

The Auditor-General
Audit Report No.29 2001–2002
Financial Statement Audit

Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2001

Summary of Results

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Canberra ACT
21 December 2001

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken audits of the financial statements of Commonwealth entities and examinations and inspections of the accounts and records of those entities in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of these audits, and the accompanying brochure, to the Parliament. The report is titled *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2001*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—
<http://www.anao.gov.au>.

Yours sincerely



P. J. Barrett
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. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Foreword

This report brings together the results of the audits of the financial statements of all Commonwealth reporting entities, including the Commonwealth Government of Australia Consolidated Financial Statements.

It complements my mid year report, *Control Structures as part of the Audits of the Financial Statements of Major Commonwealth Entities for the Year Ended 30 June 2001* (Audit Report No.1 2001–2002), which discussed the more significant risk and control issues identified during the interim phase of the financial statements audits of major Commonwealth entities.

The reporting deadline for Commonwealth entities for the 2000–2001 financial year was determined to facilitate the preparation of the Final Budget Outcome Report which was required to be tabled in the Parliament by 30 September 2001 in accordance with the requirements of the *Charter of Budget Honesty Act 1998*.

The Commonwealth's Consolidated Financial Statements were signed on 18 December 2001 and the audit report thereon issued on 18 December. The Minister for Finance and Administration issued a statement in early December explaining that the Consolidated Financial Statements had not been completed within five months after the end of the financial year because the election process significantly impacted the finalisation of the statements.

There are a number of financial statement reporting issues that still need to be further addressed before the Government's financial reforms will achieve their full potential. Foremost amongst these is the need to improve the quality of financial information particularly in association with the focus on budget outcomes and outputs which is central to the Government's reform initiatives. Not unexpectedly, the experience across entities still varies widely. For some, it is a question of priority within their corporate governance framework. For others, there continues to be a need to enhance understanding of the accrual based environment, including having the appropriate skills and experience to do so.

I would like to take this opportunity to acknowledge the efforts and professionalism of my staff in undertaking the audit work that culminates in this Report. Their dedication and diligence also enabled the satisfactory completion of nearly all audited financial statements within the timeframe required by the Government. I should also acknowledge the assistance of private sector accounting and auditing firms, which was essential to that result.

P.J. Barrett
Auditor-General

Executive Summary

1. This report summarises the final results of the audits of the financial statements of Commonwealth entities, forming the second report this year on financial statement audits for the financial year ended 30 June 2001. It complements Audit Report No.1 2001–2002¹.

2. The earlier report summarised major issues in relation to financial systems, controls and processes from examinations of major Commonwealth entities as part of the audits of their financial statements. That report raised significant issues in relation to major entities that warrant attention in order to ensure there is improvement in the quality of the underlying control structures that support the reporting of public sector financial performance and accountability. This is also necessary for the efficient and effective management of public revenues and expenditures as well as to provide appropriate assurance to the Government and to the Parliament.

The 2000–2001 Audit Cycle

3. Under section 57 of the *Financial Management and Accountability Act 1997* for agencies, and under clause 3, part 2 of Schedule 1 of the *Commonwealth Authorities and Companies Act 1997* for other bodies, the Auditor-General is required to report each year to the relevant Minister on whether the entity's financial statements have been prepared in accordance with the Finance Minister's Orders and whether they give a true and fair view of the matters required by those orders.

4. Since June 2001, the Australian National Audit Office (ANAO) has updated its understanding of the business and corporate governance arrangements; confirmed audit risk; completed audit testing; and largely completed its program of final audits. All ANAO findings have been reported to entities' management and also provided, in summary, to the responsible Minister(s).

Results of the audits of financial statements

5. The ANAO is responsible for the audit of the financial statements of 272 Commonwealth entities (see Table 1) compared with 293 entities last year.

¹ Australian National Audit Office Audit Report No.1 2001–2002, *Control Structures as part of the Audits of the Financial Statements of Major Commonwealth Entities for the Year Ended 30 June 2001*, Canberra, 2001.

6. The reduction in the number of Commonwealth reporting entities in the current financial year is largely due to the classification under the *Corporations Act 2001* of a number of small entities as non-reporting entities for the 2000–2001 financial year, thus not requiring audit opinions to be issued in relation to their annual financial statements. That does not remove the need for audit attention as part of the requirement for audit assurance.

Table 1

Type and number of entities audited

| <i>Reporting Entity</i> | <i>2000–2001</i> | <i>1999–2000</i> |
|--|------------------|------------------|
| Commonwealth's Consolidated Financial Statements (CFS) | 1 | 1 |
| Agencies: | | |
| —Departments of State | 18 | 17 |
| —Parliamentary Departments | 5 | 5 |
| —Prescribed Agencies | 44 | 43 |
| —Business Operations | 12 | 12 |
| Commonwealth authorities and their subsidiaries | 170 | 177 |
| Commonwealth companies and their subsidiaries | 20 | 35 |
| Other | 2 | 3 |
| Total | 272 | 293 |

7. The bulk of the Commonwealth's revenues, expenses, assets and liabilities in the 2000–2001 financial year are accounted for by a relatively small number of Commonwealth entities. Notable among the latter are the Departments of Defence, Family and Community Services and Health and Aged Care as well as the Australian Taxation Office (ATO). The focus of this report is on the final results of the financial statement audits for the 2000–2001 financial year. Financial management issues (where relevant) arising out of the audits and their relationship to internal control structures are also included in this report.

8. The report is organised as follows:

- Part One—*Reporting Issues*—discusses Commonwealth financial management and reporting issues. It also provides ongoing commentary on the structure of the Commonwealth's financial framework. Related reporting issues include developments in relation to the outcomes and outputs costing and the appropriation framework. Comment is also made on the quality and timeliness of the preparation of entities' annual financial statements.

- Part Two—*Commonwealth Government of Australia Consolidated Financial Statements*—provides details of the audit of the Commonwealth's Consolidated Financial Statements for 2000–2001.
- Part Three—*Summary of Current Control Issues*—provides an overview of the current control issues noted in the financial statement audits of Commonwealth entities.
- Part Four—*Summary of Results of the Audits of Financial Statements*—discusses the summary final results of the audits of the financial statements, providing details regarding qualifications and any matters emphasised in audit reports.
- Part Five—*Results of the Audits of Financial Statements by Portfolio*—provides the results of the individual financial statement audits and any additional significant control matters identified since Audit Report No.1 2001–2002. It is structured in accordance with the Portfolio arrangements established in the Administrative Arrangements Order of 21 October 1998, as amended.

Reporting Issues

Commonwealth Financial Reporting Framework

Background

9. My corresponding report² dealing with financial statement audits of Commonwealth entities for the financial year 1999–2000 provided comment on important elements of the Government’s financial reform agenda. Significant issues included commentary on the Commonwealth’s financial framework as applied to accrual budgeting and reporting. Also included in that report were performance management issues resulting from the adoption of the outcomes and outputs budgeting and reporting framework.

10. This report includes further comment on these issues with the focus on the Commonwealth Government’s Consolidated Financial Statements. It also provides commentary on the relationship of the Commonwealth Government’s Consolidated Financial Statements to the Final Budget Outcome Report. As well, there is a discussion of a number of contemporary issues relating to the Commonwealth’s reporting framework.

The Commonwealth Government of Australia Consolidated Financial Statements and the Final Budget Outcome Report

Introduction

11. At the close of each financial year the Government prepares two key financial reports:

- the Commonwealth Government of Australia Consolidated Financial Statements (CFS) which are prepared pursuant to section 55 of the *Financial Management and Accountability Act 1997* (FMA Act) to present the financial result and the financial position of the Commonwealth; and
- the Final Budget Outcome Report (FBO Report) which is prepared pursuant to section 18 of the *Charter of Budget Honesty 1998* (the Charter) to present Commonwealth budget sector and Commonwealth general government sector fiscal outcomes for a financial year.

² Australian National Audit Office Audit Report No.23 2000–2001, *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2000 Summary of Results*, Canberra, 2000.

12. The reports serve different purposes and are based on different sets of external reporting standards.

13. The CFS are prepared on an accrual basis in accordance with applicable Australian Accounting Standards, including *Financial Reporting by Governments* AAS31, other authoritative announcements of the Australian Accounting Standards Board and Consensus Views of the Urgent Issues Group, having regard to Statements of Accounting Concepts. The CFS is a general purpose financial report which discloses assets controlled and any liabilities incurred by the Government, the Government's revenues and expenses, and related cash flows. Reporting under this framework provides a consolidated overview of the financial performance and position of the Government.

14. Consistent with the requirements of the Charter, the FBO Report is based on the Australian Bureau of Statistics accrual Government Finance Statistics framework and Australian Accounting Standards. The Charter also requires that departures from applicable external reporting standards be identified.

15. The FBO Report, which is required to be produced within three months of the end of each financial year, comprises:

- Government Finance Statistics (GFS) Statements;
- AAS31 Financial Reporting by Governments Primary Financial Statements; and
- Commonwealth Budget Outcome.

16. A reconciliation is provided in the FBO Report between key GFS aggregates and their counterparts prepared on the basis of Australian Accounting Standards.

Harmonisation opportunity

17. The issue of the harmonisation of the CFS and GFS frameworks is being discussed by interested parties including the Australian Accounting Standards Board and the Australian Bureau of Statistics. While a considerable amount has been done to harmonise the reporting frameworks, significant differences remain, including in respect of the treatment of: revaluation of assets and liabilities; gains and losses on sale of assets; interest flows related to swaps and other financial derivatives; and acquisition of defence weapons platforms.

18. Further harmonisation would be useful. However, there are constraints on the rate of progress because both frameworks have different conceptual underpinnings, both with considerable international support. For further progress on harmonisation to be made, there will need to be

ongoing national and international support for this goal to be achieved. A major determinant of progress continues to be resolving the different purposes served by the two frameworks.

Potential audit of FBO Report

19. While the CFS is audited, it should be noted that the FBO Report is not subject to audit. In the context of a potential audit of the FBO Report and in evidence to a recent JCPAA hearing³, the ANAO confirmed that it is willing to audit the FBO Report if requested to do so but this was a matter for the Government and Parliament to decide. The issue of relevant standards to be used would be central to such an audit.

20. An audit of the FBO Report would, entail first a review of the general government sector component of the CFS, to ensure consistency of input to, and presentation of, the FBO Report. Second, a separate audit would need to be undertaken of the GFS to determine adherence with the relevant Australian Bureau of Statistics GFS framework.

Outcomes and outputs costing and appropriation reporting framework

Introduction

21. The foregoing commentary reflects a significant reporting issue at a Whole of Government level. This part of the report addresses significant reporting issues at a Commonwealth entity level, primarily focusing on departmental activities as they relate to outcomes and outputs costing and appropriation reporting matters.

Background

22. The focus of reforms in the Australian Public Service (APS) over many years has been the establishment of a performance culture supported by clear lines of accountability⁴. Successive governments have had as an objective the goal of changing the focus of the public sector towards a more transparent performance culture. In this respect, a critical factor in recent years has been the development of the accrual based outcomes and outputs budgeting and reporting framework.

³ Australia, Parliament, *Joint Committee of Public Accounts and Audit: Review of Accrual Budget Documentation*, Official Committee Hansard, Canberra, 2001

⁴ Australian National Audit Office Audit Report No.18 2001–2002, *Performance Information in Portfolio Budget Statements*, Canberra, 2001.

The Commonwealth's framework

23. Commonwealth reporting requirements align with Australian Accounting Standards. Australian Accounting Standard AAS 29, *Financial Reporting by Government Departments*, requires entities to report their revenues and expenses, where they can be reliably attributed, against major activities. Entities generally have determined major activities to correspond to outputs (or output groups) and have reported against these as required in their financial statements.

The current position

24. During the 2000–2001 financial statement audit process, the attribution issue was considered. At this time, not all entities are able to attribute accurately all costs to relevant outcomes/output groups. The ANAO has made general recommendations to entities to enhance cost allocation models. There is scope for many entities to develop comprehensive allocation models which are able to attribute more reliably expenses to outputs. This would include the implementation of comprehensive change management processes to account for, and monitor appropriately, the apportionment of costs across all outputs. As part of this process, there would be a requirement to maintain adequate supporting data and evidence that demonstrate the accuracy and reasonableness of management bases or estimates that drive the cost allocation process. Achievement of this objective would facilitate a clearer relationship of costs to outputs and provide a sound basis for alignment with the entities' revenues.

Reporting of appropriations

25. Revenue recognition principles have been subject to close consideration during the audit of the Commonwealth entities' financial statements for the 2000–2001 financial year.

26. An issue of concern to many entities during the preparation of their 2000–2001 financial statements was the accounting treatment with regard to departmental accrual appropriations. The particular issues related to whether entities could:

- defer the recognition of departmental appropriation revenue to a subsequent financial year for appropriations received but not spent, particularly for discrete programs or activities, which had not as of the end of the financial year been delivered. Such a deferral would treat the appropriation amount as not earned and would allow the appropriation to be brought to account as revenue in a subsequent financial period to match the expenditure incurred; and

- recognise a departmental appropriation receivable in respect of funds spent on approved programs or activities for which no appropriation was received in that financial year. The accrued appropriation receivable would result in the recognition of appropriation revenue to match the expenditure incurred.

Application of the Commonwealth's financial model

27. As stated earlier, the accounting treatment adopted by the Commonwealth is consistent with AAS 29, which requires parliamentary appropriations, over which a government entity gains control during the reporting period, to be recognised as revenue if they meet the definition of revenues.

28. Unless there are special arrangements, appropriations will almost always be required to be recognised as revenue once they are in the control of the entity. AAS 29 does, however, outline circumstances where this will not necessarily be the case and refers to situations where an *owner/purchaser* or similar model of financial management is in place. Under financial models of this kind, the characteristic of an appropriation may change and meet the definition of a liability. This may result in the deferral of appropriation revenue to a subsequent financial period or the eventual refund of the appropriation if the goods or services for which the appropriation was made are not delivered. The appropriation transaction is considered to be of a reciprocal nature as the transferor and transferee directly receive and sacrifice approximately equal value.

29. The Department of Finance and Administration has indicated that the Outcome/Outputs Accrual Budgeting and Reporting Framework which Commonwealth entities are reporting under is not a *purchaser/provider model* (also referred to as an *owner/purchaser model*)⁵. Without such a model, departmental appropriations will almost always qualify as revenue once they are in the control of the entity. There will be few, if any, circumstances which will allow the deferral of departmental appropriation revenue to a subsequent financial period. The transfer of departmental appropriations to entities, unless there are special arrangements involved, will be of a non-reciprocal nature. It has to be said that concerns have been expressed about the application of the reciprocity test in the standards context.

⁵ Department of Finance and Administration, Finance Brief No.1 2001, *Accrual Accounting in respect to 'Departmental Revenue from Government' 2000–2001*, Finance, Canberra, August 2001. This is superseded by draft *Finance Brief No. 10 2001* which now deals with on-going issues relating to accrual and deferral of appropriations.

30. The deferral of departmental appropriations to a subsequent financial period can be a complex issue, particularly in large entities. Difficulties arise as accounting policies must be applied consistently across all transactions and therefore all financial and operational aspects of an entity's departmental business should be subject to an assessment of what outputs (or components thereof) have been delivered at what price, and what outputs (and budgeted price) remain to be delivered in a subsequent financial period.

Moving forward

31. Revenue recognition principles and expense allocation methodologies provide the basis of measurement for monitoring and enhancing APS performance. So it becomes fundamental for these issues to be worked through as the reform agenda moves forward.

32. Under the Commonwealth framework, a fundamental quantitative performance measure is the full cost of outputs, as identified on an accrual basis, including the allocation of all overheads. The identification of total costs facilitates the improvement of operations and the achievement of efficiency and accountability of such operations.

33. Performance measurement programs vary from entity to entity. At this time, many entities do not have the performance measurement capacity required to report output performance efficiently and reliably. The ANAO, in a separate Performance Audit Report⁶, concluded that it would be difficult in these circumstances for Parliament and other stakeholders to assess entity performance with reasonable assurance. It is a problem that pervades all legislatures that are attempting to focus more on performance measurement and assessment.

Overall observations

34. Commonwealth financial reporting practices effectively assume the complete delivery of outputs by entities. Appropriation funding flows to entities are generally not tightly linked to the delivery of outputs. This approach reflects the current budgetary framework and represents the current state of performance information in entities. These issues are also reflective of the fact that the outcomes and outputs budgeting and reporting framework, including the notion of the Government as both customer and as owner, is still in its developmental stage and subject to considerable debate.

⁶ ANAO Audit Report No.18 2001–2002 *Performance Information in Portfolio Budget Statements*, Canberra, 2001.

35. Integral to the success of the outcomes/outputs budgeting and reporting framework will be the consolidation of a performance measurement program which has to be undertaken in a manner that allows for the reliable measurement of all delivered and undelivered output components.

Timing for Financial Statement Preparation

36. As stated earlier, the *Charter of Budget Honesty Act 1998* requires the Final Budget Outcome Report to be tabled by 30 September each year. Meeting this deadline required the financial statements of all material entities forming part of the CFS to be prepared and audit cleared by 15 August 2001, a situation that continues to pose significant challenges for all those entities involved, including the ANAO.

37. To ensure success in meeting the 15 August 2001 timetable, as much of the financial statements preparation and audit processes as practically possible were performed prior to 30 June 2001. In accordance with the ANAO Better Practice Guide *Building Better Financial and Management Support* (November 1999)⁷—the workload was shifted away from peak workload periods by undertaking a ‘hard close’⁸ before financial year end, where entities were in a position to do so.

38. To assist further in the achievement of a successful outcome, prior to 30 June 2001, the ANAO also agreed with most material entities being audited, the appropriateness of the financial disclosure in their financial statements.

39. The above measures contributed to the achievement of the reporting deadline. However, this success is relative when compared to best practice.

40. The ANAO’s Better Practice Guide *Building Better Financial and Management Support*⁹ notes that world best practice organisations have reduced the total time for the financial statement preparation process to two days, through process re-engineering. It also indicates that it is now common better practice to produce financial reports within five to seven days following the end of the designated financial period.

⁷ Australian National Audit Office Better Practice Guide 1999, *Building Better Financial Management Support*, Canberra, November 1999.

⁸ A ‘hard close’ is generally associated with the traditional ‘close the books’ process for the production of financial reports for outside regulators. It typically involves performing reconciliations, searching for undetected accruals or transactions processed in the wrong period, verification of physical balances and analysis of transactions and balances to detect errors arising from misclassification or misposting. It may also include obtaining independent appraisals and estimates for balances not able to be determined by other means. Better practice organisations undertake a ‘hard close’ only where there is an external, regulatory requirement to produce financial statements. For most Commonwealth organisations this will be the annual financial statements.

⁹ ANAO, *Building Better Financial Management Support*, op. cit.

41. Generally, lack of timely reconciliations performed regularly throughout the year meant that significant effort was required by entities at the end of the particular financial year to complete the reconciliations satisfactorily for annual financial reporting purposes. As in previous years, there continues to be a need for greater discipline and management involvement in the financial statement preparation process.

42. As illustrated below, most major Commonwealth entities preparing financial statements do not meet better practice standards. Nevertheless there has been a slight improvement in the average time taken to prepare financial statements over that achieved last year. However, the performance of individual entities in preparing their financial statements has been mixed, with some entities improving but others deteriorating in performance.¹⁰

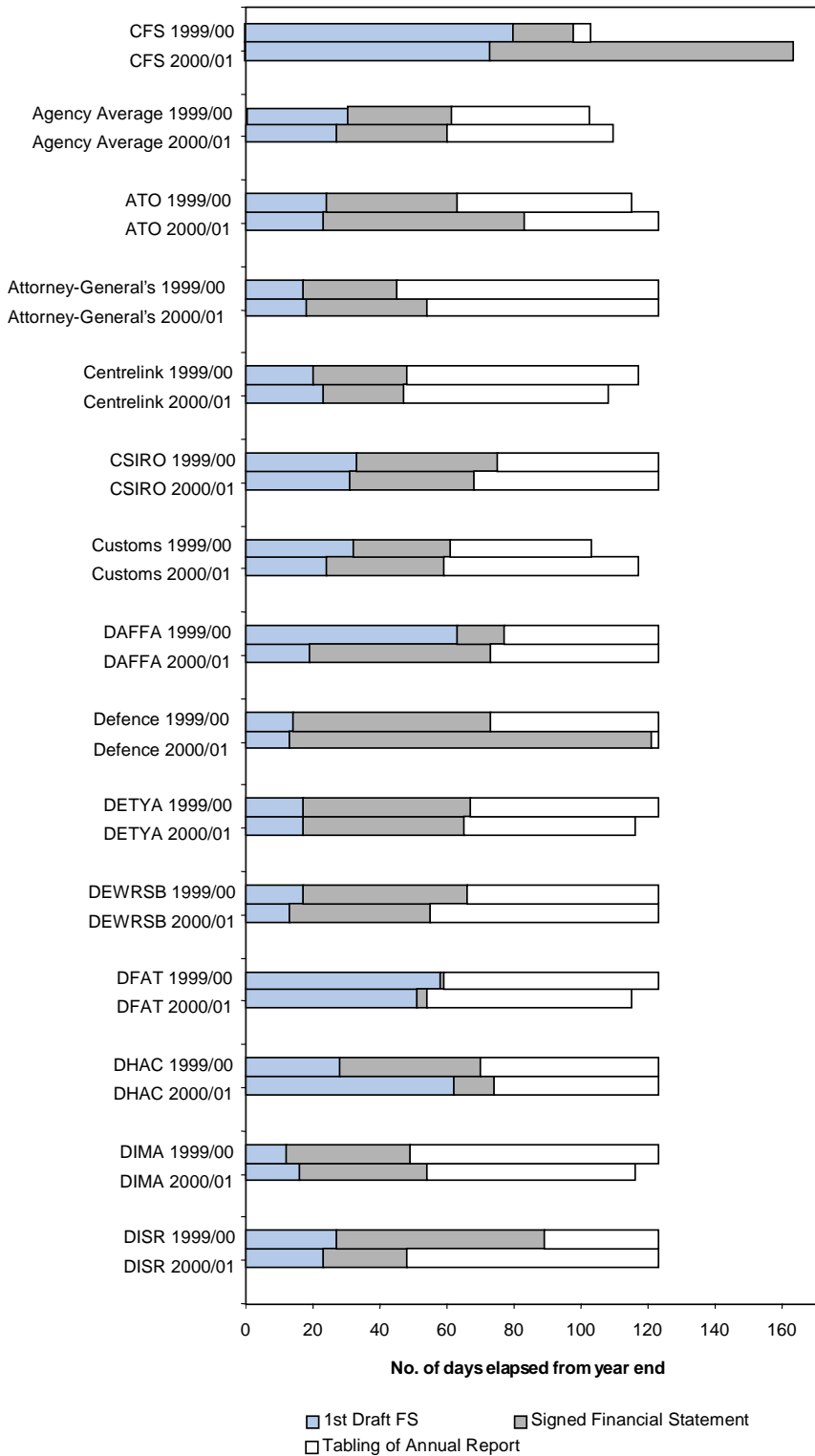
43. Figure 1 illustrates the timing of the financial statement preparation process for major Commonwealth entities. On average, these Commonwealth entities took 60 days to produce signed financial statements. This is a small improvement on the prior year's achievement where, on average, the signed financial statements were not produced until 61 days after balance date.

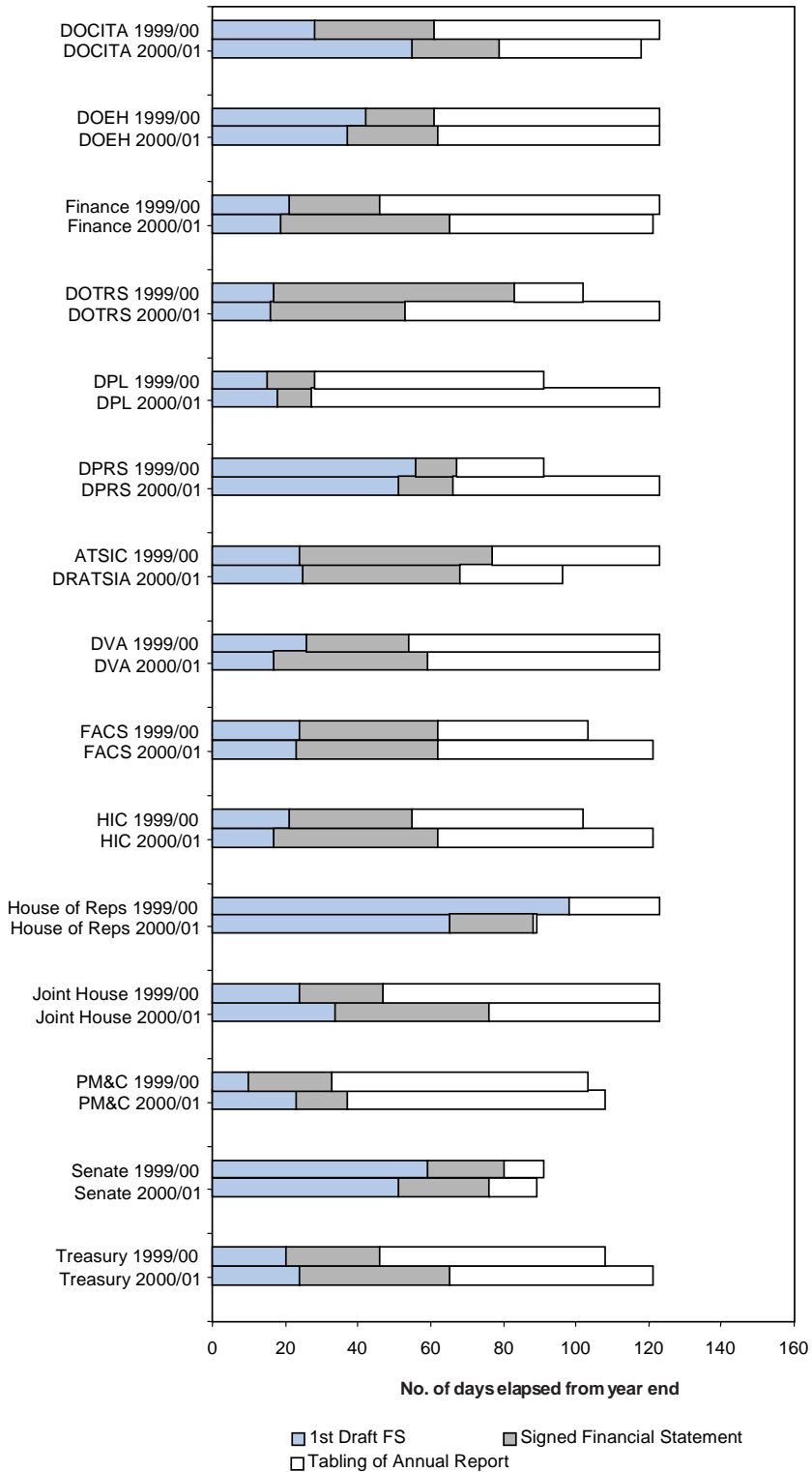
44. Figure 1 also illustrates that, irrespective of the improvement in the timeliness of financial statement preparation for the 2000–2001 financial year, there has been little or no consequent improvement in the timeliness of the tabling in Parliament of the Annual Reports of these major Commonwealth entities. In earlier years, the finalisation of the financial statements has been a key factor determining when the Annual Report is tabled in Parliament. The opportunity to improve the timeliness of overall reporting to Parliament has not been realised for the 2000–2001 financial year.

¹⁰ Note that in Figure 1, the Department of Reconciliation, Aboriginal and Torres Strait Islander Affairs (DRATSIA) has been included for completeness, although this is a new entity for 2000–2001.

Figure 1

Cycle times to tabling financial statements in the Parliament





Commonwealth Government of Australia Consolidated Financial Statements

Introduction

45. The Commonwealth Government of Australia Consolidated Financial Statements (CFS) are an important element of open and accountable government. They also fulfil a key stewardship obligation of the Government to report its financial performance during the reporting period.

46. The Minister for Finance is required under sections 55 and 56 of the *Financial Management and Accountability Act 1997 (FMA Act)* to table audited financial statements of the Commonwealth Government of Australia in each House of Parliament, as soon as practicable after the end of the financial year.

47. The Commonwealth Government of Australia Consolidated Financial Statements were signed on 18 December 2001.

48. In accordance with section 55 of the FMA Act, the Minister for Finance is required to table in Parliament the reasons that the financial statements were not given to the Auditor-General within five months after the end of the financial year.

49. The Minister for Finance has presented out of session to the Deputy President of the Senate a statement indicating that the election process significantly impacted the finalisation of the financial statements and, as such, he did not have adequate opportunity to review the statements.

Audit Report

50. The audit report on the CFS for the year ended 30 June 2001 was issued on 18 December 2001.

51. The audit report expressed an opinion containing two qualifications and an 'emphasis of matter', which are explained in detail below. The two qualifications were the result of disagreements on accounting policies and the associated disclosure in the CFS. The 'emphasis of matter' was due to inherent uncertainty regarding a component of the Commonwealth Government's liability position.

Qualifications

Taxation revenue recognised other than on an accrual basis

52. The taxation revenue reported in the CFS is recognised when tax payments are due and payable according to taxation law or upon assessment by the Australian Taxation Office. This accounting policy was also employed in the preparation of the CFS for the 1999–2000 financial year.

53. The policy does not accord with Australian Accounting Standard AAS 31 *Financial Reporting by Governments* which requires that all of the Government's assets, liabilities, revenues and expenses be recognised on an accrual basis, that is, in the reporting periods to which they relate, regardless of when cash is received or paid.

54. This policy also does not reflect the provisions of taxation legislation, whereby obligations to pay tax (and hence the Government's control of the right to the taxation revenues) arise at the time of the underlying transactions, which occur prior to assessment or amounts becoming due and payable. The policy also differs from that adopted by the Australian Taxation Office in its financial statements for the year ended 30 June 2001, where taxation revenue has been recognised on the accrual basis.

55. The financial effects of employing this accounting policy are that the result for the year is overstated by \$9.1 billion. In the 1999–2000 financial year, the result was understated by \$3.9 billion. The change from understatement in the 1999–2000 financial year to overstatement in the current year is mainly due to a bringing forward of some company and superannuation fund tax assessments resulting from the introduction of the Pay-As-You-Go system.

56. In addition, there are understatements, as at 30 June 2001, in accrued revenues of \$21.6 billion (30 June 2000: understatement of \$29.5 billion) and in liabilities of \$16.8 billion (30 June 2000: \$15.6 billion). Reported net liabilities are overstated by \$4.8 billion (30 June 2000: \$13.9 billion).

A New Tax System (Goods and Service Tax)

57. Constitutionally, the Goods and Service Tax (GST), which came into operation on 1 July 2000, is a Commonwealth tax as it is imposed under Commonwealth legislation and the Commonwealth Government controls the revenue raised. The CFS do not recognise, as revenue, the taxes associated with the GST nor do they recognise, as expenses, the associated payments to the States and Territories of the moneys raised through this tax.

58. This accounting policy does not accord with Australian Accounting Standard AAS 31 *Financial Reporting by Governments* which requires that all of the Government's assets, liabilities, revenues and expenses be recognised in its financial statements.

59. The policy also differs from the policies adopted by the Australian Taxation Office and the Department of the Treasury in their financial statements for the year ended 30 June 2001 whereby, respectively, the GST is recognised as a Commonwealth revenue when the tax is imposed, and the associated amounts payable to the States and Territories are recognised as grant expenses for the period.

60. The financial effects of not recognising the GST as a Commonwealth tax are to understate the result for the period and to overstate net liabilities as at period end. These effects, calculated by reference to the amounts that would have been recognised had all other tax revenue been recognised on an accrual basis (refer to first mentioned qualification paragraph), are:

- an understatement of revenues by \$27.5 billion, expenses by \$23.8 billion and hence the overall result by \$3.7 billion;
- an understatement of accrued revenues by \$3.8 billion and liabilities by \$0.1 billion, and hence an overstatement of net liabilities by \$3.7 billion; and
- total operating cash inflows and outflows are each understated by \$19.2 billion (a difference which takes account of GST-related cash flows within the Commonwealth Government).

61. The combined financial effects of recognising taxation revenue, other than on an accrual basis, and of not recognising revenue and associated expenses under the New Tax System are:

- the result for the 2000–2001 financial year reported in the consolidated statement of financial performance of \$8.1 billion is overstated by \$5.4 billion;
- the net liabilities recognised as at 30 June 2001 in the consolidated statement of financial position of \$28.4 billion are overstated by \$8.5 billion; and
- total operating cash inflows and outflows are each understated by \$19.2 billion.

Emphasis of Matter

Inherent uncertainty regarding the Commonwealth Government's liability position

62. The collapse of the HIH insurance group during the 2000–2001 financial year prompted the Commonwealth Government to implement the HIH Claims Support Program. The Department of the Treasury is administering the program. As part of the activities of the program, the Government has committed to future payments to policyholders in accordance with established criteria.

63. The Commonwealth Government recognised a liability of \$640 million in relation to the HIH Claims Support Program. This figure was an estimate determined following an assessment and advice by the Provisional Liquidator, as at 25 May 2001.

64. There is inherent uncertainty regarding the measurement of the estimate of the Commonwealth's liability and further analysis of the estimate was not available at the time of preparation of this report.

Summary of Current Control Issues

Current Control Issues

65. In Audit Report No.1 2001–2002, the ANAO reported to Parliament on the overall position of the Commonwealth’s control environment. The ability to rely upon the strength of controls exercised by Commonwealth entities is integral to the ANAO’s risk-based approach, in that sound controls contribute fundamentally to the integrity, validity and reliability of the Commonwealth’s financial and other data.

66. The entities concerned have accepted findings from the above report; those that are directly related to the financial reporting process have received appropriate entity attention. In the interests of allowing for implementation progress, the updated position in respect to the Commonwealth’s control environment will be reported to Parliament in the next Controls Report to be tabled in mid 2002.

67. The following provides an overview of the current issues noted by the ANAO as part of its 2000–2001 financial statement audits.

68. At an organisational level, improvements are still required in a number of areas. All entities generally acknowledged that enhancements are necessary in areas such as: building risk awareness; better management of operational processes; achieving consistency in systems of authorisations; enhancing the quality of financial reporting; and integrating financial and non-financial data as part of the development of performance measurement frameworks.

Controls over specific financial systems and processes

69. The internal controls within significant business and accounting processes, and financial systems relating to key financial statement reporting elements were examined. The ANAO’s review of these controls identified the following issues:

- Information Technology (IT) controls—security controls need to be improved through, for example, restricting access to authorised personnel thus reducing the possibility that unauthorised access can be gained to confidential and/or private data, including security information, or that unauthorised changes can be made to programs or data;
- business continuity planning also needs to be addressed effectively in a number of entities;

- financial system reconciliation processes need to be enhanced relating to bank accounts, payroll processing, appropriations, interface systems and asset registers. Reconciliations are integral to ensuring the information in financial systems is complete, accurate and valid. Evidence indicates that most entities recognise the need to complete these reconciliations. However, there is inconsistency in the application of end of month procedures to ensure all reconciliations are prepared and reviewed in a timely and complete manner; and
- inadequate segregation of duties and responsibilities where incompatible roles were undertaken by the same staff member.

70. To overcome these issues, and as noted in Audit Report No.1 of 2001–2002, entities will need to develop comprehensive IT risk analysis and control systems to mitigate these risks and demonstrate a sound accountability process as part of good corporate governance. This analysis would have to balance affordable IT security against expected costs.

71. In addition, and in terms of adequate financial reporting, entities will need to introduce greater discipline into end of month procedures to ensure that all necessary steps are completed in a timely fashion.

Summary Results of the Audits of Financial Statements

Introduction

72. The ANAO was responsible for forming an opinion and reporting on the financial statements of 272 Commonwealth entities for the period ended 30 June 2001. This part of the report summarises the results of these audits, including the CFS. Details of the scope of these audits are provided in the Appendix to this report.

Summary of Audit Reports Issued

73. An unqualified audit report indicates that the auditor agrees with the information presented by management in the financial statements. However, an audit report may be modified if the auditor does not consider the financial statements present a fair view and the information may mislead the reader. These modifications include issuing a qualified report, or a report containing an 'emphasis of matter'.

Table 3

Summary of audit conclusions in audit reports issued

| Financial Statement Audit Reports | 2000–2001 | 1999–2000 |
|---|------------------|------------------|
| Qualified (includes CFS audit report) | 7 | 10 |
| Containing an emphasis of matter | 7* | 5 |
| Not modified | 251 | 271 |
| Total Issued | 265 | 286 |
| Signed financial statements not presented for audit at the time of report | 7 | 7 |
| Total Entities | 272 | 293 |

* excludes CFS audit report, which for 2000–2001 was both qualified and also contained an 'emphasis of matter'.

Qualified Audit Reports

74. Qualified audit reports are issued when the scope of the audit work required to form an opinion has been limited in some way and/or a significant breach of legislation has occurred and/or there has been a material departure from the Australian Accounting Standards or other mandatory reporting requirements. Significant non-adherence to these requirements means the financial statements will not present a fair view and reduces the readers' ability to analyse, interpret and compare financial statements.

75. A summary of qualifications follow, discussed in the order of departures from financial reporting requirements and 'limitation of scope' matters.

Departures from Financial Reporting Requirements

Commonwealth Government of Australia Consolidated Financial Statements

Taxation revenue recognised other than on an accrual basis

76. The taxation revenue reported in the CFS is recognised when tax payments are due and payable according to taxation law or upon assessment by the Australian Taxation Office. This accounting policy was also employed in the preparation of the CFS for the 1999–2000 financial year.

77. As previously indicated, this policy does not accord with Australian Accounting Standard AAS 31 *Financial Reporting by Governments* which requires that all of the Government's assets, liabilities, revenues and expenses be recognised on an accrual basis, that is, in the reporting periods to which they relate, regardless of when cash is received or paid.

78. This policy also does not reflect the provisions of taxation legislation, whereby obligations to pay tax (and hence the Government's control of the right to the taxation revenues) arise at the time of the underlying transactions, which occur prior to assessment or amounts becoming due and payable. The policy also differs from that adopted by the Australian Taxation Office in its financial statements for the year ended 30 June 2001, where taxation revenue has been recognised on the accrual basis.

79. The financial effects of employing this accounting policy are that the result for the year is overstated by \$9.1 billion. In the 1999–2000 financial year, the result was understated by \$3.9 billion. The change from understatement in the 1999–2000 financial year to overstatement in the current year is mainly due to a bringing forward of some company and superannuation fund tax assessments resulting from the introduction of the Pay-As-You-Go system.

80. In addition, there are understatements as at 30 June 2001 in accrued revenues of \$21.6 billion (30 June 2000: understatement of \$29.5 billion) and in liabilities of \$16.8 billion (30 June 2000: \$15.6 billion). Reported net liabilities are overstated by \$4.8 billion (30 June 2000: \$13.9 billion).

A New Tax System (Goods and Service Tax)

81. Constitutionally, the Goods and Service Tax (GST), which came into operation on 1 July 2000, is a Commonwealth tax as it is imposed under Commonwealth legislation and the Commonwealth Government controls the revenue raised. The CFS do not recognise, as revenue, the taxes associated with the GST nor do they recognise, as expenses, the associated payments to the States and Territories of the monies raised through this tax.

82. This accounting policy does not accord with Australian Accounting Standard AAS 31 *Financial Reporting by Governments* which requires that all of the Government's assets, liabilities, revenues and expenses be recognised in its financial statements.

83. The policy also differs from the policies adopted by the Australian Taxation Office and the Department of the Treasury in their financial statements for the year ended 30 June 2001 whereby, respectively, the GST is recognised as a Commonwealth revenue when the tax is imposed, and the associated amounts payable to the States and Territories are recognised as grant expenses for the period.

84. The financial effects of not recognising the GST as a Commonwealth tax are to understate the result for the period and to overstate net liabilities as at period end. These effects, calculated by reference to the amounts that would have been recognised had all other tax revenue been recognised on an accrual basis (refer to first mentioned qualification paragraph), are:

- an understatement of revenues by \$27.5 billion, expenses by \$23.8 billion and hence the overall result by \$3.7 billion;
- an understatement of accrued revenues by \$3.8 billion and liabilities by \$0.1 billion, and hence an overstatement of net liabilities by \$3.7 billion; and
- total operating cash inflows and outflows are each understated by \$19.2 billion (a difference which takes account of GST-related cash flows within the Commonwealth Government).

85. The combined financial effects of recognising taxation revenue other than on an accrual basis and of not recognising revenue and associated expenses under the New Tax System are:

- the result for the 2000–2001 financial year reported in the consolidated statement of financial performance of \$8.1 billion is overstated by \$5.4 billion;

- the net liabilities recognised as at 30 June 2001 in the consolidated statement of financial position of \$28.4 billion are overstated by \$8.5 billion; and
- total operating cash inflows and outflows are each understated by \$19.2 billion.

Emphasis of Matter—Inherent uncertainty regarding the Commonwealth Government's liability position

86. The collapse of the HIH insurance group during the 2000–2001 financial year prompted the Commonwealth Government to implement the HIH Claims Support Program. The Department of the Treasury is administering the program. As part of the activities of the program, the Government has committed to future payments to policyholders in accordance with established criteria.

87. The Commonwealth Government recognised a liability of \$640 million in relation to the HIH Claims Support Program. This figure was an estimate determined following an assessment and advice by the Provisional Liquidator, as at 25 May 2001.

88. There is inherent uncertainty regarding the measurement of the estimate of the Commonwealth's liability and further analysis of the estimate was not available at the time of preparation of this report.

Australian National University

Non-recognition of land

89. The audit report on the University's 31 December 2000 financial statements was qualified due to non-compliance with Australian Accounting Standards in relation to bringing the land at Acton campus, Mount Stromlo, Tennant Creek and other sites to account.

90. The ANAO considered that the value of the land in question can be reliably measured and should therefore be recognised in the University's financial statements. The non-recognition of the value of this land is a departure from the provisions of Australian Accounting Standards and Schedule 1 of the Finance Minister's Orders issued under the *Commonwealth Authorities and Companies Act 1997*. The qualification has been reported in detail by the ANAO in Audit Report No.1 of 2000–2001, tabled in July 2001.

This issue resulted in a similar qualification in the prior year.

Australian Prudential Regulation Authority

Recognition of levy receivables and accrued revenue

91. The Authority administers levies on behalf of the Commonwealth under the *Financial Institutions Supervisory Levies Collection Act 1998* and reports revenue arising from these levies in the Schedule of Administered Revenues and Expenses.

92. The Authority is funded under the *Australian Prudential Regulation Authority Act 1998* (the Act). Section 50 of the Act provides for a Special Appropriation, whereby the Authority is to be paid an amount equal to the rest of the levy money received by the Commonwealth, after deducting the Commonwealth's costs of providing market integrity and consumer protection functions for prudentially regulated institutions.

93. The Authority records 'Revenues from Government' as the amount of levies invoiced net of the Commonwealth's costs of providing market integrity and consumer protection functions. This policy is contrary to section 50 of the Act, which, in its present form, entitles the Authority to a Special Appropriation equal to the amount of levy money received by the Commonwealth net of the costs of market integrity and consumer protection.

94. The policy adopted also represents a departure from Australian Accounting Standard AAS 15 *Revenue*, which requires that revenues be recognised when, and only when, the entity has gained control of the revenue or the right to receive the revenue. The effects of this departure are:

- overstatement of receivables (\$0.493 million), accrued revenues (\$0.306 million) and total equity (\$0.799 million) in the Statement of Financial Position; and
- overstatement of revenues from Government (\$0.799 million) and understatement of the net operating deficit (\$0.799 million) in the Statement of Financial Performance.

Australian Taxation Office

IT outsourcing—Non-capitalisation of finance lease of IT equipment

95. The ATO leases computer equipment under an information technology outsourcing contract and this lease has been recognised as an operating lease in the ATO financial statements. A number of substantial ownership risks, including residual value risk on early termination or expiry of the lease, have passed to the ATO under the contract. Accordingly, the lease should be accounted for as a finance lease. The recognition of the lease as an operating lease in the ATO financial

statements represents a departure from Australian Accounting Standard AAS 17 *Leases*, which requires leases to be classified as finance leases where substantially all of the risks and benefits incident to ownership pass from the lessor to the lessee. The effect of this departure for the 2000–2001 financial year is to understate assets by \$71.8 million and liabilities by \$71.1 million on the ATO Statement of Financial Position, and understate expenses in the Statement of Financial Performance by \$8.1 million.

96. This issue resulted in a similar qualification in the prior year.

‘Limitation of scope’ Matters

97. A scope limitation arises when the audit effort has been restricted in the area specified and therefore an opinion on that part of the financial statements cannot be given.

Bilioara Pty Limited and Bilioara Unit Trust

Lack of access to financial records

98. Bilioara Pty Limited is the trustee company for Bilioara Unit Trust (the Trust). As the trustee company, Bilioara Pty Limited is legally liable for any excess of Trust liabilities over Trust assets. The Trust was involved in two major legal cases at balance date. The first case was the ongoing litigation with the Trust’s 50 per cent partner in the Mirambeena Tourist Resort. As a consequence, the financial records of the partnership were not available for audit and there was also uncertainty regarding the valuation of the Trust’s primary asset, the Mirambeena Tourist Resort. The second legal case was in regard to the Aboriginal and Torres Strait Islander Commission’s rescission of a capital restructure agreement.

99. As a result, the ANAO has issued qualified audit reports due to a limitation of scope in obtaining all the information and explanations required in forming opinions on the financial reports of the Trust and the Company.

100. This issue resulted in similar qualifications for the prior year.

National Gallery of Australia Foundation

Completeness of revenue

101. The Foundation raises funds through public donations and various other activities. The audit report on the Foundation’s financial statements was qualified for the 2000–2001 financial year because the nature of these activities is such that the completeness of revenue was not assured.

102. This issue resulted in a similar qualification in the prior year.

Audit Reports Containing an ‘Emphasis of Matter’

103. An audit report may also contain an ‘emphasis of matter’. This concept is used to draw attention to a matter that is considered relevant to the readers of the financial statements, but does not prevent an unqualified audit report being issued. In the majority of cases, an ‘emphasis of matter’ relates to inherent uncertainty in a particular aspect of the financial statements as indicated below.

104. The audit report on the CFS was both qualified and also contained an ‘emphasis of matter’. In that respect, comment is included in the earlier section of this chapter on qualified audit reports.

Adelaide Symphony Orchestra Pty Limited

Symphony Australia Holdings Pty Limited

West Australian Symphony Orchestra Holdings Pty Limited

Ability to continue as going concerns

105. The on-going operation of these orchestras in their current form is dependent upon their ability to generate revenue from a variety of sources, including sponsorships and donations. In each case, their audit reports included an emphasis of matter comment outlining an uncertainty on whether these entities will continue as ‘going concerns’, and therefore, whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in their financial reports.

Australian River Co. Limited

Residual operations following restructure of the company

106. The audit report of the Australian River Co. Limited contained an emphasis of matter regarding the uncertainty of the final structure and remaining operations of the company. The Government commenced a trade sale process of the Australian River Co. Limited and all of its remaining businesses effective April 1998. On 13 August 1999, the Minister for Finance and Administration wrote to Australian River Co. Limited and stated that the sale process of the core operating businesses of the economic entity had been concluded. However, at the date of finalisation of the audit, the Government had not announced its intention regarding the final structure of the Australian River Co. Limited and its remaining operations.

107. This issue resulted in a similar emphasis of matter in the prior year.

Department of the Treasury

Measurement of liability for the HIH Claims Support Program

108. The audit report for the Department of the Treasury's financial statements for the 2000–2001 financial year contains an emphasis of matter reflecting the inherent uncertainty regarding the measurement of the liability for the HIH Claims Support Program.

109. The collapse of the HIH Insurance group (HIH) during the 2000–2001 financial year prompted the Commonwealth Government to implement this program, which is being administered on behalf of the Government by the Treasury. As part of the administration of the program, the Government has committed itself to future payments to policyholders, in accordance with established criteria.

110. Based on the initial estimates of HIH's claims liabilities made by the then provisional liquidator of HIH, the Government appropriated \$640 million for the HIH Claims Support Program. The then provisional liquidator had indicated to the Treasury that the estimates of HIH's claims liabilities were uncertain due to their timeframe and nature.

111. A further report was prepared by the then provisional liquidator, which indicated a worsening position of the HIH liability. However due to the inherent uncertainty surrounding the measurements, the then provisional liquidator advised that there was no more reliable figure for the program than the \$640 million reported earlier.

Joint Coal Board

Ability to continue as going concern

112. The Joint Coal Board is under review by both the Federal and State Governments. The *Coal Industry Bill 2001*, which provides for the establishment of a new entity, is expected to be legislated in the near future. While this Bill included provisions which address the financial position of the proposed new entity, should it not proceed, there was inherent uncertainty whether the Joint Coal Board would be able to continue as a going concern and therefore would realise its assets and extinguish its liabilities in the normal course of business and at the amounts noted in its financial report.

Snowy Mountains Hydro-Electric Authority

Proposed corporatisation

113. The Commonwealth, New South Wales and Victorian Governments have agreed upon a set of key principles for reform of the Snowy Mountains Hydro-electric Scheme which will ultimately lead to the corporatisation of the Scheme. The likely terms of the proposed corporatisation, including settlement of the superannuation provision are uncertain and are being negotiated. Accordingly, the effects, if any, of the proposed corporatisation on the financial statements cannot be determined.

114. This issue resulted in a similar emphasis of matter in the prior year.

Results of the Audits of Financial Statements— By Portfolio

Introduction

115. This part of the report summarises the results of the audits of the financial statements of individual Commonwealth entities.

116. Also included are any additional significant internal control matters arising as a result of finalising these audits since Audit Report No.1 of 2001–2002 *Control Structures as part of the Audits of the Financial Statements of Major Commonwealth Entities for the Year Ended 30 June 2001*.

117. This part of the report is structured in accordance with the portfolio arrangements established in the Administrative Arrangements Order of 21 October 1998, as amended. For reporting purposes this reflects the portfolio arrangements which existed at 30 June 2001.

118. The tabular information for each portfolio indicates for each entity:

- the outcome of the audit (nature of audit opinion);
- the date the audit report was issued; and
- whether any additional significant internal control matters were identified in the course of finalising the financial statement audit since Audit Report No.1 of 2001–2002.

119. Details of modified audit opinions and additional significant internal control matters arising from finalising the audits are provided following each of the respective tables.

120. Unless otherwise indicated, entities have advised of appropriate remedial action taken, or proposed, to address the matters included in this report, as is also the case for the matters reported in the earlier Audit Report No.1 of 2001–2002.

Agriculture, Fisheries and Forestry Portfolio

| Reporting entity as at 30 June 2001 | Audit Report | Opinion Issued | Internal Control |
|---|---------------------|-----------------------|-------------------------|
| Department of Agriculture Fisheries & Forestry | ✓ | 11-Sep-01 | |
| — Australian Quarantine and Inspection Service: | | | |
| — Meat Inspection Service | ✓ | 11-Sep-01 | |
| — Quarantine and Export Certification Services | ✓ | 11-Sep-01 | |
| — National Residue Survey Trust Account | ✓ | 11-Sep-01 | |
| Australian Dairy Corporation | ✓ | 17-Sep-01 | |
| Australian Dried Fruits Board ^{ES} (31-Jan-01) | ✓ | 31-May-01 | |
| Australian Fisheries Management Authority | ✓ | 25-Aug-01 | |
| Australian Horticultural Corporation ^{ES} (31-Jan-01) | ✓ | 15-May-01 | |
| Australian Pork Corporation | ✓ | 11-Sep-01 | |
| Australian Wine and Brandy Corporation | ✓ | 12-Sep-01 | |
| Australian Wool Research and Promotion Organisation ^{ES} (1-Jul-00 to 31-Dec-00) | ✓ | 6-Apr-01 | |
| — International Wool Secretariat ^{ES} (1-Jul-00 to 3-Dec-00) | ✓ | 6-Apr-01 | |
| — Woolmark Pty Ltd ^{ES} (1-Jul-00 to 31-Dec-00) | ✓ | 6-Apr-01 | |
| Cotton Research and Development Corporation | ✓ | 27-Aug-01 | |
| Dairy Adjustment Authority | ✓ | 14-Sep-01 | |
| Dairy Research and Development Corporation | ✓ | 14-Sep-01 | |
| Fisheries Research and Development Corporation | ✓ | 15-Aug-01 | |
| Forest and Wood Product Research and Development Corporation | ✓ | 05-Oct-01 | |
| Grains Research and Development Corporation | ✓ | 23-Aug-01 | |
| Grape and Wine Research and Development Corporation | ✓ | 17-Sep-01 | |
| Horticultural Research and Development Corporation ^{ES} (31-Jan-01) | ✓ | 24-May-01 | |
| Land and Water Research and Development Corporation | ✓ | 19-Sep-01 | |
| Murray-Darling Basin Commission | ✓ | 19-Sep-01 | |
| National Registration Authority for Agricultural and Veterinary Chemicals | ✓ | 27-Aug-01 | |
| Pig Research and Development Corporation | ✓ | 27-Aug-01 | |
| Rural Industries Research and Development Corporation | ✓ | 13-Sep-01 | |
| Sugar Research and Development Corporation | ✓ | 04-Sep-01 | |
| Tobacco Research and Development Corporation | ✓ | 24-Sep-01 | |
| Wheat Export Authority ^{ES} (30-Sep-00) | ✓ | 25-Oct-00 | |

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

◆ signed financial statements not presented for audit at this time

^{ES} financial year end date other than 30 June 2001

◆ significant internal control issues noted (since Audit Report No.1)

Attorney-General's Portfolio

| <i>Reporting entity as at 30 June 2001</i> | <i>Audit Report</i> | <i>Opinion Issued</i> | <i>Internal Control</i> |
|--|---------------------|-----------------------|-------------------------|
| Attorney-General's Department | ✓ | 23-Aug-01 | |
| Australian Protective Service | ✓ | 23-Aug-01 | |
| Administrative Appeals Tribunal | ✓ | 10-Sep-01 | |
| Australasian Centre for Policing Research | ✓ | 11-Sep-01 | |
| Australian Bureau of Criminal Intelligence | ✓ | 18-Oct-01 | |
| Australian Customs Service | ✓ | 28-Aug-01 | |
| Australian Federal Police | ✓ | 20-Aug-01 | |
| ACT Community Policing | ✓ | 30-Aug-01 | |
| Australian Government Solicitor | ✓ | 17-Sep-01 | |
| Australian Institute of Criminology | ✓ | 24-Sep-01 | |
| Australian Institute of Police Management | ✓ | 22-Nov-01 | |
| Australian Law Reform Commission | ✓ | 10-Sep-01 | |
| Australian Security Intelligence Organisation | ✓ | 20-Sep-01 | |
| Australian Transaction Reports and Analysis Centre | ✓ | 10-Aug-01 | |
| Criminology Research Council | ✓ | 24-Sep-01 | |
| CrimTrac | ✓ | 15-Aug-01 | ◆ |
| Family Court of Australia | ✓ | 24-Aug-01 | |
| Federal Court of Australia | ✓ | 07-Sep-01 | |
| Federal Magistrate Service | ✓ | 20-Sep-01 | |
| High Court of Australia | ✓ | 15-Aug-01 | |
| Human Rights and Equal Opportunity Commission | ✓ | 05-Oct-01 | |
| Insolvency and Trustee Service Australia | ✓ | 13-Sep-01 | |
| National Native Title Tribunal | ✓ | 20-Sep-01 | |
| Office of Film and Literature Classification | ✓ | 11-Sep-01 | |
| Office of Parliamentary Counsel | ✓ | 18-Sep-01 | |
| Office of the Director of Public Prosecutions | ✓ | 20-Sep-01 | |
| Office of the Federal Privacy Commissioner | ✓ | 24-Sep-01 | |
| National Crime Authority | ✓ | 17-Sep-01 | ◆ |

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

⚡ signed financial statements not presented for audit at this time
 ⚡ financial year end date other than 30 June 2001

◆ significant internal control issues noted (since Audit Report No.1)

Internal control matters

CrimTrac

Planning and HR Data Security

121. The ANAO noted that, during the 2000–2001 financial year, CrimTrac’s resources were focussed on establishing operations and ensuring established services were maintained. The ANAO identified a number of issues which indicated that opportunities existed for the implementation of improved management practices, including to:

- develop and implement adequate business continuity plans;
- develop detailed strategic plans; and
- improve security over pay file information transmitted between CrimTrac and its Human Resource (HR) outsourcer.

National Crime Authority

Bureau Service Arrangements and Asset Management

122. The ANAO noted issues related to a lack of controls associated with the management of the Authority’s bureau service arrangements in ensuring the integrity and completeness of financial and related data processed on its behalf and asset management.

Communications, Information Technology and the Arts Portfolio

| <i>Reporting entity as at 30 June 2001</i> | <i>Audit Report</i> | <i>Opinion Issued</i> | <i>Internal Control</i> |
|--|---------------------|-----------------------|-------------------------|
| Department of Communications, Information Technology and the Arts | ✓ | 17-Sep-01 | ◆ |
| — Artbank Trust Account | ✓ | 19-Sep-01 | |
| Australia Business Arts Foundation Ltd | ✓ | 12-Nov-01 | |
| Australia Council | ✓ | 13-Sep-01 | |
| Australian Broadcasting Authority | ✓ | 04-Sep-01 | |
| Australian Broadcasting Corporation | ✓ | 14-Aug-01 | |
| — Adelaide Symphony Orchestra Pty Ltd ¹³³ (31-Dec-00) | E | 13-Sep-01 | |
| — Melbourne Symphony Orchestra Pty Ltd ¹³³ (31-Dec-00) | ✓ | 19-Jun-01 | |
| — Orchestral Network Australia Pty Ltd ¹³³ (31-Dec-00) | ✓ | 08-Oct-01 | |
| — Queensland Orchestras Pty Ltd ¹³³ (31-Dec-00) | | ◆ | |
| — Sydney Symphony Orchestra Holdings Pty Ltd ¹³³ (3-Dec-00) | ✓ | 05-Jun-01 | |
| — Symphony Australia Holdings Pty Ltd ¹³³ (31-Dec-00) | E | 08-Aug-01 | |
| — Tasmanian Symphony Orchestra Pty Ltd ¹³³ (31-Dec-00) | ✓ | 30-Jul-01 | |
| — West Australian Symphony Orchestra Holdings Pty Ltd ¹³³ (31-Dec-00) | E | 03-Sep-01 | |
| Australian Communications Authority | ✓ | 20-Aug-01 | |
| Australian Film Commission | ✓ | 14-Sep-01 | |
| Australian Film Finance Corporation Limited | ✓ | 17-Sep-01 | |
| Australian Film, Television and Radio School | ✓ | 21-Sep-01 | |
| Australian National Maritime Museum | ✓ | 26-Sep-01 | |
| Australian Postal Corporation | ✓ | 23-Aug-01 | ◆ |
| Bundanon Trust | ✓ | 29-Oct-01 | |
| Film Australia Limited | ✓ | 27-Sep-01 | |
| National Archives of Australia | ✓ | 16-Aug-01 | |
| National Australia Day Council | ✓ | 23-Aug-01 | |
| National Gallery of Australia | ✓ | 31-Aug-01 | ◆ |
| — National Gallery of Australia Foundation | Q | 31-Aug-01 | |
| National Library of Australia | ✓ | 21-Aug-01 | |
| National Museum of Australia | ✓ | 13-Aug-01 | |
| NetAlert Ltd | ✓ | 26-Sep-01 | |
| Regional Telecommunications Infrastructure Fund | ✓ | 24-Sep-01 | |
| Special Broadcasting Service Corporation | ✓ | 31-Aug-01 | |
| — Multilingual Subscriber Television Limited | ✓ | 31-Aug-01 | |

continued next page

| <i>Reporting entity as at 30 June 2001</i> | <i>Audit Report</i> | <i>Opinion Issued</i> | <i>Internal Control</i> |
|---|---------------------|-----------------------|-------------------------|
| Telstra Corporation Limited | ✓ | 29-Aug-01 | |
| — Atlas Travel Technology Pty Ltd and controlled entities | ✓ | 14-Sep-01 | |
| — Keycorp Limited | ✓ | 19-Sep-01 | |
| — Qantas Telstra Card Trust | ✓ | 14-Sep-01 | |
| — Telstra Employee Ownership Plan Trust | ✓ | 08-Aug-01 | |
| — Telstra Employee Ownership Plan Trust II | ✓ | 08-Aug-01 | |
| — Telstra Finance Limited | ✓ | 26-Sep-01 | |
| — Telstra Growthshare Trust | ✓ | 22-Aug-01 | |
| — Telstra Visa Business Card Trust | ✓ | 14-Sep-01 | |
| — Telstra Visa Card Trust | ✓ | 14-Sep-01 | |

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

✦ signed financial statements not presented for audit at this time
 ✦ financial year end date other than 30 June 2001

◆ significant internal control issues noted (since Audit Report No.1)

Results of financial statement audits

Adelaide Symphony Orchestra Pty Limited

Symphony Australia Holdings Pty Ltd

West Australian Symphony Orchestra Holdings Pty Ltd

Emphasis of matter—Ability to continue as going concerns

123. The on-going operation of these orchestras in their current form is dependent upon their ability to generate revenue from a variety of sources, including sponsorships and donations. In each case, their audit reports included an emphasis of matter comment outlining an uncertainty on whether these entities will continue as 'going concerns', and therefore, whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in their financial reports.

National Gallery of Australia Foundation

Qualification—Completeness of revenue

124. The Foundation raises funds through public donations and various other activities. Consistent with normal audit practice for entities involved in activities of this type, the audit report on the Foundation's financial statements was qualified because the nature of these activities is such that the completeness of revenue cannot be assured.

125. This issue resulted in a similar qualification in the prior year.

Internal control matters

Department of Communications, Information Technology and the Arts

Preparation of financial statements

126. The ANAO has noted a number of issues in relation to the preparation of financial statements and the management and reporting of special accounts. These issues have been brought to the attention of management and strategies are being put in place to address these weaknesses.

Australian Postal Corporation

Management review and monitoring

127. The ANAO noted weaknesses in management review and monitoring procedures for the following:

- invoicing, collection and ageing procedures over international transactions;
- updating of the fraud risk management plan;
- timely transfer of assets under construction to the fixed asset register;
- integrity of key payroll reports; and
- re-assessment of the residual value of fleet vehicles in view of the reduced values resulting from the introduction of GST.

National Gallery of Australia

Asset and inventory management and employee information

128. The audit identified a number of areas where internal control improvements could be achieved. Significant matters noted included the need to:

- strengthen asset management policies and procedures with particular emphasis on ensuring the consistent application of depreciation rates and the following of appropriate procedures when purchasing less expensive works of art;
- implement a reconciliation check between the various systems for recording the Gallery's inventory; and
- strengthen processes relating to the management of employee data to ensure completeness in all cases.

Other matters

Australian Postal Corporation

Audit of compliance performance standards

129. Pursuant to the *Australian Postal Corporation (Performance Standards) Regulation 1998*, the Corporation is required to meet a range of measures as part of its Community Service Obligations. In accordance with section 28D of the *Australian Postal Corporation Act 1989*, as amended, the Auditor-General is required to audit the Corporation's compliance with the performance standards.

130. The compliance audit has been completed, with an unqualified audit opinion issued on 22 August 2001. That report, as with the report on the financial statements, is published in the Corporation's Annual Report.

Defence Portfolio

| <i>Reporting entity as at 30 June 2001</i> | <i>Audit Report</i> | <i>Opinion Issued</i> | <i>Internal Control</i> |
|---|---------------------|-----------------------|-------------------------|
| Department of Defence | ✓ | 29-Oct-01 | ◆ |
| Department of Veterans' Affairs | ✓ | 28-Aug-01 | ◆ |
| Army and Airforce Canteen Service | ✓ | 26-Sep-01 | |
| Australian Military Forces Relief Trust Fund | ✓ | 28-Sep-01 | |
| Australian War Memorial | ✓ | 15-Aug-01 | |
| Defence Housing Authority | ✓ | 27-Sep-01 | |
| — Fairview Rise Joint Venture | ✓ | 20-Nov-01 | |
| — Wattle Grove Development Joint Venture | ✓ | 29-Nov-01 | |
| Defence Service Homes Insurance Scheme | ✓ | 11-Sep-01 | ◆ |
| Military Superannuation and Benefits Scheme | ✓ | 21-Sep-01 | |
| Royal Australian Air Force Veterans' Residences Trust Board of Trustees No. 1 | ✓ | 14-Sep-01 | |
| Royal Australian Air Force Welfare Trust Fund No. 3 | ✓ | 24-Aug-01 | |
| Royal Australian Navy Relief Trust Fund | ✓ | 28-Sep-01 | |

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

◆ signed financial statements not presented for audit at this time

☞ financial year end date other than 30 June 2001

◆ significant internal control issues noted (since Audit Report No.1)

Internal control matters

Department of Defence

131. The Department signed its financial statements on 28 October 2001, some 10 weeks after the agreed timetable. This delay was due, in part, to the inability of the Department to produce information readily to explain satisfactorily almost \$1 billion of revenue resulting from the reversal of treatments of assets previously expensed.

132. Following considerable additional analysis and review by the Department and the ANAO, an unqualified Audit Report was issued on 29 October 2001.

133. The 2000–2001 financial year was a very difficult year for the assembly and audit of the Defence financial statements. Preparatory to the Secretary signing the 2000–2001 Defence financial statements, an analysis was provided on the position with the accuracy of the financial statements. The analysis was prepared in close consultation with Defence staff. The analysis estimated the dollar value of uncertainty in the financial statements at \$220 million, but did not quantify the financial impact of residual problems in some areas of asset accounting.

134. ANAO audit opinion deliberations actively considered the \$220 million uncertainty and the attendant asset accounting issues. The amount of asset corrections has again exceeded \$1 billion in the 2000–2001 financial year. This has been a consistent pattern in recent years. A key component of the ANAO assessment, regarding the provision of an unqualified audit report, was the Secretary’s assurance, via a detailed management representation letter, that Defence had completed all material asset corrections and that the current trend of adjustments would not continue in the 2001–2002 financial year.

135. The Secretary’s expectation is that remediation will occur over the rest of the 2001–2002 financial year. In that regard, an implementation plan is being prepared to address major issues.

Matters Requiring Defence Attention

136. The most pressing matters, requiring prompt Departmental attention are:

Inventory and Asset Recording System

137. The Department’s main inventory and asset system (SDSS) still needs to address significant problems with quantities, prices, general business rules and reporting functionality.

Assets Under Construction (AUC)

138. Given that there is nearly \$10 billion of AUC representing in excess of 200 projects, the misclassification of AUC expenditure between capital and expense has the potential to misstate materially the AUC balance. The Department estimates that the AUC balance in the 2000–2001 financial year could have potential for overstatement by \$80 million. An on-going review of AUC needs to be undertaken, focussing upon the accounting treatment of the different expenditure components that make up the account balance.

Accounts Receivable

139. Defence accounts receivable are in excess of \$500 million. The extent to which debt is recorded in the corporate systems, aged debtor reports are prepared and used to manage debt, and appropriate Defence action is taken to recover overdue debt is currently unclear. Successive internal audit (MAB) reports have highlighted major weaknesses in the business processes surrounding the recording of debts, the matching of payments to debt and the recovery of outstanding debts. These weaknesses were not adequately addressed during the 2000–2001 financial year. At 30 June 2001, Defence has agreed that debt could be overstated by as much as \$50 million.

Recognition of Assets

140. Over the last three financial years, the Department has processed \$3.6 billion of adjustments in relation to the recognition of assets. For the 2000–2001 financial year, Defence recognised \$1.1 billion of revenue associated with the recognition of assets alone. The on-going pattern of large adjustments for “found” assets indicates that the recognition and completeness of asset recording continues to be an area of significant risk for the Department. Insufficient controls exist to give Defence management a high degree of confidence over asset completeness. The Department needs to ensure that all its asset accounting processes are robust and complete.

Department of Veterans’ Affairs

Reconciliation of cash transfers

141. The ANAO recommended that the DVA monitor cash transfers to the Department of Health and Aged Care for both nursing home and radiation oncology payments and perform reconciliations to update its record on a regular basis.

Defence Service Homes Insurance Scheme

Reconciliation of bank accounts

142. The ANAO noted that the balances of bank accounts were not reconciled to the general ledger during the year. Management relied upon ‘transactional’ reconciliations and reviews. The ANAO has recommended that regular reconciliations between bank account balances and the general ledger be implemented immediately for all bank accounts.

Operating environment and management controls

143. The ANAO noted weaknesses in the operating environment and management controls and has made recommendations for:

- improvement of the corporate governance structure;
- enhancement of accounting knowledge, skills and practices;
- assurance of completeness of data transfer between subsidiary ledger and general ledger; and
- detailed review of the calculation of provision for outstanding claims.

Education, Training and Youth Affairs Portfolio

| <i>Reporting entity as at 30 June 2001</i> | <i>Audit Report</i> | <i>Opinion Issued</i> | <i>Internal Control</i> |
|---|---------------------|-----------------------|-------------------------|
| Department of Education, Training and Youth Affairs | ✓ | 03-Sep-01 | |
| Anglo-Australian Telescope Board | ✓ | 13-Nov-01 | |
| Australian National Training Authority | ✓ | 21-Aug-01 | |
| Australian National University [¶] (31-Dec-00) | Q | 06-Apr-01 | |
| ANUTECH Pty Ltd [¶] (31-Dec-00) | ✓ | 26-Mar-01 | |

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

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[¶] financial year end date other than 30 June 2001

◆ significant internal control issues noted (since Audit Report No.1)

Results of financial statement audits

Australian National University

Qualification—Non recognition of land

144. The audit report on the University's 31 December 2000 financial statements was qualified due to non-compliance with Australian Accounting Standards in relation to bringing the land at Acton campus, Mount Stromlo, Tennant Creek and other sites to account.

145. The ANAO considered that the value of the land in question can be reliably measured and should therefore be recognised in the University's financial statements. The non-recognition of the value of this land is a departure from the provisions of Australian Accounting Standards and Schedule 1 of the Finance Minister's Orders issued under the *Commonwealth Authorities and Companies Act 1997*. The qualification has been reported in detail by the ANAO in Audit Report No. 1 of 2000–2001 tabled in July 2001.

Employment, Workplace Relations and Small Business Portfolio

| <i>Reporting entity as at 30 June 2001</i> | <i>Audit Report</i> | <i>Opinion Issued</i> | <i>Internal Control</i> |
|--|---------------------|-----------------------|-------------------------|
| Department of Employment, Workplace Relations and Small Business | ✓ | 24-Aug-01 | |
| Australian Industrial Registry | ✓ | 19-Sep-01 | |
| Coal Mining Industry (Long Service Leave Funding) Corporation | ✓ | 20-Sep-01 | |
| Comcare Australia | ✓ | 20-Aug-01 | |
| — Quality of Working Life Corporation | ✓ | 20-Aug-01 | |
| Employment Services Regulatory Authority | ✓ | 11-Oct-01 | |
| Equal Opportunities for Women in the Workplace Agency | ✓ | 05-Sep-01 | |
| National Occupation Health and Safety Commission | ✓ | 05-Sep-01 | |

✓ audit report not modified

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Environment and Heritage Portfolio

| <i>Reporting entity as at 30 June 2001</i> | <i>Audit Report</i> | <i>Opinion Issued</i> | <i>Internal Control</i> |
|---|---------------------|-----------------------|-------------------------|
| Department of the Environment and Heritage | ✓ | 31-Aug-01 | ◆ |
| — Natural Heritage Trust of Australia Reserve | ✓ | 06-Dec-01 | |
| Australian Greenhouse Office | ✓ | 10-Aug-01 | |
| Australian Heritage Commission | ✓ | 24-Sep-01 | |
| Director of National Parks | ✓ | 12-Oct-01 | ◆ |
| Great Barrier Reef Marine Park Authority | ✓ | 20-Sep-01 | |
| National Environment Protection Council Service Corporation | ✓ | 20-Sep-01 | |

✓ audit report not modified

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◆ significant internal control issues noted (since Audit Report No.1)

Internal control matters

Department of the Environment and Heritage

Bureau of Meteorology

Appropriations and bank account management

146. The ANAO noted control weaknesses in relation to ledger reconciliations for appropriations and in the granting of credit facilities to customers.

147. In addition, the reconciliation of the Bureau's bank accounts to the general ledger are not performed on a regular or timely basis.

Payments to suppliers

148. The ANAO noted weaknesses in accounts payable reconciliations between the sub-ledger system and the general ledger, inaccurate data in the accounts payable control account, and a segregation of duties weakness within the finance area, in relation to payments to suppliers.

Payments to employees

149. The ANAO noted control weaknesses with respect to payments to employees, specifically in relation to reconciliation between the HR sub-system and the general ledger, review of payroll changes and the processing of leave.

Accounting process controls

150. The following accounting process control weaknesses were noted:

- lengthy delays in processing travel acquittals for monies advanced to staff;
- inaccurate and incomplete data in the administered general ledger; and
- lack of comprehensive internal processes to ensure the integrity of information used for preparing financial reports.

Asset management

151. The ANAO noted a lack of asset management controls, specifically in relation to the acquisition and disposal of assets, reconciliation of the fixed asset register to the general ledger and the lack of performance of asset stocktakes at regional offices.

Australian Antarctic Division*Accounting and management controls*

152. The following control weaknesses were noted:

- lack of timely and reliable update of allocation rates used in costing models;
- lack of integrity of data contained within the Division's Financial Management Information System (FMIS);
- lack of formal evaluation by management as to hedging of foreign exchange contracts; and
- lack of policies for inventory stocktakes.

Director of National Parks*Reconciliation controls*

153. The ANAO review of significant account reconciliations noted the following weaknesses:

- lack of bank reconciliation between Collection and Project Officer Advance accounts and the general ledger;
- lack of reconciliation of the payroll data to the general ledger; and
- lack of reconciliation of the asset register to the general ledger.

IT access and security controls

154. A review of the access to the SAP system was undertaken which focussed on the appropriateness of access levels. The review identified a number of control weaknesses in relation to access security over the system.

Corporate governance framework

155. The ANAO noted that the Director of National Parks did not have in place a formal risk management strategy (including a fraud control plan) that outlines the major risks facing the Director of National Parks and corresponding strategies for managing these risks.

Accounting process controls

156. The following control weaknesses were noted:

- anomalies in the annual leave and recreation leave balances in the HRMIS;
- lack of adequate controls over asset acquisitions and disposals processes in addition to an asset stocktake not being performed during the financial year;
- delays in the recognition of sales revenue;
- poorly managed bank account practices; and
- processing control weaknesses over payment transactions to suppliers.

Family and Community Services Portfolio

| <i>Reporting entity as at 30 June 2001</i> | <i>Audit Report</i> | <i>Opinion Issued</i> | <i>Internal Control</i> |
|---|---------------------|-----------------------|-------------------------|
| Department of Family and Community Services | ✓ | 31-Aug-01 | ◆ |
| — Commonwealth Rehabilitation Service | ✓ | 31-Aug-01 | |
| Australian Institute of Family Studies | ✓ | 07- Sept-01 | |
| Centrelink | ✓ | 16-Aug-01 | |

✓ audit report not modified

E audit report contains an emphasis of matter

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Internal control matters

Department of Family and Community Services and Centrelink

Development of provisioning policy for administered debtors

157. The ANAO noted that, in the absence of an effective debtors provisioning policy, the initial amount of \$50 million for the provision for doubtful debts was inadequate. Based on further analysis conducted by Centrelink and the Department, an additional amount was expended to increase the provision to \$150 million. The Department and Centrelink have agreed to work together to develop an appropriate provisioning policy for on-going application to debtors.

Finance and Administration Portfolio

| <i>Reporting entity as at 30 June 2001</i> | <i>Audit Report</i> | <i>Opinion Issued</i> | <i>Internal Control</i> |
|---|---------------------|-----------------------|-------------------------|
| Department of Finance and Administration | ✓ | 03-Sep-01 | |
| — Commonwealth Grants Commission | ✓ | 03-Sep-01 | |
| Australian Electoral Commission | ✓ | 30-Aug-01 | |
| Australian Submarine Corporation | ✓ | 12-Sep-01 | |
| Comland Limited | ✓ | 14-Sep-01 | |
| Commonwealth Superannuation Administration (ComSuper) | ✓ | 21-Sep-01 | |
| Commonwealth Superannuation Scheme (CSS) | ✓ | 21-Sep-01 | |
| CSS/PSS Pty Ltd | ✓ | 21-Sep-01 | |
| Employment National Limited | ✓ | 04-Sep-01 | |
| — Employment National (Administration) Pty Ltd | ✓ | 04-Sep-01 | |
| Office of Asset Sales and IT Outsourcing | ✓ | 10-Aug-01 | |
| Public Sector Superannuation Scheme (PSS) | ✓ | 21-Sep-01 | |
| Sydney Airports Corporation Limited | ✓ | 14-Aug-01 | |
| Bankstown Airport Limited | ✓ | 14-Aug-01 | |
| Camden Airport Limited | ✓ | 14-Aug-01 | |
| Hoxton Park Limited | ✓ | 14-Aug-01 | |
| Essendon Airports Limited | ✓ | 31-Aug-01 | |
| Telstra Instalment Receipts Trustee Limited | ✓ | 05-Sep-01 | |

✓ audit report not modified

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Foreign Affairs and Trade Portfolio

| <i>Reporting entity as at 30 June 2001</i> | <i>Audit Report</i> | <i>Opinion Issued</i> | <i>Internal Control</i> |
|---|---------------------|-----------------------|-------------------------|
| Department of Foreign Affairs and Trade | ✓ | 23-Aug-01 | ◆ |
| AusAID | ✓ | 30-Aug-01 | |
| Australia-Japan Foundation | ✓ | 17-Sep-01 | |
| Australian Centre for International Agricultural Research | ✓ | 13-Sep-01 | |
| Australian Secret Intelligence Service | ✓ | 16-Aug-01 | |
| Australian Trade Commission | ✓ | 16-Aug-01 | |
| Export Finance and Insurance Corporation | ✓ | 10-Aug-01 | |

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Internal control matters

Department of Foreign Affairs and Trade

Overseas bank accounts

158. The ANAO noted control weaknesses in respect of the management of overseas bank accounts. The ANAO recommended that the Department improve bank reconciliation processes and conduct a stocktake of all overseas bank accounts in order to ensure their establishment and operation has been properly authorised.

Health and Aged Care Portfolio

| <i>Reporting entity as at 30 June 2001</i> | <i>Audit Report</i> | <i>Opinion Issued</i> | <i>Internal Control</i> |
|--|---------------------|-----------------------|-------------------------|
| Department of Health and Aged Care | ✓ | 12-Sep-01 | |
| — Therapeutic Goods Administration | ✓ | 03-Sep-01 | ◆ |
| Aged Care Standards and Accreditation Agency Ltd | ✓ | 10-Sep-01 | |
| Australia and New Zealand Food Authority | ✓ | 14-Sep-01 | |
| Australian Hearing Services | ✓ | 04-Sep-01 | |
| — National Hearing Aids System Pty Ltd | ✓ | 11-Oct-01 | |
| Australian Institute of Health and Welfare | ✓ | 17-Sep-01 | |
| Australian Radiation Protection and Nuclear Safety Authority | ✓ | 10-Sep-01 | |
| General Practice Education and Training Ltd | ✓ | 19-Oct-01 | |
| Health Insurance Commission | ✓ | 31-Aug-01 | ◆ |
| Health Services Australia Ltd | ✓ | 11-Oct-01 | |
| Medibank Private Ltd | ✓ | 17-Aug-01 | ◆ |
| National Institute of Clinical Studies | ✓ | 09-Oct-01 | |
| Private Health Insurance Administration Council | ✓ | 14-Sep-01 | |
| Private Health Insurance Ombudsman | ✓ | 27-Aug-01 | |
| Professional Services Review | ✓ | 19-Sep-01 | |

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Internal control matters

Therapeutic Goods Administration

Segregation of duties—assets

159. The ANAO noted incompatible functions with respect to the delegation to approve expenditure and the responsibility for maintaining asset records and recommended that controls relating to proper segregation of duties with assets be strengthened.

Health Insurance Commission

30 Per cent Rebate Scheme

160. The internal controls currently surrounding payments made under the 30 per cent Rebate Scheme, as reported in Audit Report No.1 2001–2002, are not sufficient to assure the accuracy and validity of all payments made. As a result, the Commission has used its legislative powers to request Independent Audit Certificates from each of the Health Funds. The audit certificates obtained for the 2000–2001 financial year contained a number of qualifications relating to claims made by Health Funds for people not registered by the Commission.

161. The Commission has been advised to implement appropriate internal controls as a matter of priority, in order to ensure that amounts paid under the 30 per cent Rebate Scheme are fully supported and substantiated prior to payments being made.

Management controls

162. The ANAO noted weaknesses in controls and made the following recommendations to the Commission:

- update the Medicare model for calculating the provision for outstanding claims to reflect changes in recent payment patterns; and
- improve financial statement preparation processes through greater utilisation of the FMIS and implementation of better financial statement quality assurance procedures.

Medibank Private Ltd

Accounting process controls

163. The ANAO has reviewed Medibank Private's controls, financial systems and processes and has made recommendations to strengthen controls in a number of areas. Management has advised of remedial action taken or proposed.

Immigration and Multicultural Affairs Portfolio

| <i>Reporting entity as at 30 June 2001</i> | <i>Audit Report</i> | <i>Opinion Issued</i> | <i>Internal Control</i> |
|---|---------------------|-----------------------|-------------------------|
| Department of Immigration and Multicultural Affairs | ✓ | 22-Aug-01 | ◆ |
| Migration Review Tribunal | ✓ | 13-Sep-01 | |
| Refugee Review Tribunal | ✓ | 18-Sep-01 | |

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Internal control matters

Department of Immigration and Multicultural Affairs

Asset Management

164. The ANAO has previously noted weaknesses in asset management practices. Improvements have been achieved, but the processes for the following still require attention:

- recording asset stocktake and revaluation adjustments;
- timely recording of asset additions; and
- obtaining approval prior to the removal of items from the asset register.

Industry, Science and Resources Portfolio

| <i>Reporting entity as at 30 June 2001</i> | <i>Audit Report</i> | <i>Opinion Issued</i> | <i>Internal Control</i> |
|--|---------------------|-----------------------|-------------------------|
| Department of Industry, Science and Resources | ✓ | 17-Aug-01 | ◆ |
| — Australian Government Analytical Laboratories | ✓ | 16-Aug-01 | |
| — Australian Surveying and Land Information Group | ✓ | 17-Sep-01 | |
| — Bureau of Tourism Research | ✓ | 25-Sep-01 | |
| Australian Geological Survey Organisation | ✓ | 18-Sep-01 | |
| Australian Industry Development Corporation | ✓ | 05-Sep-01 | |
| Australian Institute of Marine Science | ✓ | 12-Sep-01 | |
| Australian Marine Science and Technology Limited | ✓ | 08-Nov-01 | |
| Australian Nuclear Science and Technology Organisation | ✓ | 16-Aug-01 | |
| Australian Sports Commission | ✓ | 18-Sep-01 | |
| Australian Sports Drug Agency | ✓ | 28-Sep-01 | |
| Australian Sports Foundation | ✓ | 11-Sep-01 | |
| Australian Technology Group Limited | ✓ | 20-Sep-01 | |
| Australian Tourist Commission | ✓ | 13-Aug-01 | |
| Commonwealth Scientific & Industrial Research Organisation | ✓ | 06-Sep-01 | |
| CVC REEF Limited | ✓ | 31-Oct-01 | |
| Hydrocool Pty Limited | ✓ | 24-Sep-01 | |
| IIF Bioventures Pty Limited | | ⇄ | |
| IIF (CM) Investments Pty Ltd | | ⇄ | |
| IIF Foundation Pty Ltd | | ⇄ | |
| IIF Investments Pty Ltd | | ⇄ | |
| IIF Newport Pty Limited | | ⇄ | |
| IP Australia | ✓ | 10-Sep-01 | |
| Joint Coal Board | E | 01-Nov-01 | |
| National Standards Commission | ✓ | 27-Aug-01 | |
| Snowy Mountains Hydro-electric Authority | E | 03-Sep-01 | |

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Results of financial statement audits

Joint Coal Board

Emphasis of matter—Ability to continue as going concern

165. The Joint Coal Board is under review by both the Federal and State Governments. The *Coal Industry Bill 2001*, which provides for the establishment of a new entity, is expected to be legislated in the near future. While this Bill included provisions which address the financial position of the proposed new entity, should it not proceed, there was inherent uncertainty whether the Joint Coal Board would be able to continue as a going concern and therefore would realise its assets and extinguish its liabilities in the normal course of business and at the amounts noted in its financial report.

Snowy Mountains Hydro-Electric Authority

Emphasis of matter—Proposed corporatisation

166. The Commonwealth, New South Wales and Victoria Governments have agreed upon a set of key principles for reform of the Snowy Mountains Hydro-electric Scheme which will ultimately lead to the corporatisation of the Scheme. The likely terms of the proposed corporatisation, including settlement of the superannuation provision are uncertain and are being negotiated. Accordingly, the effects, if any, of the proposed corporatisation on the financial statements cannot be determined.

167. This issue resulted in a similar emphasis of matter in the prior year.

Internal control matters

Department of Industry, Science and Resources

Special accounts supporting documentation

168. The Department experienced difficulty providing transactions for each of its special accounts for the current financial year. Under the Financial Management and Accountability (Financial Statements 2000–2001) Orders, the Department is required to maintain appropriate accounts and records for each special account that it administers. The Department acknowledged the issue and has implemented new and revised accounting arrangements for its special accounts.

Parliamentary Departments Portfolio

| <i>Reporting entity as at 30 June 2001</i> | <i>Audit Report</i> | <i>Opinion Issued</i> | <i>Internal Control</i> |
|---|---------------------|-----------------------|-------------------------|
| Department of the Senate | ✓ | 14-Sep-01 | |
| Department of the House of Representatives | ✓ | 26-Sep-01 | ◆ |
| Department of the Parliamentary Library | ✓ | 27-Jul-01 | |
| Department of the Parliamentary Reporting Staff | ✓ | 04-Sep-01 | |
| Joint House Department | ✓ | 14-Sep-01 | |

✓ audit report not modified

E audit report contains an emphasis of matter

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Internal control matters

Department of the House of Representatives

Bank and general ledger account reconciliations

169. Monthly reconciliation processes for bank accounts, creditors, debtors, assets and appropriation drawdowns were significantly in arrears. In addition, some of the reconciliations did not have evidence of management review and sign-off.

Segregation of duties

170. The ANAO noted an unsatisfactory level of segregation of duties in relation to key accounting functions and accordingly has made recommendations to the Department to remedy the situation.

Prime Minister and Cabinet Portfolio

| <i>Reporting entity as at 30 June 2001</i> | <i>Audit Report</i> | <i>Opinion Issued</i> | <i>Internal Control</i> |
|--|---------------------|-----------------------|-------------------------|
| Department of Prime Minister and Cabinet | ✓ | 06-Aug-01 | |
| Office of the Commonwealth Ombudsman | ✓ | 20-Sep-01 | |
| Office of the Inspector-General of Intelligence and Security | ✓ | 15-Oct-01 | |
| Office of National Assessments | ✓ | 10-Oct-01 | |
| Office of the Official Secretary to the Governor General | ✓ | 14-Sep-01 | |
| Public Service and Merit Protection Commission | ✓ | 30-Aug-01 | |

- ✓ audit report not modified
- E audit report contains an emphasis of matter
- Q audit report contains a qualification
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- ≠ financial year end date other than 30 June 2001
- ◆ significant internal control issues noted (since Audit Report No.1)

Reconciliation and Aboriginal and Torres Strait Islander Affairs Portfolio

| <i>Reporting entity as at 30 June 2001</i> | <i>Audit Report</i> | <i>Opinion Issued</i> | <i>Internal Control</i> |
|--|---------------------|-----------------------|-------------------------|
| Department of Reconciliation and Aboriginal and Torres Strait Islander Affairs | ✓ | 25-Sep-01 | |
| Indigenous Business Australia | ✓ | 11-Oct-01 | |
| — Bowen Basin Holdings Pty Ltd | ✓ | 30-Oct-01 | |
| — Bowen Basin Investments Pty Ltd | ✓ | 30-Oct-01 | |
| — Bowen Basin Holdings Trust | ✓ | 30-Oct-01 | |
| — Bowen Basin Investment Trust | ✓ | 30-Oct-01 | |
| Aboriginal and Torres Strait Islander Commission | ✓ | 06-Sep-01 | ◆ |
| — Aboriginals Benefit Account | ✓ | 22-Aug-01 | |
| — Aboriginal and Torres Strait Islander Education and Cultural Advancement Trust | ✓ | 06-Sep-01 | |
| — Aboriginal and Torres Strait Islander Land Fund Account | ✓ | 06-Sep-01 | |
| — Bilioara Pty Ltd | Q | 06-Nov-01 | |
| — Bilioara Unit Trust | Q | 06-Nov-01 | |
| — Morr Morr Pastoral Company Pty Ltd | ✓ | 16-Oct-01 | |
| — Yeperenye Pty Ltd | ✓ | 11-Sep-01 | |
| Aboriginal Hostels Ltd | ✓ | 21-Aug-01 | |
| Australian Institute of Aboriginal and Torres Strait Islander Studies | ✓ | 17-Sep-01 | |
| Indigenous Land Council | ✓ | 10-Sep-01 | |
| Anindilyakwa Land Council | ✓ | 24-Sep-01 | |
| Central Land Council | ✓ | 08-Oct-01 | |
| Northern Land Council | ✓ | 20-Sep-01 | |
| Tiwi Land Council | ✓ | 19-Sep-01 | |
| Torres Strait Regional Authority | ✓ | 31-Aug-01 | |
| Wreck Bay Aboriginal Community Council | ✓ | 17-Oct-01 | |

✓ audit report not modified

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Results of financial statement audits

Bilioara Pty Limited and Bilioara Unit Trust

Qualifications—Lack of access to financial records

171. Bilioara Pty Limited is the trustee company for Bilioara Unit Trust (the Trust). As the trustee company, Bilioara Pty Limited is legally liable for any excess of Trust liabilities over Trust assets. The Trust was involved in two major legal cases at balance date. The first case was the ongoing litigation with the Trust's 50 per cent partner in the Mirambeena Tourist Resort. As a consequence, the financial records of the partnership were not available for audit and there was also uncertainty regarding the valuation of the Trust's primary asset, the Mirambeena Tourist Resort. The second legal case was in regard to the Aboriginal and Torres Strait Islander Commission's rescission of a capital restructure agreement.

172. As a result, the ANAO has issued qualified audit reports due to a limitation of scope in obtaining all the information and explanations required in forming opinions on the financial reports of the Trust and the Company.

173. This issue resulted in similar qualifications for the prior year.

Internal control matters

Aboriginal and Torres Strait Islander Commission

174. The audit testing identified weaknesses in regard to IT systems access controls, reconciliations and segregation of duties. There were also continuing administrative weaknesses associated with grants and loans.

IT access controls

175. The Commission utilises SAP R/3 as its Financial Management Information System (FMIS). This system uses an access profile method to segregate functionality within the system. Users are defined to one or more access profiles. The audit identified weaknesses in access controls over the system administration function and the segregation of duties within the system support team.

176. On ANAO recommendation, the Commission reviewed the access control weaknesses and as a result strengthened the access profiles and reduced the number of users with inappropriate access. However, it is the ANAO's view that a number of users still have access profiles which are excessive.

177. To compensate for this risk, the Commission has developed a procedure that allows the regular monitoring and review of transactions processed by the system support team. This will be implemented beginning the 2001–2002 financial year.

Inappropriate duties undertaken by system support team

178. The system support team was processing financial transactions during the financial year. This was considered to be an inappropriate responsibility, in that it avoids the established internal controls designed to protect the data from error and fraud.

179. The Commission advised that it has developed a procedure that allows the regular monitoring and review of transactions processed by the system support team.

Reconciliation of loan system

180. The reconciliation of the loans system to the general ledger was not completed in a timely manner during the financial year. To remedy the weakness the Commission has put in place a procedure to ensure that the two systems are reconciled on a monthly basis.

Segregation of duties

181. A breakdown in the segregation of duties of the assets officer was noted. When disposing of assets by sale, the assets officer receives the proceeds from the sale. This practice gives rise to the risk of error and fraud occurring. In order to have an effective internal control structure the duties of managing the assets register and receiving proceeds from disposal should be segregated. The Commission has implemented a procedure where the proceeds of sale of assets are forwarded directly to the Commission's Finance Office.

Transport and Regional Services Portfolio

| <i>Reporting entity as at 30 June 2001</i> | <i>Audit Report</i> | <i>Opinion Issued</i> | <i>Internal Control</i> |
|--|---------------------|-----------------------|-------------------------|
| Department of Transport and Regional Services | ✓ | 22-Aug-01 | |
| Airservices Australia | ✓ | 28-Aug-01 | |
| Albury-Wodonga Development Corporation | ✓ | 21-Sep-01 | |
| Australian River Co. Limited ¹⁸² (30-Nov-00) | E | 10-May-01 | |
| Australian Maritime College ¹⁸³ (31-Dec-00) | ✓ | 29-Mar-01 | |
| — Australian Maritime College Search Ltd ¹⁸³ (31-Dec-00) | ✓ | 29-Mar-01 | |
| Australian Maritime Safety Authority | ✓ | 19-Sep-01 | |
| Australian National Railways Commission ¹⁸⁴ (1-Jul-00 to 31-Oct-00) | ✓ | 07-Nov-00 | |
| Australian Rail Track Corporation Limited | ✓ | 27-Sep-01 | |
| Civil Aviation Safety Authority | ✓ | 07-Sep-01 | |
| Maritime Industry Finance Company Ltd | ✓ | 07-Aug-01 | |
| Stevedoring Industry Finance Committee | | ◆ | |
| National Capital Authority | ✓ | 05-Sep-01 | |
| National Rail Corporation Limited | ✓ | 31-Aug-01 | |
| National Road Transport Commission | ✓ | 13-Sep-01 | |

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

◆ signed financial statements not presented for audit at this time

¹⁸⁴ financial year end date other than 30 June 2001

◆ significant internal control issues noted (since Audit Report No.1)

Results of financial statement audits

Australian River Co. Limited

Emphasis of matter—Residual operations following restructure of the company

182. The audit report of the Australian River Co. Limited contained an emphasis of matter regarding the uncertainty of the final structure and remaining operations of the company. The Government commenced a trade sale process of the Australian River Co. Limited and all of its remaining businesses effective April 1998. On 13 August 1999, the Minister for Finance and Administration wrote to Australian River Co. Limited and stated that the sale process of the core operating businesses of the economic entity had been concluded. However, at the date of finalisation of the audit, the Government had not announced its intention regarding the final structure of the Australian River Co. Limited and its remaining operations.

183. This issue resulted in a similar emphasis of matter in the prior year.

Treasury Portfolio

| <i>Reporting entity as at 30 June 2001</i> | <i>Audit Report</i> | <i>Opinion Issued</i> | <i>Internal Control</i> |
|---|---------------------|-----------------------|-------------------------|
| Department of the Treasury | E | 03-Sep-01 | |
| — Royal Australian Mint | ✓ | 14-Aug-01 | |
| — Sydney 2000 Olympic Coin Program | ✓ | 14-Aug-01 | |
| Australian Accounting Standards Board | ✓ | 28-Sep-01 | |
| Australian Bureau of Statistics | ✓ | 10-Aug-01 | |
| Australian Competition and Consumer Commission | ✓ | 28-Aug-01 | |
| Australian Office of Financial Management | ✓ | 06-Sep-01 | |
| Australian Prudential Regulation Authority | Q | 13-Sep-01 | ◆ |
| Australian Securities and Investments Commission | ✓ | 29-Aug-01 | |
| Australian Taxation Office | Q | 21-Sep-01 | ◆ |
| — Australian Valuation Office | ✓ | 21-Sep-01 | |
| Companies and Securities Advisory Committee | ✓ | 18-Sep-01 | |
| National Competition Council | ✓ | 04-Sep-01 | |
| Productivity Commission | ✓ | 18-Sep-01 | |
| Reserve Bank of Australia | ✓ | 09-Aug-01 | |
| — Note Printing Australia Pty Ltd | ✓ | 09-Aug-01 | |
| Reserve Bank of Australia Officers' Superannuation Fund | ✓ | 22-Oct-01 | |

✓ audit report not modified

E audit report contains an emphasis of matter

Q audit report contains a qualification

◆ signed financial statements not presented for audit at this time

⌘ financial year end date other than 30 June 2001

◆ significant internal control issues noted (since Audit Report No.1)

Results of financial statement audits

Department of the Treasury

Emphasis of matter—Measurement of liability for the HIH Claims Support Program

184. The audit report for the Department of the Treasury's financial statements for the 2000–2001 financial year contains an emphasis of matter reflecting the inherent uncertainty regarding the measurement of the liability for the HIH Claims Support Program.

185. The collapse of the HIH Insurance group (HIH) during the 2000–2001 financial year prompted the Commonwealth Government to implement this program, which is being administered on behalf of the Government by the Treasury. As part of the administration of the program, the Government has committed itself to future payments to policyholders, in accordance with established criteria.

186. Based on the initial estimates of HIH's claims liabilities made by the then provisional liquidator of HIH, the Government appropriated \$640 million for the HIH Claims Support Program. The then provisional liquidator had indicated to the Treasury that the estimates of HIH's claims liabilities were uncertain due to their timeframe and nature.

187. A further report was prepared by the then provisional liquidator, which indicated a worsening position of the HIH liability. However due to the inherent uncertainty surrounding the measurements, the then provisional liquidator advised that there was no more reliable figure for the program than the \$640 million reported earlier.

Australian Prudential Regulation Authority

Qualification—Recognition & levy receivables and accrued revenue

188. The Authority administers levies on behalf of the Commonwealth under the *Financial Institutions Supervisory Levy Collection Act 1998* and reports revenue arising from these levies in the Schedule of Administered Revenues and Expenses.

189. The Authority is funded under the *Australian Prudential Regulation Authority Act 1998* (the Act) Section 50 of the Act provides for a Special Appropriation, whereby the Authority is to be paid an amount equal to the rest of the levy money received by the Commonwealth, after deducting the Commonwealth's costs of providing market integrity and consumer protection functions for prudentially regulated institutions.

190. The Authority records 'Revenues from Government' as the amount of levies invoiced net of the Commonwealth's costs of providing market integrity and consumer protection functions. This policy is contrary to section 50 of the Act, which, in its present form, entitles the Authority to a Special Appropriation equal to the amount of levy money received by the Commonwealth net of the costs of market integrity and consumer protection.

191. The policy adopted also represents a departure from Australian Accounting Standard AAS 15 *Revenue*, which requires that revenues be recognised when, and only when, the entity has gained control of the revenue or the right to receive the revenue. The effects of this departure are:

- overstatement of receivables (\$0.493 million) accrued revenues (\$0.306 million) and total equity (\$0.799 million) in the Statement of Financial Position; and
- overstatement of revenues from Government (\$0.799 million) and understatement of the net operating deficit (\$0.799 million) in the Statement of Financial Performance.

Australian Taxation Office

Qualification—Non-capitalisation of finance lease of IT equipment

192. The Australian Tax Office leases computer equipment under an information technology outsourcing contract and this lease has been recognised as an operating lease in the Agency financial statements. A number of substantial ownership risks, including residual value risk on early termination or expiry of the lease, have passed to the Australian Taxation Office under the contract. Accordingly, the lease should be accounted for as a finance lease. The recognition of the lease as an operating lease in the Agency financial statements represents a departure from Australian Accounting Standard AAS 17 *Leases* which requires leases to be classified as finance leases where substantially all of the risk and benefits incident to ownership pass from the lessor to the lessee. The effect of this departure is to understate assets by \$71.8 million and liabilities by \$71.1 million on the ATO Statement of Financial Position, and understate expenses in the ATO Statement of Financial Performance by \$8.1 million.

193. This issue resulted in a similar qualification in the prior year.

Internal control matters

Australian Prudential Regulation Authority

Levy invoicing procedures for deposit-taking and insurance leviable bodies

194. The *Financial Institutions Supervisory Levies Collection Act 1998*, which provides for the collection of all levies administered by APRA, states that, for existing deposit-taking and insurance leviable bodies, the relevant levy is due and payable on 1 July of each year (or the next business day).

195. For the levies due on 1 July 2000, the Authority issues invoices to each leviable body during August 2000 with due dates ranging from 6 to 20 September 2000. As a result, none of the payments, which amounted to \$36 million, were made by the due date, with most being received more than two months later. The ANAO estimated that the delayed invoicing cost the Authority more than \$300 000 in lost interest earnings. This matter of non-compliance with the legislation was also noted in relation to deposit-taking bodies in the performance audit of *Bank Prudential Supervision* (ANAO Audit Report No.42 2000–2001 refers).

196. For the following year's levies, the Authority issued invoices on 21 June 2001 with a due date of 30 June 2001. The correct due date would have been 2 July 2001, ie the first business day of the year. The earlier issue of the invoices for 2001 resulted in the receipt of more than \$4.4 million from leviable bodies by the due date. However, once again the Authority lost the opportunity to earn interest on the amount not received by the date.

197. The ANAO recommended that the Authority implement procedures to ensure that levy invoices for deposit-taking and insurance leviable bodies are issued in sufficient time to achieve payment by 1 July of each year.

198. APRA management has responded by indicating that levy invoicing performance for 2001–02 clearly indicates achievement of this intention.

Levy invoicing and outstanding returns for superannuation entities

199. The due and payable date for superannuation entities (existing at 1 July) is specified in the *Financial Institutions Supervisory Levies Collection Act 1998* as six weeks after the lodgement of a return under section 36 of the *Superannuation Industry (Supervision) Act 1993*. Returns are to be lodged within four months after each year of income (ie. by 31 October). The due and payable date for superannuation entities which become superannuation entities after 1 July is specified as six weeks after the entity becomes a superannuation entity.

200. The Authority administered approximately 15 000 superannuation entities for total revenue of \$26 million during the 2000–2001 financial year. The Authority was not billing the entities strictly in accordance with the legislative requirements.

201. The ANAO recommended that, in relation to superannuation levies, the Authority review the billing arrangements to achieve strict compliance with the legislation or propose legislative change.

202. APRA management has responded that billing arrangements would be addressed under new systems being introduced.

Levy late payment penalty (all levies)

203. Where a levy is not paid by the due date, the *Financial Institutions Supervisory Levies Collection Act 1998* states that the levy paying entity is liable to pay, by way of penalty, an amount worked out at the rate of 20 per cent per year on the amount unpaid.

204. The Authority was not charging late payment penalty on all levy payments received after the due date. This matter was also raised in last year's audit. For the 2000–2001 financial year, penalty was applied inconsistently, in that periods of grace varying from 15 to 30 days were allowed and penalty was discretionary when payment was more than 90 days overdue. A period of grace was also observed by the ANAO during the performance audit of *Bank Prudential Supervision*. As a result of the inconsistent application of penalty, there was a loss of revenue, understatement of gross and net levy revenue, and inequitable treatment of leviable bodies.

205. The ANAO recommended that the Authority charge late payment penalty on levy payments received after the due date in accordance with the legislative provisions.

206. APRA management has advised that it will review the manner in which late payment penalties are applied. The review will consider the cost-benefit of moving from the current monthly cycle of applying late payment penalties to strict compliance with the legislation. Should the cost-benefit analysis indicate that the revenue raised would exceed the additional administrative cost of the more frequent application of late payment penalties, then APRA will revise its procedures.

Australian Taxation Office

Reconciliations for administered items

207. The ATO collects approximately \$160 billion of tax revenue on behalf of the Government. The recording of tax revenue is not generated by an integrated financial management information system but is derived via a series of complex spreadsheets that use data from the business systems, the general ledger and supporting schedules.

208. The complexity of the administered schedule spreadsheets, along with substantial changes to the ATO business processes, revenue timing differences and revenue allocation problems, caused difficulty for the preparation of the year end administered schedules and the supporting reconciliations. The ANAO's initial examination of the year end reconciliation identified logic problems and a lack of supporting documentation for material adjusting journal entries. The ATO subsequently completed the critical cash reconciliations. However, the general ledger and the business systems reconciliation process contained unsupported variances totalling \$1.4 billion.

209. The ANAO was satisfied that the administered schedules (financial statements) were materially correct. However, there are still outstanding issues with the business systems reconciliations. In this context, there is a risk regarding the ongoing quality of the monthly administered financial reports.

210. The ATO has commenced a project to develop an integrated financial reporting system. This project will require the allocation of substantial resources if a reliable system is to be implemented in the near future. It is recommended that priority be given to the integrated financial reporting project and the completion of the reconciliations that support the monthly administered financial reports.

A handwritten signature in black ink, appearing to read 'P. J. Barrett', written in a cursive style.

Canberra ACT
21 December 2001

P. J. Barrett
Auditor-General

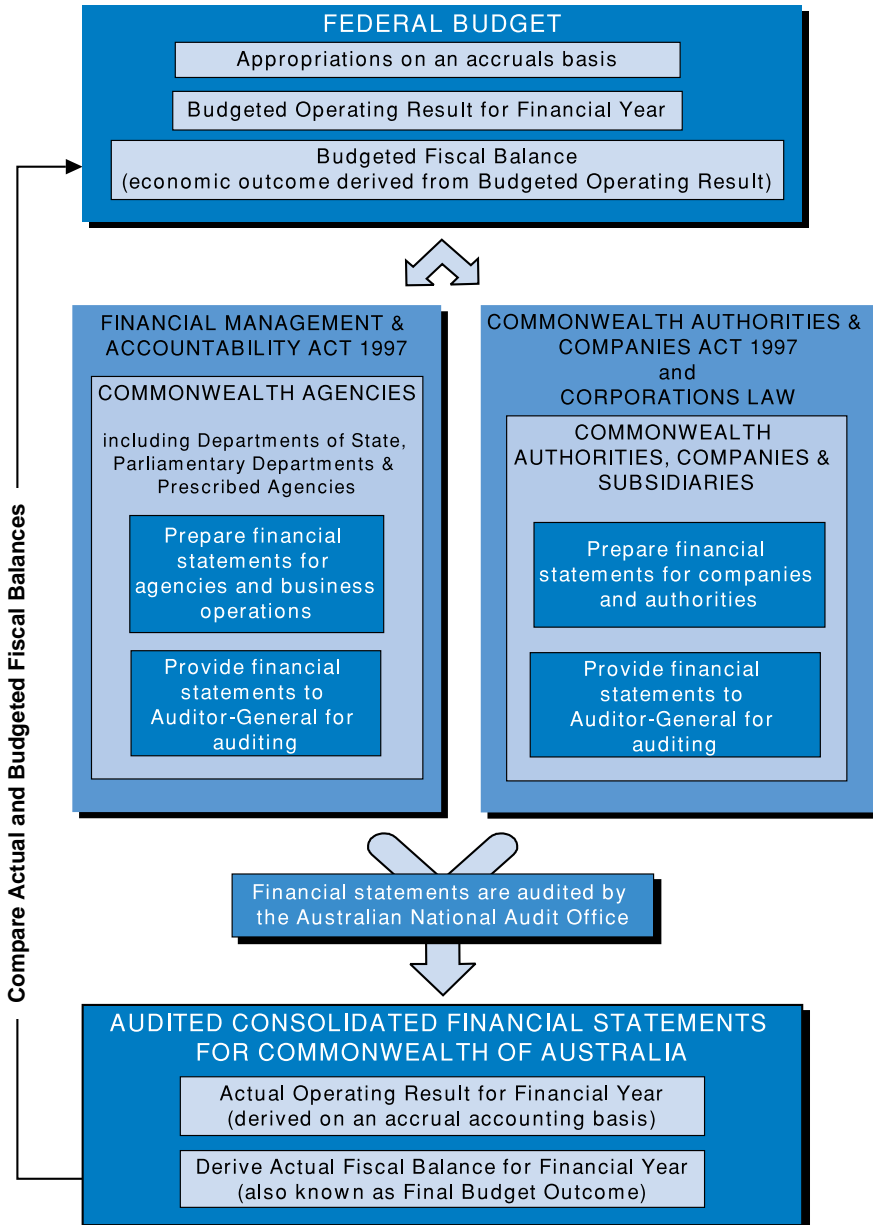
Appendix

Appendix

Financial Reporting and Auditing Framework

The financial reporting framework

The Commonwealth public sector is made up of a number of types of entities, each of which has distinct financial reporting requirements. This framework is summarised in the diagram below, followed by more detailed discussion.



Commonwealth of Australia

Section 55 of the *Financial Management and Accountability (FMA) Act 1997* requires the Finance Minister to prepare annual financial statements for the Commonwealth of Australia. These financial statements are a general-purpose financial report consolidating the financial activities of all agencies, authorities, companies and other bodies controlled by the Commonwealth. These consolidated financial statements show the Actual Operating Result. This figure is used to calculate the Actual Fiscal Balance, which can then be compared to the Budgeted Fiscal Balance.

Fiscal balance is the Government's key fiscal policy measure. The fiscal balance is an accrual measure of the Commonwealth's investment savings balance. It measures the extent that the Government is adding to or drawing from private savings.

The fiscal balance is derived, through several adjustments to revaluations and capital, from the standard accounting operating result as presented under Australian Accounting Standard AAS31 *Financial Reporting by Government*.

Commonwealth agencies

Commonwealth agencies are those agencies that operate on the Commonwealth Public Account under provisions of the *FMA Act 1997* including Departments of State, Parliamentary Departments and prescribed agencies.

The Act requires the chief executives to prepare financial statements for their agencies and designated business operations in accordance with the Finance Minister's Orders. These Orders require compliance with Australian Accounting Standards and Accounting Guidance Releases issued by the Australian Research Foundation and Consensus Views of the Urgent Issues Group.

Commonwealth authorities and subsidiaries

Commonwealth authorities are statutory bodies created by the Parliament to perform specific functions. Authorities operate under their own enabling legislation and generally must comply with provisions of the *Commonwealth Authorities and Companies (CAC) Act 1997*.

The Act requires directors of authorities to prepare financial statements in accordance with the Finance Minister's Orders. These Orders require compliance with Australian Accounting Standards and Accounting Guidance Releases issued by the Australian Research Foundation and Consensus Views of the Urgent Issues Group.

Directors of a Commonwealth authority must ensure subsidiaries of the authority prepare financial statements in accordance with relevant legislation and the *CAC Act 1997*.

Commonwealth companies and subsidiaries

Commonwealth companies are companies in which the Commonwealth has a controlling interest. Commonwealth companies operate and prepare financial statements under the Corporations Law and provisions of the *CAC Act 1997*.

Directors of a Commonwealth company must ensure subsidiaries of the company prepare financial statements in accordance with relevant legislation and the *CAC Act 1997*.

Other bodies

The ANAO also audits the financial statements of other bodies controlled by the Commonwealth. These consist primarily of trusts or joint ventures entered into by Commonwealth bodies.

Financial statement audit scope

The chief executives of agencies, and the directors of governing bodies of other agencies, are responsible for the records, controls, procedures and organisation that underlie the information in the financial statements and the preparation of these statements. The independent audit of the financial statements, conducted in order to express an opinion on them, involves review of, among other matters, the above factors where their effect on the financial statements could be material.

The audits are conducted in accordance with the ANAO Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance as to whether the financial statements are free of material misstatement. Audit procedures include examination, on a test basis, of evidence supporting the amounts and other information in the financial statements, and evaluation of accounting policies and significant accounting estimates. These procedures are undertaken to form an opinion whether, in all material respects, the financial statements are presented fairly.

Whilst entity control structures are evaluated as an integral part of the audit process, only those systems and controls on which it is intended to place reliance for the purpose of determining audit procedures leading to audit opinions on the financial statements are evaluated in detail. In some audits, audit procedures concentrate primarily on substantiating the amounts appearing in the financial statements and do not include a detailed evaluation of systems and internal controls.

The audits are not required to search specifically for fraud and therefore they cannot be relied upon to disclose all such matters. However, the audits are planned so that there is a reasonable expectation of detecting material misstatements in the financial statements resulting from irregularities, including fraud.

The audit report on financial statements

The audit report on the financial statements is a statement of the auditor's opinion on whether the statements present fairly the entity's financial position, the results of its financial operations and its cash flows in accordance with Australian Accounting Standards, other mandatory professional reporting requirements and statutory requirements.

If the auditor is not satisfied the financial statements are fairly presented; the audit report is modified stating the reasons why.

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