences for entities in the Social Services portfolio

| | 2020–21 | | | 2019–20 | | |
|---|------------|----------|-------|------------|----------|-------|
| | Unadjusted | Adjusted | Total | Unadjusted | Adjusted | Total |
| Department of Social Services | 5 | 1 | 6 | 6 | 3 | 9 |
| Australian Hearing Services | – | – | – | – | 1 | 1 |
| Australian Institute of Family Studies | – | – | – | – | 1 | 1 |
| National Disability Insurance Scheme Launch Transition Agency | – | – | – | 3 | 3 | 6 |
| NDIS Quality and Safeguard Commission | – | – | – | 4 | 10 | 14 |
| Services Australia | – | – | – | – | 1 | 1 |

Source: Audit differences reported to entities in the Social Services Portfolio.

4.13.5 The following sections provide a summary of the 2020–21 financial statements audit results for the Department of Social Services, and other material entities.

Department of Social Services

4.13.6 The Department of Social Services (DSS) is responsible for social security, families and communities, disability and carers, and housing. DSS works in partnership with other government and non-government organisations on a range of payments, policies, programs and services focused on improving the wellbeing of people and families in Australia.

4.13.7 Consistent with the Australian Government’s response to the COVID-19 pandemic, Services Australia, on behalf of DSS, continued to implement a range of measures aimed at supporting members of the Australian public who were likely to be impacted.

4.13.8 There were no new significant COVID-19 stimulus measures in 2020–21. The Economic Support Payment paid as part of the coronavirus (COVID-19) stimulus ended in March 2021.⁶³ The changes noted during 2020–21 required no significant changes to internal control and key governance arrangements including IT system changes at Services Australia to enable the payment for these measures.

Summary of financial performance

4.13.9 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by DSS (as outlined in Table 4.13.3 and Table 4.13.4) and includes commentary regarding significant movements between years contributing to overall performance.

63 Eligible Australians were paid one-off payments of: \$750 from March 2020 and July 2020; and \$250 from December 2020 and March 2021. In addition, there were ongoing COVID-19 supplement payments at the start of the 2020–21, which progressively reduced during the year.

Table 4.13.3: Key departmental financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (394.9) | (468.7) |
| Revenue from government | 385.0 | 411.9 |
| Surplus/(deficit) attributable to the Australian Government | (9.9) | (56.7) |
| Total other comprehensive income/(loss) | 5.3 | – |
| Total comprehensive income/(loss) attributable to the Australian Government | (4.6) | (56.7) |
| Total assets | 635.6 | 674.9 |
| Total liabilities | 630.2 | 668.5 |
| Total equity | 5.4 | 6.4 |

Source: DSS' audited financial statements for the year ended 30 June 2021.

4.13.10 The net cost of services decreased mainly due to lower depreciation and amortisation expenses as a result of the transfer of IT assets to Services Australia in February 2020, and a reduction in IT and grants services being provided by DSS.

4.13.11 Revenue from Government decreased mainly due to the transfer of appropriation funding associated with the IT services transferred to Services Australia as a result of the Machinery of Government change in February 2020. The movement in assets and liabilities are considered to be a result of normal activities.

Table 4.13.4: Key administered financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | 162,142.6 | 140,969.5 |
| Total income | 431.4 | 576.5 |
| Surplus/(deficit) | (161,711.2) | (140,393.0) |
| Total other comprehensive income/(loss) | (79.6) | (1,437.9) |
| Total comprehensive income/(loss) | (161,790.8) | (141,830.9) |
| Total assets administered on behalf of Government | 6,275.8 | 6,398.4 |
| Total liabilities administered on behalf of Government | 6,889.9 | 8,866.1 |
| Net liabilities | (614.1) | (2,467.7) |

Source: DSS' audited financial statements for the year ended 30 June 2021.

4.13.12 Administered expenses increased primarily due to an increase of \$15.6 billion in personal benefit payments and an increase of \$5.6 billion in payments to the National Disability Insurance Agency. Personal benefit payments were driven by increased demand for unemployment benefit and age pensions, combined with the impact of the economic stimulus payments and the coronavirus supplement. Payments to the National Disability Insurance Agency increased as a

result of a combination of higher average costs per participant as well as higher participant numbers.

4.13.13 Administered income decreased mainly due to a \$122.7 million decrease in fair value gains related to the valuation of receivables for Student Start-Up Loans, the Student Financial Supplement Scheme, and the Pension Loan Scheme. Interest on personal benefits balances also decreased by \$45.8 million as a result of the Government’s decision to temporarily pause debt raising and recovery activities.

4.13.14 Administered assets decreased by \$122.6 million as a result of a return of cash to the consolidated revenue fund following the closure of two special accounts, offset by an overall increase in receivables. The receivables increase relates to increases in the recoverable amount of unprocessed personal benefit payments, personal benefit advances, and new student loans.

4.13.15 Administered liabilities decreased by \$2.0 billion mainly due to a \$1.5 billion decrease in personal benefit payables relating to the payment timings and payments made to the Income Compliance Program. Personal benefit provisions also decreased as a result of lower claim rates for Family Tax Benefits and the Pension Bonus Scheme.

Key areas of financial statements risk

4.13.16 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 DSS’ financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.13.5, including areas which 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 4.13.5: Key area of financial statements risk

| Relevant financial statements item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|--|-------------------|---|
| <i>Administered</i> personal benefits expenses \$144.9 billion | Accuracy and occurrence of personal benefits expenses KAM | Higher | <ul style="list-style-type: none"> reliance on the correct self-disclosure of personal circumstances by a large number of diverse recipients; reliance on the Services Australia’s complex information technology system for the processing of a high volume of payments across numerous personal benefit types with varying conditions for determining payment amount; and implementation of stimulus measures in response to the COVID-19 pandemic where a range of payment eligibility and qualification controls have been varied. |
| <i>Administered</i> | Valuation of personal benefits | Higher | <ul style="list-style-type: none"> provisions and receivables involve estimation models which require significant judgements |

| Relevant financial statements item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|--|-------------------|--|
| personal benefits provisions \$4.4 billion | provisions, personal benefits receivables and contingent liabilities | | 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; |
| personal benefits receivables (component of receivables) \$5.2 billion) | KAM | | <ul style="list-style-type: none"> 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; and uncertainty associated with the impact of the COVID-19 pandemic and cessation of the debt pause on current and future cash flow estimates used in the valuation models. |
| <i>Administered</i> grant expenses \$2.8 billion | Validity of grant expenses KAM | Moderate | <ul style="list-style-type: none"> a large number of grants programs with differing legislative and policy requirements which make the management of grant processes complex and this has the potential to impact the validity of grant expenses. |

Source: ANAO 2020–21 audit results, and DSS' audited financial statements for the year ended 30 June 2021.

Audit results

4.13.17 Table 4.13.6 summarises the status of audit findings reported by the ANAO in 2019–20 and 2020–21.

Table 4.13.6: Status of audit findings

| Category | Closing position (2019–20) | New findings (2020–21) | Findings resolved (2020–21) | Closing position (2020–21) |
|--------------|----------------------------|------------------------|-----------------------------|----------------------------|
| Moderate (B) | – | 2 | (1) | 1 |
| Total | – | 2 | (1) | 1 |

Source: ANAO 2020–21 audit results.

4.13.18 For each of the findings below, the ANAO undertook additional audit procedures to gain assurance that the DSS's 2020–21 financial statements were not materially misstated.

Unresolved moderate audit finding

SAP Terminations

4.13.19 The ANAO's interim testing of user access found weaknesses with SAP HR in user access terminations processes. User accounts should be removed on their termination date as they no longer have a legitimate requirement to access the DSS network. The ANAO identified a number of instances where users continued to access systems for up to five days following separation from DSS.

4.13.20 DSS was not able to provide the ANAO with details of the user's level of access to other information contained within DSS' network.

4.13.21 The ANAO recommended that DSS implement processes to ensure user access is terminated on a timely basis and undertake a detailed review of all logs related to the unauthorised access confirming that no inappropriate transactions or data has been accessed.

4.13.22 DSS has implemented a new guideline for managing non-ongoing employees and contractors. The DSS ICT Security Policy is being updated and is pending Executive sign off. DSS has advised that the department is working with Services Australia to implement an integrated report for monitoring of terminations. The ANAO will review DSS' progress in addressing this issue during the 2021–22 financial statements audit.

Resolved moderate audit finding

IT Shared Services Governance

4.13.23 In February 2020 DSS' IT services transferred to Services Australia through a Machinery of Government change. As at 7 April 2021, there was no Memorandum of Understanding (MoU) in place between DSS and Services Australia, formally assigning roles, responsibilities and duties that Services Australia must perform. The MoU would provide a framework for DSS to prioritise deliverables with Services Australia and to clarify tolerances for ICT related risks.

4.13.24 DSS at interim audit phase had not appointed a key accountable officer undertaking the role of Chief Information Security Officer (CISO) to monitor and manage departmental related IT risks and ensure that the department's day to day requirements are met. The Australian Government Information Security Manual (ISM) sets out the role of a Chief Information Officer (CIO) and recommends the appointment of a CISO at the Senior Executive Service level.

4.13.25 DSS at final audit phase finalised the MoU arrangements with Services Australia and is monitoring performance against the MoU through appropriate standing committees and by allocating a CISO to undertake responsibilities as a key accountable officer. The relationship and performance under the MoU will continue to be monitored by ANAO during the 2021–22 financial statements audit.

Australian Hearing Services

4.13.26 Australian Hearing Services (Hearing Australia) is responsible for the provision of government-funded hearing services through a national network to eligible clients under the Australian Government's Hearing Services Program. Hearing Australia also provides services to self-funded clients, supports research into hearing loss and is expanding services in indigenous communities. Hearing Australia is managed by a board of directors appointed by the Minister for Government Services and is constituted under the *Australian Hearing Services Act 1991*.

Summary of financial performance

4.13.27 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by Hearing Australia (as outlined in Table 4.13.7) and includes

commentary regarding significant movements between years contributing to overall performance.

Table 4.13.7: Key financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Total revenue | 274.5 | 256.7 |
| Total expenses | (265.7) | (247.2) |
| Surplus/(deficit) after income tax equivalent expense | 8.8 | 9.5 |
| Total other comprehensive income | – | – |
| Total comprehensive income/(loss) attributable to the Australian Government | 8.8 | 9.5 |
| Total assets | 242.0 | 217.2 |
| Total liabilities | 151.7 | 133.5 |
| Total equity | 90.3 | 83.7 |

Source: Hearing Australia's audited financial statements for the year ended 30 June 2021.

4.13.28 Total revenue has increased by 6.9 per cent as demand for commercial services has grown and there was extra Government funded services supporting indigenous Australians. The expenses have increased mainly due to the costs associated with higher staff numbers to support new and expanding programs and the implementation of new cloud-based software.

4.13.29 The increase in assets is partially due to the increase in liabilities as some large expenditure occurred near the end of the financial year that did not occur in the prior period. For example, there were new research grants awarded in 2020–21 that had not been paid by 30 June for the Cochlear Processor Upgrade Program, Longitudinal Outcomes of Children with Hearing Impairment Project and the Listen to Learn Program. The remainder of the increase in assets is due to the effect of high demand for services resulting in a surplus.

Key areas of financial statements risk

4.13.30 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 Hearing Australia's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.13.8. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.13.8: Key areas of financial statements risk

| Relevant financial statements item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|------------------------------------|--------------------------------------|-------------------|--|
| Total revenue \$274.5 million | Completeness and accuracy of revenue | Higher | <ul style="list-style-type: none"> complexity around the timing and recognition of numerous revenue streams; and application of significant judgement by management in determining revenue balances. |

Source: ANAO 2020–21 audit results, and Hearing Australia’s audited financial statements for the year ended 30 June 2021.

Audit results

4.13.31 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

National Disability Insurance Scheme Launch Transition Agency

4.13.32 The National Disability Insurance Scheme Launch Transition Agency (National Disability Insurance Agency) was established under the *National Disability Insurance Scheme Act 2013* (NDIA Act). The National Disability Insurance Agency 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, and social and economic participation, of eligible people with disability, their families and carers; and to provide associated referral services and activities.

Summary of financial performance

4.13.33 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by the National Disability Insurance Agency (as outlined in Table 4.13.9) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.13.9: Key financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (1,401.6) | (2,789.1) |
| Revenue from government | 1,208.9 | 1,413.3 |
| Total expenses | 24,920.7 | 19,265.9 |
| Surplus/(deficit) attributable to the Australian Government | (192.7) | (1,375.8) |
| Total other comprehensive income | – | – |
| Total comprehensive income/(loss) attributable to the Australian Government | (192.7) | (1,375.8) |

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|--------------------------------|------------------|------------------|
| Total assets | 3,630.7 | 3,952.4 |
| Total liabilities | 2,658.7 | 2,787.8 |
| Total equity | 972.0 | 1,164.7 |

Source: National Disability Insurance Agency's audited financial statements for the year ended 30 June 2021.

4.13.34 Net cost of services decreased due to a \$7.2 billion increase in contributions from the Department of Social Services and state and territory governments, offsetting the increase in participant expenses of \$5.8 billion. As at 30 June 2021, the Scheme had 466,619 active participants with approved plans compared to 391,999 at 30 June 2020, representing a 19.0 per cent increase in participant numbers since 30 June 2020.

4.13.35 The reduction in total assets is driven by a fall in receivables of \$953.6 million. Receivables decreased primarily as a result of a decrease in pandemic plan advances of \$647.5 million. Advances were made to eligible registered providers to assist with cash flow and continuity of supports during the COVID-19 pandemic. Other receivables also decreased due to Queensland's transition to a Full Scheme jurisdiction. Full Scheme jurisdictions are billed quarterly in advance rather than monthly in arrears. The reduction of receivables was offset by an increase in cash and term deposits of \$676.8 million due to cash contributions received near the end of the year that were invested as term deposits.

4.13.36 The decrease in total liabilities relates primarily to a reduction in unearned revenue of \$113.0 million due to the phasing out of in-kind programs at the Commonwealth and jurisdictional levels in line with the Full Scheme transaction bilateral agreements. Other significant movements include a decrease of \$82.3 million in supplier payables, offset by increase in participant plan provisions of \$83.9 million for participant supports incurred prior 30 June but not yet paid.

Key areas of financial statements risk

4.13.37 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 National Disability Insurance Agency'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 2020–21 are provided in Table 4.13.10. including areas which were considered key audit matters (KAM) by the ANAO.

Table 4.13.10: Key areas of financial statements risk

| Relevant financial statements item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|---|-------------------|---|
| Participant plan expenses \$23.3 billion | Accuracy and occurrence of participant plan expenses KAM | Higher | <ul style="list-style-type: none"> ongoing growth in the Scheme participant numbers and the need to cater for a diverse group of participants with varying and changing needs; reliance on third parties to provide information to support payments, making these payments more susceptible to fraud; and no supporting documentation required as part of the claiming process. |
| Participant plan provision \$1.7 billion | Valuation of participant plan provisions KAM | Higher | <ul style="list-style-type: none"> reliance on accounting estimates based on relatively immature longitudinal data given the maturity of the Scheme; and complexity of calculations due to the significant number of participant plans and the diverse nature of goods and services provided. |
| Contributions in-kind from Commonwealth, state and territory governments revenue \$1.4 billion in kind expenses (component of participant expenses \$23.3 billion) | Completeness, occurrence and accuracy of contributions of in-kind services from Commonwealth and state and territory governments KAM | Higher | <ul style="list-style-type: none"> reliance on state and territory governments reporting services provided directly to participants; complexities related to the valuation and accounting for in-kind contributions provided by state and territory governments; and prior to the commencement of the National Disability Insurance Scheme, state and territory governments had committed to provide (directly or by engaging service providers) items such as disability services, health, family support, education, employment, transport and/or housing to people with a disability. The on-going provision of these agreed services on behalf of the National Disability Insurance Agency is regarded as an in-kind contribution. |

Source: ANAO 2020–21 audit results, and NDIA's audited financial statements for the year ended 30 June 2021.

Audit results

4.13.38 Table 4.13.11 summarises the status of audit findings reported by the ANAO in 2019–20 and 2020–21.

Table 4.13.11: Status of audit findings

| Category | Closing position (2019–20) | New findings (2020–21) | Findings resolved (2020–21) | Closing position (2020–21) |
|--------------|----------------------------|------------------------|-----------------------------|----------------------------|
| Moderate (B) | 1 | 1 | (1) | 1 |

| Category | Closing position (2019–20) | New findings (2020–21) | Findings resolved (2020–21) | Closing position (2020–21) |
|--------------|-------------------------------|---------------------------|--------------------------------|-------------------------------|
| Total | 1 | 1 | (1) | 1 |

Source: ANAO 2020–21 audit results.

4.13.39 For each of the findings listed below, the ANAO undertook additional audit procedures to gain assurance that the National Disability Insurance Agency's 2020–21 financial statements were not materially misstated.

New moderate audit finding

Timeliness of user access terminations

4.13.40 The ANAO's interim testing of user access found weaknesses in user access terminations processes. User accounts should be removed upon termination date as they no longer have a legitimate requirement to access National Disability Insurance Agency's network. The ANAO identified a number of instances where users continued to have access to systems following separation from the National Disability Insurance Agency.

4.13.41 The National Disability Insurance Agency has advised that it has undertaken further investigations over the user accounts identified through ANAO's interim testing outlined above and confirmed that the information accessed presented a low business risk and did not result in any privacy breaches. In addition, the National Disability Insurance Agency has advised that new procedures were implemented from mid-June 2021. The ANAO will test the design and implementation of the new processes during the 2021–22 financial statements audit.

Resolved moderate audit finding

Business Assurance – Plan Approvals

4.13.42 During 2019–20, the ANAO reviewed National Disability Insurance Agency's business assurance program relating to participant plans. The assurance program consistently reported high levels of non-conformance with a critical test, in excess of National Disability Insurance Agency's nominal conformance target of 80 per cent. The critical test for the plan approvals, sought to confirm that plans approved with supports greater than 10 per cent of the typical support package are justified and evidenced.

4.13.43 National Disability Insurance Agency's continuous improvement register and action plans did not provide evidence of a detailed root cause analysis performed consistently across all states and territories with an aim of understanding the drivers for the exceptions identified. Furthermore, there was no evidence that National Disability Insurance Agency had performed further analysis to determine whether the instances of non-conformance resulted in participants having access to a level of support inconsistent with the support considered to meet the legislated requirement of reasonable and necessary. Consequently, participants may have access to support in excess of what would be deemed to be reasonable and necessary increasing the cost of the scheme and its long-term financial sustainability.

4.13.44 The National Disability Insurance Agency has redesigned the assurance framework relating to participant plans with progressive changes implemented from November 2020. The

revised framework includes testing and reporting against each criteria outlined in the NDIA Act and associated NDIS Rules, a prioritisation matrix to assist in assessing the risk and impact of non-compliance to the business and revised the continuous improvement registers. The redesigned program provides greater granularity on the source of the non-compliance with requirements when establishing plans.

4.13.45 The reporting framework implemented by the National Disability Insurance Agency allows the identification of non-compliance of both whether supports provided are reasonable and necessary and whether these supports have been justified in participant's plans. The National Disability Insurance Agency has implemented a root cause analysis process to identify and understand drivers of non-compliance in testing, training in relevant areas to increase staff capability as well as a continuous improvement process to assess monitor and address identified non-compliance.

4.13.46 The finding has been resolved based on the processes undertaken by the National Disability Insurance Agency to address the risks identified. The ANAO will continue to monitor the results of the National Disability Insurance Agency's compliance programs relating to plan approvals.

Services Australia

4.13.47 Services Australia 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. Social and health-related payments and services delivered by Services Australia on behalf of other entities in 2020–21 was \$228.4 billion. These expenses are recognised within each of the individual policy agencies' financial statements.

4.13.48 Services Australia implemented a range of measures in 2019–20 that continued to be applied during 2020–21, which aimed at supporting members of the Australian public who were impacted by the COVID-19 pandemic. These measures included the new jobseeker and social security and welfare payments, which included the Economic and Coronavirus supplement and COVID-19 Disaster payments, and expansion of the Telehealth function of the Medicare Benefits Scheme.

Summary of financial performance

4.13.49 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by Services Australia (as outlined in Table 4.13.12 and Table 4.13.13) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.13.12: Key departmental financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (5,354.3) | (5,134.2) |
| Revenue from government | 5,088.6 | 5,063.5 |
| Surplus/(deficit) attributable to the Australian Government | (265.7) | (70.7) |
| Total other comprehensive income | 25.2 | 16.3 |
| Total comprehensive income/(loss) attributable to the Australian Government | (240.5) | (54.4) |
| Total assets | 5,056.3 | 5,292.5 |
| Total liabilities | 3,364.5 | 3,599.0 |
| Total equity | 1,691.8 | 1,693.5 |

Source: Services Australia's audited financial statements for the year ended 30 June 2021.

4.13.50 The increase in net cost of services is primarily due to the recognition of the \$112.0 million income compliance legal settlement.

4.13.51 Total assets have decreased by \$236.2 million mainly due to a \$334.6 million decrease in plant and equipment and land and building, including right-of-use leases as result of depreciation charges for these assets which have been partially offset \$130.0 million increase in software assets attributed to the delivery of a number of IT reform projects that Services Australia is delivering to enhance or replace current IT systems.

4.13.52 The decrease in total liabilities predominately relates a decrease in lease liabilities of \$277.6 million reflecting lease payments made during the year and supplier payables of \$59.8 million due to Services Australia's focus on ensuring goods and services received are invoiced and paid for in a timely manner.

Table 4.13.13: Key administered financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | 1,740.4 | 1,967.1 |
| Total income | 1,790.1 | 2,033.5 |
| Surplus | 49.7 | 66.4 |
| Total other comprehensive income | – | – |
| Total comprehensive income | 49.7 | 66.4 |
| Total assets administered on behalf of Government | 1,451.3 | 1,386.9 |
| Total liabilities administered on behalf of Government | 1,432.4 | 1,363.5 |
| Net assets | 18.9 | 23.4 |

Source: Services Australia's audited financial statements for the year ended 30 June 2021.

4.13.53 The key activity within Services Australia’s administered functions relates to child support. Child support maintenance expenses and income decreased by approximately \$245.0 million. These decreases were due to a large impairment rate decrease in the prior year to reflect improved payment rates with the recoverability of outstanding child support, which resulted in a reversal of the prior year impairment of child support maintenance receivables and a gain of \$252.0 million in the prior year. In 2020–21 payment rates for recoverability of outstanding child support continued to align with the prior year assessment. Fluctuations in other balances reflect normal business activities.

Key areas of financial statements risk

4.13.54 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 Service Australia’s financial statements. Services Australia has a highly complex IT environment made up of numerous systems hosted across different IT platforms. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.13.14, including areas which were considered key audit matters (KAM) by the ANAO.

4.13.55 The ANAO continues to identify findings in the prior and current year audits relating to IT general controls, in particular IT access and privileged user management, which represent weaknesses in Services Australia’s IT control environment. These issues, individually when raised and reported to Services Australia are actioned and remediated, but the continuing theme highlights an ongoing risk to the agency in maintaining cyber resilience. One moderate audit finding that was raised during the 2019–20 financial year relating to IT security continues to remain unresolved.

Table 4.13.14: Key areas of financial statements risk

| Relevant financial statements item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|--|-------------------|---|
| <i>Administered</i> child support maintenance receivables \$1.2 billion | Valuation of child support receivables that are yet to be paid by non-custodial parents at the end of the financial year. KAM | Moderate | <ul style="list-style-type: none"> significant 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; and a large volume of child support financial transactions are processed using bespoke IT application under the complex <i>Child Support Act 1988</i>. This complexity increases the judgements and estimates associated with the child support receivable valuation. |

| Relevant financial statements item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|---------------------------------------|-------------------|--|
| <i>Departmental</i> intangible assets \$753.1 million | Valuation of intangible assets KAM | Moderate | <ul style="list-style-type: none"> 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. |
| <i>Departmental</i> right-of-use assets \$2.1 billion lease liabilities \$2.1 billion | Valuation of right-of-use assets | Moderate | <ul style="list-style-type: none"> judgements associated with right-of-use valuations, particularly the treatment of lease options as well as the assurance processes for identifying and recognising changes in individual lease contracts, particularly modifications, new or terminated leases; and completeness of leases as not all leases managed by the agency are captured and recognised under the requirements of AASB 16 <i>Leases</i>. |

Source: ANAO 2020–21 audit results, and Service Australia's audited financial statements for the year ended 30 June 2021.

4.13.56 The following performance audit report was tabled during 2020–21 relevant to the financial management or administration of Services Australia:

- Auditor-General Report No.23 2020–21 *Services Australia COVID-19 Measures and Enterprise Risk Management*.

4.13.57 While the report did not include recommendations regarding risks to Services Australia's financial administration as it relates to the financial statements, the observations of these report were considered in designing audit procedures.

Audit results

4.13.58 Table 4.13.15 summarises the status of audit findings reported by the ANAO in 2019–20 and 2020–21.

Table 4.13.15: Status of audit findings

| Category | Closing Position (2019–20) | New Findings (2020–21) | Findings Resolved (2020–21) | Closing position (2020–21) |
|--------------|-------------------------------|---------------------------|--------------------------------|-------------------------------|
| Moderate (B) | 2 | - | (1) ^a | 1 |
| TOTAL | 2 | - | (1) | 1 |

Note a: A moderate audit finding related to welfare payments system access management was resolved during the 2020–21 interim audit. A discussion of this finding can be found in the Auditor-General Report No.40 2020–21 *Interim Report on Key Financial Controls of Major Entities*.

Source: ANAO 2020–21 audit results.

4.13.59 For the finding listed below, the ANAO undertook additional audit procedures to gain assurance that Services Australia’s 2020–21 financial statements were not materially misstated. The IT Security Governance finding was first raised during the 2019–20 interim audit phase.

Unresolved moderate audit finding

IT Security Governance

4.13.60 Services Australia has a complex IT environment made up of a suite of systems hosted across different IT platforms such as mid-range and mainframe to support business objectives. The overall effectiveness of the IT control environment forms a significant component of the overall integrity and reliability of financial transactions, which links closely with Services Australia’s strategic risks. In the 2019–20 audit, the ANAO identified weaknesses in the implementation and operation of the governance and monitoring processes that support Services Australia’s information security framework.

4.13.61 The ANAO recommended that governance and monitoring processes are strengthened to include the review and reporting of adherence to Services Australia’s Cyber Security Information Services Manual. The ANAO’s view is that broader governance and management processes that support Services Australia’s IT general control framework highlight an ongoing risk to the agency in maintaining security governance. At the conclusion of the 2020–21 audit Services Australia’s response to this recommendation remains in-progress, with the ANAO to review and assess Services Australia’s progress against their plan during the 2021–22 interim audit phase.

4.14 Treasury portfolio

Portfolio overview

4.14.1 The Department of the Treasury is responsible for the development, delivery and implementation of economic analysis and authoritative policy advice on issues such as the economy, the budget, taxation, financial systems, foreign investment, retirement income, superannuation, small business and international economic policy. The Treasury also works with state and territory governments on key policy areas, and manages federal financial relations. Table 4.14.1 identifies material entities specifically mentioned in this chapter.

Table 4.14.1: Treasury portfolio material entities discussed in this chapter

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified |
|---|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|---------------------------|
| Department of the Treasury | Yes | Moderate | ✓ | 16 Sept 21 | 16 Sept 21 | ◆ |
| Australian Bureau of Statistics | Yes | Low | ✓ | 24 Aug 21 | 26 Aug 21 | Nil |
| Australian Office of Financial Management | Yes | Moderate | ✓ | 31 Aug 21 | 31 Aug 21 | Nil |
| Australian Prudential Regulation Authority | Yes | Low | ✓ | 17 Aug 21 | 19 Aug 21 | Nil |
| Australian Reinsurance Pool Corporation | Yes | Moderate | ✓ | 21 Sept 21 | 22 Sept 21 | Nil |
| Australian Securities and Investments Commission | Yes | Moderate | ✓ | 1 Sept 21 | 1 Sept 21 | □ |
| Australian Taxation Office | Yes | High | ✓ | 22 Sept 21 | 22 Sept 21 | ◆ |
| National Housing Finance and Investment Corporation | Yes | Moderate | ✓ | 26 Aug 21 | 26 Aug 21 | Nil |
| Reserve Bank of Australia | Yes | Moderate | ✓ | 10 Sept 21 | 10 Sept 21 | Nil |

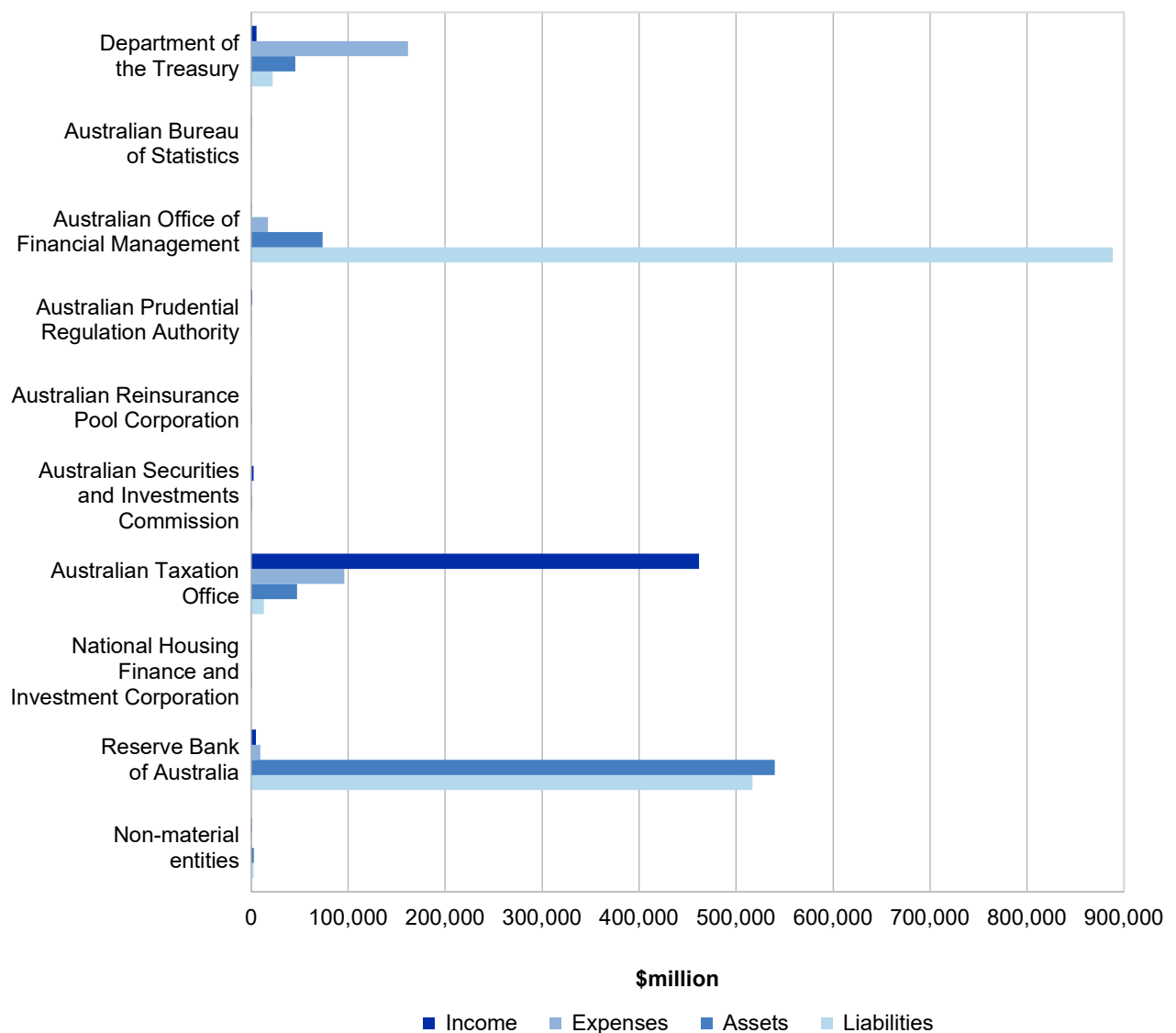
✓: auditor's report not modified

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

□: significant or moderate findings and/or legislative matters identified in previous periods, or the 2020–21 interim audit phase, now downgraded or resolved

4.14.2 Figure 4.14.1 shows Treasury portfolio income, expenses, assets and liabilities.

Figure 4.14.1: Treasury portfolio income, expenses, assets and liabilities



Source: 2020–21 CFS.

4.14.3 As previously outlined in Chapter 2, paragraph 2.7, analysis of the quality and timeliness of financial statements preparation included a summary of the total number of audit differences reported to entities during the 2020–21 financial statements audit. Table 4.14.2 provides a summary of those audit differences that relate to entities within the Treasury portfolio.

Table 4.14.2: The number of audit differences for entities in the Treasury portfolio

| | 2020–21 | | | 2019–20 | | |
|---------------------------------|------------|----------|-------|------------|----------|-------|
| | Unadjusted | Adjusted | Total | Unadjusted | Adjusted | Total |
| Department of the Treasury | – | – | – | – | 4 | 4 |
| Australian Bureau of Statistics | 1 | – | 1 | – | 2 | 2 |

| | 2020–21 | | | 2019–20 | | |
|--|------------|----------|-------|------------|----------|-------|
| | Unadjusted | Adjusted | Total | Unadjusted | Adjusted | Total |
| Australian Competition and Consumer Commission | – | – | – | 1 | – | 1 |
| Australian Office of Financial Management | – | – | – | 1 | – | 1 |
| Australian Securities and Investments Commission | 1 | 1 | 2 | 2 | – | 2 |
| Australian Taxation Office | 5 | – | 5 | 4 | 1 | 5 |
| Commonwealth Grants Commission | 1 | 1 | 2 | – | – | – |
| Financial Adviser Standards and Ethics Authority Ltd | – | 2 | 2 | – | – | – |
| Office of the Auditing and Assurance Standards Board | – | – | – | – | 2 | 2 |
| Office of the Australian Accounting Standards Board | – | – | – | – | 4 | 4 |
| Productivity Commission | – | 4 | 4 | – | 2 | 2 |
| Reserve Bank of Australia | – | – | – | 1 | 1 | 2 |
| Royal Australian Mint | 2 | – | 2 | – | 1 | 1 |

Source: Audit differences reported to entities in Treasury Portfolio.

4.14.4 There were no audit differences in the current and prior year for Australian Prudential Regulation Authority, Australian Reinsurance Pool Corporation, Infrastructure and Project Financing Agency, Inspector-General of Taxation, National Competition Council, National Housing Finance Investment Corporation and Note Printing Australia Ltd.

4.14.5 The following sections provide a summary of the 2020–21 financial statements audit results for the Department of the Treasury, other material entities and findings related to non-material entities in the portfolio.

Department of the Treasury

4.14.6 The Department of the Treasury (Treasury) is responsible for the development, delivery and implementation of economic analysis and authoritative policy advice issues such as: the economy; budget; taxation; financial; foreign investment; structural policy; superannuation; small business; housing affordability and international economic policy. The Treasury also works with State and Territory governments on key policy areas, as well as managing federal financial relations.

Summary of financial performance

4.14.7 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by Treasury (as outlined in Table 4.14.3 and Table 4.14.4) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.14.3: Key departmental financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (265.4) | (214.1) |
| Revenue from government | 259.1 | 206.3 |
| Surplus/(deficit) attributable to the Australian Government | (6.3) | (7.8) |
| Total other comprehensive income | 1.7 | – |
| Total comprehensive income/(loss) attributable to the Australian Government | (4.6) | (7.8) |
| Total assets | 276.3 | 248.2 |
| Total liabilities | 225.0 | 203.9 |
| Total equity | 51.3 | 44.3 |

Source: Treasury's audited financial statements for the year ended 30 June 2021.

4.14.8 The increase in net cost of services and revenue from government is due to additional funding received and higher employee numbers as a result of Machinery of Government changes, with the functions of the Infrastructure and Project Financing Agency, Consumer Data Rights, Data Standards Body and Small Business and Australian Small Business and Family Enterprise Ombudsman being absorbed into Treasury.

4.14.9 Total assets and liabilities increased due to the recognition of new right-of-use assets and liabilities for two new property leases entered into during the year. There was also an increase in employee-related provisions as a result of increased employee numbers after the Machinery of Government changes.

Table 4.14.4: Key administered financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Total expenses | 160,388.8 | 139,225.7 |
| Total income | 5,840.6 | 5,440.9 |
| Surplus/(deficit) | (154,548.2) | (133,784.7) |
| Total other comprehensive income/(loss) | (7,120.7) | 1,297.7 |
| Total comprehensive income/(loss) | (161,668.9) | (132,487.0) |
| Total assets administered on behalf of Government | 45,183.4 | 54,881.6 |

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total liabilities administered on behalf of Government | 21,944.4 | 19,024.9 |
| Net assets/(liabilities) | 23,239.0 | 35,856.7 |

Source: Treasury's audited financial statements for the year ended 30 June 2021.

4.14.10 Total expenses have increased due to increased grant funding to States and Territories in relation to the COVID-19 pandemic response measures. In addition, there were increased costs associated with the Medical Benefits Schedule and the Pharmaceutical Benefits Scheme.

4.14.11 Total assets have decreased due to the recognition of a GST revenue allocation receivable of \$5,174.9 million in 2019–20, in addition to a reduction in the value of the department's investment in the Reserve Bank of Australia (RBA) as a result of foreign exchange fluctuations and unrealised losses within the RBA.

4.14.12 Total liabilities have increased due to a \$3,783.9 million increase in grants liability in line with the increased grant expenditure incurred during the year.

Key areas of financial statements risk

4.14.13 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of Treasury's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020 – 21 are provided in Table 4.14.5, including areas which 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 4.14.5: Key area of financial statements risk

| Relevant financial statements item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|--|-------------------|---|
| <i>Administered</i> other provisions \$1.7 billion | Completeness and valuation of the Disaster Recovery Funding Arrangements (DRFA) and the Natural Disaster Relief and Recovery Arrangements Provision (NDRRA) KAM | Higher | <ul style="list-style-type: none"> reliance on information provided by state and territory governments to estimate the provision; and complexities in judgements relating to the timing of future payments and the estimation of future costs to restore infrastructure to its condition at the time of the natural disaster. |
| <i>Administered</i> grants expense \$117.8 billion grants payable \$3.9 billion | Accuracy and completeness of payments to states and territories under the <i>Federal Financial Relations Act 2009</i> KAM | Moderate | <ul style="list-style-type: none"> 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 |

| Relevant financial statements item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|------------------------------------|------------------|-------------------|--|
| | | | support payments and confirm the eligibility criteria have been met. |

Source: ANAO 2020–21 audit results and Treasury’s audited financial statements for the year ended 30 June 2021.

Audit results

4.14.14 Table 4.14.6 summarises the status of the audit findings reported by the ANAO in 2019–20 and 2020–21.

Table 4.14.6: Status of audit findings

| Category | Closing position (2019–20) | New findings (2020–21) | Findings resolved (2020–21) | Closing position (2020–21) |
|-------------------------------------|----------------------------|------------------------|-----------------------------|----------------------------|
| Significant legislative breach (L1) | – | 1 | – | 1 |
| Total | – | 1 | – | 1 |

Source: ANAO 2020–21 audit results.

New significant legislative breach

Potential section 83 breaches

4.14.15 During the financial year, there were several instances of potential non-compliance with section 83 of the Constitution for National Partnership Payments issued in accordance with the *Financial Federal Relations Act 2009*. National Partnership Payments include a number of programs where the underlying management is within the relevant agency responsible for policy and program administration, with all payments processed by Treasury. It was identified that there were a number of payments processed in 2019–20 and 2020–21 which did not have appropriate ministerial authorisation, totalling \$85.5 million.

4.14.16 These payments were made on the basis that the administering entity made representation to Treasury that the payment was appropriately authorised. Subsequent investigations noted the appropriate authorisation was not held, as the administering entity had not received ministerial authorisation to approve the payment as required by the *Financial Federal Relations Act 2009*. ANAO recommended that the department should undertake steps to ensure appropriate authorisation is held at the time of the payments being made, including retention of authorisations as part of the payment process in order to prevent future section 83 breaches for similar transactions.

Australian Bureau of Statistics

4.14.17 The Australian Bureau of Statistics (ABS) is responsible for partnering and innovating to deliver relevant, trusted and objective data, statistics and insights to inform Australia’s important decisions.

Summary of financial performance

4.14.18 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by the ABS (as outlined in Table 4.14.7) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.14.7: Key financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (467.4) | (432.1) |
| Revenue from government | 414.4 | 378.5 |
| Surplus/(deficit) attributable to the Australian Government | (53.1) | (53.6) |
| Total other comprehensive income/(loss) | 3.2 | 0.8 |
| Total comprehensive income/(loss) attributable to the Australian Government | (49.9) | (52.8) |
| Total assets | 381.7 | 393.8 |
| Total liabilities | 327.2 | 327.4 |
| Total equity | 54.5 | 66.4 |

Source: ABS' audited financial statements for the year ended 30 June 2021.

4.14.19 The movement in the net cost of services is primarily due to an increase in employee benefits and supplier expenses due to preparations for the 2021 Census. This was offset by an increase in own-source income due to greater demand for services from customers. The decrease in total assets is the result of depreciation costs incurred for buildings in the current financial year.

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 support the preparation of ABS' financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2020–21 is provided in Table 4.14.8. No significant or moderate audit findings were identified relating to the key areas of risk.

Table 4.14.8: Key areas of financial statements risk

| Relevant financial statements item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|-------------------------------------|--|-------------------|---|
| Intangible assets \$84.0 million | Valuation and impairment of non-financial assets | Higher | <ul style="list-style-type: none"> indicators of impairment may not be adequately identified as a result of business reorganisation or restructuring; and with a system or technology upgrade, there is a risk that the carrying value of assets may be materially misstated by |

| Relevant financial statements item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|---|-------------------|---|
| | | | incorrectly capitalising new expenditure and incorrectly assessing the existing asset's useful lives. |
| Revenue from contracts with customers \$43.2 million | Recognition of revenue from rendering of services | Higher | <ul style="list-style-type: none"> a risk that revenue is recorded at a point in time when it should have been recorded over time; a risk that revenue is not recognised accurately across the period of the contract/service; and a risk in relation to the maintenance of appropriate documentation to support the recognition of revenue on the basis concluded. |
| Leasehold improvement and plant and equipment \$46.5 million | Valuation and impairment of non-financial assets | Moderate | <ul style="list-style-type: none"> the fair valuation of assets is inherently judgemental and requires specialist expertise; and indicators of impairment may not be adequately identified. |
| Census field staff expenses \$32.7 million | Accuracy of census contractor expenses | Moderate | <ul style="list-style-type: none"> ABS conducted a census in August 2021. The workforce will increase considerably for a short period of time with contractors being engaged to help perform the Census. Contractors will be employed during the majority of 2020–21; and there is a risk contractor expenses incurred outside of regular operations will not be recorded accurately. |

Source: ANAO 2020–21 audit results, and ABS' audited financial statements for the year ended 30 June 2021.

Audit results

4.14.21 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits

Australian Office of Financial Management

4.14.22 The Australian Office of Financial Management (AOFM) is responsible for managing Australian Government debt and financial assets and the issuing of Treasury bonds, Treasury indexed bonds and Treasury notes into the financial markets.

Summary of financial performance

4.14.23 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by the AOFM (as outlined in Table 4.14.9 and Table 4.14.10) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.14.9: Key departmental financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (15.9) | (10.6) |
| Revenue from government | 16.5 | 13.8 |
| Surplus/(deficit) attributable to the Australian Government | 0.6 | 3.2 |
| Total other comprehensive income/(loss) | – | 0.3 |
| Total comprehensive income/(loss) attributable to the Australian Government | 0.6 | 3.5 |
| Total assets | 35.8 | 34.8 |
| Total liabilities | 8.6 | 7.9 |
| Total equity | 27.2 | 26.9 |

Source: AOFM's audited financial statements for the year ended 30 June 2021.

4.14.24 The increase in the net cost of services and in revenue from government reflects the additional costs of administering the Australian Business Securitisation Fund and the Structured Finance Support Fund.

Table 4.14.10: Key administered financial statements line items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | 17,124.0 | 16,919.0 |
| Total income | 249.0 | 260.0 |
| Gains/(losses) from repurchasing debt | – | (399.0) |
| Re-measurement gain/(loss) | 28,873.0 | (9,193.0) |
| Surplus/(deficit) | 11,998.0 | (26,251.0) |
| Total comprehensive gain/(loss) | 11,998.0 | (26,251.0) |
| Total assets administered on behalf of the Government | 59,821.0 | 73,260.0 |
| Total liabilities administered on behalf of the Government | 888,421.0 | 785,095.0 |
| Net assets/(liabilities) | (828,600.0) | (711,835.0) |

Source: AOFM's audited financial statements for the year ended 30 June 2021.

4.14.25 The AOFM increased its debt issuance during the year to fund Government activity during the COVID-19 pandemic. This resulted in increased liabilities and interest expense.

4.14.26 The gains on re-measurement are a result of the increase in interest rates, and thus a decrease in the discounted value of the liability. The prior year was as a result of decreasing interest rates.

Key areas of financial statements risk

4.14.27 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of AOFM's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. The areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.14.11. The valuation and disclosure of Australian Government Securities was considered a key audit matter (KAM) by the ANAO. No significant or moderate audit findings were identified relating to the key areas of risk.

Table 4.14.11: Key areas of financial statements risk

| Relevant financial statements item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|---|-------------------|---|
| <i>Administered</i> Australian Government securities \$888.4 billion | Valuation and disclosure of Australian Government securities KAM | Moderate | <ul style="list-style-type: none"> significant value of the liability and significant volume of instruments issued; fair value movements have a material impact on the financial statements and are impacted by price changes in money markets and capital markets; and complex financial statements disclosure requirements for financial liabilities measured at fair value through profit and loss. |
| <i>Administered</i> Structured Finance securities \$1.9 billion | Valuation and disclosure of Structured Finance securities | Moderate | <ul style="list-style-type: none"> new type of asset holding for the entity, arising from the Government's response to the COVID-19 pandemic; assumptions required for calculation of fair value of assets and or expected credit losses; and complex financial disclosure requirements for financial assets measured at fair value through profit and loss. |

Source: ANAO 2020–21 audit results, and the AOFM's audited financial statements for the year ended 30 June 2021.

Audit results

4.14.28 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Australian Prudential Regulation Authority

4.14.29 The Australian Prudential Regulation Authority (APRA) is responsible for the prudential regulation of the Australian financial services industry through the oversight of banks, credit unions, building societies, friendly societies, general insurers, life insurers, private health insurers, reinsurance companies and most of the superannuation industry. APRA is funded largely by the industries that it regulates.

Summary of financial performance

4.14.30 The following section provides a comparison of the 2020–21 and 2019–20 key departmental and administered financial statements items reported by APRA (as outlined in Table 4.14.12 and Table 4.14.13) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.14.12: Key departmental financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (193.2) | (191.9) |
| Revenue from government | 185.7 | 188.1 |
| Surplus/(deficit) attributable to the Australian Government | (7.4) | (3.8) |
| Total other comprehensive income | (0.1) | – |
| Total comprehensive income/(loss) attributable to the Australian Government | (7.5) | (3.8) |
| Total assets | 173.8 | 185.9 |
| Total liabilities | 119.6 | 124.2 |
| Total equity | 54.2 | 61.8 |

Source: APRA's audited financial statements for the year ended 30 June 2021.

4.14.31 The movement in net cost of services relates to an increase in employee expenses of \$9.9 million primarily due to an increase in the average staffing level over 2020–21 and a 1.5 per cent wage increase from 1 July 2020 per the enterprise agreement. Offsetting this increase is a \$10.3 million decrease in supplier expenses due to a one-off legal cost of \$9.0 million in 2019–20 not repeating in 2020–21 and lower project and ongoing operational expenditure in 2020–21 resulting from the COVID-19 pandemic.

4.14.32 Revenue from government decreased due to slightly lower government-approved Financial Institutions Supervisory Levies collected in 2020–21 compared to 2019–20 and a small levy under-collection in 2020–21.

4.14.33 The decrease in total assets relates to a fall in financial assets of \$8.4 million resulting from lower revenue in 2020–21 and a decrease of \$4.8 million in non-financial assets from depreciation and amortisation of these assets outstripping new additions.

4.14.34 The decrease in total liabilities predominately relates to a decrease in lease liabilities of \$7.9 million due to principal repayments made during the year, which is partially offset by a \$2.7 million increase in employee provisions reflecting salary, staff number increases and reduced staff leave utilisation.

Table 4.14.13: Key administered financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | 423.7 | 472.7 |
| Total revenue | 646.5 | 712.2 |
| Surplus/(deficit) | 222.9 | 239.5 |
| Total other comprehensive income/(loss) | – | – |
| Total comprehensive income/(loss) | 222.9 | 239.5 |
| Total assets administered on behalf of Government | 3.0 | 3.0 |
| Total liabilities administered on behalf of Government | 2.0 | 2.0 |
| Total equity | 1.0 | 1.0 |

Source: APRA's audited financial statements for the year ended 30 June 2021.

4.14.35 Total expenses and revenue decreased due to a decrease in the collection and subsequent remittance of the Risk Equalisation Levy of \$49.1 million. The decrease is due to lower industry activity primarily due to the COVID-19 pandemic. The Risk Equalisation Levy receipts are set to equalise risk across the private health insurance industry and are determined quarterly under section seven of the *Private Health Insurance (Risk equalisation Levy) Act 2003* by APRA. The increase impacted both total expenses and total revenue.

4.14.36 Total revenue was also impacted by a decrease in collections of the Financial Institutions Supervisory levy of \$15.0 million. The Financial Institutions Supervisory levy is determined by the Treasurer, in conjunction with APRA, to recover operational costs of APRA and other specific costs incurred by certain Commonwealth agencies and departments.

Key areas of financial statements risk

4.14.37 The ANAO completed appropriate audit procedures on all material items. The ANAO also assessed the IT general and application controls for key systems that support the preparation of APRA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2020–21 is provided in Table 4.14.14. No significant or moderate audit findings were identified relating to the key area of risk.

Table 4.14.14: Key areas of financial statements risk

| Relevant financial statements item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|---------------------------------------|-------------------|---|
| <i>Administered</i> levy revenue \$646.5 million | Accuracy of administered levy revenue | Moderate | <ul style="list-style-type: none"> complex calculations that are prescribed in a number of Acts and rules. |

| Relevant financial statements item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|--|-------------------|---|
| Internally developed software \$41.6 million | Recognition and valuation of internally developed software | Moderate | <ul style="list-style-type: none"> complexities in assessing the nature and extent of costs that can be capitalised under Australian accounting standards and subject to management judgement. |

Source: ANAO 2020–21 audit results, and APRA's audited financial statements for the year ended 30 June 2021.

Audit results

4.14.38 There were no reportable audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Australian Reinsurance Pool Corporation

4.14.39 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

4.14.40 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by ARPC (as outlined in Table 4.14.15) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.14.15: Key financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Total expenses | 165.6 | 164.5 |
| Own-source income | 250.5 | 233.6 |
| Surplus/(deficit) attributable to the Australian Government | 84.9 | 69.1 |
| Total assets | 757.3 | 669.5 |
| Total liabilities | 161.9 | 149.0 |
| Total equity | 595.4 | 520.5 |

Source: ARPC's audited financial statements for the year ended 30 June 2021.

4.14.41 The increase in own-source income is driven by changes in premium rates in commercial property. Total assets increased due to an increase in term deposit investments. Total liabilities increased due to increase in unearned premium liability, in-line with increase in gross premium revenue.

Key areas of financial statements risk

4.14.42 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

APRC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.14.16. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.14.16: Key areas of financial statements risk

| Relevant financial statements item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|--|-------------------|---|
| Premium revenue \$245.7 million unearned premium \$124.7 million | Accuracy of insurance premium | Moderate | <ul style="list-style-type: none"> • inaccurate recognition of premium; • insurers may calculate and remit incorrect premium reviews; and • incorrect calculation of unearned premium. |
| Outward retrocession premium expense \$65.9 million | Accuracy of retrocession cost and deferral | Moderate | <ul style="list-style-type: none"> • inaccurate calculations and payments of retrocession premium; and • deterioration in credit worthiness of reinsurance counterparties may affect the recoverability of reinsurance receivables. |

Source: ANAO 2020–21 audit results, and APRC's audited financial statements for the year ended 30 June 2021.

Audit results

4.14.43 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.

Australian Securities and Investments Commission

4.14.44 The Australian Securities and Investments Commission (ASIC) is Australia's integrated corporate, financial services, markets and consumer credit regulator, supporting a fair, strong and efficient financial system for all Australians. ASIC's core responsibility is to maintain and facilitate the performance of Australia's financial system and promote confident and informed participation by investors and consumers.

Summary of financial performance

4.14.45 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by ASIC (as outlined in Table 4.14.17 and Table 4.14.18) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.14.17: Key departmental financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (451.5) | (471.4) |
| Revenue from government | 437.1 | 403.2 |
| Surplus/(deficit) attributable to the Australian Government | (14.4) | (68.2) |
| Total other comprehensive income | – | – |
| Total comprehensive income/(loss) attributable to the Australian Government | (14.4) | (68.2) |
| Total assets | 541.4 | 559.3 |
| Total liabilities | 377.3 | 406.8 |
| Total equity | 164.1 | 152.5 |

Source: ASIC's audited financial statements for the year ended 30 June 2021.

4.14.46 The decrease in net cost of services and ASIC's deficit is largely attributable to revenue received from other Australian Government entities for funding of the Modernising Business Registers program and the Global Switch Unit Exit program.

4.14.47 The movement in assets and liabilities is primarily due to the principal payment of lease liabilities and recognition of right-of-use asset depreciation.

Table 4.14.18: Key administered financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | 227.7 | 203.1 |
| Total income | 1,807.9 | 1,560.4 |
| Surplus/(deficit) | 1,580.2 | 1,357.3 |
| Total assets administered on behalf of Government | 467.5 | 478.7 |
| Total liabilities administered on behalf of Government | 535.7 | 457.6 |
| Net assets/(liabilities) | (68.2) | 21.1 |

Source: ASIC's audited financial statements for the year ended 30 June 2021.

4.14.48 Total income increased due to an increase in compliance activity, company extracts search activity and increased demand for current information for Government financial relief due to the COVID-19 pandemic. There has also been an increase in the volume of unclaimed monies lodgements.

4.14.49 The increase in total liabilities was driven by higher than expected lodgements and lower than expected claims for unclaimed monies during 2020–21. These movements also resulted in increases to the unclaimed monies provision.

Key areas of financial statements risk

4.14.50 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 ASIC's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.14.19. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.14.19: Key areas of financial statements risk

| Relevant financial statements item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|---|-------------------|---|
| <i>Administered</i> unclaimed monies provisions \$491.2 million | Valuation of the provisions for future claims of unclaimed monies | Higher | <ul style="list-style-type: none"> the actuarial model used to calculate the provision relies on a legislative framework that can be subject to change; and the calculation is sensitive to movements in general market conditions such as the growth rate, claims history and discount rate which are subject to management judgement. |
| <i>Administered</i> taxation revenue \$955.6 million non-taxation revenue \$852.2 million | Completeness and accuracy of administered revenue | Moderate | <ul style="list-style-type: none"> corporate fees and fines revenue is reliant on the completeness of data in subsidiary IT systems which is transferred to the financial management information system (FMIS); taxation revenue arising from the supervisory cost recovery levies 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 15 and 1058. |

Source: ANAO 2020–21 audit results, and ASIC's audited financial statements for the year ended 30 June 2021.

Audit results

4.14.51 Table 4.14.20 summarises the status of the audit findings reported by the ANAO in 2019–20 and 2020–21.

Table 4.14.20: Status of audit findings

| Category | Closing position (2019–20) | New findings (2020–21) | Findings resolved (2020–21) | Closing position (2020–21) |
|-----------------|----------------------------|------------------------|-----------------------------|----------------------------|
| Significant (A) | 1 | – | (1) | – |
| Total | 1 | – | (1) | – |

Source: ANAO 2020–21 audit results.

Resolved significant audit finding**Payments to Key Management Personnel**

4.14.52 The ASIC Chair and Deputy Chairs are covered by Remuneration Tribunal Determinations for full time public office holders. The relevant Determinations provide that the remuneration and benefits paid to office holders must not be supplemented. The Determinations outline payments that do not form part of the total remuneration package of office holders.

4.14.53 The Commonwealth Procurement Rules (CPRs) set out rules that officials of relevant entities must comply with when they procure goods and services. As a non-corporate Commonwealth entity, ASIC must comply with the CPRs. The core rule of the CPRs is achieving value for money which includes ensuring the efficient, effective, ethical and economic use of public resources.

4.14.54 In 2019–20 the ANAO identified payments made to the former ASIC Chair and one of the former Deputy Chairs that appeared to fall outside of the definition of Total Remuneration in the Remuneration Determination and thus the total remuneration paid to these office holders may have exceeded the limits set within the determination. In reviewing these payments, the ANAO also identified instances where the CPRs were not followed.

4.14.55 The ANAO recommended to ASIC that a review be undertaken of the processes supporting the approval of remuneration and benefits paid to Executive Office holders, including the trigger points for seeking advice should amounts outside of the Remuneration Determination be considered for approval; and a review be undertaken of the procurement processes around payments made for the benefit of the Chair to determine those internal controls that need to be either reinforced with relevant staff or redesigned to ensure effective implementation.

4.14.56 The ANAO's review of the work undertaken by ASIC in 2020–21 to address the issues that were raised by both ASIC's review and the independent review commissioned by the Treasurer concluded that the audit finding had been addressed. In addition, the ANAO's testing of the 2020–21 Key Management Personnel (KMP) note disclosures including the underlying calculations, and compliance with CPRs did not identify any issues. Based on the actions undertaken by ASIC and our review of the 2020–21 KMP disclosure note, this finding was considered resolved and closed.

Australian Taxation Office

4.14.57 The Australian Taxation Office's (ATO) core areas of responsibility are managing and shaping tax, excise and superannuation systems that fund services for Australians, together with the provision of support to the Tax Practitioners Board, the Australian Business Registry Services and the Australian Charities and Not-for-profits Commission.

Summary of financial performance

4.14.58 The following section provides a comparison of the 2019–20 and 2020–21 key departmental and administered financial statements items reported by ATO (as outlined in

Table 4.14.21 and Table 4.14.22) and includes commentary on significant movements between years contributing to overall performance.

Table 4.14.21: Key departmental financial statements items

| Key departmental financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (3,924.4) | (3,678.7) |
| Revenue from government | 3,831.8 | 3,461.3 |
| Surplus/(deficit) attributable to the Australian Government | (92.6) | (217.4) |
| Total other comprehensive income | (0.1) | (0.1) |
| Total comprehensive income/(loss) attributable to the Australian Government | (92.7) | (217.5) |
| Total assets | 2,525.6 | 2,448.6 |
| Total liabilities | 2,215.8 | 2,260.4 |
| Total equity | 309.8 | 188.2 |

Source: ATO's audited financial statements for the year ended 30 June 2021.

4.14.59 The increase in net cost of services was mainly due to a \$135.0 million increase in contractors and consultants as a result of the Improving ATO IT systems program and a \$57.0 million increase in IT and communications expenses due to the ATO improving infrastructure, software and IT communication platforms to deliver on the economic stimulus measures as a result of the COVID-19 pandemic.

4.14.60 The movement in assets was primarily due to an increase in appropriation receivable of \$134.0 million which was offset by a decrease in plant, equipment and buildings of \$56.0 million (net impact of the recognition of new right of use assets of \$167.0 million and the depreciation of \$223.0 million). The movement in liabilities was mainly due to a decrease in lease liabilities of \$58.0 million reflecting lease payments made, offset by new leases recognised during the year.

Table 4.14.22: Key administered financial statements items

| Key administered financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|--|------------------|------------------|
| Total expenses | 91,941.0 | 75,384.0 |
| Total revenue | 457,800.0 | 422,443.0 |
| Surplus/(deficit) | 365,859.0 | 347,059.0 |
| Total comprehensive income/(loss) | 365,859.0 | 347,059.0 |
| Total assets administered on behalf of Government | 44,640.0 | 47,858.0 |
| Total liabilities administered on behalf of Government | 10,915.0 | 29,442.0 |
| Net assets/(liabilities) | 33,725.0 | 18,416.0 |

Source: ATO's audited financial statements for the year ended 30 June 2021.

4.14.61 The increase in total revenue was driven mainly by a \$6.0 billion increase from individuals and other withholding tax as a result of a lower unemployment rate, \$12.0 billion increase from companies due to strong iron ore prices in the mining sector, \$6.4 billion increase from superannuation funds due to lower revenue reported in 2019–20 as a result of large one-off share buybacks and dividend cuts resulting in a reduction in refundable franking credit in 2021–22, and \$9.2 billion from goods and services tax as a reflection of relatively higher economic activity.

4.14.62 Total expenses have increased by \$16.6 billion mainly due to an increase of \$25.5 billion in subsidies as a result of the stimulus measure payments for JobKeeper offset by a decrease of \$11.3 billion in Cash Flow Boost payments for employers. Total liabilities also decreased by \$18.5 billion primarily due to a decrease in the accrual for JobKeeper of \$11.0 billion and Cash Flow Boost of \$8.0 billion as these stimulus programs ended during the 2020–21 financial year.

4.14.63 Total assets decreased by \$3.2 billion mainly due to a decrease in receivables of \$5.0 billion partially offset by an increase of \$1.9 billion in accrued GST revenue. The movement in receivables was the net impact of an increase in receivables of \$2.2 billion offset by a \$5.7 billion increase in impairment allowance and a \$1.7 billion increase in allowance for credit amendments for disputed cases. The movement of \$4.7 billion in the impairment allowance was mainly due to a change in methodology to incorporate emerging trends and patterns as a result of COVID-19.

Key areas of financial statements risk

4.14.64 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 ATO's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.14.23, including areas considered key audit matters (KAM) by the ANAO. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.14.23: Key areas of financial statements risk

| Relevant financial statements item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|---|-------------------|---|
| <i>Administered</i> taxation revenue \$456.7 billion expenses \$91.9 billion | Accuracy of taxation revenue KAM accuracy of expenses | Higher | <ul style="list-style-type: none"> • complex estimation processes, involving significant judgement and specialist knowledge; • completeness, relevance and accuracy of source data; and • volatility in economic conditions, such as wage growth, gross domestic product and historical information increases the uncertainty of factors underpinning the estimates. |
| <i>Administered</i> | Valuation of taxation receivables and provisions for refunds | Higher | <ul style="list-style-type: none"> • significant value of transactions subject to complex estimation processes drawing on specialist |

| Relevant financial statements item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|---|-------------------|--|
| taxation receivables (gross) \$62.0 billion impairment allowance \$26.5 billion allowance for credit amendments \$5.9 billion (component of receivables net of \$30.0 billion) provision for refunds \$2.1 billion (component of provisions of \$9.2 billion) | KAM | | knowledge of debt provisions, including allowance for credit amendment and impairment losses associated with taxation receivable balances; <ul style="list-style-type: none"> • completeness, relevance and accuracy of source data; • complexity associated with negotiations and dispute resolutions; and • quality assurance processes for key judgements relating to debt provisions including credit amendments; impairment losses; and accounting for settlements of outstanding taxation liabilities and other adjustments to client accounts. |
| <i>Administered</i> taxation revenue \$456.7 billion | Completeness of taxation revenue and the ATO's compliance and risk management processes relating to the collection of taxation revenue. | Higher | <ul style="list-style-type: none"> • the significant value of revenue transactions that rely on information provided by taxpayers in a self- assessment and voluntary compliance regime; • the effectiveness of the design and implementation of the compliance risk management regime that reduces the risk that inappropriate taxation returns may not be detected and corrected by the ATO, which makes the deterrence of tax evasion more effective; and • judgements associated with the risk management approach to compliance activities. |
| <i>Administered</i> all financial statements items | Accuracy and completeness of balances due to ATO's complex IT business systems and associated processing of taxpayer returns and statements | Higher | <ul style="list-style-type: none"> • large and complex IT environment with several hundred business applications processing a high volume of transactions; • many IT systems are bespoke or heavily customised to the ATO; and • reliance on specialised reports to prepare financial statements balances. |

| Relevant financial statements item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|---|--|--|
| <p><i>Administered</i> expenses</p> <p>subsidy expenses in connection with JobKeeper expenses (\$57.0 billion) and Cash Flow Boost expenses (\$12.3 billion)</p> <p>JobMaker Hiring Credit (\$17.0 million)</p> <p>the stimulus measure payments comprise part of the subsidies expense of \$80.8 billion</p> | <p>Eligibility assessment and accuracy of reported subsidy payments in connection with JobKeeper and Cash Flow Boost.</p> <p>eligibility assessment and accuracy of reported subsidy payments in connection with JobMaker Hiring Credit expenses.</p> | <p>Moderate</p> <p>Lower</p> | <ul style="list-style-type: none"> significant value of the expenses and the speed of implementation of these stimulus measures; and the eligibility requirements and conditions to be met for amounts to be paid to employers are set by the <i>Coronavirus Economic Response Package (JobKeeper payments & JobMaker hiring credit payment) Act 2020</i>; and the <i>Boosting Cash Flow For Employers Act 2020</i>. |
| <p><i>Administered</i> all financial statements items</p> | <p>Completeness and accuracy of data required for financial reporting purposes due to complex manual processes for compilation of data.</p> | <p>Moderate</p> | <ul style="list-style-type: none"> manual calculation of complex information in spreadsheets increases the risk of miscalculation due to data linkages and human error. |

Source: ANAO 2020–21 audit results, and ATO's audited financial statements for the year ended 30 June 2021.

Audit results

4.14.65 Table 4.14.24 summarises the status of audit findings reported by the ANAO in 2020–21.

Table 4.14.24: Status of audit findings

| Category | Closing position (2019–20) | New findings (2020–21) | Findings resolved (2020–21) | Closing position (2020–21) |
|--------------|----------------------------|------------------------|-----------------------------|----------------------------|
| Moderate (B) | – | 2 | – | 2 |
| Total | – | 2 | – | 2 |

Source: ANAO 2020–21 audit results.

4.14.66 For the findings listed below, the ANAO undertook additional audit procedures to gain assurance that ATO's 2020–21 financial statements were not materially misstated.

New moderate audit findings

User access terminations not performed in a timely manner

4.14.67 The ANAO's interim testing of user access identified that ATO had not adequately implemented a system of controls which identifies users who retain access to ATO's systems or investigates ATO system activity after their formal separation date. User accounts should be disabled on their termination date as they no longer have a legitimate requirement to access

ATO's network. The ANAO identified several instances where users continued to access systems following separation from ATO and evidence of login activity within financial systems post termination was noted, however there was no financial statements impact.

4.14.68 The ANAO recommended that ATO implement a system of controls to identify and follow-up users who retain access to ATO systems after formal separation and follow-up and investigate all instances of activity of users who no longer have a legitimate business requirement to access sensitive ATO systems.

4.14.69 At final, the ANAO observed that the ATO's process for identifying potential terminated users logging on after termination had improved, however deficiencies in the processes were identified during the testing performed by the ANAO. The ATO agreed that it needed to further refine the follow up processes. ANAO also observed several instances across both payroll and contractor staff where separation dates were incorrectly recorded which could lead to under or over payments relating to staff and inhibit any investigations relating to inappropriate conduct. The ANAO will review the ATO's progress as part of the 2021–22 audit.

General Interest Charge (GIC) and Failure of Lodge (FTL) Remissions

4.14.70 The ANAO identified that rapidly implemented changes to the ATO's business-as-usual interest and penalty remission arrangements announced as part of administrative support measures for taxpayers impacted by the COVID-19 pandemic, were not all subject to risk-informed decision-making processes and there were gaps in the governance framework.

4.14.71 The ANAO recommended that governance frameworks and implementation processes be strengthened to include review of administrative processes for remission of interest and penalties. The ANAO also recommended the ATO review the existing governance mechanisms over penalties and interest remission arrangements to assess if they are fit for purpose or require modification. ATO agreed with the recommendations and the ANAO will review the status of the findings as part of the 2021–22 audit.

National Housing Finance and Investment Corporation

4.14.72 The National Housing Finance and Investment Corporation (NHFIC) commenced in 2018–19 and is established by the *National Housing Finance and Investment Corporation Act 2018*. NHFIC is responsible for: the establishment and operation of an Affordable Housing Bond Aggregator, which provides finance to registered community housing providers by aggregating their lending requirements and issuing bonds to institutional investors; the establishment and operation of the National Housing Infrastructure Facility, which provides grants and finance to support the creation of housing-related infrastructure; and the Australian Government's First Home Loan Deposit Scheme, which supports eligible buyers to purchase their first home. The scheme commenced on 1 January 2020 and is administered by NHFIC.

Summary of financial performance

4.14.73 The following section provides a summary of the 2020–21 key financial statements items reported by the NHFIC (as outlined in Table 4.14.25) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.14.25: Key financial statements items

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|---|------------------|------------------|
| Net (cost of)/contribution by services | (118.2) | (75.6) |
| Revenue from government | 59.0 | 61.8 |
| Surplus/(deficit) attributable to the Australian Government | (59.2) | (13.8) |
| Total other comprehensive income/(loss) | – | – |
| Total comprehensive income/(loss) attributable to the Australian Government | (59.2) | (13.8) |
| Total assets | 2,509.2 | 1,636.2 |
| Total liabilities | 2,098.1 | 1,331.0 |
| Total equity | 411.1 | 305.2 |

Source: NHFIC's audited financial statements for the year ended 30 June 2021.

4.14.74 Net cost of services increased due to an increase in finance cost and concessional loan provision offset by an increase in interest revenue. These increases are due to an increase in the value of loans held and bonds issued, which has also resulted in increases in total assets and liabilities respectively.

Key areas of financial statements risk

4.14.75 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 NHFIC financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.14.26. No significant or moderate audit findings were identified relating to these key areas of risk.

Table 4.14.26: Key areas of financial statements risk

| Relevant financial statements item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|--|-------------------|---|
| Accounting for and assessment of concessional loans receivable \$1,905.9 million concessional loans discounts provided | Recognition, completeness and accuracy of concessional loans and associated calculations | Moderate | <ul style="list-style-type: none"> • manual calculation of complex information in spreadsheets; • application of judgement surrounding the selection and application of indices such as market rates; and |

| Relevant financial statements item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|--|-------------------|---|
| \$222.5 million concessional loans expense \$112.4 million concessional loans provisions \$8.3 million | | | <ul style="list-style-type: none"> implementation and interpretation of AASB 9 <i>Financial Instruments</i>. |
| Issuance and valuation of bonds other interest-bearing liabilities \$2,080.8 million | Valuation and completeness of bonds recognised in the financial statements | Moderate | <ul style="list-style-type: none"> the significant value of bonds transactions and subsequent fair value measurement which may require the use of judgement. |

Source: ANAO 2020–21 audit results, and NHFIC's audited financial statements for the year ended 30 June 2021.

Audit results

4.14.76 There were no significant or moderate audit findings arising from the 2020–21 financial statements audit.

Reserve Bank of Australia

4.14.77 The objectives of the Reserve Bank of Australia (RBA) are to determine and implement monetary policy, work to maintain a strong financial system and efficient payments system and issue the nation's banknotes. As well as being a policymaking body, the RBA provides selected banking services to a range of Australian Government entities and to a number of overseas central banks and official institutions. The RBA is also responsible for the management of Australia's gold and foreign exchange reserves.

Summary of financial performance

4.14.78 The following section provides a comparison of the 2019–20 and 2020–21 key financial statements items reported by the RBA (as outlined in Table 4.14.27) and includes commentary regarding significant movements between years contributing to overall performance.

Table 4.14.27: Key financial statements item

| Key financial statements items | 2020–21 (\$m) | 2019–20 (\$m) |
|----------------------------------|------------------|------------------|
| Total expenses | 641.0 | 664.0 |
| Total income | (3,691.0) | 3,152.0 |
| Net profit/(loss) | (4,332.0) | 2,488.0 |
| Total other comprehensive income | (324.0) | 1,499.0 |
| Total comprehensive income | (4,656.0) | 3,987.0 |
| Total assets | 539,897.0 | 278,671.0 |
| Total liabilities | 516,892.0 | 248,339.0 |

| | | |
|--------------|----------|----------|
| Total equity | 23,005.0 | 30,332.0 |
|--------------|----------|----------|

Source: RBA's audited financial statements for the year ended 30 June 2021.

4.14.79 The decrease in net profit in 2020–21 was primarily driven by a net valuation loss on its domestic security holdings as a result of increased domestic bond holdings that were purchased at a premium to their par value as well as bond yields increasing over the year. Other comprehensive income decreased by \$1,823.0 million predominately as a result of lower value movements in Gold investments offset by stronger performance in the underlying assets of the defined benefit superannuation plan, resulting in a lower defined benefit superannuation obligation.

4.14.80 Total assets increased mainly due to an increase of Australian dollar investments which increased by \$263.1 billion. This is offset by an increase in liabilities of \$268.6 billion mainly due to the increase of \$262.0 billion in exchange settlement balances from government bond purchases and the Term Funding Facility associated with the RBA's COVID-19 pandemic response.

Key areas of financial statements risk

4.14.81 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 RBA's financial statements. The ANAO focused audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2020–21 are provided in Table 4.14.28, 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 4.14.28: Key areas of financial statements risk

| Relevant financial statements item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|--|---|-------------------|---|
| Australian dollar investments \$474.9 billion | Valuation of Australian dollar securities and foreign currency investments KAM | Higher | <ul style="list-style-type: none"> complexity in determining the fair value of a range of investments and securities; and potential for a significant financial impact from fluctuations in the value of the Australian dollar. |
| foreign currency investments \$56.7 billion | | | |
| net loss on security and foreign exchange \$8.5 billion | | | |

| Relevant financial statements item | Key area of risk | Audit risk rating | Factors contributing to the risk assessment |
|---|---|-------------------|--|
| Australian banknotes on issue \$95.5 billion | Accuracy of the liability for the Australian banknotes KAM | Higher | <ul style="list-style-type: none"> the accuracy of the liability for Australian banknotes on issue is dependent on the assumption that legal tender status is retained by all Australian notes on issue; and high volume of note production and the supply and security of banknotes is structurally significant to the economy. |

Source: ANAO 2020–21 audit results, and RBA's audited financial statements for the year ended 30 June 2021.

Audit results

4.14.82 There were no significant or moderate audit findings arising from the 2019–20 or 2020–21 financial statements audits.



Grant Hehir
Auditor-General

Canberra ACT
14 December 2021

Appendix 1 Listing of entities by portfolio

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified ^a | Annual report approval date ^b | Annual report tabling date | Senate estimates ^c |
|--|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|--|--|----------------------------|-------------------------------|
| Agriculture, Water and the Environment portfolio | | | | | | | | | |
| Department of Agriculture, Water and the Environment | Yes | Moderate | ✓ | 9 Sept 21 | 13 Sept 21 | Nil | 16 Sept 21 | 20 Oct 21 | |
| – Natural Heritage Trust of Australia | No | Low | ✓ | 9 Sept 21 | 13 Sept 21 | Nil | N/A | N/A | |
| Australian Fisheries Management Authority | No | Low | ✓ | 8 Sept 21 | 8 Sept 21 | Nil | 17 Sept 21 | 19 Oct 21 | |
| Australian Pesticides and Veterinary Medicines Authority | No | Low | ✓ | 6 Sept 21 | 6 Sept 21 | Nil | 13 Sept 21 | 18 Oct 21 | |
| Bureau of Meteorology | Yes | Low | ✓ | 27 Aug 21 | 27 Aug 21 | Nil | 17 Sept 21 | 19 Oct 21 | |
| Cotton Research and Development Corporation | No | Low | ✓ | 20 Aug 21 | 23 Aug 21 | Nil | 8 Oct 21 | 21 Oct 21 | |
| Director of National Parks | No | Moderate | ✓ | 17 Sept 21 | 17 Sept 21 | Nil | 5 Oct 21 | 21 Oct 21 | 25 Oct 21 |
| Fisheries Research and Development Corporation | No | Low | ✓ | 18 Aug 21 | 18 Aug 21 | Nil | 18 Aug 21 | 19 Oct 21 | |
| Grains Research and Development Corporation | No | Low | ✓ | 6 Sept 21 | 7 Sept 21 | Nil | 7 Oct 21 | 21 Oct 21 | |
| – Grains Australia Limited | No | Low | ✓ | 7 Sept 21 | 8 Sept 21 | Nil | N/A | N/A | |
| Great Barrier Reef Marine Park Authority | No | Low | ✓ | 2 Sept 21 | 2 Sept 21 | □ | 13 Sept 21 | 18 Oct 21 | |
| Murray-Darling Basin Authority | No | Low | ✓ | 24 Sept 21 | 24 Sept 21 | Nil | 7 Oct 21 | 22 Oct 21 | |
| Regional Investment Corporation | No | Low | ✓ | 29 Sept 21 | 30 Sept 21 | Nil | 1 Oct 21 | 19 Oct 21 | |

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified ^a | Annual report approval date ^b | Annual report tabling date | Senate estimates ^c |
|---|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|--|--|----------------------------|-------------------------------|
| Rural Industries Research and Development Corporation | No | Low | ✓ | 15 Sept 21 | 17 Sept 21 | Nil | 15 Sept 21 | 25 Oct 21 | 25 Oct 21 |
| Sydney Harbour Federation Trust | No | Low | ✓ | 16 Sept 21 | 16 Sept 21 | Nil | 16 Sept 21 | 21 Oct 21 | |
| – Sydney Harbour Foundation Management Limited | No | Low | ✓ | 9 Sept 21 | 15 Sept 21 | Nil | N/A | N/A | |
| Wine Australia | No | Low | ✓ | 30 Sept 21 | 30 Sept 21 | Nil | 30 Sept 21 | 22 Oct 21 | |
| Attorney-General's portfolio | | | | | | | | | |
| Attorney-General's Department | Yes | Moderate | ✓ | 23 Sept 21 | 23 Sept 21 | Nil | 24 Sept 21 | 20 Oct 21 | 26 Oct 21 |
| Administrative Appeals Tribunal | No | Moderate | ✓ | 10 Sept 21 | 10 Sept 21 | Nil | 24 Sept 21 | 20 Oct 21 | |
| Asbestos Safety and Eradication Agency | No | Low | ✓ | 16 Sept 21 | 17 Sept 21 | Nil | 17 Sept 21 | 20 Oct 21 | |
| Australian Building and Construction Commission | No | Low | ✓ | 8 Sept 21 | 8 Sept 21 | Nil | 17 Sept 21 | 20 Oct 21 | |
| Australian Commission for Law Enforcement Integrity | No | Low | ✓ | 20 Sept 21 | 20 Sept 21 | Nil | 28 Sept 21 | 20 Oct 21 | |
| Australian Financial Security Authority | No | Moderate | ✓ | 23 Sept 21 | 23 Sept 21 | Nil | 23 Sept 21 | 25 Oct 21 | |
| Australian Human Rights Commission | No | Low | E | 19 Oct 21 | 19 Oct 21 | ◆ | π | • | |
| Australian Law Reform Commission | No | Low | ✓ | 21 Sept 21 | 21 Sept 21 | Nil | 2 Oct 21 | 20 Oct 21 | |

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified ^a | Annual report approval date ^b | Annual report tabling date | Senate estimates ^c |
|--|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|--|--|----------------------------|-------------------------------|
| Coal Mining Industry (Long Service Leave Funding) Corporation | Yes | Moderate | ✓ | 10 Sept 21 | 10 Sept 21 | Nil | 10 Sept 21 | 20 Oct 21 | |
| Comcare | Yes | Moderate | ✓ | 16 Sept 21 | 16 Sept 21 | Nil | 20 Sept 21 | 20 Oct 21 | |
| Fair Work Commission | No | Low | ✓ | 6 Sept 21 | 7 Sept 21 | Nil | 23 Sept 21 | 20 Oct 21 | |
| Fair Work Ombudsman and Registered Organisations Commission Entity | No | Low | ✓ | 14 Sept 21 | 14 Sept 21 | Nil | 20 Sept 21 | 20 Oct 21 | |
| Federal Court of Australia | No | Low | ✓ | 2 Sept 21 | 2 Sept 21 | Nil | 10 Sept 21 | 20 Oct 21 | |
| High Court of Australia | Yes | Low | ✓ | 25 Aug 21 | 25 Aug 21 | □ | 8 Nov 21 | • | |
| National Archives of Australia | Yes | Low | ✓ | 31 Aug 21 | 2 Sept 21 | Nil | 27 Sept 21 | 20 Oct 21 | 26 Oct 21 |
| Office of Parliamentary Counsel | No | Low | ✓ | 16 Sept 21 | 16 Sept 21 | Nil | 11 Oct 21 | 20 Oct 21 | |
| Office of the Australian Information Commissioner | No | Low | ✓ | 6 Oct 21 | 7 Oct 21 | Nil | 23 Sept 21 | 21 Oct 21 | |
| Office of the Commonwealth Director of Public Prosecutions | No | Low | ✓ | 24 Sept 21 | 24 Sept 21 | Nil | 24 Sept 21 | 20 Oct 21 | |
| Office of the Commonwealth Ombudsman | No | Low | ✓ | 29 Sept 21 | 30 Sept 21 | Nil | 29 Sept 21 | 20 Oct 21 | |
| Office of the Inspector-General of Intelligence and Security | No | Low | ✓ | 30 Sept 21 | 30 Sept 21 | Nil | 4 Oct 21 | 20 Oct 21 | |
| Safe Work Australia | No | Low | ✓ | 22 Sept 21 | 22 Sept 21 | Nil | 24 Sept 21 | 20 Oct 21 | |
| Seacare Authority | No | Low | ✓ | 16 Sept 21 | 16 Sept 21 | Nil | 16 Sept 21 | 20 Oct 21 | |

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified ^a | Annual report approval date ^b | Annual report tabling date | Senate estimates ^c |
|--|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|--|--|----------------------------|-------------------------------|
| Defence portfolio | | | | | | | | | |
| Department of Defence | Yes | High | ✓ | 30 Sept 21 | 30 Sept 21 | ▲◆□ | 21 Sept 21 | 18 Oct 21 | 27 Oct 21 |
| AAF Company | No | Low | ✓ | 9 Sept 21 | 9 Sept 21 | Nil | 9 Sept 21 | 21 Oct 21 | |
| Army and Air Force Canteen Service | No | Low | ✓ | 31 Aug 21 | 31 Aug 21 | Nil | 9 Sept 21 | 21 Oct 21 | |
| Australian Military Forces Relief Trust Fund | No | Low | ✓ | 30 Jul 21 | 30 Jul 21 | Nil | 30 Jul 21 | 13 Oct 21 | |
| Australian Signals Directorate | Yes | Moderate | ✓ | 23 Sept 21 | 23 Sept 21 | □ | 29 Sept 21 | 19 Oct 21 | |
| Australian Strategic Policy Institute Ltd | No | Low | ✓ | 27 Aug 21 | 27 Aug 21 | Nil | ▯ | • | |
| Australian War Memorial | Yes | Low | ✓ | 27 Aug 21 | 30 Aug 21 | Nil | 20 Sept 21 | 4 Nov 21 | |
| Defence Housing Australia | Yes | Moderate | ✓ | 2 Sept 21 | 2 Sept 21 | Nil | 30 Sept 21 | 21 Oct 21 | |
| Department of Veterans' Affairs | Yes | Moderate | E | 6 Oct 21 | 8 Oct 21 | ◆ | 8 Oct 21 | 26 Oct 21 | |
| – Defence Service Homes Insurance Scheme | No | Moderate | ✓ | 6 Oct 21 | 7 Oct 21 | Nil | N/A | N/A | |
| RAAF Welfare Recreational Company | No | Low | ✓ | 28 Sept 21 | 29 Sept 21 | Nil | 6 Oct 21 | 28 Oct 21 | |
| Royal Australian Air Force Veterans' Residences Trust Fund | No | Low | ✓ | 3 Sept 21 | 6 Sept 21 | Nil | ▯ | • | |
| Royal Australian Air Force Welfare Trust Fund | No | Low | ✓ | 30 Jul 21 | 30 Jul 21 | Nil | 29 Jul 21 | 13 Oct 21 | |
| Royal Australian Navy Central Canteens Board | No | Low | ✓ | 6 Oct 21 | 8 Oct 21 | Nil | 12 Oct 21 | 28 Oct 21 | |

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified ^a | Annual report approval date ^b | Annual report tabling date | Senate estimates ^c |
|---|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|--|--|----------------------------|-------------------------------|
| Royal Australian Navy Relief Trust Fund | No | Low | ✓ | 30 Jul 21 | 30 Jul 21 | ◆ | 30 Jul 21 | 13 Oct 21 | |
| Education, Skills and Employment portfolio | | | | | | | | | |
| Department of Education, Skills and Employment | Yes | Moderate | ✓ | 7 Sept 21 | 9 Sept 21 | Nil | 9 Sept 21 | 19 Oct 21 | |
| Australian Curriculum, Assessment and Reporting Authority | No | Low | ✓ | 19 Aug 21 | 24 Aug 21 | Nil | 10 Sept 21 | 19 Oct 21 | |
| Australian Institute for Teaching and School Leadership Limited | No | Low | ✓ | 24 Aug 21 | 26 Aug 21 | Nil | 7 Sept 21 | 25 Oct 21 | |
| Australian National University | No | Moderate | ✓ | 9 Apr 21 | 12 Apr 21 | □ | 9 Apr 21 | 21 Jun 21 | |
| - ANU Enterprise Pty Limited | No | Low | ✓ | 14 May 21 | 17 May 21 | Nil | N/A | N/A | 27 Oct 21 |
| - Australian Scientific Instruments Pty Ltd | No | Moderate | ✓ | 14 May 21 | 17 May 21 | Nil | N/A | N/A | |
| - Social Research Centre Pty Limited | No | Low | ✓ | 14 May 21 | 20 May 21 | Nil | N/A | N/A | |
| Australian Research Council | Yes | Low | ✓ | 6 Sept 21 | 6 Sept 21 | Nil | 5 Oct 21 | 20 Oct 21 | |
| Australian Skills Quality Authority | No | Low | ✓ | 9 Sept 21 | 9 Sept 21 | Nil | 23 Sept 21 | 21 Oct 21 | |
| Tertiary Education Quality and Standards Agency | No | Low | ✓ | 7 Sept 21 | 7 Sept 21 | Nil | 6 Oct 21 | 19 Oct 21 | |
| Finance portfolio | | | | | | | | | |
| Department of Finance | Yes | Moderate | ✓ | 31 Aug 21 | 31 Aug 21 | Nil | 30 Sept 21 | 20 Oct 21 | 26 Oct 21 |
| ASC Pty Ltd | Yes | Moderate | ✓ | 31 Aug 21 | 31 Aug 21 | Nil | 30 Sept 21 | 25 Oct 21 | |

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified ^a | Annual report approval date ^b | Annual report tabling date | Senate estimates ^c |
|--|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|--|--|----------------------------|-------------------------------|
| - ASC AWD Shipbuilder Pty Ltd | No | Low | ✓ | 31 Aug 21 | 31 Aug 21 | Nil | N/A | N/A | |
| - ASC OPV Pty Ltd | No | Moderate | ✓ | 31 Aug 21 | 31 Aug 21 | Nil | N/A | N/A | |
| Australian Defence Force Superannuation Scheme | No | Moderate | ✓ | 29 Sept 21 | 29 Sept 21 | Nil | N/A | N/A | |
| Australian Electoral Commission | No | Low | ✓ | 8 Sept 21 | 9 Sept 21 | Nil | 28 Sept 21 | 18 Oct 21 | |
| Australian Naval Infrastructure Pty Ltd | Yes | Moderate | ✓ | 17 Sept 21 | 17 Sept 21 | Nil | 17 Sept 21 | 25 Oct 21 | |
| Commonwealth Superannuation Corporation | No | Moderate | ✓ | 29 Sept 21 | 29 Sept 21 | Nil | 29 Sept 21 | 25 Oct 21 | |
| Commonwealth Superannuation Scheme | No | Moderate | ✓ | 29 Sept 21 | 29 Sept 21 | Nil | N/A | N/A | |
| Future Fund Management Agency and the Board of Guardians | Yes | Moderate | ✓ | 28 Sept 21 | 29 Sept 21 | Nil | 28 Sept 21 | 20 Oct 21 | |
| Independent Parliamentary Expenses Authority | No | Low | ✓ | 23 Sept 21 | 23 Sept 21 | Nil | 15 Oct 21 | 21 Oct 21 | |
| Military Superannuation and Benefits Scheme | No | Moderate | ✓ | 29 Sept 21 | 29 Sept 21 | Nil | N/A | N/A | |
| Public Sector Superannuation Accumulation Plan | No | Moderate | ✓ | 29 Sept 21 | 29 Sept 21 | Nil | N/A | N/A | |
| Public Sector Superannuation Scheme | No | Moderate | ✓ | 29 Sept 21 | 29 Sept 21 | Nil | N/A | N/A | |

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified ^a | Annual report approval date ^b | Annual report tabling date | Senate estimates ^c |
|--|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|--|--|----------------------------|-------------------------------|
| Foreign Affairs portfolio | | | | | | | | | |
| Department of Foreign Affairs and Trade | Yes | Moderate | ✓ | 2 Sept 21 | 2 Sept 21 | Nil | 27 Sept 21 | 25 Oct 21 | |
| Australian Centre for International Agricultural Research | No | Low | ✓ | 13 Sept 21 | 13 Sept 21 | Nil | 29 Sept 21 | 21 Oct 21 | |
| Australian Secret Intelligence Service | No | Moderate | ■ | ■ | ■ | ■ | ■ | ■ | 28 Oct 21 |
| Australian Trade and Investment Commission | No | Low | ✓ | 28 Aug 21 | 30 Aug 21 | □ | 7 Oct 21 | 27 Oct 21 | |
| Export Finance Australia | Yes | Moderate | ✓ | 26 Aug 21 | 27 Aug 21 | Nil | 29 Sept 21 | 21 Oct 21 | |
| Tourism Australia | No | Low | ✓ | 26 Aug 21 | 26 Aug 21 | Nil | 14 Oct 21 | 29 Oct 21 | |
| Health portfolio | | | | | | | | | |
| Department of Health | Yes | Moderate | ✓ | 9 Sept 21 | 10 Sept 21 | ▲ □ | 6 Oct 21 | 19 Oct 21 | |
| Aged Care Quality and Safety Commission | No | Moderate | ✓ | 29 Sept 21 | 30 Sept 21 | Nil | 14 Oct 21 | 25 Oct 21 | |
| Australian Commission on Safety and Quality in Health Care | No | Low | ✓ | 8 Sept 21 | 8 Sept 21 | Nil | 8 Sept 21 | 19 Oct 21 | 27 Oct 21 |
| Australian Digital Health Agency | No | High | ✓ | 8 Sept 21 | 9 Sept 21 | Nil | 27 Sept 21 | 20 Oct 21 | |
| Australian Institute of Health and Welfare | No | Low | ✓ | 29 Sept 21 | 29 Sept 21 | Nil | 29 Sept 21 | 21 Oct 21 | |
| Australian National Preventive Health Agency | No | Low | ✓ | 9 Sept 21 | 10 Sept 21 | Nil | 6 Oct 21 | 19 Oct 21 | |

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified ^a | Annual report approval date ^b | Annual report tabling date | Senate estimates ^c |
|---|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|--|--|----------------------------|-------------------------------|
| Organ and Tissue Authority | No | Low | ✓ | 27 Sept 21 | 28 Sept 21 | Nil | 28 Sept 21 | 19 Oct 21 | |
| Australian Radiation Protection and Nuclear Safety Agency | No | Low | ✓ | 13 Sept 21 | 15 Sept 21 | Nil | 17 Sept 21 | 19 Oct 21 | |
| Sports Integrity Australia | No | Low | ✓ | 10 Sept 21 | 10 Sept 21 | Nil | 1 Oct 21 | 19 Oct 21 | |
| Australian Sports Commission | No | Moderate | ✓ | 20 Aug 21 | 20 Aug 21 | Nil | 27 Sept 21 | 21 Oct 21 | |
| Australian Sports Foundation Limited | No | Low | ✓ | 16 Sept 21 | 20 Sept 21 | Nil | 28 Oct 21 | 4 Nov 21 | |
| – Australian Sports Foundation Charitable Trust | No | Low | ✓ | 16 Sept 21 | 20 Sept 21 | Nil | N/A | N/A | |
| Cancer Australia | No | Low | ✓ | 9 Sept 21 | 9 Sept 21 | Nil | 22 Oct 21 | 25 Oct 21 | |
| Food Standards Australia New Zealand | No | Low | ✓ | 30 Sept 21 | 30 Sept 21 | Nil | 8 Oct 21 | 19 Oct 21 | 27 Oct 21 |
| Independent Hospital Pricing Authority | No | Low | ✓ | 15 Sept 21 | 15 Sept 21 | Nil | 30 Aug 21 | 19 Oct 21 | |
| National Blood Authority | Yes | Low | ✓ | 2 Sept 21 | 2 Sept 21 | Nil | 12 Oct 21 | • | |
| National Health and Medical Research Council | Yes | Low | ✓ | 31 Aug 21 | 1 Sept 21 | Nil | 16 Sept 21 | 19 Oct 21 | |
| National Health Funding Body | No | Low | ✓ | 23 Sept 21 | 23 Sept 21 | Nil | 23 Sept 21 | 19 Oct 21 | |
| National Mental Health Commission | No | Low | ✓ | 19 Oct 21 | 20 Oct 21 | Nil | 29 Oct 21 | • | |
| Professional Services Review Scheme | No | Low | ✓ | 24 Sept 21 | 24 Sept 21 | Nil | 29 Sept 21 | 25 Oct 21 | |

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified ^a | Annual report approval date ^b | Annual report tabling date | Senate estimates ^c |
|--|------------------|-------------------|--------------------------|----------------------------------|------------------------------|--|--|----------------------------|-------------------------------|
| Home Affairs portfolio | | | | | | | | | |
| Department of Home Affairs | Yes | High | ✓ | 8 Sept 21 | 8 Sept 21 | Nil | 7 Sept 21 | 19 Oct 21 | |
| Australian Criminal Intelligence Commission | No | Low | ✓ | 21 Sept 21 | 21 Sept 21 | Nil | 16 Sept 21 | 19 Oct 21 | |
| Australian Federal Police | Yes | Moderate | ✓ | 9 Sept 21 | 9 Sept 21 | ◆ | 9 Sept 21 | 19 Oct 21 | |
| Australian Institute of Criminology | No | Low | ✓ | 21 Sept 21 | 21 Sept 21 | Nil | 16 Sept 21 | 19 Oct 21 | 25 Oct 21 |
| Australian Security and Intelligence Organisation | Yes | Moderate | ✓ | 25 Aug 21 | 25 Aug 21 | Nil | 13 Sept 21 | 19 Oct 21 | |
| Australian Transaction Reports and Analysis Centre | No | Low | ✓ | 13 Sept 21 | 13 Sept 21 | Nil | 13 Sept 21 | 19 Oct 21 | |
| Office of the Special Investigator | No | Low | ✓ | 1 Oct 21 | 5 Oct 21 | Nil | 5 Oct 21 | 20 Oct 21 | |
| Industry, Science, Energy and Resources portfolio | | | | | | | | | |
| Department of Industry, Science, Energy and Resources | Yes | Moderate | ✓ | 31 Aug 21 | 31 Aug 21 | Nil | 1 Oct 21 | 18 Oct 21 | |
| Australian Institute of Marine Science | No | Low | ✓ | 30 Aug 21 | 30 Aug 21 | Nil | 11 Oct 21 | 22 Oct 21 | |
| Australian Nuclear Science and Technology Organisation | Yes | Moderate | ✓ | 16 Sept 21 | 17 Sept 21 | ◆ □ | 11 Oct 21 | 25 Oct 21 | 25 Oct 21 |
| - ANSTO Nuclear Medicine Pty Ltd | Yes ^d | Moderate | E | 14 Sept 21 | 17 Sept 21 | Nil | N/A | N/A | |
| - PETTECH Solutions Pty Ltd | No | Low | ✓ | 13 Sept 21 | 13 Sept 21 | Nil | N/A | N/A | |

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified ^a | Annual report approval date ^b | Annual report tabling date | Senate estimates ^c |
|--|------------------------|-------------------|--------------------------|----------------------------------|------------------------------|--|--|----------------------------|-------------------------------|
| Australian Renewable Energy Agency | No | Low | ✓ | 27 Sept 21 | 27 Sept 21 | Nil | 27 Sept 21 | 25 Oct 21 | |
| Clean Energy Finance Corporation | Yes | Moderate | ✓ | 27 Aug 21 | 27 Aug 21 | Nil | 30 Sept 21 | 20 Oct 21 | |
| – Clean Energy Investment Management Pty Ltd | No | Low | ✓ | 27 Aug 21 | 27 Aug 21 | Nil | N/A | N/A | |
| Climate Change Authority | No | Low | ✓ | 24 Sept 21 | 24 Sept 21 | Nil | 27 Sept 21 | 19 Oct 21 | |
| Clean Energy Regulator | No | Moderate | ✓ | 30 Sept 21 | 30 Sept 21 | Nil | 30 Sept 21 | 27 Oct 21 | |
| Commonwealth Scientific and Industrial Research Organisation | Yes | Moderate | ✓ | 31 Aug 21 | 1 Sept 21 | Nil | 30 Aug 21 | 18 Oct 21 | |
| – CSIRO Financial Services | No | Moderate | ✓ | 30 Aug 21 | 31 Aug 21 | Nil | N/A | N/A | |
| – CSIRO General Partner Co Pty Ltd | Yes^d | Low | ✓ | 17 Aug 21 | 18 Aug 21 | Nil | N/A | N/A | |
| – CSIRO Innovation Fund 1 | No | Low | ✓ | 11 Aug 21 | 12 Aug 21 | Nil | N/A | N/A | |
| – CSIRO Innovation Fund 2 | No | Low | ✓ | 11 Aug 21 | 12 Aug 21 | Nil | N/A | N/A | 28 Oct 21 |
| – CSIRO Innovation Follow-on-Fund 1 | No | Moderate | ✓ | 11 Aug 21 | 12 Aug 21 | Nil | N/A | N/A | |
| – National ICT Australia Limited | No | Low | ✓ | 30 Aug 21 | 31 Aug 21 | Nil | N/A | N/A | |
| – Science and Industry Endowment Fund | No | Low | ✓ | 10 Aug 21 | 11 Aug 21 | Nil | N/A | N/A | |
| Geoscience Australia | Yes | Low | ✓ | 27 Aug 21 | 27 Aug 21 | Nil | 1 Oct 21 | 18 Oct 21 | |
| IP Australia | No | Low | ✓ | 21 Sept 21 | 22 Sept 21 | Nil | 28 Sept 21 | 18 Oct 21 | |

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified ^a | Annual report approval date ^b | Annual report tabling date | Senate estimates ^c |
|--|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|--|--|----------------------------|-------------------------------|
| National Offshore Petroleum Safety and Environmental Management Authority | No | Low | ✓ | 17 Sept 21 | 17 Sept 21 | Nil | 17 Sept 21 | 28 Oct 21 | |
| Snowy Hydro Limited | Yes | Moderate | ✓ | 3 Sept 21 | 3 Sept 21 | Nil | 3 Sept 21 | 25 Oct 21 | |
| Infrastructure, Transport, Cities and Regional Development and Communications portfolio | | | | | | | | | |
| Department of Infrastructure, Transport, Regional Development and Communications | Yes | Moderate | ✓ | 16 Sept 21 | 16 Sept 21 | Nil | 1 Oct 21 | 21 Oct 21 | |
| Airservices Australia | Yes | Moderate | ✓ | 15 Sept 21 | 15 Sept 21 | Nil | 15 Sept 21 | 20 Oct 21 | |
| Australian Broadcasting Corporation | Yes | Moderate | ✓ | 25 Aug 21 | 25 Aug 21 | Nil | 09 Sept 21 | 21 Oct 21 | |
| Creative Partnerships Australia Ltd | No | Low | ✓ | 31 Aug 21 | 31 Aug 21 | Nil | 31 Aug 21 | 26 Oct 21 | |
| Australian Communications and Media Authority | Yes | Low | ✓ | 17 Sept 21 | 20 Sept 21 | Nil | 17 Sept 21 | 20 Oct 21 | 25 Oct 21 |
| Australia Council | No | Low | ✓ | 23 Aug 21 | 23 Aug 21 | Nil | 23 Aug 21 | 19 Oct 21 | |
| Australian Film, Television and Radio School | No | Low | ✓ | 10 Sept 21 | 13 Sept 21 | Nil | 10 Sept 21 | 25 Oct 21 | |
| Australian Maritime Safety Authority | No | Low | ✓ | 22 Sept 21 | 22 Sept 21 | Nil | 22 Sept 21 | 21 Oct 21 | |
| Australian National Maritime Museum | No | Low | ✓ | 15 Sept 21 | 16 Sept 21 | Nil | 15 Sept 21 | 21 Oct 21 | |
| – Australian National Maritime Foundation | No | Low | ✓ | 15 Sept 21 | 17 Sept 21 | Nil | N/A | N/A | |
| Australian Postal Corporation | Yes | Moderate | ✓ | 26 Aug 21 | 27 Aug 21 | Nil | 26 Sept 21 | 20 Oct 21 | |

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified ^a | Annual report approval date ^b | Annual report tabling date | Senate estimates ^c |
|---|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|--|--|----------------------------|-------------------------------|
| - Australia Post Licensee Advisory Council Limited | No | Low | ✓ | 24 Aug 21 | 26 Aug 21 | Nil | N/A | N/A | |
| - Australia Post Services Pty Ltd | No | Low | ✓ | 27 Sept 21 | 28 Sept 21 | Nil | N/A | N/A | |
| - Australia Post Transaction Services Pty Ltd | No | Moderate | ✓ | 16 Sept 21 | 17 Sept 21 | Nil | N/A | N/A | |
| Australian Rail Track Corporation | Yes | High | ✓ | 24 Aug 21 | 24 Aug 21 | Nil | 24 Aug 21 | 25 Oct 21 | |
| Australian Transport Safety Bureau | No | Low | ✓ | 29 Sept 21 | 30 Sept 21 | Nil | 1 Oct 21 | 18 Oct 21 | |
| Bundanon Trust | No | Moderate | ✓ | 15 Oct 21 | 15 Oct 21 | Nil | π | • | |
| Civil Aviation Safety Authority | No | Low | ✓ | 18 Aug 21 | 19 Aug 21 | Nil | 20 Sept 21 | 21 Oct 21 | |
| Infrastructure Australia | No | Low | ✓ | 31 Aug 21 | 31 Aug 21 | Nil | 4 Nov 21 | 11 Nov 21 | 25 Oct 21 |
| Moorebank Intermodal Company Limited | Yes | High | ✓ | 6 Oct 21 | 8 Oct 21 | □ | 30 Sept 21 | 29 Oct 21 | |
| - Moorebank Intermodal Development Investment Trust | No | Moderate | ✓ | 6 Oct 21 | 8 Oct 21 | Nil | N/A | N/A | |
| - Moorebank Intermodal Development Rail Trust | No | Moderate | ✓ | 6 Oct 21 | 8 Oct 21 | Nil | N/A | N/A | |
| National Capital Authority | Yes | Low | ✓ | 30 Aug 21 | 31 Aug 21 | Nil | 12 Oct 21 | 29 Oct 21 | |
| National Faster Rail Agency | No | Low | ✓ | 2 Aug 21 | 2 Aug 21 | Nil | 20 Sept 21 | 21 Oct 21 | |
| National Film and Sound Archive of Australia | No | Low | ✓ | 7 Oct 21 | 8 Oct 21 | Nil | 8 Oct 21 | 25 Oct 21 | 25 Oct 21 |
| National Gallery of Australia | Yes | Moderate | ✓ | 23 Aug 21 | 23 Aug 21 | Nil | 16 Sept 21 | 20 Oct 21 | |

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified ^a | Annual report approval date ^b | Annual report tabling date | Senate estimates ^c |
|---|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|--|--|----------------------------|-------------------------------|
| – National Gallery of Australia Foundation | No | Low | ✓ | 23 Aug 21 | 23 Aug 21 | Nil | N/A | N/A | |
| National Library of Australia | Yes | Low | ✓ | 13 Aug 21 | 13 Aug 21 | Nil | 13 Aug 21 | 26 Oct 21 | |
| National Museum of Australia | No | Low | ✓ | 2 Sept 21 | 3 Sept 21 | Nil | 2 Sept 21 | 21 Oct 21 | |
| National Portrait Gallery of Australia | No | Low | ✓ | 24 Sept 21 | 24 Sept 21 | Nil | 24 Sept 21 | 21 Oct 21 | |
| National Transport Commission | No | Low | ✓ | 27 Aug 21 | 27 Aug 21 | Nil | 6 Sept 21 | 18 Oct 21 | |
| NBN Co Limited | Yes | High | ✓ | 5 Aug 21 | 5 Aug 21 | Nil | 5 Aug 21 | 2 Sept 21 | |
| North Queensland Water Infrastructure Authority | No | Low | ✓ | 2 Aug 21 | 2 Aug 21 | Nil | 1 Oct 21 | 20 Oct 21 | |
| Screen Australia | No | Low | ✓ | 23 Aug 21 | 23 Aug 21 | Nil | 23 Aug 21 | 21 Oct 21 | |
| Special Broadcasting Service Corporation | No | Low | ✓ | 25 Aug 21 | 25 Aug 21 | Nil | 25 Aug 21 | 21 Oct 21 | |
| WSA Co Ltd | Yes | Moderate | ✓ | 26 Aug 21 | 26 Aug 21 | Nil | 26 Aug 21 | 19 Oct 21 | |
| Parliamentary Departments | | | | | | | | | |
| Department of Parliamentary Services | Yes | Low | ✓ | 9 Sept 21 | 9 Sept 21 | ◆ | 9 Sept 21 | 19 Oct 21 | |
| Department of the House of Representatives ^(e) | No | Low | ✓ | 12 Oct 21 | 12 Oct 21 | Nil | 15 Oct 21 | 19 Oct 21 | 25 Oct 21 |
| Department of the Senate | No | Low | ✓ | 29 Sept 21 | 29 Sept 21 | Nil | 11 Oct 21 | 18 Oct 21 | |
| Parliamentary Budget Office | No | Low | ✓ | 8 Sept 21 | 8 Sept 21 | Nil | 11 Oct 21 | 18 Oct 21 | |

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified ^a | Annual report approval date ^b | Annual report tabling date | Senate estimates ^c |
|---|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|--|--|----------------------------|-------------------------------|
| Prime Minister and Cabinet portfolio | | | | | | | | | |
| Department of the Prime Minister and Cabinet | Yes | Moderate | ✓ | 17 Sept 21 | 20 Sept 21 | Nil | 28 Sept 21 | 19 Oct 21 | |
| – Aboriginals Benefit Account | No | Moderate | ✓ | 28 Sept 21 | 29 Sept 21 | Nil | N/A | N/A | |
| Aboriginal Hostels Limited | No | Moderate | ✓ | 28 Sept 21 | 29 Sept 21 | □ | 28 Sept 21 | 21 Oct 21 | |
| Anindilyakwa Land Council | No | Low | ■ | ■ | ■ | ■ | ■ | ■ | |
| Australian Institute of Aboriginal and Torres Strait Islander Studies | No | Low | ✓ | 26 Aug 21 | 26 Aug 21 | Nil | 24 Sept 21 | 18 Oct 21 | |
| Australian Public Service Commission | No | Low | ✓ | 22 Sept 21 | 23 Sept 21 | Nil | 15 Oct 21 | 21 Oct 21 | |
| Central Land Council | No | Low | ✓ | 24 Aug 21 | 24 Aug 21 | Nil | 14 Sept 21 | 11 Nov 21 | |
| Digital Transformation Agency | No | Low | ✓ | 5 Oct 21 | 5 Oct 21 | Nil | 11 Oct 21 | 28 Oct 21 | 25 Oct 21 |
| Indigenous Business Australia | Yes | Moderate | ✓ | 22 Sept 21 | 22 Sept 21 | Nil | 28 Sept 21 | 26 Oct 21 | |
| – Gagudju Crocodile Hotel Trust | No | Low | E | 23 Sept 21 | 23 Sept 21 | Nil | N/A | N/A | |
| – Gagudju Lodge Cooida Trust | No | Low | ✓ | 24 Sept 21 | 24 Sept 21 | Nil | N/A | N/A | |
| – Tennant Creek Foodbarn Partnership | No | Low | ✓ | 30 Sept 21 | 30 Sept 21 | Nil | N/A | N/A | |
| – Darwin Hotel Partnership | No | Low | ✓ | 30 Sept 21 | 30 Sept 21 | Nil | N/A | N/A | |
| – IBA Retail Asset Management Pty Ltd | No | Low | ✓ | 29 Sept 21 | 29 Sept 21 | Nil | N/A | N/A | |
| – IBA Retail Property Trust | No | Low | ✓ | 24 Sept 21 | 24 Sept 21 | Nil | N/A | N/A | |

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified ^a | Annual report approval date ^b | Annual report tabling date | Senate estimates ^c |
|--|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|--|--|----------------------------|-------------------------------|
| - Ikara Wilpena Enterprises Pty Ltd | No | Low | ✓ | 30 Sept 21 | 30 Sept 21 | Nil | N/A | N/A | |
| - Ikara Wilpena Holdings Trust | No | Low | ✓ | 29 Sept 21 | 29 Sept 21 | Nil | N/A | N/A | |
| - Indigenous Economic Development Trust | No | Low | ✓ | 31 Aug 21 | 1 Sept 21 | Nil | N/A | N/A | |
| - Indigenous Prosperity Fund - Growth Fund | No | Low | ✓ | 16 Sept 21 | 16 Sept 21 | Nil | N/A | N/A | |
| - Indigenous Prosperity Fund - Income Fund | No | Low | ✓ | 16 Sept 21 | 16 Sept 21 | Nil | N/A | N/A | |
| - Indigenous Real Estate Investment Trust | No | Low | ✓ | 14 Sept 21 | 14 Sept 21 | Nil | N/A | N/A | |
| - Kakadu Tourism (GCH) Pty Ltd | No | Moderate | E | 29 Sept 21 | 30 Sept 21 | Nil | N/A | N/A | |
| - Kakadu Tourism (GLC) Pty Ltd | No | Moderate | ✓ | 29 Sept 21 | 30 Sept 21 | ☐ | N/A | N/A | 25 Oct 21 |
| - Li Ar Yalug Land Holding Trust | No | Low | ✓ | 22 Sept 21 | 23 Sept 21 | Nil | N/A | N/A | |
| - Northam Solar Project Partnership | No | Low | ✓ | 14 Sept 21 | 14 Sept 21 | Nil | N/A | N/A | |
| - Performance Bond Fund Trust | No | Low | ✓ | 17 Sept 21 | 17 Sept 21 | Nil | N/A | N/A | |
| - Tennant Creek Land Holding Trust | No | Low | ✓ | 6 Oct 21 | 6 Oct 21 | Nil | N/A | N/A | |
| Indigenous Land and Sea Corporation | Yes | Moderate | E | 20 Sept 21 | 21 Sept 21 | Nil | 23 Sept 21 | 25 Oct 21 | |

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified ^a | Annual report approval date ^b | Annual report tabling date | Senate estimates ^c |
|--|------------------------|-------------------|--------------------------|----------------------------------|------------------------------|--|--|----------------------------|-------------------------------|
| - National Centre of Indigenous Excellence Limited | No | Moderate | ✓ | 5 Oct 21 | 5 Oct 21 | Nil | N/A | N/A | 25 Oct 21 |
| - Primary Partners Pty Ltd | No | Moderate | ✓ | 8 Sept 21 | 9 Sept 21 | Nil | N/A | N/A | |
| - Voyages Indigenous Tourism Australia Pty Ltd | Yes^d | High | E | 20 Sept 21 | 21 Sept 21 | Nil | N/A | N/A | |
| National Australia Day Council Limited | No | Low | Q | 28 Sept 21 | 28 Sept 21 | Nil | 31 Aug 21 | 20 Oct 21 | |
| National Indigenous Australians Agency | Yes | Moderate | ✓ | 28 Sept 21 | 28 Sept 21 | Nil | 11 Oct 21 | 19 Oct 21 | |
| The National Recovery and Resilience Agency | No | Low | ✓ | 27 Sept 21 | 28 Sept 21 | Nil | 7 Oct 21 | 20 Oct 21 | |
| Northern Land Council | No | Moderate | ✓ | 15 Oct 21 | 16 Oct 21 | ▲ | 15 Oct 21 | 19 Nov 21 | |
| - North Australia Aboriginal Corporation | No | Low | ✓ | 16 Nov 21 | 16 Nov 21 | Nil | N/A | N/A | |
| - Northern Australian Aboriginal Charitable Trust | No | Low | ✓ | 16 Nov 21 | 16 Nov 21 | Nil | N/A | N/A | |
| Office of National Intelligence | No | Low | ✓ | 30 Sept 21 | 30 Sept 21 | Nil | 28 Sept 21 | N/A | |
| Office of the Official Secretary to the Governor-General | No | Low | ✓ | 5 Oct 21 | 6 Oct 21 | Nil | 8 Oct 21 | 21 Oct 21 | |
| Old Parliament House | No | Low | ✓ | 26 Aug 21 | 27 Aug 21 | Nil | 11 Oct 21 | 26 Oct 21 | |
| Outback Stores Pty Ltd | No | Low | ✓ | 2 Sept 21 | 2 Sept 21 | Nil | 3 Sept 21 | • | |
| Tiwi Land Council | No | Low | ■ | ■ | ■ | ■ | ■ | ■ | 25 Oct 21 |
| Torres Strait Regional Authority | No | Low | ✓ | 23 Sept 21 | 25 Sept 21 | Nil | 12 Oct 21 | 18 Nov 21 | |

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified ^a | Annual report approval date ^b | Annual report tabling date | Senate estimates ^c |
|--|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|--|--|----------------------------|-------------------------------|
| Workplace Gender Equality Agency | No | Low | ✓ | 15 Sept 21 | 17 Sept 21 | Nil | ■ | • | |
| Wreck Bay Aboriginal Community Council | No | Low | ✓ | 14 Oct 21 | 15 Oct 21 | Nil | ■ | • | |
| Social Services portfolio | | | | | | | | | |
| Department of Social Services | Yes | Moderate | ✓ | 3 Sept 21 | 3 Sept 21 | ▲□ | 15 Oct 21 | 25 Oct 21 | 28 Oct 21 |
| Australian Hearing Services | Yes | Low | ✓ | 17 Aug 21 | 17 Aug 21 | Nil | 09 Sept 21 | 25 Oct 21 | |
| Australian Institute of Family Studies | No | Low | ✓ | 10 Sept 21 | 10 Sept 21 | Nil | 14 Sept 21 | 25 Oct 21 | |
| National Disability Insurance Scheme Launch Transition Agency (National Disability Insurance Agency) | Yes | Moderate | ✓ | 10 Sept 21 | 14 Sept 21 | ◆□ | 29 Sept 21 | 26 Oct 21 | |
| NDIS Quality and Safeguard Commission | No | Low | ✓ | 27 Sept 21 | 27 Sept 21 | Nil | 7 Oct 21 | 26 Oct 21 | |
| Services Australia | Yes | Moderate | ✓ | 31 Aug 21 | 31 Aug 21 | ▲ | 1 Oct 21 | 19 Oct 21 | |
| Treasury portfolio | | | | | | | | | |
| Department of the Treasury | Yes | Moderate | ✓ | 16 Sept 21 | 16 Sept 21 | ◆ | 29 Sept 21 | 20 Oct 21 | 27 Oct 21 |
| Australian Bureau of Statistics | Yes | Low | ✓ | 24 Aug 21 | 26 Aug 21 | Nil | 16 Sept 21 | 21 Oct 21 | |
| Australian Competition and Consumer Commission | No | Low | ✓ | 27 Aug 21 | 27 Aug 21 | Nil | 2 Sept 21 | 20 Oct 21 | |
| Australian Office of Financial Management | Yes | Moderate | ✓ | 31 Aug 21 | 31 Aug 21 | Nil | 12 Oct 21 | 29 Oct 21 | |
| Australian Prudential Regulation Authority | Yes | Low | ✓ | 17 Aug 21 | 19 Aug 21 | Nil | 17 Sept 21 | 21 Oct 21 | |

| Reporting entity | Material entity | Audit risk rating | Type of auditor's report | Date financial statements signed | Date auditor's report issued | Audit findings identified ^a | Annual report approval date ^b | Annual report tabling date | Senate estimates ^c |
|--|-----------------|-------------------|--------------------------|----------------------------------|------------------------------|--|--|----------------------------|-------------------------------|
| Australian Reinsurance Pool Corporation | Yes | Moderate | ✓ | 21 Sept 21 | 22 Sept 21 | Nil | 21 Sept 21 | 21 Oct 21 | |
| Australian Securities and Investments Commission | Yes | Moderate | ✓ | 1 Sep 21 | 1 Sep 21 | □ | 1 Oct 21 | 15 Oct 21 | |
| Australian Taxation Office | Yes | High | ✓ | 22 Sept 21 | 22 Sept 21 | ◆ | 30 Sept 21 | 19 Oct 21 | |
| Commonwealth Grants Commission | No | Low | ✓ | 23 Jul 21 | 23 Jul 21 | Nil | 30 Aug 21 | 18 Oct 21 | |
| Financial Adviser Standards and Ethics Authority Ltd | No | Low | ✓ | 23 Aug 21 | 23 Aug 21 | Nil | 23 Aug 21 | 25 Oct 21 | |
| Inspector-General of Taxation | No | Low | ✓ | 23 Sept 21 | 27 Sept 21 | Nil | 1 Oct 21 | • | |
| National Competition Council | No | Low | ✓ | 8 Sept 21 | 8 Sept 21 | Nil | 17 Sept 21 | 21 Oct 21 | |
| National Housing Finance and Investment Corporation | Yes | Moderate | ✓ | 26 Aug 21 | 26 Aug 21 | Nil | 24 Sept 21 | 19 Oct 21 | |
| Office of the Auditing and Assurance Standards Board | No | Low | ✓ | 23 Sept 21 | 23 Sept 21 | Nil | 23 Sept 21 | 19 Oct 21 | |
| Office of the Australian Accounting Standards Board | No | Low | ✓ | 23 Sept 21 | 23 Sept 21 | Nil | 23 Sept 21 | 19 Oct 21 | |
| Productivity Commission | No | Low | ✓ | 27 Aug 21 | 27 Aug 21 | Nil | 15 Sept 21 | 20 Oct 21 | |
| Reserve Bank of Australia | Yes | Moderate | ✓ | 10 Sept 21 | 10 Sept 21 | Nil | 27 Sept 21 | 21 Oct 21 | |
| – Note Printing Australia Ltd | No | Low | ✓ | 26 Jul 21 | 26 Jul 21 | Nil | N/A | N/A | |
| Royal Australian Mint | No | Moderate | ✓ | 17 Sept 21 | 17 Sept 21 | Nil | 24 Sept 21 | 20 Oct 21 | |

Note a: These are significant and moderate findings identified in current and prior years.

Note b: 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 c: This is the first appearance for the portfolio in the 2020–21 budget estimates hearing.

Note d: This entity is classified as material by the Department of Finance. As it is consolidated into a material entity, it is not discussed separately as a material entity in this report.

Note e: The House of Representatives is not required to appear before Senate Estimates.

- ✓: auditor's report not modified
- E: auditor's report contains an emphasis of matter
- Q: audit report contains qualification
- L: auditor's report contains a reference to other legal and regulatory requirements relating to an actual and/or potential breach of section 83 of the Constitution

- ◆: new significant or moderate findings and/or legislative matters noted
 - ▲: significant or moderate findings and/or legislative matters reported previously not yet resolved
 - : significant or moderate findings and/or legislative matters identified in previous periods, or the 2020–21 interim audit phase, now downgraded or resolved
 - 📅: financial year end date other than 30 June 2021
 - : financial statements not signed as at 19 November 2021
 - : annual report not tabled as at 19 November 2021
- N/A: not required to table an annual report in Parliament

Appendix 2 Changes in audit responsibilities in 2020–21

The following is a listing of new entities to be audited and entities that ceased to be audited by the Auditor-General in 2020–21, entities that had a name change in 2020–21 and entities that have moved between portfolios.

New entities audited in 2020–21

- CSIRO Innovation Fund 2
- Grains Australia Limited
- Office of the Special Investigator
- Sport Integrity Australia

Entities that ceased to be audited by the Auditor-General

- Australian Sports Anti-Doping Authority
- Indigenous Prosperity Fund Cash Fund
- Infrastructure and Project Financing Agency
- Tjapukai Aboriginal Cultural Park Partnership
- Wilpena Pound Aerodrome Services Pty Limited

Entities that had a name change

| 2020–21 entity name | Former entity name |
|---|--|
| Creative Partnerships Australia | Australian Business Arts Foundation Ltd |
| Export Finance Australia | Export Finance and Insurance Corporation |
| The National Recovery and Resilience Agency | The National Drought and North Queensland Flood Response and Recovery Agency |

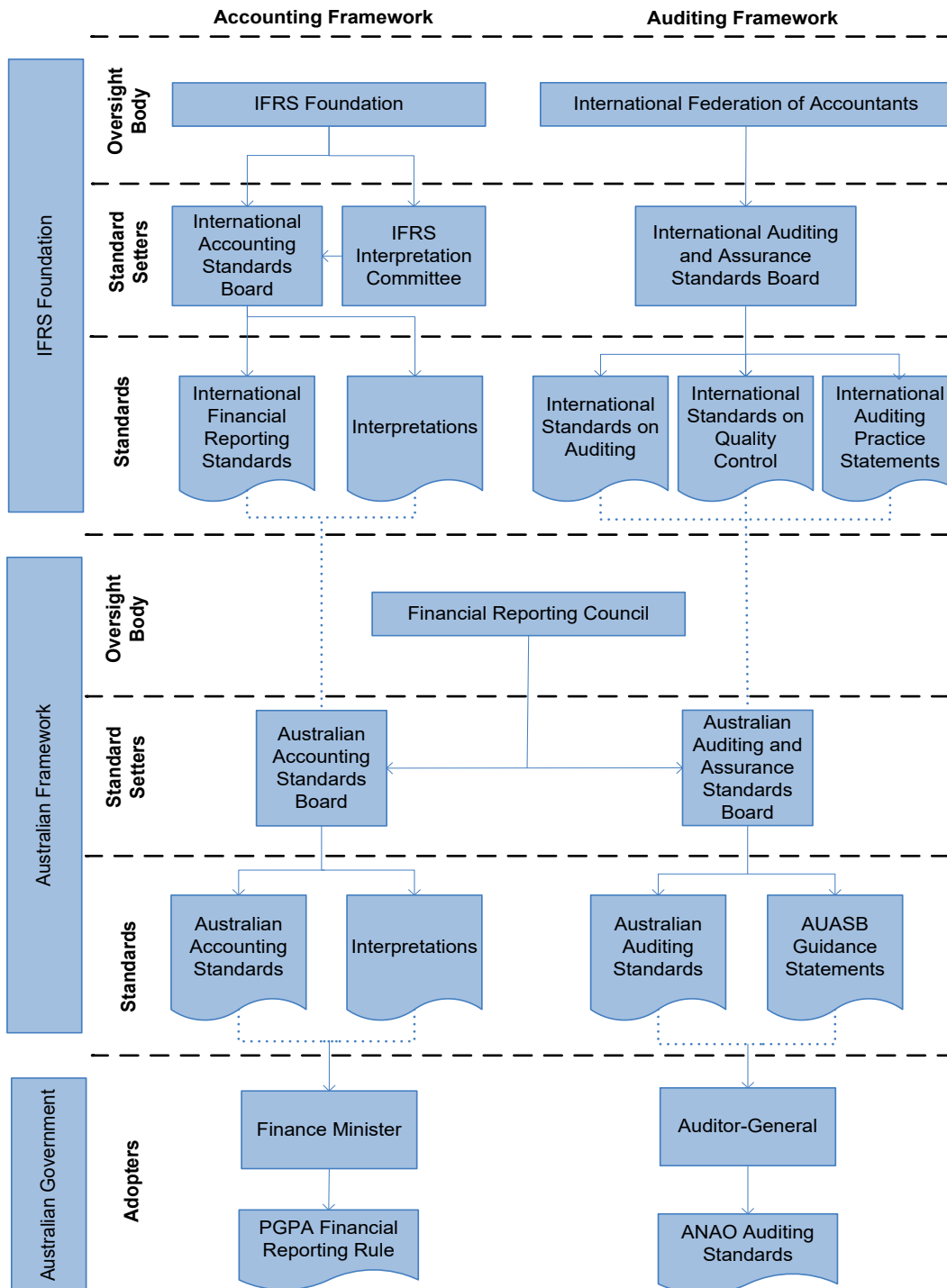
Changes in administrative arrangements

| Entity name | 2020–21 portfolio | Former portfolio |
|-------------------------------|----------------------------|------------------|
| Digital Transformation Agency | Prime Minister and Cabinet | Social Services |

Appendix 3 The financial reporting and auditing standards frameworks for 2020–21

The figure below depicts the standard setting framework for financial reporting and auditing, in the Australian Government context.

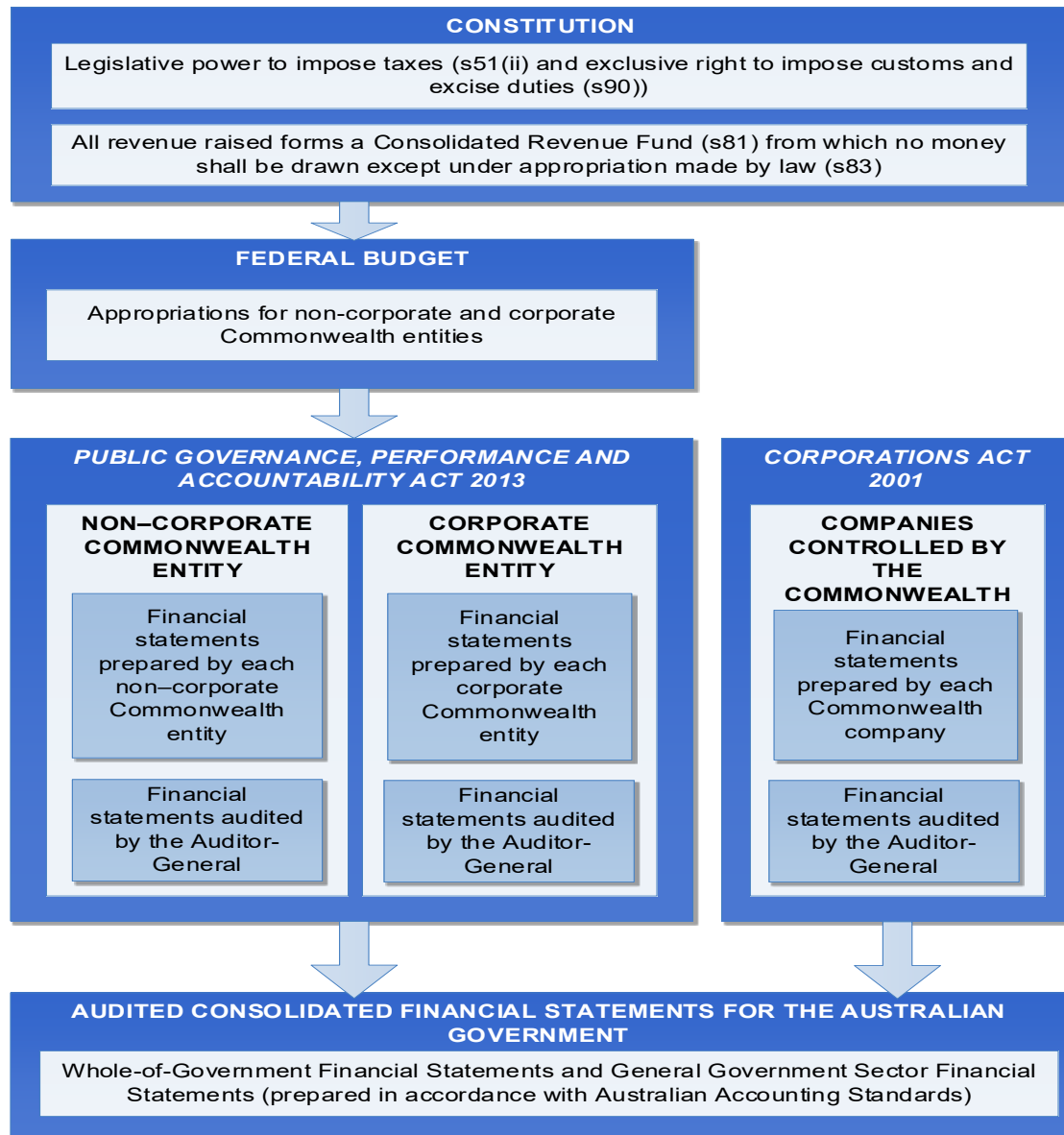
Figure A.1: Australian Government standard setting framework



Appendix 4 The financial reporting and auditing framework for 2020–21 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.

Auditor-General Report No. 14 2021–22
Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2021

Australian Government reporting entities

Commonwealth Government of Australia

2. Section 48 of the PGPA Act requires the Minister for Finance 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 other than a Commonwealth company. 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; and a corporate Commonwealth entity, which is a Commonwealth entity that is a body corporate and legally separate from the Commonwealth.⁶⁴
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. In some cases they are also operate under their own enabling legislation.
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 2001* (Corporations Act).
12. The applicable financial reporting framework for Commonwealth companies is the 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.
26. 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.
27. 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.
28. 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

29. 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

30. 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

31. 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

32. 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.