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Financial Statements Audit

## **Interim Report on Key Financial Controls of Major Entities**

Australian National Audit Office

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Canberra ACT  
13 June 2019

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken the interim audit phase of the 2018–19 financial statements audits of major entities in accordance with the authority contained in the Auditor-General Act 1997. The report is titled *Interim Report on Key Financial Controls of Major Entities*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

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

Yours sincerely

A handwritten signature in black ink, which appears to read "Grant Hehir".

Grant Hehir  
Auditor-General

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

## AUDITING FOR AUSTRALIA

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

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

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## Executive summary

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1. The ANAO prepares two reports annually that, drawing on information collected during audits, provide insights at a point in time to the financial statements risks, governance arrangements and internal control frameworks of Commonwealth entities. These reports explain how entities' internal control frameworks are critical to executing an efficient and effective audit and underpin an entity's capacity to transparently discharge its duties and obligations under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). Deficiencies identified during audits, that pose either a significant or moderate risk to an entity's ability to prepare financial statements free from material misstatement, are reported.
2. This report, is the first in the series of reports and focuses on the results of the interim audits, including an assessment of entities' key internal controls, supporting the 2018–19 financial statements audits. It examines 26 entities, including all departments of state and a number of major Australian government entities. The entities included in the report are selected on the basis of their contribution to the income, expenses, assets and liabilities of the 2017–18 Consolidated Financial Statements of the Australian Government (CFS). Significant and moderate findings arising from the interim audits are reported to the responsible Minister(s), and all findings are reported to those charged with governance of each entity.

### Summary of audit findings and related issues

#### Entity internal controls

3. The interim audit phase includes an assessment of the effectiveness of each entity's internal controls as they relate to the risk of misstatement in the financial statements. At the completion of our interim audits for the 26 entities included in this report we noted that key elements of internal control were operating effectively for 19 entities. For four entities,<sup>1</sup> except for particular finding/s outlined in chapter 3, the key elements of internal control were operating effectively to support the preparation of financial statements that are free from material misstatement. For the Departments of: Defence; Education and Training, and the National Disability Insurance Agency, the ANAO identified a number of findings which reduced the level of confidence that could be placed on key elements of internal control and limited the assurance that could be obtained from that entity's control framework.

#### Summary of audit findings

4. A total of 70 findings were reported to the entities included in this report as a result of interim audits, comprising of one significant, 12 moderate and 57 minor findings. This is an increase of one significant and a reduction of 30 minor findings compared with the 2017–18 interim audit results.
5. Fifty-six per cent of findings relate to the management of Information Technology (IT) controls, particularly the management of privileged user access. The continued level of findings

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1 The Departments of: Agriculture and Water Resources; Communications and the Arts; Health; and Jobs and Small Business.

indicates that entities need to focus on processes to monitor IT controls to prevent reoccurrence of issues.

### **Policies reviews for fraud, payment cards and compliance with finance law**

6. Accountable authorities duties under Division 2 of the PGPA Act include: promoting the proper use and management of public resources; and reporting to the Minister on significant issues and activities in the entity. In the context of these obligations and a review of entity internal controls, this report includes a focus on and an analysis of, payment card and fraud control policies together with a continued review of compliance with the Commonwealth's finance law.

7. Review of these areas found that entities' have an opportunity to learn from each other to strengthen monitoring and reporting processes, leading to increased transparency over compliance with internal policies, building fraud awareness and enhancing assurance that payment card expenditure is appropriate, within delegation and supported by receipts

8. The ANAO observed that entities had processes in place for monitoring and reporting instances of non-compliance with finance law. Following changes to the mandatory external reporting of non-compliance in 2015–16, where entities have reduced their internal reporting of breaches of finance law, this can lead to a lack of visibility over, or capacity to identify, risks and reduce the completeness and relevance of the information provided to the accountable authority.

## **Reporting and auditing frameworks**

### **Summary of developments**

9. Major changes in accounting standards are applicable in 2018–19 and 2019–20 with the implementation of revised standards for financial instruments, revenue and leases. Early engagement in planning for these standards will provide entities with more options for transitioning, time to review and potentially renegotiate underlying contracts and agreements and time to organise and implement necessary FMIS changes.

10. The *Independent Review into the operation of the Public Governance, Performance and Accountability Act 2013 and Rule* has made a number of recommendations to the Minister for Finance including, for example, bringing forward the date for the tabling of annual reports, removing duplication and improving linkages between accountability documents, and increasing disclosures around remuneration paid to executives and highly paid staff. In response, the Minister for Finance amended the PGPA Rule to require Commonwealth entities to make remuneration disclosures for key management personnel, senior executives and other highly paid staff in annual reports. The Minister for Finance also amended the PGPA (Annual Report) Rules to require Commonwealth companies and Commonwealth entities to publish annual reports online.

## **Cost of this report**

11. The cost to the ANAO of producing this report is approximately \$405,000.

# 1. Interim audit results and other matters

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## Chapter coverage

This chapter provides:

- an overview of the ANAO's audit approach to financial statements audits;
- a summary of observations regarding the internal control environments of the entities included in this report;
- a summary of audit findings identified at the conclusion of the interim audits; and
- observations relating to: the establishment and monitoring of credit cards policies; fraud control processes; and reporting relating to compliance with finance law.

## Conclusion

Key to the ANAO's audit process is an assessment of entities' internal control frameworks as they apply to financial reporting. An effective internal control framework provides the ANAO with a level of assurance that entities are able to prepare financial statements that are free from material misstatement. Deficiencies in the internal control framework increase the necessity for the ANAO to perform additional work during the final audit phase.

At the completion of the interim audits for the 26 entities included in this report the ANAO noted that key elements of internal control were operating effectively for 19 entities. For four<sup>a</sup> entities, except for particular finding/s outlined in chapter 3, the key elements of internal control were operating effectively to support the preparation of financial statements that are free from material misstatement. For the Departments of: Defence; Education and Training, and the National Disability Insurance Agency, the ANAO identified a number of findings which reduced the level of confidence that financial statements can be prepared free from material misstatement.

A total of 70 findings were reported to the entities included in this report as a result of interim audits, comprising of one significant, 12 moderate and 57 minor findings. This is an increase of one significant finding and a reduction of 30 minor findings compared with the 2017–18 interim audit results.

Fifty-six per cent of findings relate to the management of Information Technology (IT) controls, particularly the management of privileged user access. The continued level of findings indicates that entities need to focus on processes to monitor IT controls to prevent reoccurrence of issues.

Accountable authorities have duties under Division 2 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) that include: promoting the proper use and management of public resources; and reporting to the Minister on significant issues and activities in the entity. In the context of these obligations and a review of entity internal controls, this report includes a focus on and an analysis of, payment card and fraud control policies together with a continued review of compliance with the Commonwealth's finance law.

Review of these areas highlights divergent practices between entities and indicates an opportunity for entities to learn from each other to strengthen their processes. In particular, to build fraud awareness through implementing or improving delivery of appropriate and regular

training, and regular review and update of payment card policies consistent with patterns of use. Improved monitoring and reporting across these areas will demonstrate consistent compliance with internal policies and also provide assurance that payment card expenditure is appropriate, within delegation and supported by receipts.

Equally, where entities have reduced their internal reporting of breaches of finance law, this can lead to a lack of visibility over, or capacity to identify, risks and reduce the completeness and relevance of the information provided to the accountable authority.

Note a: The Departments of: Agriculture and Water Resources; Communications and the Arts; Health; and Jobs and Small Business.

## Introduction

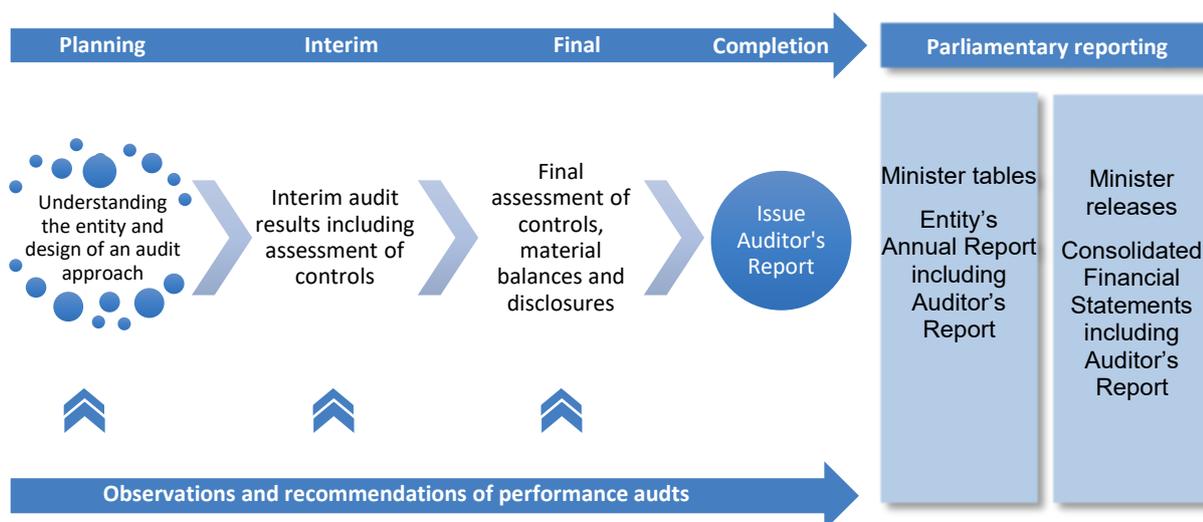
1.1 The ANAO publishes an Annual Audit Work Program (AAWP) which reflects the ANAO's strategy and deliverables for the forward year. The purpose of the AAWP is to inform the Parliament, the public and government sector entities of the ANAO's planned audit coverage for Australian Government entities by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

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

1.3 This report focuses on the results of the interim audits of 26 entities. This includes a review of the governance arrangements related to entities' financial reporting responsibilities and an examination of the relevant internal controls, including IT system controls that support the preparation of financial statements that are free from material misstatement. The second report presents the final results of the financial statements audits of the CFS and all Australian Government entities.

1.4 The entities included in this report are those entities that contribute significantly to the three sectors of the CFS: the General Government Sector (GGS), Public Non-Financial Corporation (PFNC) sector and Public Financial Corporation (PFC) sector. A listing of these entities is provided in Appendix 1.

1.5 The ANAO conducts its financial statements audits in four phases: planning, interim, final and completion. Figure 1.1 outlines the key elements of each phase.

**Figure 1.1: ANAO financial statements audit process**

Source: ANAO data.

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

1.7 In accordance with generally accepted auditing practice, the ANAO accepts a low level of risk that an audit will fail to detect the financial statements are materially misstated. This low level of risk is accepted because it is too costly to perform an audit that is predicated on no level of risk. An understanding of the entity, its environment and its controls, helps the ANAO design the required work and respond to risks that bear on financial reporting. The key areas of financial statements risks identified through this planning approach are discussed in chapter 3 for each entity included in this report.

1.8 A key component of understanding the entity and its environment is to understand the governance arrangements established by its accountable authority.<sup>2</sup> Accountable authorities of all Commonwealth entities and companies subject to the PGPA Act are required to govern their entity in a way that promotes the proper use and management of public resources, the achievement of the purposes of the entity and the entity's financial sustainability.

1.9 The development and implementation of effective corporate governance arrangements and internal controls should be designed to meet the individual circumstances of each entity. These processes also assist in the orderly and efficient conduct of the entity's business and

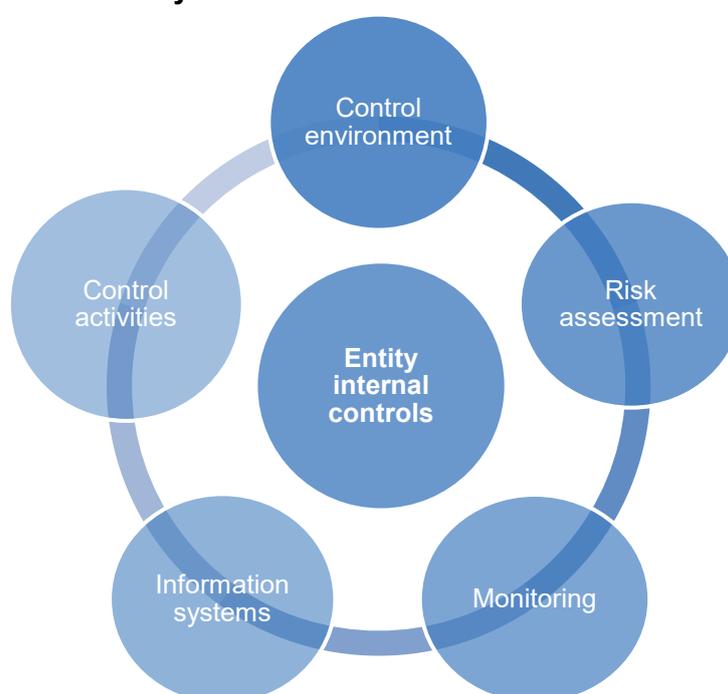
<sup>2</sup> There is a range of different governance structures within Commonwealth entities depending on particular legal status or enabling legislation. The term 'accountable authority', as defined in the PGPA Act, is used in this report to describe the person or body responsible for an entity's governance.

compliance with applicable legislative requirements, including the preparation of annual financial statements that present fairly the entity's financial position, financial performance and cash flows.

## Understanding the entity

1.10 The ANAO uses the framework in the Australian Auditing Standards (ASA) 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment* to consider the impact of different elements of an entity's internal controls that support the preparation of financial statements. This approach provides a basis for designing and implementing the audit work program that reflects the ANAO's assessment of the risk of material misstatement. Deficiencies in the internal control framework increase the requirement of the ANAO to perform additional audit work in the final phase. Figure 1.2 outlines these elements.

**Figure 1.2: Elements of entity internal controls**



Source: *ASA 315 Identifying and assessing the risk of material misstatement through understanding the entity and its environment, paragraph A59.*

1.11 This chapter discusses each of these elements and outlines observations based on the ANAO's review of aspects of each entity's internal controls, relevant to the risk of material misstatement to the financial statements, including the detailed results of the interim audits.

1.12 At the completion of the interim audits for the 26 entities included in this report, the ANAO noted that key elements of internal control were operating effectively for 19 entities. For four entities<sup>3</sup>, except for particular finding/s outlined in chapter 3, the key elements of internal control were operating effectively to support the preparation of financial statements that are free from material misstatement. For the Departments of: Defence; Education and Training, and the

<sup>3</sup> The Departments of: Agriculture and Water Resources; Communications and the Arts; Health; and Jobs and Small Business.

National Disability Insurance Agency, a number of findings were identified which reduced the level of confidence that could be placed on key elements of internal control and that financial statements can be prepared free from material misstatement.

1.13 The key elements of internal controls for the full financial year will be assessed in conjunction with additional audit testing during the 2018–19 final audits.

### Control environment

1.14 The PGPA Act sets out the requirements to establish and maintain systems relating to risk and control. Division 2, section 16 of the PGPA Act states that:

The accountable authority of a Commonwealth entity must establish and maintain:

- a) an appropriate system of risk oversight and management for the entity; and
- b) an appropriate system of internal control for the entity.

including by implementing measures directed at ensuring officials<sup>4</sup> of the entity comply with finance law.<sup>5</sup>

1.15 An effective control environment is underpinned by a fit-for-purpose governance structure. Indicators of an effective governance structure include whether management has established frameworks and processes that promote positive attitudes, awareness and actions concerning the entity's internal controls and their importance in the entity. The main elements reviewed included: governance structures relevant to the preparation of the financial statements; audit committee and assurance arrangements; systems of authorisation; and processes for recording financial transactions.

1.16 All entities included in this report have established executive management structures that meet at least monthly, in the form of executive committees and sub-committees, supporting financial decision making at the strategic and operational levels.<sup>6</sup> Consistent with previous years, consideration of financial reporting was included on the agendas of all 26 entities' executive and audit committees. The financial information provided to the entities' executives was supplemented by non-financial operational information.

1.17 Clear lines of accountability and reporting are important in establishing a strong internal control environment for the purposes of preparing the financial statements. The involvement of those charged with governance is an important element of these structures. Just as important is ensuring that staff at all levels understand their own role in the control framework. This can be achieved through the issuance of accountable authority instructions, and delegation instruments.<sup>7</sup> All entities have established accountable authority instructions and delegations reflecting current business arrangements.

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4 The PGPA Act section 13 defines officials of Commonwealth entities.

5 In accordance with section 8 of the PGPA Act finance law means the PGPA Act or PGPA Rules, any instrument made under the PGPA Act or Appropriation Acts.

6 The ANAO has not audited the effectiveness of the executive management structures.

7 Section 20A of the PGPA Act authorises accountable authorities to give instructions to officials in their entities on any matter necessary or convenient for carrying out or giving effect to the PGPA Act or the PGPA Rules.

## *Audit committees*

1.18 The PGPA Act requires audit committees to be established for Commonwealth entities and Commonwealth companies.<sup>8</sup> An independent audit committee is a fundamental principle of good governance.<sup>9</sup> The audit committee plays a key role in assisting the accountable authority to fulfil its governance, risk management and oversight responsibilities through the provision of independent assurance and advice.

1.19 Section 17 of the *Public Governance Performance and Accountability Rule 2014* (PGPA Rule) sets out the minimum requirements relating to the audit committee of a Commonwealth entity. The key requirements of the PGPA Rule are outlined below.

- A written charter, set by the accountable authority, determining the functions of the audit committee for the entity. These functions must include reviewing the appropriateness of the accountable authority's: financial reporting; performance reporting; system of risk oversight and management; and system of internal control for the entity.
- Membership of the committee to include at least three persons with appropriate qualifications, knowledge, skills or experience to assist the committee to perform its functions. A majority of committee members and the committee chair, must be independent of the entity.
- Persons that must not be a member of the audit committee: the accountable authority or, if the accountable authority has more than one member, the head; the Chief Financial Officer; and the Chief Executive Officer.

1.20 All entities have established audit committees consisting of a majority of members which were assessed by the entity to be independent. All entities have an audit committee charter that is consistent with their obligations under subsection 17(2) of the PGPA Rule. Each entity has appointed an independent audit committee chair.

## **Risk assessment processes**

1.21 Section 16 of the PGPA Act sets out an accountable authority's responsibilities in regard to the establishment of appropriate risk oversight and management in an entity. An understanding of an entity's process to identify and manage risk is essential to an effective and efficient financial statements audit. A review of this process is done to assist the ANAO to, understand how entities identify and manage risks relating to financial statements and assess the risk of material misstatement to an entity's financial statements.

1.22 All entities included in this report have a process to develop and update risk management plans at the organisational and work area levels. In addition, each entity has developed processes for the identification and notification of risks relevant to financial statements preparation either as part of the overall risk management plan, or through a targeted risk identification exercise. The monitoring of risks, and the entities' implementation of risk management strategies, was typically assigned to either an executive committee and/or the audit committee.

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8 Sections 45 and 92 of the PGPA Act.

9 ASX Corporate Governance Council, *Corporate Governance Principles and Recommendations*, 3rd edition, available from <https://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-3rd-edn.pdf> [accessed 10 May 2019].

1.23 For this report the ANAO is providing a detailed analysis of entity Fraud Control Management. This is included in Case Study 1 below.

#### Case Study 1. Fraud Control Management

The Commonwealth has a principle-based fraud control framework (the framework) which applies to all entities to ensure they have adequate fraud control measures in place. The framework is maintained by the Attorney-General's Department and consists of three tiered documents:

- section 10 of the PGPA Rule (the Fraud Rule) — a legislative instrument binding all Commonwealth entities setting out the key requirements of fraud control;
- the *Commonwealth Fraud Control Policy* — a government policy binding non-corporate Commonwealth entities setting out procedural requirements for specific areas of fraud control such as investigations and reporting; and
- Resource Management Guide No. 201, *Preventing, detecting and dealing with fraud* (Commonwealth Fraud Guidance) — a better practice document setting out in detail the Government's expectations for fraud control arrangements within all Commonwealth entities.

The framework sets minimum standards to assist entities in carrying out their responsibilities to combat fraud against government programs. This helps to protect public resources, information, property, and the integrity and reputation of entities and the Commonwealth. Commonwealth companies are only required to comply with the Fraud Rule.

The Fraud Rule establishes the importance of effective fraud control arrangements and specifies that accountable authorities must conduct regular fraud risk assessments, including when there is a substantial change in the structure, functions or activities of the entity, and develop and implement a fraud control plan for the entity. A fraud control plan should identify how fraud risks will be mitigated and how fraud prevention, detection, investigation and reporting will be handled.

Fraud risk assessments and control plans are two of the essential elements of internal control that are considered during the audit process. In assessing the risks of material misstatement of an entity's financial statements, the ANAO considers misstatements arising from both fraud and error. In respect of fraud, two types of intentional misstatements are relevant — misstatements arising from fraudulent financial reporting and misstatements resulting from the misappropriation of assets. ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* contains requirements for identifying the risks of material misstatement due to fraud, and designing audit procedures to detect such misstatement.

As with risk management plans, fraud control plans need to be reviewed regularly and updated when significant changes to roles or functions occur, so that they reflect an entity's current fraud risk and control environment. As part of the 2018–19 interim audits, the ANAO noted that all entities included in this report have established a fraud control plan that has been reviewed within the last two years. Entities have also assigned responsibility for the oversight and monitoring of fraud control strategies and initiatives, to specified fraud and governance roles or dedicated branches and the audit committee.

The Fraud Rule also requires that entities must ensure officials are made aware of what constitutes fraud. Entities comply with this requirement using a number of methods including entity wide

### Case Study 1. Fraud Control Management

announcements, participating in fraud awareness week, and training upon commencement with the organisation or ongoing training. The most common practice to demonstrate compliance with this requirement is the inclusion of a mandatory fraud awareness training program. Furthermore, the fraud guidance recommends fraud awareness and integrity training at induction with regular rolling programs as an appropriate mechanism to ensure all officers are aware of their responsibilities.<sup>10</sup>

Of the entities included in this report, 23 have policies which require mandatory fraud awareness training, with officers to complete the training at regular intervals. Three entities do not require ongoing mandatory training and have the following processes.

- Department of Infrastructure Regional Development and Cities: the policy requires only graduates and staff in the fraud team to undertake mandatory training. There is no mandatory requirement for other officers.
- Department of Finance (Finance): While compulsory face-to-face fraud training sessions are provided on commencement of employment via the induction program, further fraud training is not mandatory for staff. The last face-to-face fraud training was held in October 2018. Finance has advised ANAO that, similar to Finance's financial governance assessment and security training, fraud awareness training will be mandatory from 2019–20.
- Department of Social Services (DSS): fraud training is not mandatory. However, all staff are encouraged to undertake either the e-learning or face-to-face training sessions. Face-to-face fraud training sessions are run regularly and are also held as part of the induction process and an e-learning package is available. To mitigate the risk of fraud, DSS advised that other training, including risk management and security training, helps to build staff awareness.

Entities use a combination of online learning and face-to-face training programs. The regularity of training differs between entities and ranges from annually to every three years.

- Eleven entities require training to be completed annually.<sup>11</sup>
- Eleven entities require training to be completed biennially.<sup>12</sup>
- The Department of Foreign Affairs and Trade requires training to be completed every three years or if the officer is undertaking an overseas posting within 12 months prior to posting date.

Seven entities did not have a process to centrally monitor and report on staff completion of mandatory fraud awareness training as at 30 June 2018.<sup>13</sup> In addition to the entities identified above

10 Commonwealth Fraud Guidance section 46.

11 The Australian Office of Financial Management, Departments of: Agriculture and Water Resources; Communications and the Arts; Education and Training; Home Affairs; Jobs and Small Business; and the Treasury, National Disability Insurance Agency, NBN Co Limited, Future Fund Management Agency, and the Reserve Bank of Australia.

12 The Attorney-General's Department, Australian Postal Corporation, Australian Taxation Office, and the Departments of: Defence; the Environment and Energy; Health; Human Services; Industry, Innovation and Science; Parliamentary Services; the Prime Minister and Cabinet; and Veterans' Affairs.

13 The Attorney-General's Department, Departments of: Finance; Infrastructure and Regional Development and Cities; Social Services; and the Treasury, National Disability Insurance Agency, and NBN Co Limited.

### Case Study 1. Fraud Control Management

which do not have mandatory ongoing fraud awareness training, as at 30 June 2018 the National Disability Insurance Agency, and the Treasury had also not established mandatory fraud awareness training. The National Disability Insurance Agency and the Treasury introduced mandatory training during the 2018–19 financial year and are in the process of developing systems to capture this information. The NBN Co Limited did not have a report detailing compliance with training requirements as at 30 June 2018. NBN Co Limited has advised compliance is currently monitored with periodic reporting at the manager level. Going forward, reports detailing enterprise wide compliance will also be prepared on a quarterly basis. The Attorney-General's Department did not have a report detailing compliance with training requirements as at 30 June 2018. The Attorney-General's Department has advised compliance is monitored manually at the manager level.

Nineteen entities have systems that enable entities to track compliance at the enterprise level with mandatory training. The Department of Health and the Reserve Bank of Australia have set an acceptable threshold of 95 per cent compliance with fraud training requirements. The remaining entities aim to achieve a completion rate of 100 per cent. Information held by entities in relation to the percentage of staff completing the fraud awareness training was obtained as at 30 June 2018. Of the 19 entities that track staff completion of training, five entities had compliance rates below 70 per cent as detailed in Table 1.1.

**Table 1.1 Compliance with mandatory training**

Entity	Compliance level at 30 June 2018
Australian Postal Corporation	54%
Department of Communications and the Arts <sup>a</sup>	9%
Department of Education and Training	50%
Department of Environment and Energy	45%
Department of Foreign Affairs and Trade	56%
Department of Industry Innovation and Science	19%

Note a: The Department of Communications and the Arts fraud awareness training was not mandatory as at 30 June 2018. The training is mandatory from 1 July 2018.

Source: Data provided by entities.

The 19 entities with mandatory training requirements have implemented processes which include reminder emails being sent and escalated through lines of management as considered appropriate. In addition the Departments of: Agriculture and Water Resources; and Defence directly linked the completion of mandatory training to staff performance agreements and ability to access pay progression under their enterprise agreement. Furthermore, the Department of Home Affairs has stated that managers may direct staff to complete the training and failure to follow that directive may be investigated as a potential breach of the APS Code of Conduct.

### Case Study 1. Fraud Control Management

All entities report to their audit committees at least annually providing details on fraud incidents and updates to fraud control activities. The Fraud Control Policy requires all non-corporate entities to report to the Australian Institute of Criminology (AIC) by 30 September each year.<sup>14</sup> Reporting to the AIC is considered to be better practice for corporate entities.<sup>15</sup> NBN Co Limited is not required to, and did not, report to the AIC. All other entities included in this report provided a report to the AIC. The most recent AIC report was published in 2018 and reported on census information provided by entities in respect of fraud investigations for the 2015–16 year.

In addition to reporting to their Minister on significant non-compliance with finance law, four entities also regularly report to their ministers on fraud activities.<sup>16</sup> These reports provide additional information on fraud matters including: significant fraud risks; fraud initiatives undertaken by the entity including their effectiveness; and fraud incidents including the entity's response.

Effective fraud training including e-learning to support the development of a fraud awareness culture is key to preventing, detecting and reporting fraud. There is an opportunity for entities to strengthen their fraud awareness training programs and develop systems to monitor staff compliance with requirements. This will assist the accountable authority in discharging their duties under the PGPA Fraud Rule.

## Monitoring of controls

1.24 Entities undertake many types of activities as part of their monitoring of control processes, including external reviews, self-assessment processes, post-implementation reviews and internal audits. The level of review of these activities by the ANAO is determined through a risk assessment approach that takes into consideration the nature, extent and timing of each activity and the activities application to the preparation of the financial statements.

### *Internal audit*

1.25 As part of the financial statements audit coverage, the activities of internal audit are reviewed to gain an understanding of its role and activities in the entity. Where an internal audit function has been established it can play an important role in providing assurance to the accountable authority that the internal control framework is operating effectively. Entities are encouraged to identify opportunities for internal audit coverage of key financial systems and controls as a means of providing increased assurance to accountable authorities to support their opinion on the entity's financial statements.

1.26 The extent to which the work of internal audit may be able to be used, in a constructive and complementary manner, varies between entities and is more likely to occur where internal audit work is focused on financial controls and legislative compliance. If the ANAO expects to use the work of internal audit, in accordance with ASA 610 *Using the Work of Internal Auditors*, the ANAO is required to assess whether the internal audit function has: appropriate organisational

14 Commonwealth Fraud Control Policy section 14.

15 Commonwealth Fraud Control Guidance section 93.

16 The Australian Taxation Office and National Disability and Insurance Agency; and the Departments of: Foreign Affairs and Trade; and Human Services.

status; relevant policies and procedures to support their objectivity; an appropriate level of competence; and whether they apply a systematic and disciplined approach in the execution of their work including quality control.

1.27 When it is determined that the work of internal audit can be used to support an effective audit approach, additional work is performed to confirm its adequacy to support the external audit. This will include confirmation that the scope of the work is appropriate, that there is sufficient evidence to support the conclusions drawn and selected re-performance of internal audit's testing.

1.28 For the entities included in this report it was observed that internal audit coverage is based on an internal audit plan that is aligned with entities' risk management plans and includes combinations of audits that address assurance, compliance, performance improvements and IT systems reviews. In addition, suggested topics from management, audit committees and external influences, such as the ANAO's planned performance and financial statements coverage, are factors considered in the development of internal audit work plans.

### *Reporting relating to compliance with finance law*

1.29 The introduction of the PGPA Act resulted in a move from a compliance-based approach to a principle-based framework for Commonwealth entities. To promote the safe custody and proper use of public resources whilst reducing red tape, a greater emphasis is placed on the robustness of an entity's self-assessment processes, strong governance structures and internal control frameworks to identify risks. A practical example of this is an entity's requirement to report on compliance with finance law.<sup>17</sup>

1.30 Prior to 2015–16, General Government Sector entities were required to submit an annual Certificate of Compliance to the Minister for Finance and the responsible Minister summarising all non-compliance with the PGPA Act Framework. From 2015–16, the Department of Finance changed the compliance reporting process to require entities to report only significant non-compliance with the finance law to both the Finance Minister and the responsible Minister.

1.31 To support the change in requirements, the Department of Finance issued guidance in relation to reporting of significant non-compliance through the Resource Management Guide 214 *Notification of significant non-compliance with finance law* (PGPA Act, section 19) (RMG 214). The guide outlines factors which may be considered when determining whether significant non-compliance occurred including:

- failure to comply with the duties of accountable authorities (PGPA Act section 15 to 19);
- serious breaches of the general duties of officials (PGPA Act sections 25 to 29) including any fraudulent activity by officials;
- systemic issues reflecting internal control failings or high volume instances of non-compliance; and
- non-compliance issues that are likely to impact on the entity's financial sustainability.

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<sup>17</sup> In accordance with section 8 of the PGPA Act finance law means the PGPA Act or PGPA Rules, any instrument made under the PGPA Act, or Appropriation Acts.

1.32 RMG 214 notes that the accountable authority should consider their entity's environment when determining whether instances of non-compliance are significant. As part of the interim audits the ANAO considered entities' application of RMG 214.<sup>18</sup>

1.33 Entities advised that professional judgement is applied and consideration given, to the nature and volume of breaches when assessing significance.<sup>19</sup> Seven entities<sup>20</sup> provided further guidance within their definition of significant non-compliance, specifying a financial threshold above which non-compliance would be considered significant. The financial thresholds include: a percentage of either departmental budget amounts or entity determined materiality thresholds; or set dollar figure. The dollar range of thresholds varies from \$50,000 to \$20 million.

1.34 As part of an audit committee's governance role, it usually has oversight of the process for collating instances of non-compliance and the subsequent assessment regarding their significance. Changes to mandatory external compliance reporting process in 2015–16 removed the requirement for all instances of non-compliance to be centrally reported to the Department of Finance. As a consequence, the Departments of: Foreign Affairs and Trade; Human Services, and the National Disability Insurance Agency reduced their level of reporting, requiring only significant non-compliance to be reported to their audit committee and accountable authorities. As a central listing of non-compliance is not maintained, these entities have been excluded from the analysis of non-compliance summarised in Figure 1.3. The scope of the PGPA Act compliance reporting process at the Department of Parliamentary Services focused on procurement functions and was not standardised or embedded across the entity.

1.35 In addition to notifying the relevant minister of any significant issues which occur, entities must also report any significant non-compliance in their annual report in line with the PGPA Rule subsection 17AG. The Departments of: Defence, and Industry Innovation and Science reported significant non-compliance with finance law in their 2017–18 annual reports, as outlined below.

- During 2017–18, Defence reported 26 instances of significant noncompliance with the finance law. These [instances related to] transactions which were proven as fraud committed by an official. Defence authorities addressed these instances through criminal, or disciplinary prosecution action. Significant fraud cases are also reported separately to the Minister for Defence in accordance with reporting requirements set out in the Commonwealth Fraud Control Framework.<sup>21</sup>
- The department [Industry, Innovation and Science] identified significant instances of non-compliance with the finance law, specifically with the Commonwealth Procurement Rules (including consequential breaches relating to section 23 of the PGPA Act). Corrective

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18 RMG 214 does not apply to NBN Co Limited. NBN Co Limited is required to report significant issues to the Minister in accordance with the PGPA Act and other matters as required under the *Corporations Act 2001*. No matters were identified that required reporting in 2017–18.

19 The ANAO did not undertake audit procedures to make an assessment of, or conclude on judgements made by an accountable authority to determine whether non-compliance was significant.

20 The Australian Postal Corporation, the Departments of: Agriculture and Water Resources; the Environment and Energy; Home Affairs; and Human Services, Future Fund Management Agency and the Board of Guardians and the National Disability Insurance Agency.

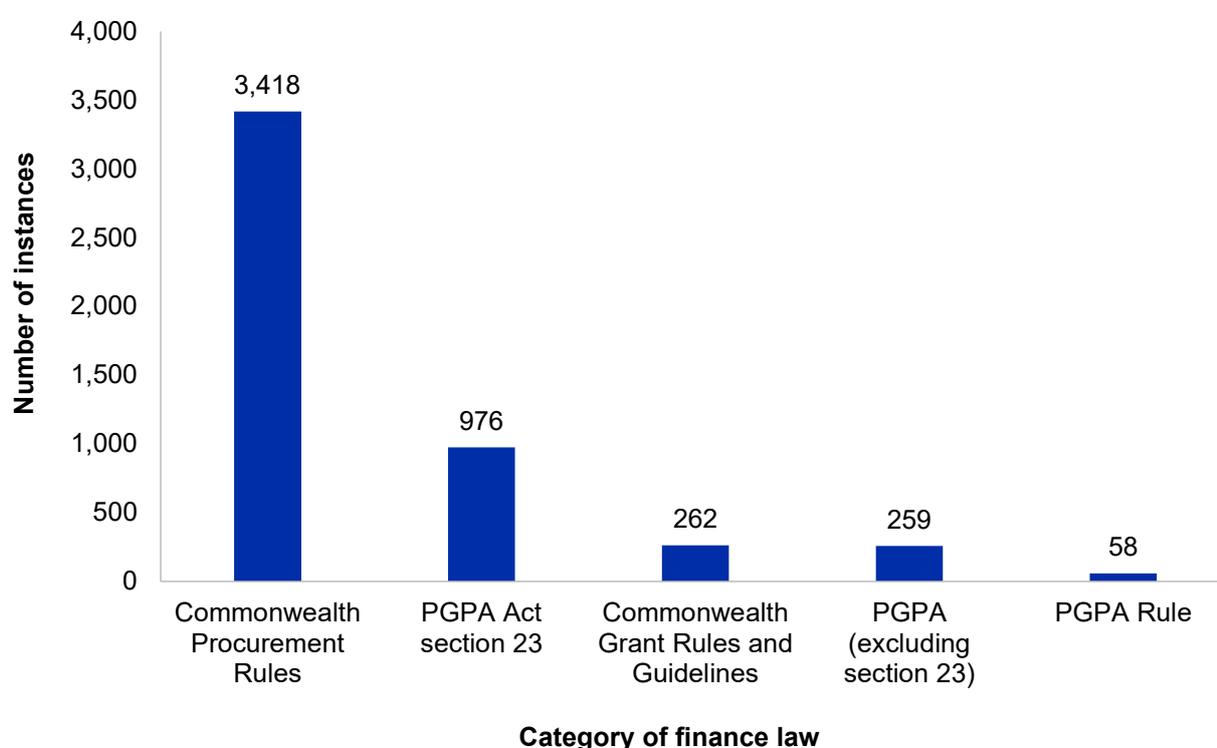
21 Department of Defence *2017-18 Annual Report* page 60.

action has been undertaken, which ensures that the department's needs for operational efficiency and flexibility are met within a compliant framework.<sup>22</sup>

1.36 Entities undertake a range of activities to identify instances of non-compliance and support their assessment of whether identified breaches meet the definition of significant. These activities include self-reporting, internal assurance activities, and questionnaires completed by officers holding delegations. Through these processes, in 2017–18 the entities included in this report identified a total of 4,975 instances of non-compliance.<sup>23</sup> Two entities reported no non-compliance<sup>24</sup>, two entities have above 10 percent of the total breaches<sup>25</sup> and the remaining 18 entities each reported between one and nine per cent of the non-compliance.

1.37 Figure 1.3 provides the ANAO analysis of instances of non-compliance by category as identified by entities in 2017–18.

**Figure 1.3: Non-compliance identified with finance law during 2017–18 by entities**



Source: ANAO analysis of non-compliance identified by entities.

22 Department of Industry, Innovation and Science *2017–18 Annual Report* page 162. In 2017–18 Industry undertook a review of the National Measurement Institute's procurement of contract personnel identifying a systematic issue leading to in excess of 2,100 transactions not in compliance with the Commonwealth Procurement Rules (CPRs) relating to 2016–17.

23 This analysis excludes the Departments of: Foreign Affairs and Trade; and Human Services, and the NBN Co Limited.

24 The Australian Postal Corporation, and the Reserve Bank of Australia.

25 The Departments of: Defence; and Home Affairs.

1.38 Further details of the areas of non-compliance depicted in Figure 1.3 are detailed below.

- The following three entities identified the highest levels of non-compliance with the Commonwealth Procurement Rules: the Department of Defence (1,682 instances); the Department of Home Affairs (406 instances); and the Department of the Prime Minister and Cabinet (225 instances). Of the non-compliance with Commonwealth Procurement Rules, a high proportion of breaches related to rule 7.16, which requires entities to report contracts entered into or amended over \$10,000 on AusTender within 42 days.
- Breaches of section 23 of the PGPA include failure to obtain appropriate delegate approval prior to entering into contracts and exceeding a delegate's approval. The following three entities identified the highest levels of non-compliance in this area; the Department of Defence (414 instances); the Department of Home Affairs (178 instances); and the Department of Agriculture and Water Resources (175 instances).
- Non-compliance with the Commonwealth Grant Rules and Guidelines predominately resulted from entities not meeting the requirement to publish grants on GrantConnect within 21 days.
- The majority of instances of non-compliance with the PGPA Act, excluding section 23, related to breaches of officer duties under sections 25 and 26 arising from misuse of corporate credit cards.
- The non-compliance with the PGPA Rule relates to failure to document the approvals to enter into arrangements under section 23 of the PGPA Act and banking monies within five days from receipt.

1.39 The collation and reporting of non-compliance allows audit committees and accountable authorities to assess emerging risks and determine training requirements or changes to procedures required to address trends. The ANAO has undertaken a detailed analysis of reporting of non-compliance, over the last three financial years, and observed both divergent practices between entities in identifying and assessing the significance of non-compliance, and a reduction in detailed reporting provided to audit committees and accountable authorities.

1.40 For this report the ANAO is providing a detailed analysis of entity Payment Card Policy and Monitoring, this is included in Case Study 2 below.

#### Case Study 2. Payment Card Policy and Monitoring

In line with the government's agenda to reduce red tape, the Department of Finance<sup>26</sup> has communicated that the use of payment cards is the preferred method to pay suppliers for eligible payments<sup>27</sup> below \$10,000. The cards offer a flexible and efficient way for Australian Government officials to obtain goods or services to meet business needs. A strong control framework that supports transparency and accountability over the use of payment cards is

26 Resource Management Guide 416: *Facilitating Supplier Payment Through Payment Card (RMG 416)*.

27 RMG 416, part 3 defines eligible payments as a payment with a value less than \$10,000 (inclusive of GST and merchant service fees) due to a supplier that is not associated with a multiple-payment contract, or standing offer arrangement. Eligible payments may include payments made as a result of purchase orders. Eligible payments do not include payments due where the non-corporate entity has automated invoice payment processes that pay suppliers within five business days of receiving a correctly rendered invoice.

### Case Study 2. Payment Card Policy and Monitoring

important in managing an entity's exposure to risks of misuse and fraud arising from the devolved responsibility for purchasing.

Payment cards can cover a range of similarly managed products. Our analysis has focused on payment cards including virtual cards<sup>28</sup> that are used for minor procurements (up to \$10,000) including travel. Unless otherwise specified, the analysis does not include vendor cards (such as fuel cards and Cabcharge FASTCARDS) or credit vouchers (such as Cabcharge eTickets).

Comprehensive and effective policies and procedures are essential for accountable authorities to meet their obligations under the PGPA Act to promote the proper use of public resources. It is the card holder's duty to understand when the facility can be used and to maintain documentation including receipts in discharging their obligations.

A strong governance framework for the use of payment cards should be structured to include what is commonly referred to as the three lines of defence:

- preventative controls that include policies and procedures which regulate and set the framework for use;
- management initiated assurance reviews to monitor compliance with the entity's frameworks; and
- independent assurance, such as internal audit reviews of payment cards.

All entities<sup>29</sup> included in this report have a payment card policy or equivalent document which includes permissible expenditure, personal use and acquittals. Three entities have not updated their policy for more than three years.<sup>30</sup>

Payment card policies should reflect current business practices and provide clear guidance on the entity's approach to minor procurements. Regular review of policies provides the opportunity to consider the risks and benefits of implementing new payment options. This is particularly important in light of continual change in technology (for example, purchasing through mobile phone applications). Eight entities have updated their policy to directly reflect their position on the use of payment cards in mobile phone applications.<sup>31</sup>

Entitlement to a payment card varies with the nature and approach to procurement of the entity and can include:

- on commencement (all employees);
- where there is a business need only; and

28 Virtual cards operate in the same manner as a physical card.

29 The Australian Office of Financial Management has five payment cards, card holders are required to sign a declaration which sets out conditions of use.

30 The following entities had policies older than three years: Australian Taxation Office; Departments of: Agriculture and Water Resources; and Communications and the Arts. The Australian Taxation Office and the Department of Agriculture and Water Resources have advised that their payment card policies are currently under review.

31 The National Disability Insurance Agency and the Departments of: Foreign Affairs and Trade; Health; Human Services; Industry, Innovation and Science; Infrastructure, Regional Development and Cities; Social Services and the Treasury.

## Case Study 2. Payment Card Policy and Monitoring

- issued to particular roles only.

The entities included in this report have a total of 34,000 payment cards issued to officials excluding those related solely to travel. The number and level of staff holding cards varies significantly according to business need. Travel card arrangements also vary between agencies. A number of entities use a limited number of virtual cards covering all employees, whereas other entities issue travel cards on a per employee basis. Some entities may use one card which covers both purchases and travel.

All entities had established payment card limits for their cardholders. Most entities set a standard payment card limit applicable to all employees with mechanisms to temporarily increase and decrease limits to align with business requirements. Other entities set limits based on role or position (for example Chief Financial Officers and procurement officers). A combination of transactional and monthly limits are applied. Transactional limits ranged from \$1,000 to \$30,000. Monthly limits ranged from \$2,000 to \$100,000.

With the exception of one entity<sup>32</sup>, entities place reliance on bank controls to ensure transaction limits are not exceeded. Nine entities<sup>33</sup> advised they undertake additional assurance processes including performing checks to cover risks such as split purchases which may circumvent transactional limits.

The policies for all entities either prohibit personal expenditure or specify circumstances when incurring personal expenditure on corporate cards is acceptable. In the event that the card has been accidentally used for personal expenditure, all entities, through either policy or practice, require repayment. The typical timeframe allowed by entities for repayment is within a month.<sup>34</sup> One entity allowed up to 60 days for repayment.<sup>35</sup> Eight entities<sup>36</sup> either did not stipulate a timeframe for repayment or defined the timeframe as 'soon as practicable'.

To mitigate the risk of inadvertent personal use, 10 entities have introduced physical controls including distinguishing their cards (for example, brightly coloured cards) and providing Radio-frequency identification (RFID) blocking sleeves.

A robust acquittal process supports accountability with timely independent review supported by appropriate documentation including receipts. An effective process enables identification of incorrect expenditure and payment card misuse in a timeframe which permits an entity to dispute transactions. Acquittals are required to be completed within five to 30 days for

32 NBN Co Limited does not rely on bank enforced transaction limits, they perform risk based processes to target transactions which may be outside of policy.

33 Departments of: Agriculture and Water Resources; Communications and the Arts; Human Services; Jobs and Small Business; Parliamentary Services; Social Services; Veterans' Affairs; Future Fund Management Agency; and NBN Co Limited.

34 While the Department of Social Services acknowledges their policy does not stipulate time frames for repayment, any staff debt is treated as a debt which is subject to recovery action under their 'Accounts Receivable, Debt Management and Recovery Policy', which requires repayment within 30 days.

35 Future Fund Management Agency.

36 Australian Postal Corporation, Departments of: Agriculture and Water Resources; Finance; Health; Infrastructure, Regional Development and Cities; Jobs and Small Business, National Disability Insurance Agency, and Reserve Bank of Australia.

### Case Study 2. Payment Card Policy and Monitoring

24 entities. The NBN Co Limited and the Department of Defence allow 60 days for the completion of acquittals.

Six entities<sup>37</sup> have not established formal processes for the ongoing review of the status of monthly acquittals to management. The remaining entities provide regular reporting on unacquitted transactions to varying levels of management or to their executive.

Monitoring of purchase card expenditure has been implemented by 23 entities. This includes management initiated risk based reviews and/or internal audits. Three entities<sup>38</sup> have not established a formal management assurance process. The results of assurance processes are reported to line management and executive as considered necessary. These reports may also inform each entities' assessment of PGPA compliance.

Requirements to retain and attach documentation to acquittals is established in policy. Six entities<sup>39</sup> only require retention of receipts above the Australian Taxation Office's requirement for substantiation in claiming goods and services tax credits, \$82.50. The remaining 19 entities require all receipts, for all transactions regardless of value to be retained.

Where receipts are not required, there may be increased opportunity for fraudulent or inappropriate use and transactions cannot be subsequently subject to independent review. It is recommended that entities undertake a risk assessment to inform risk based testing of transactions. For example, the Department of Foreign Affairs and Trade targeted transactions initiated through mobile phone applications (for example, Uber) and transactions under \$82.50 for which receipts are not retained.

In light of the extensive use of purchase cards and technology changes there is an opportunity for entities to strengthen their policies and increase risk based assurance processes and reporting to management. Assurance that controls are implemented and operating as intended and effective reporting allows management to identify delays in acquittals, trends in inappropriate use and respond to emerging risks. This enables an accountable authority to discharge their duties under the PGPA Act in a transparent manner and further supports their assessment of compliance with finance law.

## Information systems

1.41 A review of an entity's information systems and related controls forms a significant part of the ANAO's examination of internal controls. Information system controls include entity-wide general controls that establish an entity's IT infrastructure, policies and procedures as well as specific application controls that validate, authorise, monitor and report financial and human resource transactions.

37 The Departments of: Education and Training; the Environment and Energy; Infrastructure, Regional Development and Cities; Parliamentary Services; the Prime Minister and Cabinet; and Veterans' Affairs.

38 The Departments of: Infrastructure, Regional Development and Cities; Parliamentary Services; and the Treasury.

39 Australian Postal Corporation, and the Departments of: the Environment and Energy; Foreign Affairs and Trade; Industry, Innovation and Science; Infrastructure, Regional Development and Cities; and Jobs and Small Business.

1.42 As discussed at paragraph 1.10, ASA 315 provides guidance on identifying and assessing the risks of material misstatement of financial statements, including risks associated with an entity's IT environment. Where those risks are applicable to an entity's particular business and operational circumstances, it is expected that the entity will implement appropriate controls to mitigate them, and these controls are assessed by the ANAO.

1.43 Table 1.1 outlines the areas of focus used by the ANAO in assessing an entity's information system controls, including common controls tested to determine the effectiveness of those systems in supporting complete and accurate financial statements reporting.

**Table 1.1: Information system controls — areas of focus**

Area of focus	Control element	Control subject to ANAO assessment
IT general controls	IT security	<ul style="list-style-type: none"> <li>IT security governance;</li> <li>general and privileged user access; and</li> <li>monitoring and reporting of security events.</li> </ul>
	IT change management	<ul style="list-style-type: none"> <li>governance;</li> <li>approvals;</li> <li>testing;</li> <li>implementation; and</li> <li>emergency changes.</li> </ul>
Disaster recovery arrangements	Significant systems supporting financial reporting (including FMIS & HRMIS)	<ul style="list-style-type: none"> <li>backup and recovery;</li> <li>disaster recovery planning; and</li> <li>disaster recovery testing.</li> </ul>

Source: ANAO compilation.

1.44 Observations from the ANAO's interim audit phase relating to entities' information system controls are provided under the Information Technology Control Environment section included in Interim Audit Results below. Refer to paragraphs 1.56 to 1.76.

### *Cyber resilience*

1.45 In addition to work performed as part of the financial statements audits, the ANAO reviews information systems and related controls as part of its program of performance audits. Since 2013–14, the ANAO has conducted four performance audits to assess the controls over cyber security for fourteen different government entities.<sup>40</sup>

1.46 The first three of these audits assessed both IT general controls and the selected entities' implementation of the mandatory *Strategies to Mitigate Targeted Cyber Intrusions* (commonly known as the top four mitigation strategies) in the Australian Government Information Security Manual (ISM)<sup>41</sup>, which are required by the *Protective Security Policy Framework* (PSPF). These controls have been mandatory for non-corporate Commonwealth entities since July 2014. The fourth audit was extended to also review implementation of the four non-mandatory strategies

40 ANAO Report No. 50 2013–14, *Cyber Attacks: Securing Agencies' ICT System*; ANAO Report No. 37 2015–16 *Cyber Resilience*, ANAO Report No. 42 2016–17 *Cybersecurity Follow-up Audit*, ANAO Report No. 53 2017–18 *Cyber Resilience*.

41 The strategies are: application whitelisting; patching applications; patching operating systems; and minimising administrative privileges.

that make up the Essential Eight.<sup>42</sup> A fifth audit in this series is being conducted as part of the ANAO 2018–19 Annual Audit Work Program.

1.47 All non-corporate Commonwealth entities are required to undertake an annual point in time self-assessment against the requirements of the PSPF and report the results to the relevant Portfolio Minister, with a copy to be sent to the Secretary of the Attorney-General's Department and to the Auditor-General.<sup>43</sup> These requirements are divided into four categories:

- Governance — to implement and manage protective security protocols;
- Personnel Security — to ensure the suitability of personnel to access Australian Government resources;
- Information Security — to ensure the confidentiality, availability and integrity of all official information; and
- Physical Security — to ensure a safe working environment for employees, contractors, clients and the public, and to provide a secure environment for official assets.

1.48 Prior to October 2018, the strategies to mitigate cyber intrusions formed part of the mandatory information security requirements of the PSPF (INFOSEC 4). The new PSPF commenced on 1 October 2018 and uses a different numbering system, however, the requirement to implement the top four strategies is still reflected in the Framework. For 2018, entities have reported on their compliance with INFOSEC 4 under the version current at the time of reporting. Therefore, the ANAO has continued to use this terminology for this report.

1.49 Figure 1.4 summarises the 2018 PSPF compliance reporting by the 22 entities included in this report that were required to report.<sup>44</sup> Twelve entities reported that they were compliant, which is a small increase from the 11 reporting compliance in the previous year. Of the remaining entities, two entities reported partial compliance with INFOSEC 4 and eight entities reported that they were not compliant.

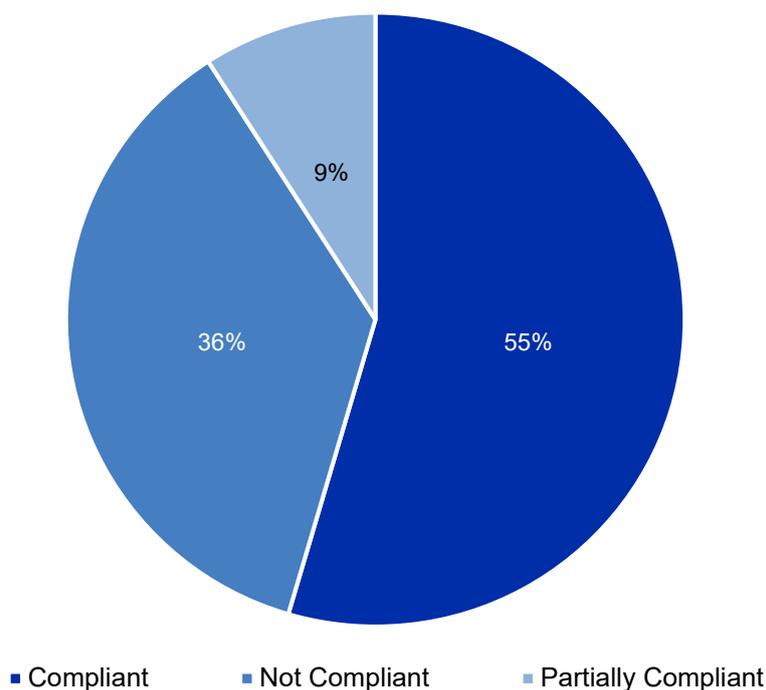
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42 The Essential Eight mitigation strategies recommended by the Australian Cyber Security include: the top four mitigation strategies; configuring Microsoft Office products to block the execution of un-trusted macros; hardening user applications; implementing multifactor authentication; and taking daily backups.

43 Corporate Commonwealth entities and Commonwealth companies are not required to report on their compliance with the PSPF.

44 Four entities in this report are corporate Commonwealth entities or Commonwealth companies, and are not required to report on compliance with the PSPF. These entities are: Australian Postal Corporation; the National Disability Insurance Agency; the NBN Co Limited; and the Reserve Bank of Australia.

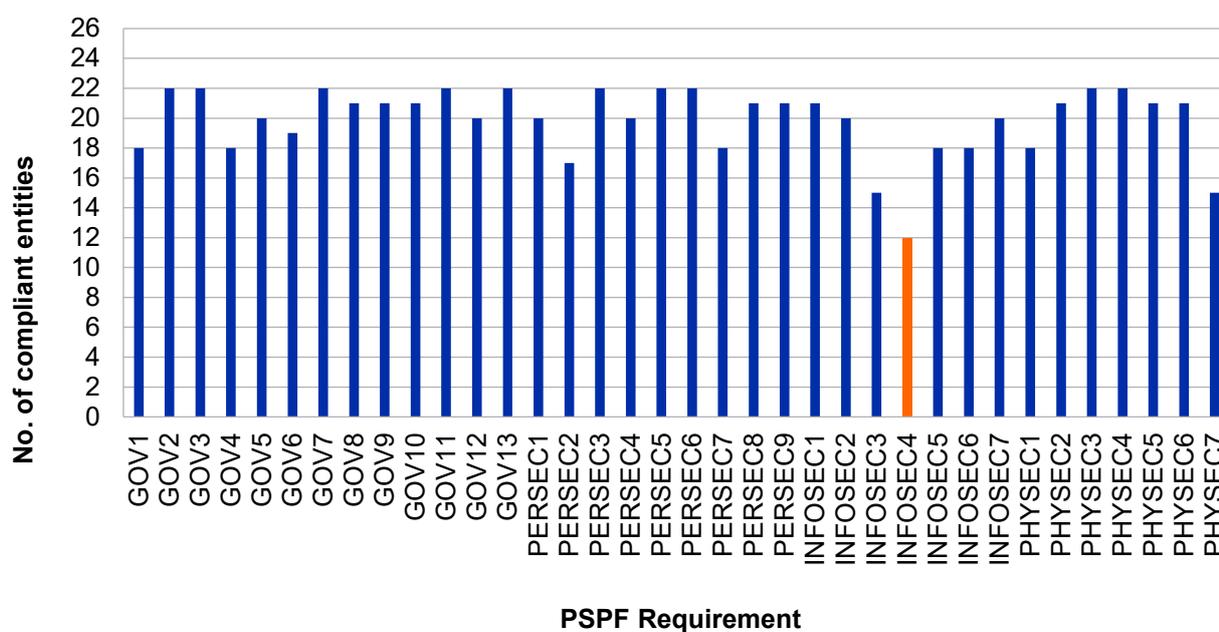
**Figure 1.4: Entity Compliance with INFOSEC 4**



Source: ANAO Analysis.

1.50 Figure 1.5 summarises the 2018 PSPF compliance reporting across all categories by the 22 entities. INFOSEC 4 continues to be the area of least compliance. This is consistent with the outcomes of the ANAO performance audits, which found that 10 of the 14 entities assessed in those audits were not fully compliant with INFOSEC 4.

**Figure 1.5: PSPF compliance comparison by mandatory requirement**



Source: ANAO Analysis.

1.51 Not implementing the recommended mitigation strategies reduces an entity's ability to continue providing services while deterring and responding to cyber intrusions. It also increases the likelihood of a cyber intrusion. Recent ANAO reports relating to cyber security include a number of recommendations to assist with this, which entities should review and implement where applicable.

### Control activities

1.52 As part of the interim audits, the ANAO assesses the effectiveness of key controls identified during the planning stages. This assessment is made at a point in time and provides the Parliament, the public and entities with an insight into weaknesses that have the potential to impact the financial statements at year end.

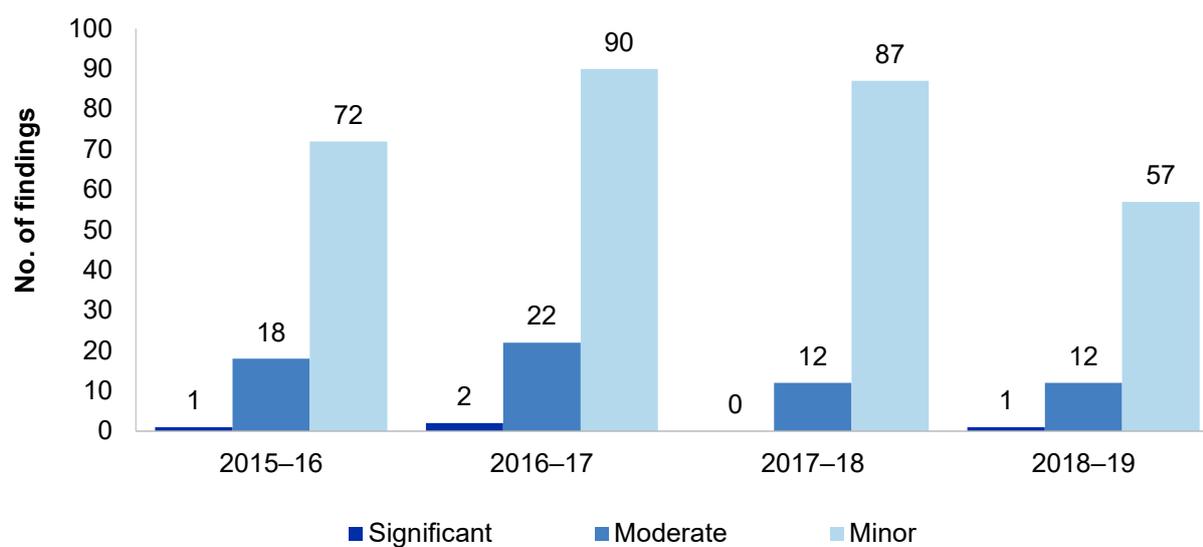
### Interim audit results

1.53 Audit findings are raised in response to the identification of a potential business or financial risk posed to an entity. Often these risks arise from deficiencies within an entity's internal control processes or frameworks. Weaknesses in internal controls increase the possibility that a material misstatement of an entity's financial statements will not be prevented or detected in a timely manner. The ANAO rates audit findings according to the potential business or financial management risk posed to the entity. The rating scale is presented in Table 1.2.

**Table 1.2: Findings rating scale**

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

1.54 A summary of all significant, moderate and minor audit findings identified at the conclusion of the interim audit phase across the past five financial years is presented in Figure 1.6 below.

**Figure 1.6: Trend in aggregate audit findings 2015–16 to 2018–19**

Source: ANAO data.

1.55 The findings have been classified into to broad categories as follows:

- IT control environment;
- compliance and quality assurance frameworks;
- accounting and control of non-financial assets;
- revenue, receivables and cash management processes;
- human resources financial processes; and
- purchases and payables management.

**Table 1.3: Audit findings by category for the 2018–19 interim period**

Category	Significant	Moderate	Minor	Main areas of weakness
IT control environment	–	7	32	<ul style="list-style-type: none"> <li>security management, particularly management of user access and monitoring of privileged users.</li> </ul>
Compliance and quality assurance frameworks	–	3	8	<ul style="list-style-type: none"> <li>appropriate quality assurance frameworks supporting financial reporting; and</li> <li>compliance frameworks for program payments.</li> </ul>
Accounting and control of non-financial assets	1	1	3	<ul style="list-style-type: none"> <li>processes supporting the valuation and impairment of assets; and</li> <li>completeness and accuracy of fixed asset registers.</li> </ul>
Revenue, receivables and cash management	–	–	2	<ul style="list-style-type: none"> <li>timeliness and completeness of reconciliations; and</li> <li>processes supporting completeness and accuracy of revenue reported.</li> </ul>
Human resources financial processes	–	–	5	<ul style="list-style-type: none"> <li>monitoring of controls over payroll processing and reporting; and</li> <li>review processes supporting employee commencements and terminations.</li> </ul>
Purchases and payables management	–	–	3	<ul style="list-style-type: none"> <li>timeliness and completeness of reconciliations;</li> <li>authorisation of expenditure; and</li> <li>credit card acquittals.</li> </ul>
Other audit findings	–	1	4	<ul style="list-style-type: none"> <li>maintenance of appropriate documentation to support decision making; and</li> <li>incomplete policies and procedures.</li> </ul>
<b>Total</b>	<b>1</b>	<b>12</b>	<b>57</b>	<b>70</b>

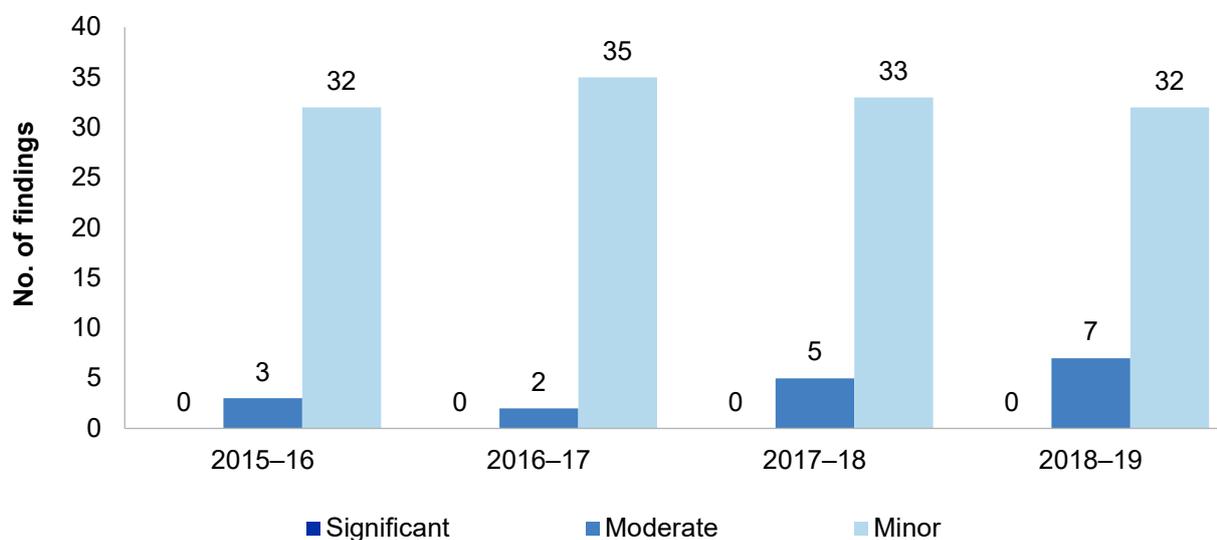
Source: Compilation of ANAO interim audit findings.

### Information technology control environment

1.56 As described in paragraph 1.41, the review of information systems and related controls is an integral part of an entity's control environment. Figure 1.7 demonstrates the trends in interim audit findings related to entities' overall IT control environments from 2015–16 to 2018–19.

1.57 At the time of this report, testing of the operating effectiveness of IT controls had not been completed for three entities<sup>45</sup> and therefore those results are not reflected in this summary.

**Figure 1.7: IT control environment findings 2015–16 to 2018–19**



Source: ANAO data.

1.58 Findings related to entities' IT control environments represent 56 per cent of total findings identified during the 2018–19 interim period. IT control environment findings continue to represent the highest proportion of all findings. Seven new moderate findings were reported in 2018–19, which is an increase of two from the previous year.<sup>46</sup> No moderate findings were carried over from the previous year. The continued level of findings in IT control environments indicates that entities need to focus on processes to monitor IT controls to prevent reoccurrence of issues as recommended by the Joint Committee of Public Accounts and Audit (JCPAA).<sup>47</sup>

1.59 The information systems control environment findings reported at the conclusion of the 2018–19 interim audits for entities included in this report have been grouped as follows<sup>48</sup>:

- IT security;
- IT change management; and
- disaster recovery arrangements.

### *IT Security*

1.60 IT security is concerned with protecting an entity's information assets from internal and external threats. It includes controls to prevent or detect unauthorised access to systems,

45 At time of compilation, assessments of the control environments of NBN Co Limited, the Reserve Bank of Australia, and the Future Fund Management Agency and the Board of Guardians had not been completed.

46 Further details regarding the moderate findings are detailed in chapter 3 for the Departments of: Agriculture and Water Resources; Defence; Education and Training; Health; and Jobs and Small Business.

47 JCPAA Report No. 477: *Commonwealth Financial Statements - Second Report, and Foreign Investment in Real Estate*.

48 In previous reports IT control environment findings also included a category of 'IT application controls' findings in this category related to IT security and change management of the financial management information system and the human resources management information system. These findings have now been included in the IT security and IT change management categories.

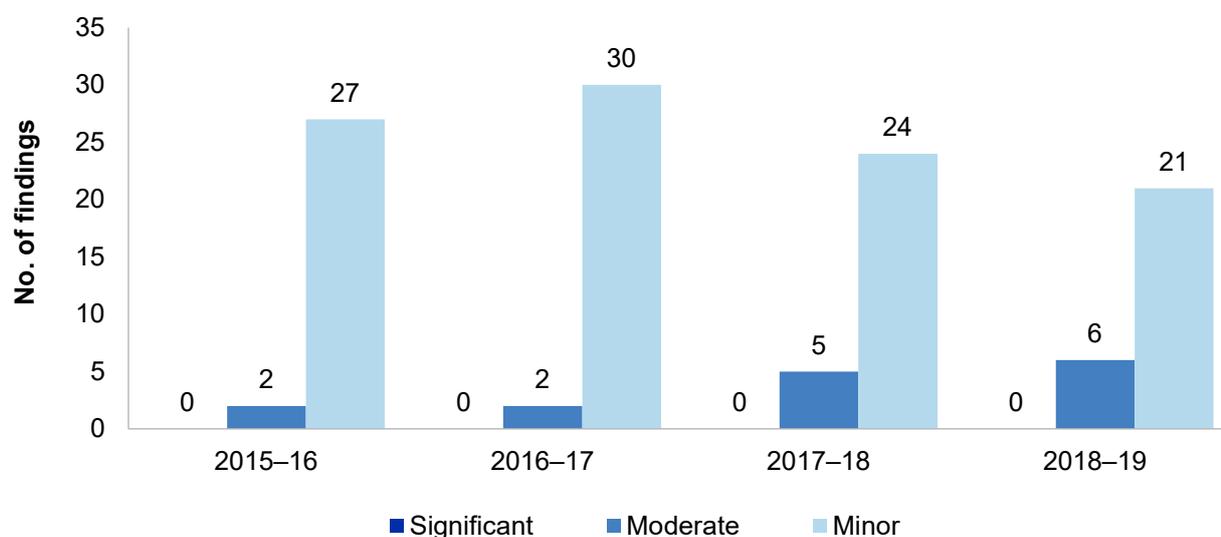
programs and data. In the context of the financial statements audit, the focus is on the financially significant systems and data only.

1.61 The key controls that address risks relating to IT security and that are assessed as part of the interim audit are:

- IT security governance;
- general and privileged user access; and
- monitoring and reporting.

1.62 Figure 1.8 illustrates the trends in findings observed in entities' IT security arrangements between 2015–16 and 2018–19.

**Figure 1.8: IT security findings 2015–16 to 2018–19**



Note: The comparative numbers in this figure have been updated to include findings previously categorised as IT application controls which related to IT security.

Source: ANAO data.

1.63 The IT security findings represents 69 per cent of all IT related findings reported in 2018–19. Six moderate findings were reported in the current year (2017–18: five). Further details of the moderate findings are detailed in chapter 3.<sup>49</sup> Findings related to:

- logging and monitoring of privileged user activity;
- removal of user access when it is no longer required;
- user access management, including performing regular user access reviews; and
- password configuration.

1.64 Users with administrative access privileges, commonly referred to as privileged users, are able to make significant changes to IT systems configuration and operation, bypass critical security settings and access sensitive information. As part of reviewing IT security arrangements, different groups of privileged users were examined, including:

<sup>49</sup> Further details regarding the moderate findings can be found in chapter 3 for the Departments of: Agriculture and Water Resources; Defence; Education and Training; Health; and Jobs and Small Business.

- application administrators, sometimes referred to as super users;
- database administrators;
- system administrators; and
- network or domain administrators.

1.65 To reduce the risks associated with this access, the ISM recommends that privileged user access be appropriately restricted and when provided, that the access is logged, regularly reviewed and monitored. Five moderate<sup>50</sup> and eight minor findings relate to entities that have not implemented adequate logging and monitoring procedures over privileged user accounts. There were also five minor findings relating to access rights for both privileged and regular users not being monitored for appropriateness.

1.66 Entities must remove or suspend user access on the same day a user no longer has a legitimate business requirement for its use.<sup>51</sup> Terminating a user account when the user no longer has a requirement to access it, such as upon departure from an entity, can prevent unauthorised use. Two of the moderate findings in relation to privileged user access weaknesses also identified issues with the untimely removal of user access.<sup>52</sup> There was also one additional moderate and five minor findings in this area.

1.67 Two minor findings relate to inadequate password controls increasing the likelihood of unauthorised access to systems and data. The ISM provides guidance on the password requirements for Australian Government systems. One minor finding related to policies and procedures not reflecting the current environment.

1.68 The findings within this category increase the risk of unauthorised changes being made to systems and data, or unauthorised data leakage. Entities should review their management of these areas in light of the recommendations of the ISM and the risks to their operational environment.

### *IT change management*

1.69 IT change management provides a disciplined approach to making changes to the IT environment. It includes controls to prevent unauthorised changes being introduced, and to reduce the likelihood that normal business operations are not interrupted with the implementation of authorised changes.

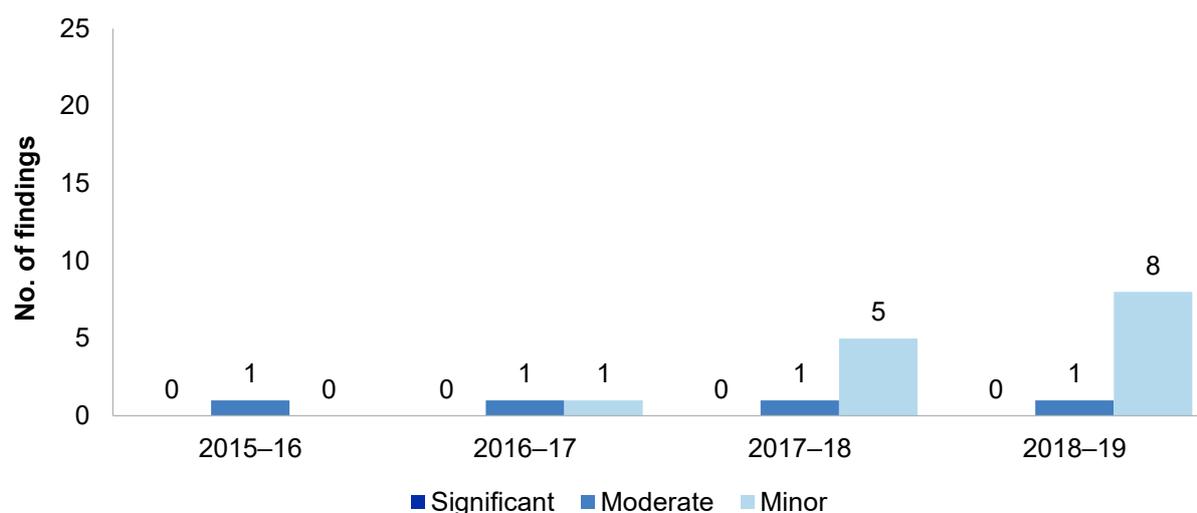
1.70 Figure 1.9 illustrates the trends in findings identified in entities' IT change management controls between 2015–16 and 2018–19.

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50 For further detail regarding the moderate finding in this category, refer to the detailed results in chapter 3 for the Departments of: Agriculture and Water Resources; Defence; Education and Training; Health; and Jobs and Small Business.

51 ISM control 0430.

52 For further detail regarding the moderate finding in this category, refer to the detailed results in chapter 3 for the Department of Agriculture and Water Resources, the Department of Defence and the Department of Education and Training. These findings identified issues relating to: privileged user logging and monitoring; and the untimely removal of user access.

**Figure 1.9: IT change management findings 2015–16 to 2018–19**

Note: The comparative numbers in this figure have been updated to include findings previously categorised as IT application controls which related to IT change management.

Source: ANAO data

1.71 Changes to entities' IT environments were managed using standardised processes, usually based on the ITIL Framework.<sup>53</sup> One moderate and eight minor findings were identified in this area. The moderate audit finding relates to the Department of Agriculture and Water Resources. Further detail can be found in the Department of Agriculture and Water Resources section chapter 3. One minor finding related to data migration performed as part of implementing a change. The remaining findings related to weaknesses in the operation of the change management processes and a lack of segregation between the developer and migrator of a change.

1.72 The number of findings in this area has increased over the last two years. This elevates the risk of unauthorised changes to systems, and may affect the availability or reliability of the overall IT environment. Entities should monitor the operating effectiveness of their IT control environments to mitigate risks.

### *Disaster recovery arrangements*

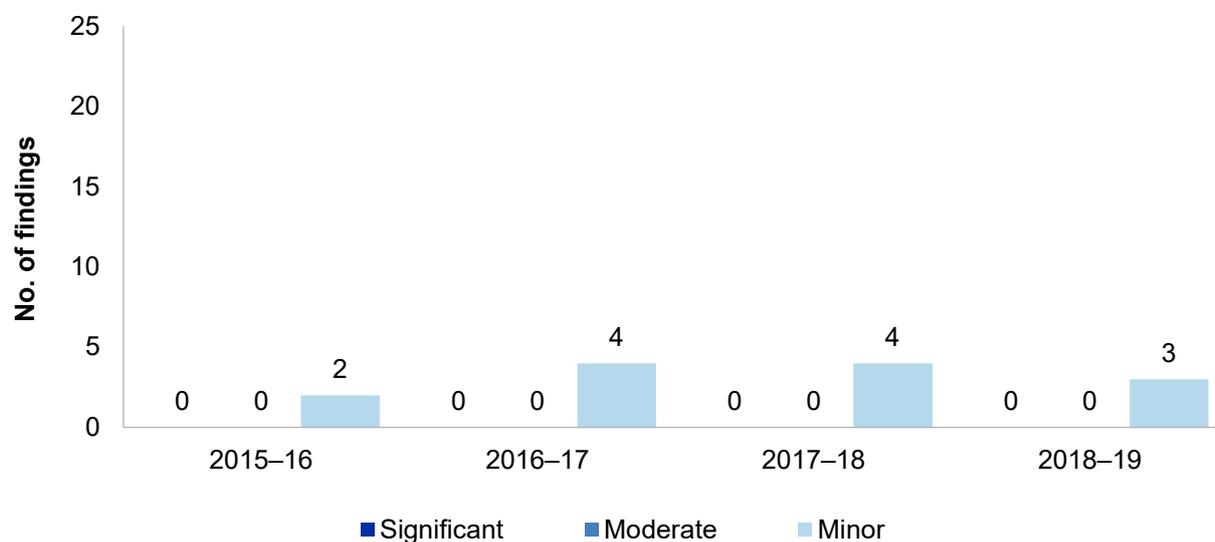
1.73 Disaster recovery is concerned with the resumption of the IT environment including systems and data. It relies on:

- effective back-up and recovery arrangements, to allow data to be recovered from current versions of key IT systems; and
- disaster recovery planning, including the development, maintenance and testing of a disaster recovery plan to enable IT systems to be recovered in line with defined business requirements.

53 ITIL is a framework for designing, implementing, delivering and managing IT services. It was originally developed in the 1990s with the support of the British Government, and has been widely adopted by public and private sector entities world-wide.

1.74 The ANAO assesses entities' disaster recovery arrangements in view of the potential for a disruptive event to impact on financial reporting. Figure 1.10 illustrates the trend for findings identified in entities' disaster recover arrangements between 2015–16 and 2018–19.

**Figure 1.10: Disaster recovery findings 2015–16 to 2018–19**



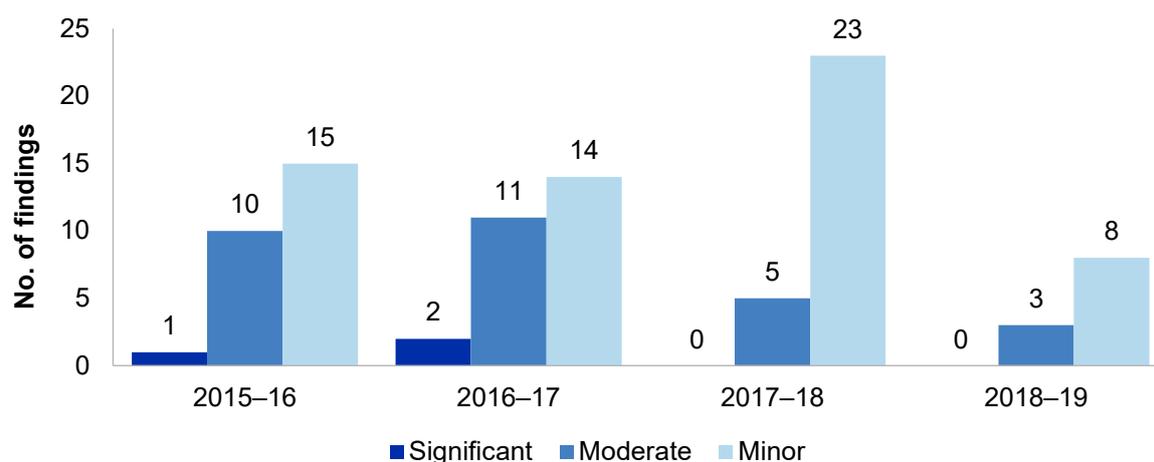
Source: ANAO data

1.75 All entities undertook regular backups of financially significant data and had disaster recovery plans in place. Three entities received minor audit findings relating to not undertaking testing of their disaster recovery plans, two of these have remained unresolved since 2017–18.

1.76 Overall, the majority of IT controls continued to be effective in most entities included in this report during 2018–19. Consistent with observations in previous years, IT Security, particularly with regard to management of user access, continues to be an area requiring improvement to address the risk of inappropriate access to systems and data.

### Compliance and quality assurance frameworks

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

**Figure 1.11: Compliance and quality assurance framework findings 2015–16 to 2018–19**

Source: ANAO data

1.78 The three moderate findings related to weaknesses in either assurance processes over information sourced from third parties or risk management practices relating to loan facilities.<sup>54</sup> One of these finding, relating to the National Disability Insurance Agency: Streamlined Access to Scheme — Defined Programs, was first reported in 2016–17 and remains unresolved.

1.79 The number of minor audit findings reported in 2018–19 has significantly decreased compared with 2017–18. There remains a need for entities to focus attention on:

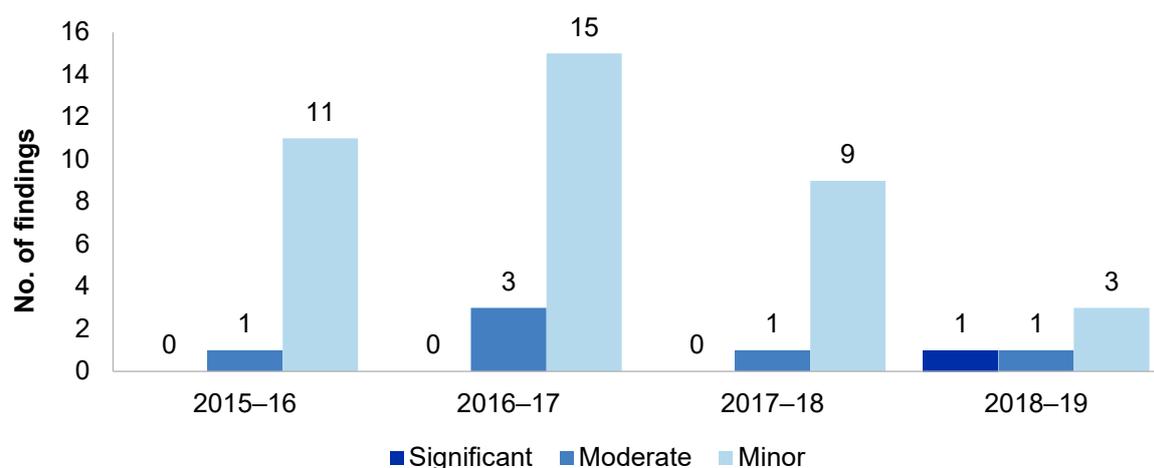
- maintaining effective governance over third party or joint service delivery arrangements;
- implementing quality assurance processes over data integrity;
- developing and implementing risk management frameworks that support the effective management of risk in the delivery of programs; and
- implementing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

### Accounting and control of non-financial assets

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

<sup>54</sup> Further details regarding the moderate audit findings can be found in the following entity results section in chapter 3: Department of Communications and the Arts; and National Disability Insurance Agency.

**Figure 1.12: Accounting and control of non-financial assets audit findings 2015–16 to 2018–19**



Source: ANAO data.

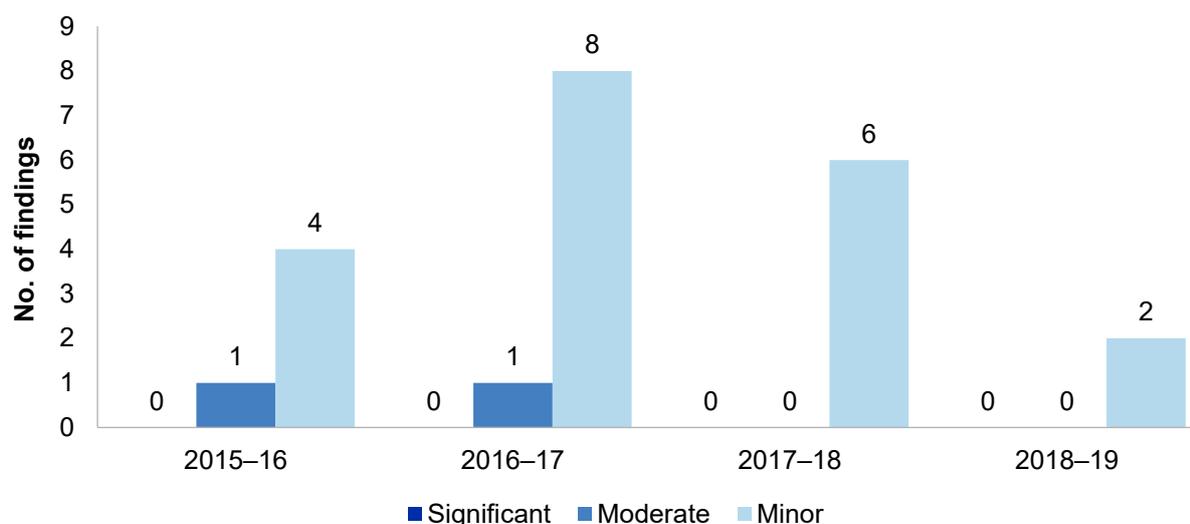
1.81 The significant and moderate findings were reported to the Department of Defence. They were raised during the 2017–18 final audit phase and remain unresolved.<sup>55</sup> The significant audit finding relates to the Department of Defence’s management and monitoring of specialist military equipment and inventory balances. The unresolved moderate audit finding relates to weaknesses in revaluation and impairment processes.

1.82 The three minor audit findings reported in 2018–19 relate to control weaknesses in relation to management of assets under construction, stocktaking processes and integrity of data recorded in the asset register.

### Revenue, receivables and cash management

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

<sup>55</sup> Further details of the audit findings can be found in Department of Defence section in chapter 3.

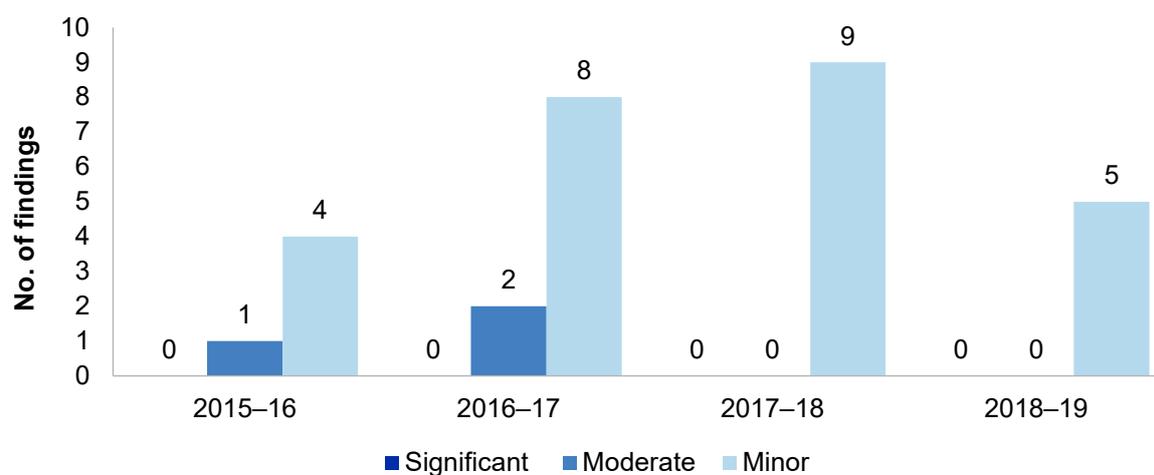
**Figure 1.13: Revenue, receivables and cash management audit findings 2015–16 to 2018–19**

Source: ANAO data.

1.84 Consistent with 2017–18, no significant or moderate audit findings have been identified that relate to revenue, receivables and cash management. The two minor audit findings reported in 2018–19 relate to weaknesses in controls supporting the completeness and accuracy of reported revenue.

### Human resource financial processes

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

**Figure 1.14: Human resources financial processes audit findings 2015–16 to 2018–19**

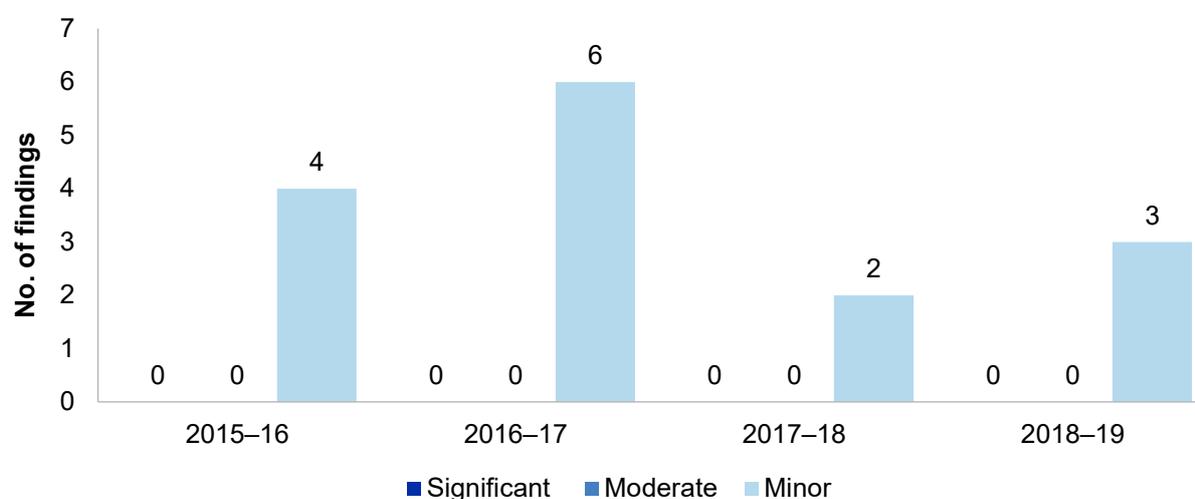
Source: ANAO data.

1.86 Consistent with 2017–18 there were no significant or moderate audit findings relating to human resource processes. Minor audit findings have decreased in 2018–19 and relate to weaknesses identified in relation to commencements and terminations of employees and the monitoring of controls over payroll processing and reporting.

### Purchases and payables management

1.87 Purchases and payables management covers controls and processes that provide management assurance that payments processed by the entity are complete and accurate. This may include the implementation of appropriate systems of approval or controls designed to ensure that payments processed through the financial management information system are appropriate.

**Figure 1.15: Purchases and payables management audit findings 2015–16 to 2018–19**

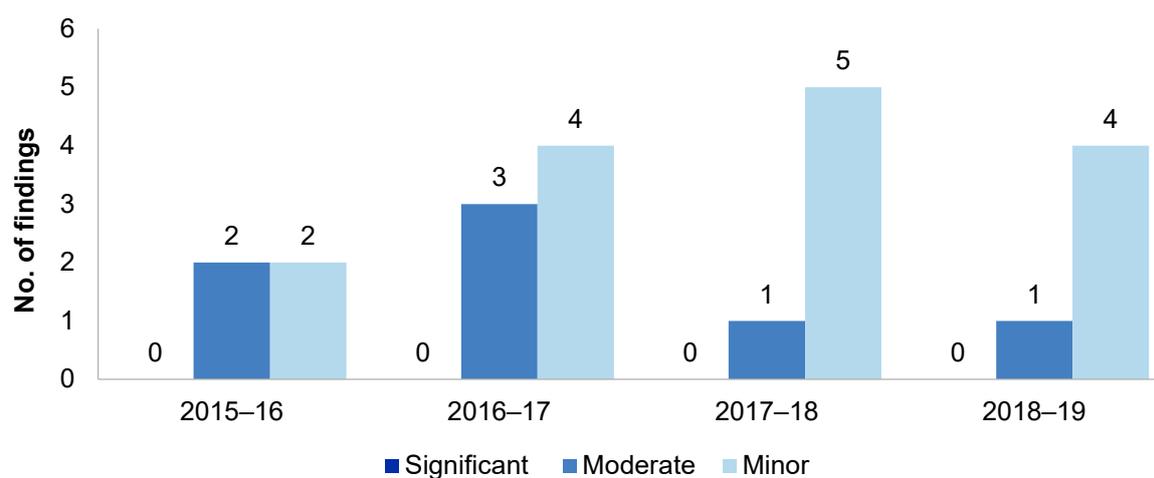


Source: ANAO data.

1.88 The minor findings relate to weaknesses in reconciliation processes and the timely acquittal of credit cards. Reconciliation processes are designed to confirm the completeness and accuracy of payments initiated in business systems and processed through financial management information systems. The ANAO has reviewed the payment card policies and monitoring for the entities included in this report within case study 2.

### Other audit findings

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

**Figure 1.16: Other audit findings 2015–16 to 2018–19**

Source: ANAO data.

1.90 The moderate audit finding, first reported in 2017–18, relates to weaknesses in appropriate exercise of delegations at the National Disability Insurance Agency.<sup>56</sup> The weaknesses in this category related to the:

- formalisation and implementation of key corporate documents including agreements with third parties and legislation compliance frameworks; and
- classification of expenditure and the completeness of reconciliations between systems.

<sup>56</sup> Further details can be found in the National Disability and Insurance Agency section in chapter 3.

## 2. Reporting and auditing frameworks

### Chapter coverage

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

### Summary of developments

Major changes in accounting standards are applicable in 2018–19 and 2019–20 with the implementation of revised standards for financial instruments, revenue and leases. Early engagement in planning for these standards will provide entities with more options for transitioning, time to review and potentially renegotiate underlying contracts and agreements and time to organise and implement necessary FMIS changes.

The *Independent Review into the operation of the Public Governance, Performance and Accountability Act 2013 and Rule* has made a number of recommendations to the Minister for Finance including, for example, bringing forward the date for the tabling of annual reports, removing duplication and improving linkages between accountability documents, and increasing disclosures around remuneration paid to executives and highly paid staff. In response, the Minister for Finance amended the PGPA Rule to require Commonwealth entities to make remuneration disclosures for key management personnel, senior executives and other highly paid staff in annual reports. The Minister for Finance also amended the PGPA (Annual Report) Rules to require Commonwealth companies and Commonwealth entities to publish annual reports online.

### Introduction

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

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

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

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

those made by the International Auditing and Assurance Standards Board, an independent standard setting board of the International Federation of Accountants.

2.5 The financial reporting and auditing frameworks that applied in 2018–19 are illustrated in Appendices 2 and 3 of this report.

## Changes to the Australian public sector reporting framework

### Changes in the financial framework

2.6 The *Independent Review into the operation of the Public Governance, Performance and Accountability Act 2013 and Rule* (the PGPA Review), released in September 2018, made a number of recommendations, the responses to which will impact the presentation and preparation of financial statements. The PGPA Review mirrors recommendations made by the Joint Committee of Public Accounts and Audit (JCPAA) in 2017 in response to the Auditor-General's report number 33 (2016–17)<sup>57</sup>.

2.7 The Department of Finance has undertaken a number of initiatives in response to the PGPA Review including the development of a 'Transparency Portal' for the publication and utilisation of annual reports, the preparation of a Financial Statements Better Practice Guide, and amendments to the PGPA Rules in relation to reporting on executive and highly paid staff remuneration.

#### *Transparency Portal*

2.8 The Transparency Portal<sup>58</sup> (the Portal) is an online digital reporting tool for the publication and presentation of annual reports of all Commonwealth companies and Commonwealth entities. The Portal was opened for public use in March 2019.

2.9 The Portal has the functionality to:

- provide a single point of access for all Commonwealth company and Commonwealth entity annual reports;
- support compliance with the Commonwealth financial reporting framework through the use of data sets based on the minimum financial reporting and disclosure requirements of the PGPA Act and Financial Reporting Rule;
- enable Portal users to search for and compare financial statements data between entities and between years using viewer generated tables and graphs;
- perform financial ratio analysis with the Portal currently providing users with ratios for total assets to total liabilities and financial asset to liabilities; and
- have entities upload Corporate Plans and Portfolio Budget Statements.

2.10 In April 2019, the Finance Minister amended the PGPA Rule<sup>59</sup> to require all Commonwealth companies and Commonwealth entities to publish their 2018–19 annual reports

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

58 [www.transparency.gov.au](http://www.transparency.gov.au)

59 Public Governance, Performance and Accountability Amendment (Annual Reporting) Rules 2019 (4 April 2019)

on the Portal. The Rule does not require entities to upload Corporate Plans or Portfolio Budget Statements.

### *Financial Statements Better Practice Guide*

2.11 The Department of Finance has published a *Financial Statements Better Practice Guide*<sup>60</sup> as a practical resource to support finance staff in the financial statement preparation process by including draft timetables, compliance checklists, a range of administrative templates and practical guidance e.g. how to prepare an accounting position paper and what sort of information an auditor is likely to request.

### *Reporting of Executive Remuneration*

2.12 The PGPA Review and JCPAA<sup>61</sup> recommended that increased disclosure of Executive and highly paid staff remuneration would be beneficial to users of Commonwealth annual reports and allow for increased transparency.

2.13 In April 2019 the Minister for Finance amended the PGPA Rule<sup>62</sup> to require Commonwealth entities<sup>63</sup> to disclose in the annual report remuneration of:

- key management personnel;
- senior executive staff in aggregate by \$25,000 band starting from a threshold of \$0 to \$220,000; and
- other highly paid staff in aggregate by \$25,000 band starting from a threshold of \$220,000.

### **Performance framework**

2.14 The PGPA Act provides the basis for the Commonwealth performance framework. Commonwealth entities are required to publish planned financial and non-financial performance information with the aim of providing more transparent and meaningful information to the Parliament and the public.

2.15 The PGPA review recommended the Finance Minister, in consultation with the JCPAA, should request that the Auditor-General pilot assurance audits of annual performance statements to trial an appropriate methodology for these audits. The Committee should monitor the implementation of the pilot on behalf of the Parliament.

2.16 The ANAO has completed three performance audits that covered elements of ten individual entity performance statements. The results are published in three Auditor General

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60 Department of Finance, *Financial Statements Better Practice Guide*, available at <https://www.finance.gov.au/financial-reporting-and-accounting-policy/financial-statements-better-practice-guide/> [accessed 10 March 2019]

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

62 Public Governance, Performance and Accountability Amendment (Reporting Executive Remuneration) Rules 2019 (4 April 2019)

63 Commonwealth companies will continue to report as per Corporations Legislation requirements

Reports: Implementation of the Annual Performance Statements Requirements 2015–16<sup>64</sup>, 2016–17<sup>65</sup> and 2017–18.<sup>66</sup>

## Changes to accounting standards

2.17 Public sector entities must implement the new standard for financial instruments for 2018–19. This represents a major revision to the current methods for recognition and disclosure of financial instruments. The effort and time required to transition to this new standard should not be underestimated with preparers required to develop business models and update accounting policies particularly in regard to the expected credit loss model.

### *Financial instruments*

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

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

2.20 The Department of Finance has issued a position paper *Implementation Options for AASB 9 Financial Instruments*<sup>67</sup>, which outlines the Commonwealth's position with regard to selected options and application guidance for transitioning to the new standard. This includes the position that in applying the new standard retrospectively, as required by AASB 9, entities are not required to restate comparative information and any difference between the previous and revised carrying amount is recognised in opening retained earnings.

## Future changes to accounting standards

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

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64 Auditor General Report No.58 of 2016–17, *Implementation of the Annual Performance Statements Requirements 2015–16*.

65 Auditor General Report No.33 of 2017–18, *Implementation of the Annual Performance Statements Requirements 2016–17*

66 Auditor General Report No.17 of 2018–19), *Implementation of the Annual Performance Statements Requirements 2017–18*

67 Department of Finance, *Implementation Options for AASB 9 Financial Instruments*, available from <https://www.finance.gov.au/resource-management/presentations-position-papers/> [accessed 10 March 2019]

## Revenue

2.22 The new revenue standard AASB 15 *Revenue from Contracts with Customers* (AASB 15) is effective for financial years commencing on or after 1 January 2019 for not-for-profit entities, meaning it will impact most Commonwealth entities in the 2019–20 financial year.<sup>68</sup> AASB 15 applies to all exchange transactions and provides a consistent approach to revenue recognition. The principle underpinning AASB 15 is that revenue is earned when the customer receives the goods or services that have been promised under the contract. AASB 15 will impact entities where:

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

2.23 The Department of Finance has issued a position paper *Implementation Options for AASB 1058 Income of Not-for-Profit Entities in conjunction with AASB 15 Revenue from Contracts with Customers*<sup>69</sup>, which outlines the Commonwealth's position on options for the implementation of AASB 1058 *Income of Not-for-Profit Entities* (AASB 1058), in conjunction with AASB 15. This includes the position that entities are required to adopt a modified retrospective application on transition. As a consequence, AASB 15 is to be applied to all new and uncompleted contracts from the date of initial application and comparative information for the preceding periods is not required to be restated.

## Leases

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

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

69 Department of Finance, *Implementation Options for AASB 1058 Income of Not-for-Profit Entities in conjunction with AASB 15 Revenue from Contracts with Customers*, available from <https://www.finance.gov.au/resource-management/presentations-position-papers/> [accessed 10 March 2019]

interest on the lease liability and amortisation of the right-of-use asset. The effect of AASB 16 is to “front-load” the recognition of expense, rather than recognising it on a straight-line basis.

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

2.26 The Department of Finance have issued a position paper *Implementation Options for AASB 16 Leases*<sup>70</sup> which outlines the Commonwealth position on the options available for the implementation of AASB 16. This includes mandating the election to not reassess previous lease contracts under the new standard and the modified transition model under which the cumulative effect of application of the new standard is recognised in opening retained earnings.

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70 Department of Finance, *Implementation Options for AASB 16 Leases*, available from <https://www.finance.gov.au/resource-management/presentations-position-papers/> [accessed 10 March 2019]

## 3. Results of the interim audit phase by entity

### Chapter coverage

This chapter summarises the results of the interim audits for the 2018–19 financial statements of the 26 entities included in this report. The entities included in this report are all Departments of State, the Department of Parliamentary Services and other Commonwealth entities that significantly contribute to the income, expenses, assets and liabilities within the 2017–18 Consolidated Financial Statements of the Australian Government (CFS) and are presented in Figure 3.0.1 and Figure 3.0.2.

### Audit results

There was one significant and 12 moderate findings reported to the entities covered by this report at the completion of the 2018–19 interim phase compared with 12 moderate findings in 2017–18.

At the completion of the interim audits, the ANAO reported to four entities that, except for particular finding/s outlined in this chapter, key elements of internal control were operating effectively to provide reasonable assurance that the entities were able to prepare financial statements that are free from material misstatement. For the Departments of: Defence; Education and Training, and the National Disability and Insurance Agency, the ANAO identified a number of findings which reduced the level of confidence that could be placed on key elements of internal control that support the preparation of financial statements that are free from material misstatement.

### Introduction

3.0.1 The ANAO's assessment of the overall risk of material misstatement of the financial statements is based on professional judgement relating to the entity's particular circumstances. The financial statements audit planning process involves joint procedures with performance audit and takes into account each entity's environment and governance arrangements, its system of internal control, and prior year financial and performance audit findings. These planning processes inform the identification of areas of key risk that have the potential to impact on the integrity of the financial statements.

3.0.2 The interim phase of the audit focuses on the steps taken by entities to manage these risks, including their systems of internal control. This chapter reflects portfolio and funding arrangements established by the Administrative Arrangement Order of 4 April 2019 and outlines the following information for each of the reported entities:

- the entity's primary role as reflected in its Portfolio Budget Statements;
- 2018–19 appropriation funding and key financial statements items;
- key areas of financial statements risk including where the ANAO has identified Key Audit Matters (KAM);
- the ANAO's assessment of the overall risk of material misstatement of the financial statements, which informs the audit processes to be undertaken; and

## Results of the interim audit phase by entity

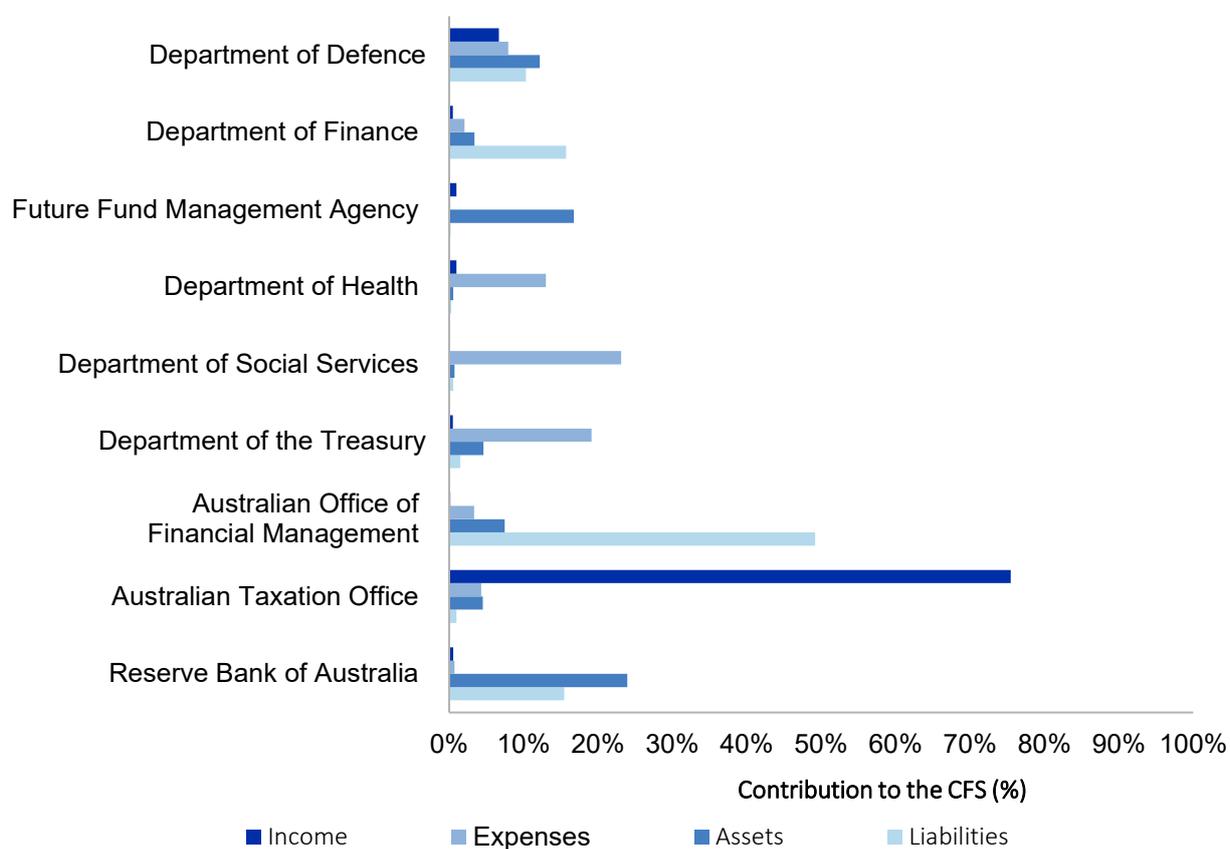
- the status of significant and moderate audit findings at the completion of the interim audit, and the conclusion relating to audit coverage to date.

3.0.3 The entities included in this report include all Departments of State, the Department of Parliamentary Services and other Commonwealth entities that significantly contribute to the revenues, expenses, assets and liabilities within the 2017–18 CFS.

3.0.4 Where a performance audit was tabled during 2018–19 that was relevant to the financial management or administration of an entity, the impact of those observations on the audit approach are discussed within the relevant portfolio section.

3.0.5 An analysis of each of these entities' 2017–18 results as a percentage of the 2017–18 CFS is presented below. Figure 3.0.1 presents the results of nine entities that contribute more than 10 per cent of either the income, expenses, assets or liabilities of the CFS. The remaining entities are presented in Figure 3.0.2 and contribute less than 10 per cent of all categories.

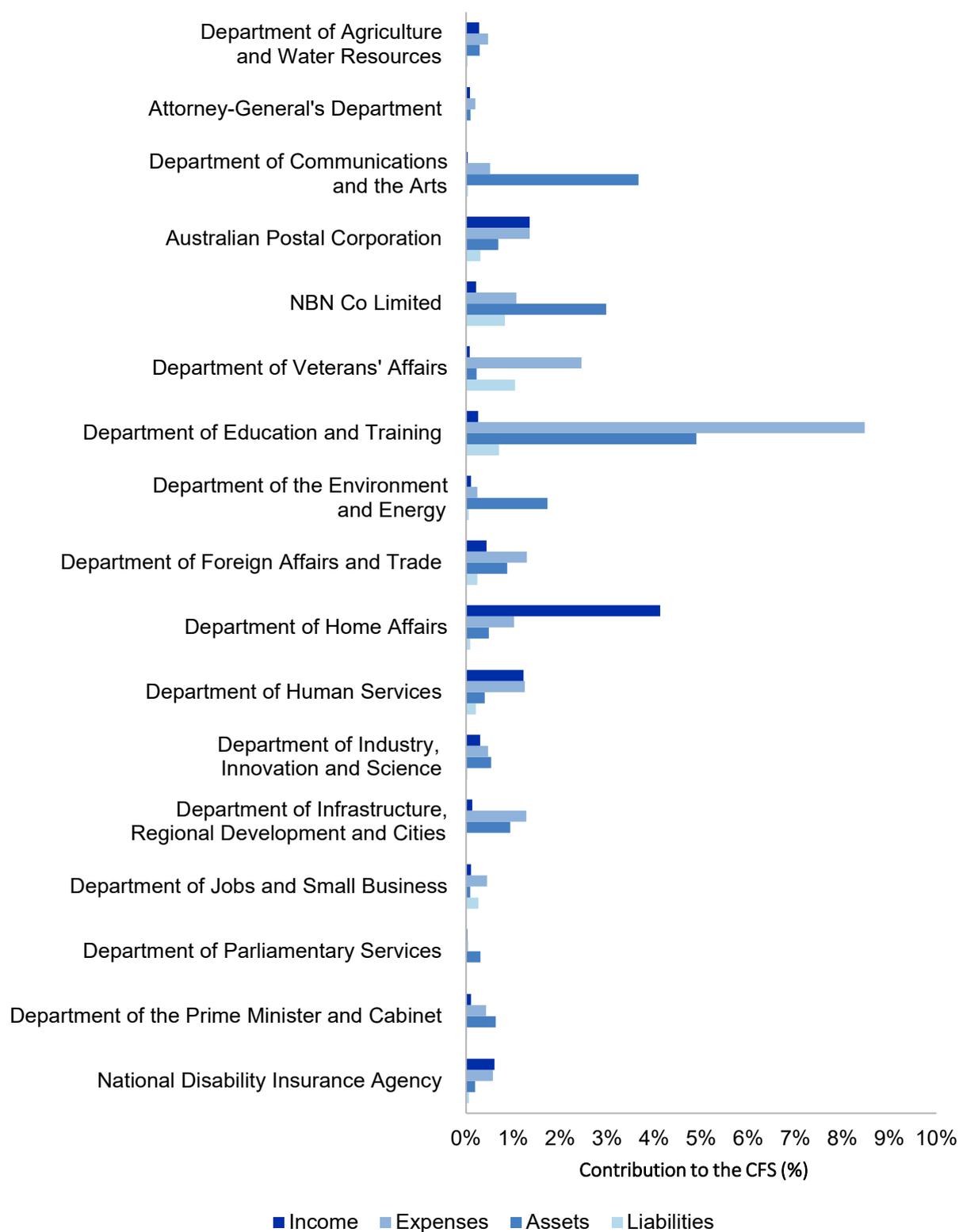
**Figure 3.0.1: Entities contributing more than 10 per cent to the Australian Government's 2017–18 Consolidated Financial Statements<sup>71</sup>**



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

<sup>71</sup> The CFS balances have not been adjusted to eliminate inter-governmental transactions

**Figure 3.0.2: Entities contributing less than 10 per cent to the Australian Government's 2017–18 Consolidated Financial Statements<sup>72</sup>**



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

<sup>72</sup> The CFS balances have not been adjusted to eliminate inter-governmental transactions

## Results of Financial Statements Audits

3.0.6 Table 3.0.1 presents a summary of new and unresolved significant and moderate findings<sup>73</sup> at the conclusion of the 2018–19 interim audits and the 2017–18 interim and final audits.

**Table 3.0.1: Significant and moderate findings by entity**

Entity	Interim 2018–19		Final 2017–18		Interim 2017–18	
	New findings <sup>a</sup>	Unresolved findings <sup>b</sup>	New findings <sup>a</sup>	Unresolved findings <sup>b</sup>	New findings <sup>a</sup>	Unresolved findings <sup>b</sup>
Department of Agriculture and Water Resources	2	–	–	–	–	–
Attorney-General's Department	–	–	–	–	–	–
Department of Communications and the Arts	–	1	–	1	1	–
Australian Postal Corporation	–	–	–	–	–	–
NBN Co Limited	–	–	–	–	–	–
Department of Defence	1	2	2	–	–	2
Department of Veterans' Affairs	–	–	–	–	–	–
Department of Education and Training	2	–	–	–	–	–
Department of the Environment and Energy	–	–	–	–	–	–
Department of Finance	–	–	–	–	–	–
Future Fund Management Agency and the Board of Guardians	–	–	–	–	–	–
Department of Foreign Affairs and Trade	–	–	–	–	–	–
Department of Health	1	–	–	–	–	–

<sup>73</sup> The ANAO's rating scale for findings can be found chapter 1 at Table 1.2.

Entity	Interim 2018–19		Final 2017–18		Interim 2017–18	
	New findings <sup>a</sup>	Unresolved findings <sup>b</sup>	New findings <sup>a</sup>	Unresolved findings <sup>b</sup>	New findings <sup>a</sup>	Unresolved findings <sup>b</sup>
Department of Home Affairs	–	–	–	–	–	2
Department of Industry, Innovation and Science	–	–	1	–	–	–
Department of Infrastructure Regional, Development and Cities	–	–	–	–	–	–
Department of Jobs and Small Business	1	–	–	–	–	–
Department of Parliamentary Services	–	–	–	–	–	–
Department of the Prime Minister and Cabinet	–	–	–	–	1	–
Department of Social Services	–	–	–	–	–	–
Department of Human Services	–	–	–	–	–	–
National Disability Insurance Agency	–	3	2	1	1	4
Department of the Treasury	–	–	–	–	–	–
Australian Office of Financial Management	–	–	–	–	–	–
Australian Taxation Office	–	–	–	–	–	1
Reserve Bank of Australia	–	–	–	–	–	–
<b>TOTAL</b>	<b>7</b>	<b>6</b>	<b>5</b>	<b>2</b>	<b>3</b>	<b>9</b>

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

Note b: Findings transferred to another entity as a result of Machinery of Government changes, which remain unresolved, are treated as repeat findings for the purposes of this table.

Source: 2017–18 and 2018–19 ANAO audit correspondence.

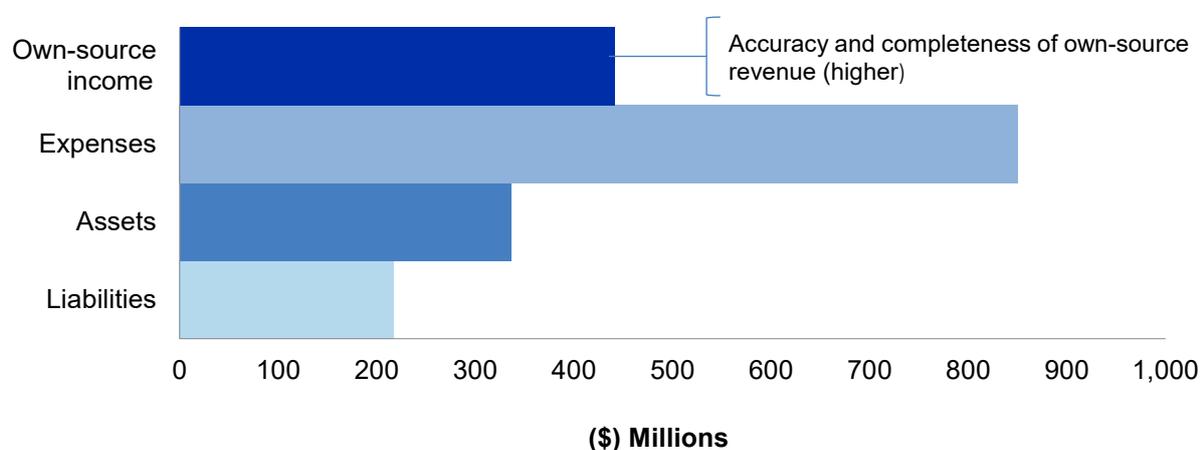
## 3.1 Department of Agriculture and Water Resources

### Overview

3.1.1 The Department of Agriculture and Water Resources (Agriculture) supports: the sustainability, profitability and competitiveness of Australia's agricultural, fisheries, food and forestry industries; and the sustainable and productive management and use of rivers and water resources.

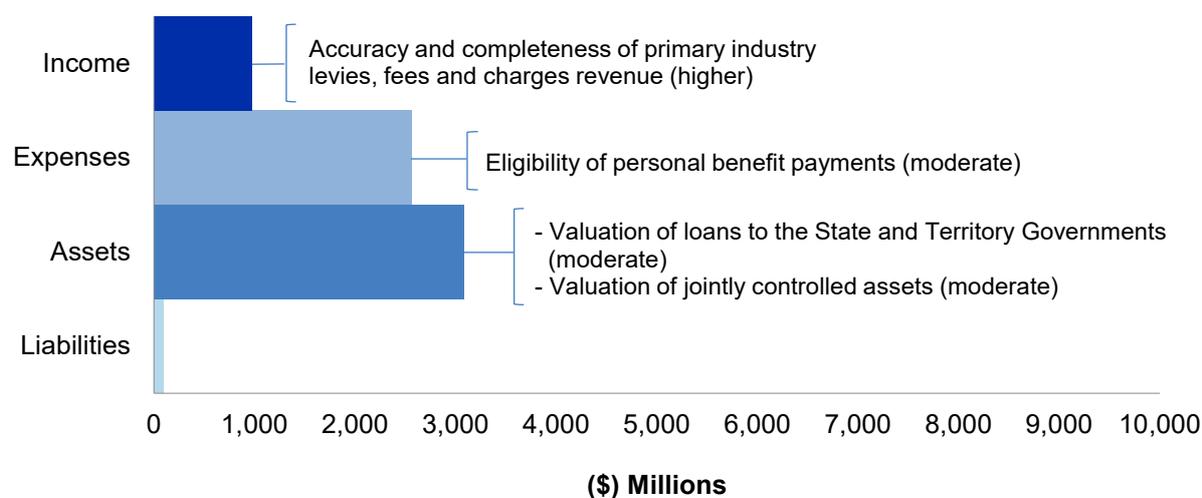
3.1.2 Figure 3.1.1 and Figure 3.1.2 show the 2018–19 departmental and administered financial statement items reported by Agriculture and the key areas of financial statements risk.

**Figure 3.1.1: Key departmental financial statement items and areas of financial statements risk**



Source: ANAO analysis of Agriculture's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Figure 3.1.2: Key administered financial statement items and areas of financial statements risk**



Source: ANAO analysis of Agriculture's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.1.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact Agriculture's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of Agriculture's environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.1.3 and the ANAO's understanding of the operations of Agriculture, the ANAO has assessed the risk of a material misstatement as **moderate**.

### Key financial statements items

3.1.4 Annual appropriation funding of \$408.9 million (departmental) and \$1,169.9 million (administered) was provided to Agriculture in 2018–19 to support the achievement of the entity's outcomes.<sup>74</sup> Agriculture was also budgeted to receive special appropriation funding of \$1,014.4 million.<sup>75</sup> Special appropriations are used for: payments to industry bodies; funding provided under contractual arrangements for research and development, and marketing; and payments related to the farm household allowance.

3.1.5 Table 3.1.1 and Table 3.1.2 provide a summary of the key 2018–19 departmental and administered estimated financial statements items.

**Table 3.1.1: Key expenses and total own-sourced income**

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
<b>Total expenses</b>	<b>850.6</b>	<b>2,558.5</b>
Employee benefits	535.0	–
Suppliers	282.7	45.7
Depreciation and amortisation	29.9	7.8
Personal benefits	–	163.4
Grants	2.0	1,398.9
Assets transferred to related entities	–	887.9
Borrowing costs and other	1.0	54.8
<b>Total own-source income</b>	<b>442.5</b>	<b>977.3</b>
Sale of goods and rendering of services	402.3	–
Other taxes	–	541.6
Interest	0.4	35.8
Gains	1.6	380.9
Other	38.2	19.0
<b>Net (cost of)/contribution by services</b>	<b>(408.1)</b>	<b>(1,581.2)</b>

Source: Agriculture's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

74 This is provided through *Appropriation Act (No.1) 2018–2019*, *Appropriation Act (No.2) 2018–2019*, *Appropriation Act (No.3) 2018–2019* and *Appropriation Act (No.4) 2018–2019*.

75 Part 1: Special Appropriations Table, *Agency Resourcing, Budget Paper No.4, 2019–20*.

**Table 3.1.2: Key assets and liabilities**

<b>Assets and liabilities</b>	<b>Departmental estimated actual (\$m) 2018–19</b>	<b>Administered estimated actual (\$m) 2018–19</b>
<b>Total assets</b>	<b>336.4</b>	<b>3,081.0</b>
Cash	28.1	796.6
Trade and other receivables	83.1	1,164.7
Intangibles	125.8	127.3
Land and buildings	40.2	1.5
Property, plant and equipment	26.8	518.5
Investments	16.5	391.6
Other	15.9	80.8
<b>Total liabilities</b>	<b>217.3</b>	<b>96.4</b>
Grants	–	95.4
Suppliers payable	16.9	0.3
Other payables	42.6	0.7
Employee provisions	144.4	–
Other provisions	13.4	–
<b>Net assets/(liabilities)</b>	<b>119.1</b>	<b>2,984.6</b>

Note: Agriculture's estimated average staffing level for 2018–19 is 4,657.

Source: Agriculture's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

### Key areas of financial statements risk

3.1.6 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 3.1.3.

**Table 3.1.3: Key areas of financial statements risk**

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Departmental</i> sale of goods and rendering of services revenue \$402.3 million	Accuracy and completeness of own-source revenue KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>large range of revenue streams, collected across the country through multiple systems;</li> <li>complex cost recovery arrangements;</li> <li>collection of a significant portion of import revenues is performed by the Department of Home Affairs; and</li> <li>judgement involved in the calculation of the provision for doubtful debts.</li> </ul>
<i>Administered</i> levies fees and charges \$541.6 million	Accuracy and completeness of primary industry levies, fees and charges revenue KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>self-assessment nature of collections; and</li> <li>complexities involved in estimating the level of agricultural production on which revenue is based.</li> </ul>
<i>Administered</i> loans (component of trade and other receivables \$1,164.7 million)	Valuation of loans to the State and Territory Governments KAM	<b>Moderate</b>	<ul style="list-style-type: none"> <li>variation in loan terms across jurisdictions;</li> <li>potential changes in the accounting treatment for loans should they be deemed concessional in nature;</li> <li>the level of estimation involved in determining any potential impairment of loans; and</li> <li>subsequent management of loans to farm businesses is undertaken by a third party (the State or Territory Government), under a service level agreement with Agriculture.</li> </ul> <p>The third party is responsible for entering into loan agreements with eligible farm businesses, the approval of recipients, and the ongoing monitoring and maintenance of the loans.</p>
<i>Administered</i> assets recognised under jointly controlled arrangements \$642.1 million	Valuation of jointly controlled assets KAM	<b>Moderate</b>	<ul style="list-style-type: none"> <li>jointly controlled assets are managed by a third party with limited oversight from joint owners; and</li> <li>the judgement involved in valuing the unique assets managed under the arrangement.</li> </ul>

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> personal benefits payments \$37.9 million	Eligibility of personal benefit payments	<b>Moderate</b>	<ul style="list-style-type: none"> <li>susceptibility to fraudulent benefit claims; and</li> <li>eligibility for personal benefit payments paid by the Department of Human Services on behalf of Agriculture under the Farm Household Allowance scheme is subject to the applicants meeting a number of complex legislative conditions.</li> </ul>

Source: ANAO 2018–19 risk assessment for Agriculture and Agriculture’s 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

## Audit results

3.1.7 The ANAO has completed its 2018–19 interim audit coverage, including an assessment of the controls relating to the key areas of financial statements risk disclosed in Table 4.1.3. In addition, interim coverage of IT general controls and supplier and employee benefits expenses has been completed.

3.1.8 Audit procedures relating to all material line items will be undertaken as part of the 2018–19 final audit.

3.1.9 The following table summarises the status of audit findings reported by the ANAO in 2017–18 and 2018–19.

**Table 3.1.4: Status of audit findings raised by the ANAO**

Category	Closing position (at the end of the 2017–18 final audit)	New findings (during of the 2018–19 interim audit)	Resolved findings (at the time of 2018–19 interim audit)	Closing position (at the end of the 2018–19 interim audit)
A	–	–	–	–
B	–	2	–	2
<b>Total</b>	<b>–</b>	<b>2</b>	<b>–</b>	<b>2</b>

### *New moderate audit findings*

#### Weaknesses in Change Management Controls

3.1.10 IT change management provides a disciplined approach to making changes to the IT environment. It includes processes around the governance and approval of changes, controls designed to ensure that changes are properly tested before implementation, and processes for the management of emergency changes. The Australian Government Information Security Manual (ISM) outlines the change management requirements that Government entities should adhere to.

3.1.11 The ANAO identified a number of weaknesses in change management controls, including:

- instances where there was no documented evidence demonstrating system changes had been tested in the production environment;

- no evidence of controls around configuration management. Configuration management controls are important as they help ensure that that only approved and tested versions of software are implemented into the production environment;
- no evidence that a change migrated from the test environment to the production environment was performed by different users; and
- an increase to the percentage of changes implemented by the department using the emergency change procedures.

3.1.12 These weaknesses increase the risk of changes being made to key business and financial systems which are not properly tested, authorised and approved. This in turn may compromise the integrity of information contained within these systems. Agriculture's emergency change procedures are required where an urgent change is identified that is not otherwise foreseen. If these procedures are applied to known and planned changes the key internal controls designed to ensure an appropriate level of governance oversight may be bypassed.

3.1.13 The ANAO recommends that the Department maintains evidence of the testing and approval of system changes and reduces the number of changes implemented using emergency change processes. The ANAO will review the Department's remediation activities as part of the final audit phase.

#### Monitoring and Management of Privileged User Accounts

3.1.14 Maintaining and supporting IT systems requires that some individuals have privileged access rights. This level of access can be used to bypass security controls and make changes, either to system settings or directly to system data. Individuals with privileged access must be unique and identifiable, and have their activity regularly monitored to detect any unauthorised use.

3.1.15 The ANAO observed that the Department has an unusually large number of active privileged user accounts and has not formally monitored activities performed using those accounts.

3.1.16 The ANAO also identified that:

- there are a large number of privileged user accounts which have not been actively used during the financial year, and the automatic system control designed to disable inactive accounts after 42 days, has been switched off;
- there are a number of generic and superseded privileged user accounts which are still active. The ISM requires that entities must restrict privileged access to unique and identifiable users.; and
- three user accounts had passwords set to never expire which does not align with the ISM password management requirements.

3.1.17 The ANAO recommends that Agriculture evaluate the effectiveness of logging and monitoring activities for financial statement related systems and implement improvements to gain assurance that staff have appropriate access to systems and data in line with business requirements. The Department has advised that they are in the process of implementing the "Onelidentity" project, which is aimed at simplifying the processes around user access management. The Department expects that the above issues will be resolved through the implementation of this project. The ANAO will review the status of these remediation activities as part of the final phase of 2018–19 audit.

**Conclusion**

3.1.18 At the completion of the interim audit, and except for the findings outlined above, the ANAO identified that key elements of internal control were operating effectively to provide reasonable assurance that Agriculture will be able to prepare financial statements that are free from material misstatement. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2018–19 final audit.

## 3.2 Attorney-General's Department

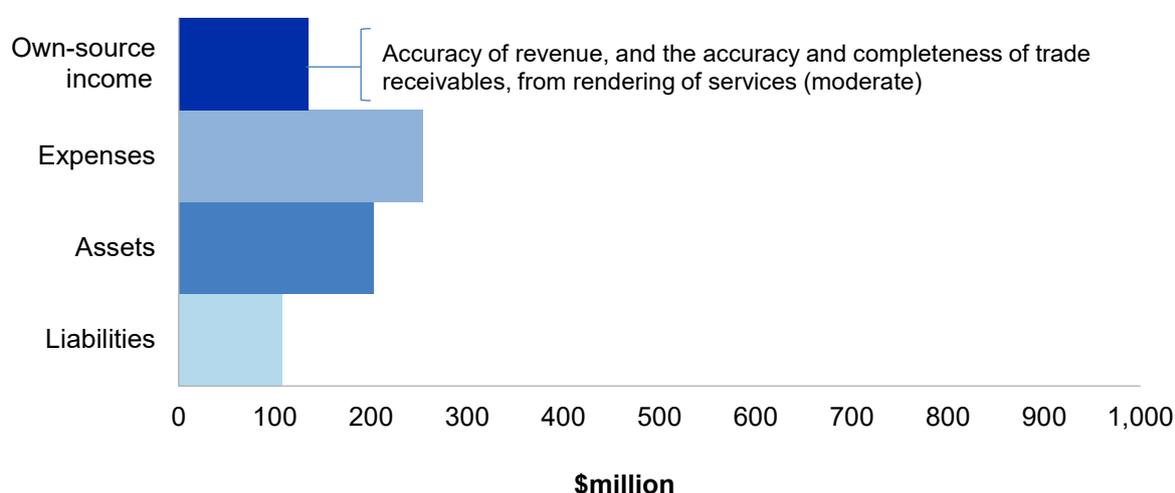
### Overview

3.2.1 The Attorney-General's Department (AGD) supports the Attorney-General in achieving a just and secure society through the maintenance and improvement of Australia's law, justice, security and integrity frameworks.

3.2.2 AGD has entered into shared service arrangements with the Department of Social Services for the provision of grant management services. AGD remains accountable for compliance with all accounting, legal and administrative requirements.

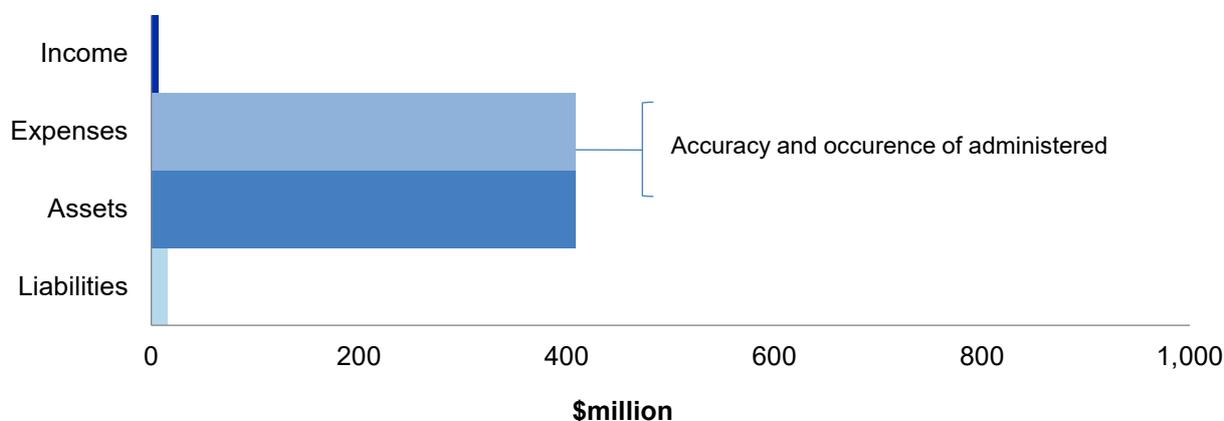
3.2.3 Figure 3.2.1 and Figure 3.2.2 show the 2018–19 departmental and administered financial statement items reported by AGD and the key areas of financial statements risk.

**Figure 3.2.1: Key departmental financial statement items and areas of financial statements risk**



Source: ANAO analysis and AGD's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Figure 3.2.2: Key administered financial statement items and areas of financial statements risk**



Source: ANAO analysis and AGD's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.2.4 The ANAO's audit approach identifies key areas of risk that have the potential to impact AGD's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of AGD's environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.2.3 and the ANAO's understanding of the operations of AGD, the ANAO has assessed the risk of a material misstatement as **moderate**.

### Key financial statements items

3.2.5 Annual appropriation funding of \$155.8 million (departmental) and \$391.2 million (administered) was provided to AGD in 2018–19 to support the achievement of the entity's outcomes.<sup>76</sup> AGD was also budgeted to receive special appropriation funding of \$0.48 million that primarily relates to pension payments to former Solicitors- General.<sup>77</sup>

3.2.6 Table 3.2.1 and Table 3.2.2 provide a summary of the key 2018–19 departmental and administered estimated financial statements items.

**Table 3.2.1: Key expenses and total own-sourced income**

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
<b>Total expenses</b>	<b>253.8</b>	<b>408.5</b>
Employee benefits	173.3	14.9
Suppliers	68.0	82.9
Subsidies	-	3.4
Personal benefits	-	0.8
Depreciation and amortisation	12.5	3.7
Grants	-	286.1
Payments to corporate entities	-	16.7
Other	-	0
<b>Total own-source income</b>	<b>134.8</b>	<b>6.7</b>
Sale of goods and rendering of services	134.3	2.7
Other	0.5	4.0
<b>Net (cost of)/contribution by services</b>	<b>(119.0)</b>	<b>(401.8)</b>

Source: AGD's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

76 This is provided through *Appropriation Act (No.1) 2018–2019*, *Appropriation Act (No.2) 2018–2019*, *Appropriation Act (No.3) 2018–2019* and *Appropriation Act (No.4) 2018–2019*.

77 Part 1: Special Appropriations Table, *Agency Resourcing, Budget Paper No.4, 2019–20*.

**Table 3.2.2: Key assets and liabilities**

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
<b>Total assets</b>	<b>202.7</b>	<b>408.1</b>
Trade and other receivables	91.0	1.9
Cash and cash equivalents	40.4	1.1
Other investments	-	401.2
Land and buildings	36.7	1.7
Heritage and cultural assets	3.8	-
Property, plant and equipment	12.3	1.5
Intangibles	14.2	-
Other	4.3	0.7
<b>Total liabilities</b>	<b>107.9</b>	<b>15.4</b>
Employee provisions	49.0	5.9
Suppliers payable	27.9	5.3
Other	31.0	4.2
<b>Net assets/(liabilities)</b>	<b>94.8</b>	<b>392.7</b>

Note: AGD's estimated average staffing level for 2018–19 is 1,289.

Source: AGD's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

### Key areas of financial statements risk

3.2.7 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 3.2.3.

**Table 3.2.3: Key areas of financial statements risk**

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<p><i>Departmental</i> rendering of services \$134.3 million</p> <p>goods and services receivables (component of trade and other receivables \$91.0 million)</p>	<p>Accuracy of revenue, and the accuracy and completeness of trade receivables, from rendering of services</p> <p>KAM</p>	<b>Moderate</b>	<ul style="list-style-type: none"> <li>Australian Government Solicitor (AGS) revenue from rendering of services is a significant component of the AGD's revenue; and</li> <li>the value and timing of revenue recognition is determined with reference to time recorded on various AGS matters, the completion and recovery of matters and the valuation of work-in-progress at year end was subject to management judgement.</li> </ul>

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> grant expenses \$286.1 million	Accuracy and occurrence of administered grants expenses	<b>Moderate</b>	<ul style="list-style-type: none"> <li>AGD has a decentralised grants management system which encompasses multiple and varied practices; and</li> <li>a significant component of the grants expense is managed by the Department of Social Services.</li> </ul>

Source: ANAO 2018–19 risk assessment for AGD and AGD's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

## Audit results

3.2.8 The ANAO has completed its 2018–19 interim audit coverage, including an assessment of the controls relating to: administered grants; departmental revenue; and the management of appropriations and special accounts. IT general and application controls and key controls over payroll and cash management have also been assessed.

3.2.9 Audit procedures relating to the valuation of non-financial assets, including administered investments; and financial statements close processes including the consolidation of the AGS will be undertaken as part of the planned 2018–19 final audit.

3.2.10 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings. The 2017–18 audit also did not identify any significant or moderate audit findings.

## Conclusion

3.2.11 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that AGD will be able to prepare financial statements that are free of material misstatements. The effective operation of these internal controls for the full financial year will be assessed during the 2018–19 final audit.

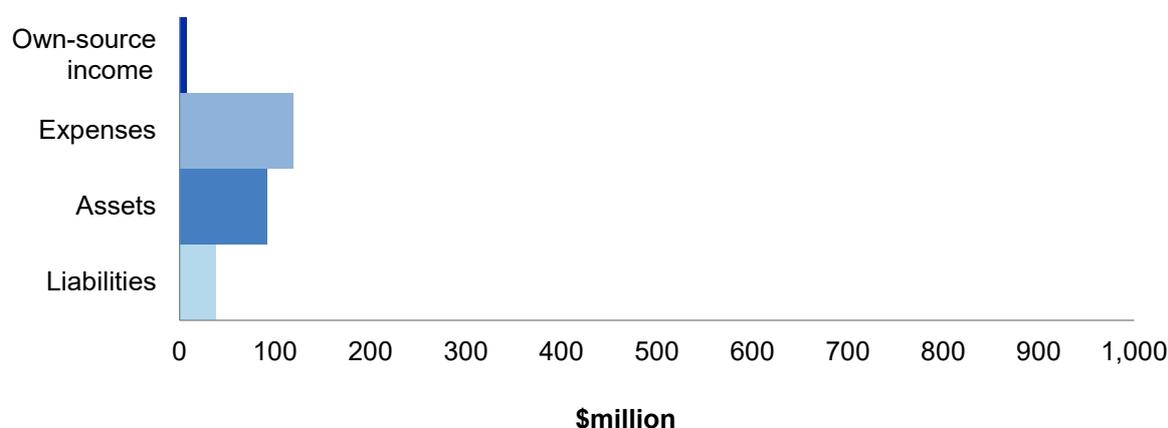
## 3.3 Department of Communications and the Arts

### Overview

3.3.1 The Department of Communications and the Arts (Communications) is responsible for policy development, advice and program delivery with respect to digital technologies, communication services and promoting access to, and participation in, art and culture.

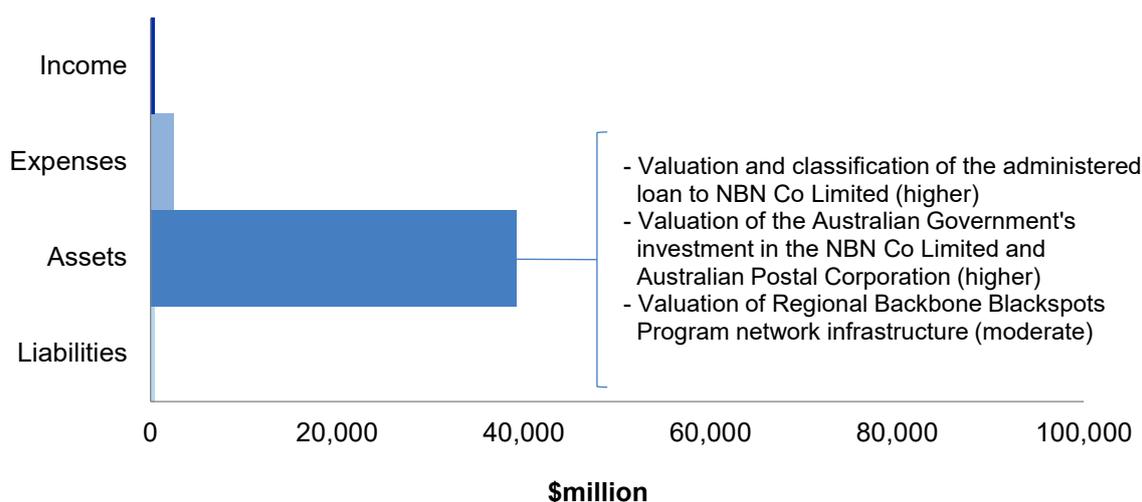
3.3.2 Figure 3.3.1 and Figure 3.3.2 show the 2018–19 departmental and administered financial statement items reported by Communications and the key areas of financial statements risk.

**Figure 3.3.1: Key departmental financial statement items and areas of financial statements risk**



Source: ANAO analysis and Communications' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Figure 3.3.2: Key administered financial statement items and areas of financial statements risk**



Source: ANAO analysis and Communications' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.3.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact Communications' financial statements. The ANAO's risk assessment process considers the nature

of the financial statements items and an understanding of Communications' environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.3.3 and the ANAO's understanding of the operations of Communications, the ANAO has assessed the risk of a material misstatement as **moderate**.

### Key financial statements items

3.3.4 Annual appropriation funding of \$111.3 million (departmental) and \$5.5 billion (administered) was provided to Communications in 2018–19 to support the achievement of the entity's outcomes.<sup>78</sup>

3.3.5 Table 3.3.1 and Table 3.3.2 provide a summary of the key 2018–19 departmental and administered estimated financial statements items.

**Table 3.3.1: Key expenses and total own-sourced income**

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
<b>Total expenses</b>	<b>119.5</b>	<b>2,505.1</b>
Employee benefits	72.7	-
Suppliers	39.1	386.4
Depreciation and amortisation	4.7	10.4
Grants / subsidies	2.9	305.5
Payments to corporate entities	-	1,788.9
Other	0.1	13.8
<b>Total own-source income</b>	<b>7.1</b>	<b>399.1</b>
Sales of goods and rendering of services	3.5	3.4
Dividends	-	42.2
Interest	-	351.5
Other	3.6	0.4
<b>Net (cost of)/contribution by services</b>	<b>(112.5)</b>	<b>(2,106.0)</b>

Source: Communications' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

78 This is provided through *Appropriation Act (No.1) 2018–2019*, *Appropriation Act (No.2) 2018–2019*, *Appropriation Act (No.3) 2018–2019* and *Appropriation Act (No.4) 2018–2019*.

**Table 3.3.2: Key assets and liabilities**

<b>Assets and liabilities</b>	<b>Departmental estimated actual (\$m ) 2018–19</b>	<b>Administered estimated actual (\$m) 2018–19</b>
<b>Total assets</b>	<b>91.7</b>	<b>39,222.6</b>
Trade and other receivables	22.1	12,550.7
Cash and cash equivalents	4.7	0
Land and buildings	13.5	55.6
Property, plant and equipment	8.0	140.0
Intangibles	6.2	-
Heritage and cultural assets	35.6	-
Other investments	0	26,471.7
Other	1.7	4.6
<b>Total liabilities</b>	<b>37.9</b>	<b>400.1</b>
Employee provisions	27.0	-
Suppliers payable	4.6	351.8
Subsidies payable	-	-
Other provisions	0.3	1.2
Other	6.0	47.1
<b>Net assets/(liabilities)</b>	<b>53.8</b>	<b>38,822.5</b>

Note: Communications' estimated average staffing level for 2018–19 is 544.

Source: Communications' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

### **Key areas of financial statements risk**

3.3.6 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 3.3.3.

**Table 3.3.3: Key areas of financial statements risk**

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> trade and other receivables \$12.5 billion	Valuation and classification of the loan to NBN Co Limited (NBN Co) KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>the significance of the balance;</li> <li>significant judgement involved in calculating expected credit losses including the recoverability of the loan based on cash flow forecasts, for which small changes in assumptions can result in material impacts on the estimated cash flows and rate of return; and</li> <li>loan terms and conditions have been renegotiated.</li> </ul>
<i>Administered</i> investment - NBN Co - investment (component of other investments \$26.5 billion)	Valuation of the Australian Government's investment in NBN Co KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>the significance of the balance; and</li> <li>significant judgement by management in determining the valuation methodology; and</li> <li>the valuation is subject to a high degree of judgement and complexity arising in the estimation of the significant costs of network construction and software development.</li> </ul>
<i>Administered</i> investment - Australian Postal Corporation (component of other investments \$26.5 billion)	Valuation of the Australian Government's investment in Australian Postal Corporation KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>significant judgement used in developing key inputs, including projected cash flows, terminal value and weighted average cost of capital.</li> </ul>
<i>Administered</i> Regional Backbone Blackspots Program (RBBP) assets (component of property, plant and equipment \$140.0 million)	Valuation of RBBP network infrastructure	<b>Moderate</b>	<ul style="list-style-type: none"> <li>the specialised nature of RBBP assets and restrictions, increases the judgement applied in establishing a fair value.</li> </ul>

Source: ANAO 2018–19 risk assessment for Communications and Communications' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

## Audit results

3.3.7 The ANAO has completed its 2018–19 interim audit coverage, including an assessment of the controls relating to: grant expenses; cash and asset management; payroll processing; and supplier expenses. Audit coverage has also included an assessment of Communications' IT general controls and selected applications.

3.3.8 As part of the 2018–19 final audit, audit coverage of the valuation of administered investments and loans, and assets associated with the RBBP will be completed. To date, our audit coverage has not identified any new significant or moderate audit findings. The following table summarises the status of audit findings reported by the ANAO in 2018–19.

**Table 3.3.4: Status of audit findings raised by the ANAO**

Category	Closing Position (2017–18)	New Findings (2018–19)	Findings Resolved (2018–19)	Closing position (2018–19)
A	–	–	–	–
B	1	–	–	1
<b>TOTAL</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>1</b>

*Unresolved moderate/significant audit finding*

Risk management practices relating to NBN Co's loan facility

3.3.9 On 22 December 2016, the Commonwealth entered into a loan arrangement with NBN Co which is administered by the department. The Commonwealth and NBN Co subsequently renegotiated the terms of the loan agreement, including extension of the loan term, with the re-settled loan agreement signed on 26 March 2019. The loan agreement sets out the terms of the \$19.5 billion facility, including the applicable undertakings, restrictions and interest rate and a requirement that the principal amount borrowed is to be fully refinanced by 30 June 2024. The value of the loan drawn down as at 30 June 2018 was \$5.5 billion. The NBN Co's operating cash flows are forecast to be positive by 2021–22.

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

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

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

3.3.12 Communications is in the process of implementing a governance and risk management framework to better support the ongoing management of the loan facility. The implementation of the framework will be assessed as part of the final audit phase.

**Conclusion**

3.3.13 At the completion of the interim audit, and except for the finding outlined above, the ANAO identified that key elements of internal control were operating effectively to provide reasonable assurance that Communications will be able to prepare financial statements that are free from material misstatement. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2018–19 final audit.

## 3.4 Australian Postal Corporation

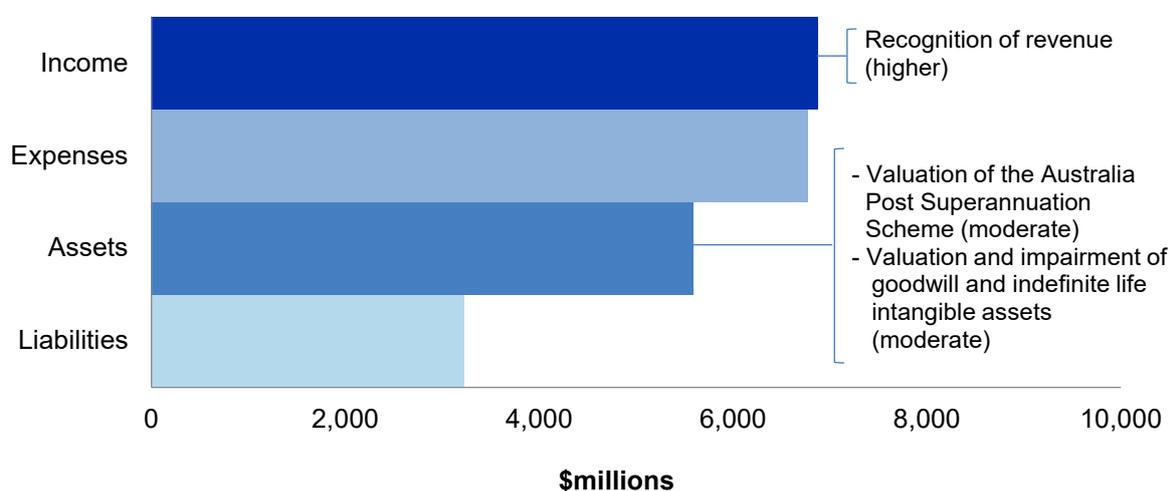
### Overview

3.4.1 The Australian Postal Corporation (Australia Post) is a government business enterprise responsible for operating post offices and distributing mail and parcels in Australia and internationally.

3.4.2 Australia Post's business is focusing on four key areas: domestic parcel service; investing in network capability including tracking and scanning solutions; increasing international business; and providing financial services through Bank@Post particularly in rural and remote areas.

3.4.3 Figure 3.4.1 shows the 2017–18 departmental financial statement items reported by Australian Postal Corporation and the key areas of financial statements risk.

**Figure 3.4.1: Key departmental financial statement items and areas of financial statements risk**



Source: ANAO analysis and Australia Post's financial statements for the year ended 30 June 2018

3.4.4 The ANAO's audit approach identifies key areas of risk that have the potential to impact Australia Post's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of Australia Post's environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.4.3 and the ANAO's understanding of the operations of Australia Post, the ANAO has assessed the risk of a material misstatement as **moderate**.

### Key financial statements items

3.4.5 The operational functions of Australia Post are largely funded from external sources, specifically revenue from parcel services, mail services and retail and agency Services.

3.4.6 Table 3.4.1 and Table 3.4.2 provide a summary of the key 2017–18 audited financial statements items.

**Table 3.4.1: Key expenses and total own-sourced income**

Expenses and own-source income	Actual (\$m) 2017–18
<b>Total expenses</b>	<b>6,751.3</b>
Employee benefits	3,051.0
Suppliers	3,219.7
Depreciation and amortisation	304.2
Other	176.4
<b>Total income</b>	<b>6,877.0</b>
Goods and services	6,730.8
Other	146.2
<b>Profit before income tax</b>	<b>125.7</b>
Income tax benefit	8.5
<b>Profit after income tax</b>	<b>134.2</b>

Source: Australia Post's 2017–18 audited financial statements.

**Table 3.4.2: Key assets and liabilities**

Assets and liabilities	Actual (\$m) 2017–18
<b>Total assets</b>	<b>5,590.9</b>
Cash and cash equivalents	592.2
Trade and other receivables	749.0
Property, plant and equipment	1,599.3
Intangible assets	741.5
Investment property	168.9
Net superannuation	918.7
Deferred tax assets	386.5
Other	434.8
<b>Total liabilities</b>	<b>3,224.2</b>
Trade and other payables	957.9
Employee provisions	986.0
Interest-bearing liabilities	703.0
Deferred tax liabilities	393.2
Other	184.1
<b>Net assets/(liabilities)</b>	<b>2,366.7</b>

Note: Australia Post's estimated average staffing level for 2018–19 is 35,000.

Source: Australia Post's 2017–18 audited financial statements.

## Key areas of financial statements risk

3.4.7 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 3.4.3.

**Table 3.4.3: Key areas of financial statements risk**

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Goods and services income unearned postage revenue \$63.5 million	Recognition of Revenue Cut off and accuracy of goods and services revenue and the valuation of unearned postage revenue KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>the judgement and assumptions used to estimate the amount of revenue to be deferred for stamps sold but not yet used;</li> <li>the judgement required to implement the new revenue accounting standard that changes the point at which revenue is recognised throughout the year; and</li> <li>the complexity of contracts and arrangements including multiple performance obligations and volume targets which affects the contracted price.</li> </ul>
Net superannuation asset \$918.7 million	Valuation of the Australia Post Superannuation Scheme KAM	<b>Moderate</b>	<ul style="list-style-type: none"> <li>the complexity of the valuation of the Scheme which includes estimation of the liability obligation which is sensitive to economic and demographic assumptions supporting the calculation; and</li> <li>the judgement and assumptions used in the valuation of the Scheme's return on investment assets which are affected by fair value fluctuations of financial markets.</li> </ul>
Intangible assets goodwill \$494.1 million	Valuation and impairment of goodwill and indefinite life intangible assets KAM	<b>Moderate</b>	<ul style="list-style-type: none"> <li>the estimation process is complex and judgemental and includes assumptions related to future cash flows and discount rates; and</li> <li>the judgement required to estimate the useful life associated with other intangible assets.</li> </ul>

Source: ANAO 2018–19 risk assessment for Australia Post and Australia Post's 2017–18 audited financial statements.

## Audit results

3.4.8 The ANAO has substantially completed its 2018–19 interim audit coverage, including an assessment of the effectiveness of controls relating to: cash and cash equivalents; trade receivables; and property, plant and equipment. Interim coverage also included an assessment of the IT general application controls of key systems supporting the financial statements. In addition, an assessment

of the effectiveness of non-system controls relating to sales revenue, employee expenses and trade and other payables has been completed.

3.4.9 Audit procedures relating to all key areas of audit focus including the valuation of the Australia Post Superannuation Scheme and the valuation of intangible assets will be undertaken as part of the planned 2018–19 final audit.

3.4.10 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings. The 2017–18 audit also did not identify any significant or moderate audit findings.

### **Conclusion**

3.4.11 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that Australia Post will be able to prepare financial statements that are free of material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2018–19 final audit.

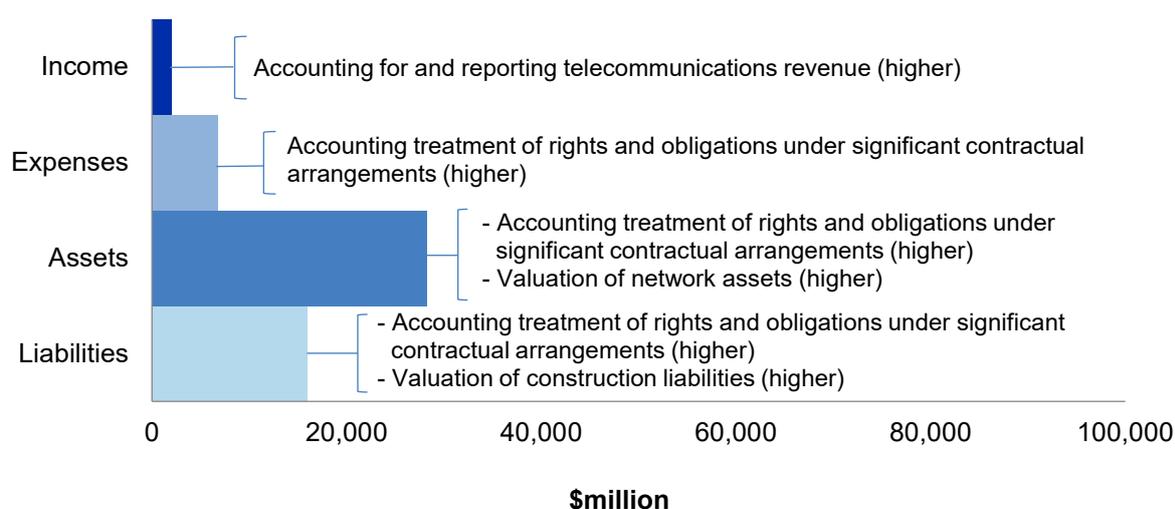
## 3.5 NBN Co Limited

### Overview

3.5.1 The primary objective of NBN Co Limited (NBN Co) is to provide wholesale services to internet service providers. NBN Co is a government business enterprise incorporated under the *Corporations Act 2001*.

3.5.2 Figure 3.5.1 shows the 2017–18 financial statement items reported by NBN Co and the key areas of financial statements risks.

**Figure 3.5.1: Key financial statement items and areas of financial statements risk**



Source: ANAO analysis and NBN Co's financial statements for the year ended 30 June 2018.

3.5.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact NBN Co's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of NBN Co's environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.5.3 and the ANAO's understanding of the operations of NBN Co, the ANAO has assessed the risk of a material misstatement as **high**.

### Key financial statements items

3.5.4 The operational functions of NBN Co are funded from the committed equity funding of \$29.5 billion from the Australian Government as well as a loan agreement between the Australian Government and NBN Co of up to \$19.5 billion, initially for the period from 1 July 2017 to 30 June 2021. The Commonwealth Government has extended the tenor of its loan by three years (from 30 June 2021 to 30 June 2024) and allowed NBN Co to access up to \$2 billion of private sector debt. NBN Co's 2019–22 corporate plan estimates peak funding to be \$51 billion.

3.5.5 Table 3.5.1 and Table 3.5.2 provide a summary of the key 2017–18 audited financial statements items.

**Table 3.5.1: Key expenses and total own-sourced income**

Expenses and own-source income	Actuals (\$m) 2017–18
<b>Total expenses</b>	<b>6,776.0</b>
Subscriber costs	1,948.0
Depreciation and amortisation	2,167.0
Employee benefits	787.0
Direct network costs	691.0
Net finance costs	580.0
Other	603.0
<b>Total Income</b>	<b>1,997.0</b>
Revenue	1,978.0
Other income	19.0
<b>Loss before income tax</b>	<b>4,779.0</b>
Income tax expense	1.0
<b>Loss after income tax</b>	<b>4,780.0</b>

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

**Table 3.5.2: Key assets and liabilities**

Assets and liabilities	Departmental actual (\$m) 2017–18
<b>Total assets</b>	<b>28,203.0</b>
Property, plant and equipment	25,043.0
Intangible assets	2,025.0
Other	1,135.0
<b>Total Liabilities</b>	<b>15,991.0</b>
Trade and other payables	2,364.0
Other financial liabilities	7,198.0
Borrowings	5,531.0
Other	898.0
<b>Net assets</b>	<b>12,212.0</b>

Note: NBN Co's staffing level as at 30 June 2018 was 6,184.

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

## Key areas of financial statements risk

3.5.6 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 3.5.3.

**Table 3.5.3: Key areas of financial statements risk**

Relevant financial statement line item	Key area	Audit risk rating	Factors contributing to risk assessment
Property, plant and equipment \$25.0 billion Intangibles \$2.0 billion	Valuation of network assets KAM (Valuation of property, plant and equipment and intangible assets - impairment) KAM (Accuracy and completeness of depreciation and amortisation expense)	<b>Higher</b>	<ul style="list-style-type: none"> <li>accounting for the valuation of network assets is subject to a high degree of judgement and complexity arising in the estimation of the significant costs of network construction and software development.</li> </ul>
Construction liabilities \$1.0 billion	Valuation of construction liabilities estimates KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>involvement of multiple delivery partners and the capitalisation of associated network assets based on their respective stage of completion at reporting date.</li> </ul>
Subscriber costs \$1.9 billion network assets \$24.7 billion other financial liabilities \$7.2 billion	Accounting treatment of rights and obligations under significant contractual arrangements. KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>the agreements include arrangements for the lease of infrastructure as well as the payment of subscriber costs; and</li> <li>these contracts are significant and complex in nature and represent a significant portion of the associated financial statements items.</li> </ul>
Telecommunications revenue \$1.8 billion	Accounting for and reporting telecommunications revenue	<b>Higher</b>	<ul style="list-style-type: none"> <li>revenue has increased significantly as the network continues to roll out with IT systems and controls continuing to evolve with scale.</li> </ul>

Source: ANAO 2018–19 risk assessment for NBN Co and NBN Co's financial statements for the year ended 30 June 2018.

## Audit results

3.5.7 The ANAO has completed its 2018–19 interim audit coverage, including an assessment of the controls relating to: supplier expenses; employee benefits; inventory; fixed assets; revenue and

receivables; purchases and payables; payroll; and accounting for the significant contractual arrangements with Telstra and Optus.

3.5.8 Audit procedures relating to key processes and financial statements line items including IT general and application controls, where appropriate, will be undertaken as part of the planned 2018–19 final audit. In addition, audit procedures will be performed to assess the valuation of network assets.

3.5.9 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings. The 2017–18 audit also did not identify any significant or moderate audit findings.

## **Conclusion**

3.5.10 Based on our audit coverage to date, key elements of non-IT internal control were operating effectively to provide reasonable assurance that NBN Co will be able to prepare financial statements that are free of material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2018–19 final audit.

## 3.6 Department of Defence

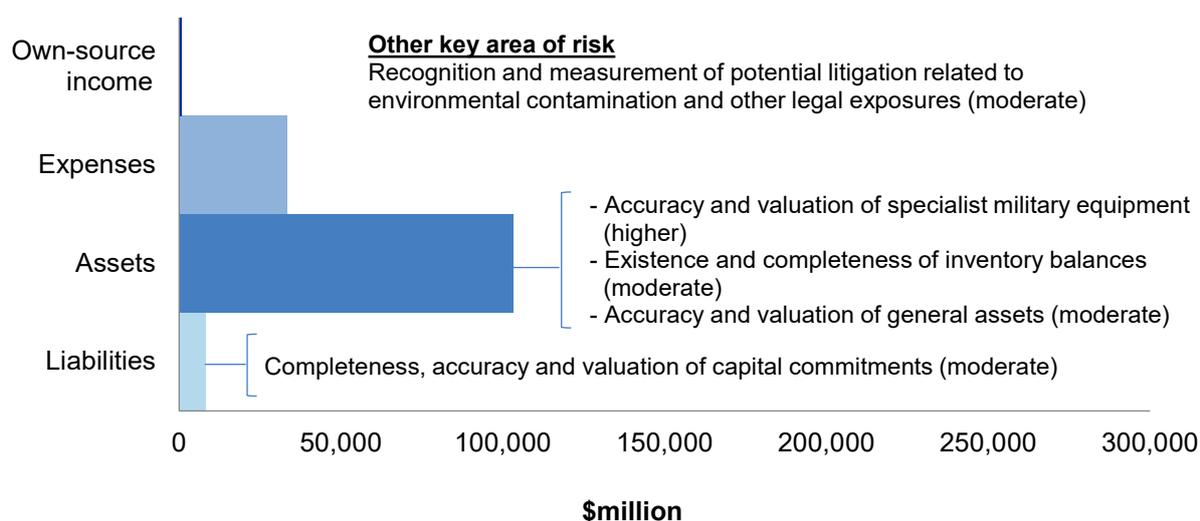
### Overview

3.6.1 The Department of Defence (Defence) is responsible for protecting and advancing Australia's strategic interests through: the promotion of security and stability; the provision of military capabilities to defend Australia and its national interests; and the provision of support for the Australian community and civilian authorities as directed by the Government.

3.6.2 As a result of the enactment of the *Intelligence Services Amendment (Establishment of the Australian Signals Directorate) Act 2018*, the Australian Signals Directorate transitioned from a division within Defence to a statutory agency with effect on 1 July 2018.

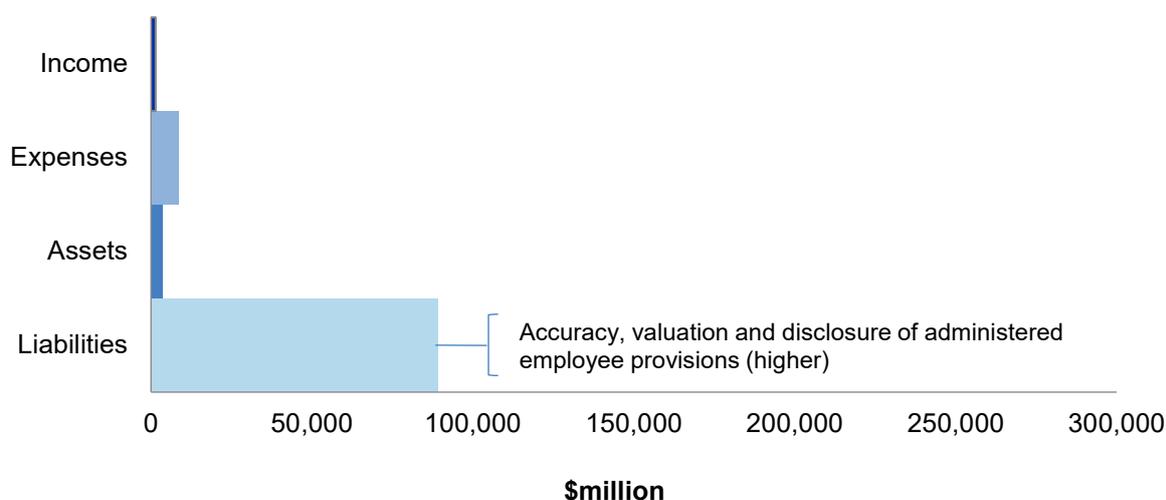
3.6.3 Figure 3.6.1 and Figure 3.6.2 show the 2018–19 departmental and administered financial statement items reported by the Department of Defence and the key areas of financial statements risk.

**Figure 3.6.1: Key departmental financial statement items and areas of financial statements risk**



Source: ANAO analysis and Defence's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Figure 3.6.2: Key administered financial statement items and areas of financial statements risk**



Source: ANAO analysis and Defence's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.6.4 The ANAO's audit approach identifies key areas of risk that have the potential to impact Defence's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of Defence's environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.6.3 and the ANAO's understanding of the operations of Defence, the ANAO has assessed the risk of a material misstatement as **high**.

### Key financial statements items

3.6.5 Annual appropriation funding of \$36.0 billion (departmental) was provided to Defence in 2018–19 to support the achievement of the entity's outcomes.<sup>79</sup> Defence was also budgeted to receive special appropriation funding of \$8.5 billion predominantly for the military superannuation provisions.<sup>80</sup>

3.6.6 Table 3.6.1 and Table 3.6.2 provide a summary of the key 2018–19 departmental and administered estimated financial statements items.

79 This is provided through *Appropriation Act (No.1) 2018–2019* and *Appropriation Act (No.2) 2018–2019* and *Appropriation Act (No.3) 2018–2019*.

80 Part 1: Special Appropriations Table, *Agency Resourcing, Budget Paper No.4, 2019–20*.

**Table 3.6.1: Key expenses and total own-sourced income**

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
<b>Total expenses</b>	<b>33,496.7</b>	<b>8,477.6</b>
Employee benefits	11,992.1	–
Suppliers	14,532.2	–
Depreciation and amortisation	5,741.8	–
Write-down and impairment of assets	893.9	–
Military superannuation benefits	–	8,254.6
Other	336.7	223.0
<b>Total own-source income</b>	<b>824.8</b>	<b>1,470.1</b>
Sales of goods and rendering of services	564.1	–
Reversals of previous asset write-downs	200.3	–
Military superannuation contributions	–	1,342.3
Other	60.4	127.8
<b>Net (cost of) contribution by services</b>	<b>(32,671.9)</b>	<b>(7,007.5)</b>

Source: Defence's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Table 3.6.2: Key assets and liabilities**

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
<b>Total assets</b>	<b>103,108.2</b>	<b>3,668.3</b>
Financial assets	466.5	3,402.0
Specialist military equipment	65,794.7	–
General assets:		
Land and buildings	19,558.6	–
Infrastructure, plant and equipment	7,969.8	–
Intangibles	677.3	–
Heritage and cultural	462.6	–
Inventories	6,592.4	–
Prepayments	1,538.8	266.3
Other	47.4	–
<b>Total liabilities</b>	<b>8,205.9</b>	<b>89,107.7</b>
Suppliers	2,008.9	–
Leases	1,485.0	–

Auditor-General Report No.46 2018–19  
Interim Report on Key Financial Controls of Major Entities

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
Employee provisions	2,972.3	–
Restoration, decontamination and decommissioning	1,255.9	–
Military superannuation	–	88,997.4
Other	483.7	110.3
<b>Net assets/(liabilities)</b>	<b>94,902.3</b>	<b>(85,439.4)</b>

Note: Defence's estimated average staffing level for 2018–19 is 74,675.

Source: Defence's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

### Key areas of financial statements risk

3.6.7 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 3.6.3.

**Table 3.6.3: Key areas of financial statements risk**

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Departmental</i> specialist military equipment (SME) \$65.8 billion	Accuracy and valuation of the SME balance which includes platform assets in use and under construction and spare parts for these assets KAM (accuracy and valuation)	<b>Higher</b>	<ul style="list-style-type: none"> <li>high degree of judgement due to the highly specialised nature of these assets and the management estimates required to determine appropriate useful lives and assess the financial impact of indicators of impairment;</li> <li>subjectivity in the valuation assessment due to the difficulty in obtaining the replacement costs of assets with a similar capability in the absence of an active market;</li> <li>the annual impairment and revision of useful lives are subject to a high degree of judgement and subjectivity;</li> <li>management of assets under construction (AUC) is dispersed across numerous projects that have complex multi-year contractual arrangements and project management requirements; and</li> <li>large prepayments are often made in relation to the acquisition and sustainment of SME.</li> </ul>

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> Employee Provisions \$89.0 billion	Accuracy, valuation and disclosure of administered employee provisions  KAM (accuracy and valuation, and presentation and disclosure)	<b>Higher</b>	<ul style="list-style-type: none"> <li>complexity of the calculation and significant judgements applied in the selection of long-term assumptions including rates for salary growth, pension indexation, pension take-up and invalidity retirements; and</li> <li>detailed disclosure requirements for the presentation and disclosure of defined benefit plans.</li> </ul>
<i>Departmental</i> inventory \$6.6 billion (including explosive ordnance (EO) fuel general stores inventory (GSI))	Existence and completeness of inventory balances  KAM (existence and completeness)	<b>Moderate</b>	<ul style="list-style-type: none"> <li>the variety and number of inventory items which are managed across a large number of geographically dispersed locations and through a number of IT systems; and</li> <li>complexity and management expertise required to assess and identify obsolete stock.</li> </ul>
<i>Departmental</i> general assets \$29.9 billion	Accuracy and valuation of general assets  KAM (accuracy and valuation)	<b>Moderate</b>	<ul style="list-style-type: none"> <li>high degree of management judgement required in respect of classifying project costs as capital or expense; and</li> <li>assumptions applied to determine appropriate useful lives and in the selection of valuation techniques to measure fair value and assess the financial impact of indicators of impairment.</li> </ul>
<i>Departmental</i> capital commitments \$20.7 billion <sup>a</sup>	Completeness, accuracy and valuation of capital commitments	<b>Moderate</b>	<ul style="list-style-type: none"> <li>completeness of data used for reporting capital commitments; and</li> <li>the conversion of the commitments to Australian dollars at the end of the reporting period increases the risk associated with the accuracy and valuation reported in the financial statements.</li> </ul>
<i>Departmental</i> litigation and compensation schemes (unquantifiable contingent liability)	Recognition and measurement of potential litigation in relation to environmental contamination and other legal exposures	<b>Moderate</b>	<ul style="list-style-type: none"> <li>complexity involved in assessing and reporting financial impacts relating to actual and potential legal actions with regards to environmental contamination issues; and</li> <li>the variety of Defence's activities exposes it to potential litigation for past actions.</li> </ul>

Note a: Capital commitments has been obtained from the Defence 2017–18 audited financial statements.

Source: ANAO 2018–19 risk assessment for Defence and Defence's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.6.8 The ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. The following performance audit reports were tabled during 2018–19 and are relevant to the financial management or administration of Defence:

- Auditor-General Report No.6 2018–19 *Army's Protected Mobility Vehicle – Light*;
- Auditor-General Report No.20 2018–19 *Major Projects Report*;
- Auditor-General Report No.31 2018–19 *Defence's Management of its Projects of Concern*; and
- Auditor-General Report No.40 2018–19 *Modernising Army Command and Control – the Land 200 Program*.

3.6.9 The above reports included observations relevant to the accounting for and valuation of SME and platforms under construction outlined in Table 3.6.3. These reports were considered in designing audit procedures to address areas considered to pose moderate and higher risks of material misstatement.

### Audit results

3.6.10 The ANAO has substantially completed its 2018–19 interim audit coverage, including an assessment of the controls relating to asset management processes and the controls implemented to determine the value of inventory at year-end. Interim audit coverage also included assessing IT general and application controls for systems that support the preparation of Defence's financial statements, in addition to assessing the operation of key non-IT controls in areas including appropriation and cash management, suppliers and employee expenses.

3.6.11 Audit procedures relating to the 30 June 2019 balances for employee provisions, decontamination and decommissioning provisions, inventory, SME and other fixed assets, and the military superannuation provision will be undertaken during the 2018–19 final audit. The ANAO will test Defence's systems and processes supporting the complete and accurate disclosure of commitments, litigation and compensation schemes as part of the final audit. Additionally the ANAO will assess Defence's progress in addressing audit findings up to and during the final audit.

3.6.12 The following table summarises the status of audit findings reported by the ANAO in 2017–18 and 2018–19.

**Table 3.6.4: Status of audit findings raised by the ANAO**

Category	Closing Position (2017–18)	New Findings (2018–19)	Findings Resolved (2018–19)	Closing position (2018–19)
A	1	–	–	1
B	1	1	–	2
<b>TOTAL</b>	<b>2</b>	<b>1</b>	<b>–</b>	<b>3</b>

### *Unresolved significant audit finding*

#### Management and monitoring of SME balances in ROMAN and MILIS

3.6.13 In 2017–18 the ANAO identified a number of issues with the substantiation of SME transactions in the Military Integrated Logistics Information System (MILIS) and the corresponding clearing accounts in the financial management information system (ROMAN). Defence uses these systems to manage the acquisition and sustainment of SME assets. The issues identified include:

- delays in processing payments and receipts in ROMAN and MILIS;
- delays in validating MILIS transactions and reconciling to balances in the clearing accounts;
- payments and purchases posted to incorrect general ledger accounts and cost centres; and
- delays in transferring SME from assets under construction to the fixed asset register after confirmation of being in use by business units.

3.6.14 At the conclusion of the 2017–18 audit, a residual uncertainty in the SME balances of \$442.8 million remained.

3.6.15 In 2018–19 Defence advised it has:

- substantially cleared transactions relating to foreign military sales from the United States Department of Defense to the Australian Department of Defence and implemented a monthly reconciliation of these transactions; and
- transferred \$250.0 million of SME from assets under construction to the fixed asset register.

3.6.16 Defence plans to remediate the issues identified and substantiate each clearing account and SME balance by implementing additional controls designed to ensure that SME balances are accurate and free from material misstatement.

3.6.17 The ANAO will undertake testing of the remediation activities implemented by Defence throughout the remainder of the 2018–19 audit cycle.

### *Unresolved moderate audit finding*

#### Documentation supporting the annual assessment of SME impairment indicators

3.6.18 During the 2016–17 audit, the ANAO identified weaknesses in the documentation of Defence's SME impairment assessment which is required annually under Australian Accounting Standards Board (AASB) 136 *Impairment of Assets*. SME is dispersed across Defence bases with the acquisition, custodian and sustainment responsibility residing with Systems Program Offices and Project Offices and other service groups. These business units advise the Defence Finance Group annually of any impairment indicators.

3.6.19 As reported by the ANAO in 2016–17, documentation provided to the Defence Finance Group by the business units did not reflect current circumstances providing limited value to the overall impairment assurance process. Additionally, in 2017–18 the ANAO noted instances where the assessment of impairment indicators had not been completed by Defence.

3.6.20 During the 2018–19 interim audit Defence advised it is in the process of performing SME impairment assessments and will:

- consider internal and external sources of information;
- assess whether at an operational or strategic level there are any additional impairment indicators to be considered; and
- support these assessments with documentation which has been reviewed by an appropriate delegate.

3.6.21 The ANAO will progressively undertake testing of the remediation activities implemented by Defence throughout the remainder of the 2018–19 audit cycle.

#### *New moderate audit finding*

##### Monitoring and management of accounts with privileged access

3.6.22 Maintaining and supporting IT systems requires that some individuals have privileged access rights. This level of access can be used to bypass security controls and make changes, either to system settings or directly to system data. Individuals with privileged access must be unique and identifiable, and have their activity regularly monitored to detect any unauthorised use.

3.6.23 The ANAO's review of privileged access identified five accounts within modules of the Defence One (Payroll and Human Resources Management) system that were shared by up to 16 users. The Australian Government Information Security Manual (ISM) requires that entities must restrict privileged access to unique and identifiable users. Defence was unable to provide evidence of management review over these privileged users' activities in Defence One, and in several other business systems that underpin the financial statements as they were either not logged or not monitored.

3.6.24 The ANAO also identified privileged users with inappropriate access that would enable them to alter or delete database tables including a privileged user that had moved positions over a year ago. The ISM requires that access be terminated or suspended when a user no longer requires it for their role, and such privileged access must be restricted to database administrators. In addition, password parameters did not align with the ISM requirements for password management in Defence One and the Joint Fuel Information Management System.

3.6.25 The ANAO has confirmed Defence removed the roles providing the privileged users access to the database and the access for the staff member who moved positions. The ANAO confirmed that the user had not made any changes during the period of inappropriate access. ANAO recommends that Defence evaluate the effectiveness of logging and monitoring activities for financial statement related systems and implement improvements to gain assurance that staff have appropriate access to systems and data in line with business requirements. The ANAO will review the status of these remediation activities as part of the final phase of 2018–19 audit.

## Conclusion

3.6.26 At the completion of the interim audit, the ANAO has reported a number of areas where improvements are required. The audit findings outlined above reduce the level of confidence that can be placed on the key elements of internal control that support the preparation of the financial statements that are free from material misstatement. During the 2018–19 final audit the ANAO will undertake further procedures and assess action taken by Defence to address the weaknesses identified.

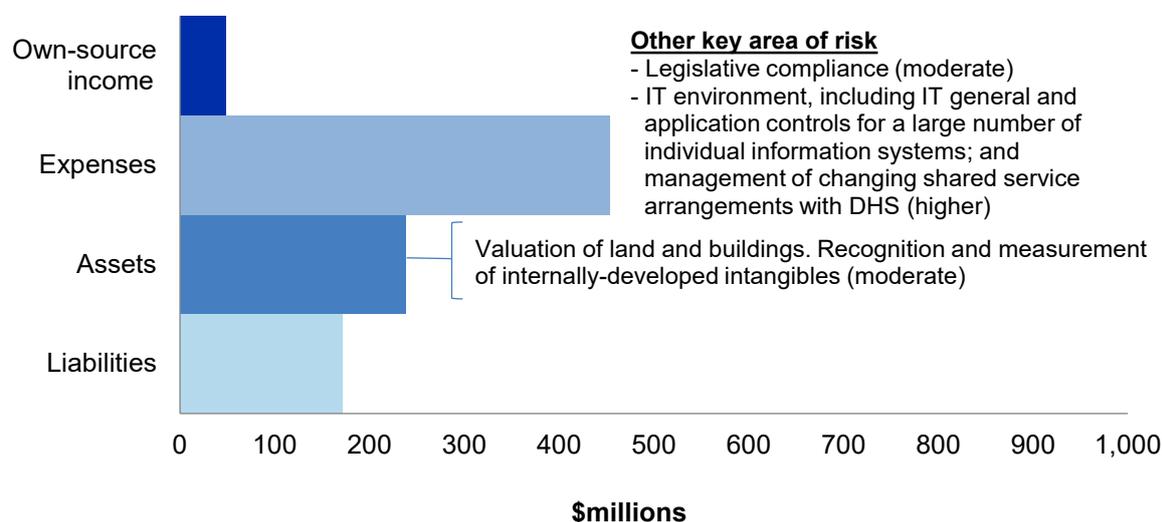
## 3.7 Department of Veterans' Affairs

### Overview

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

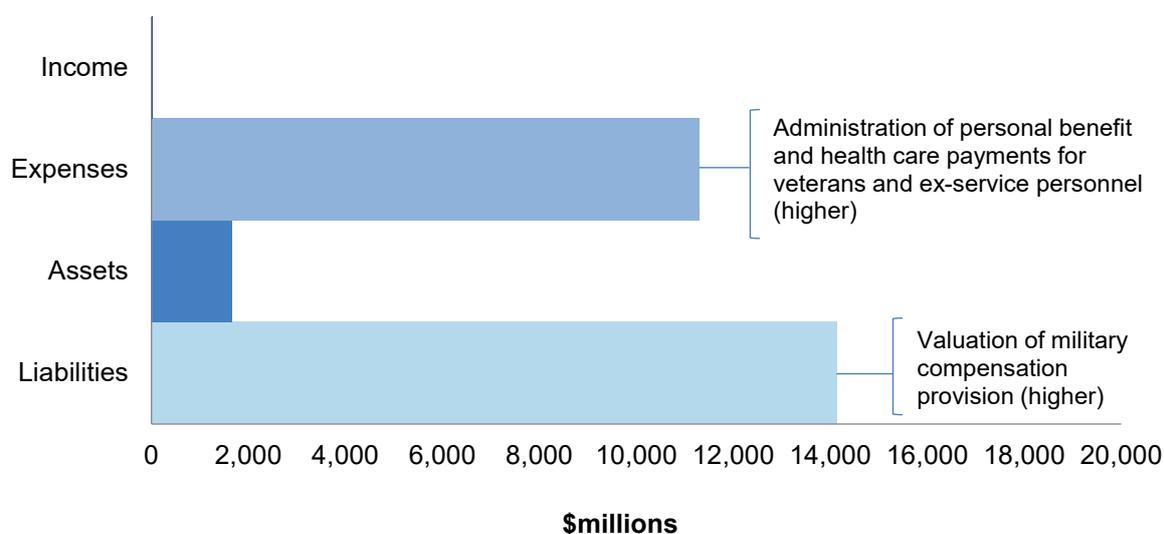
3.7.2 Figure 3.7.1 and Figure 3.7.2 show the 2018–19 departmental and administered financial statement items reported by DVA and the key areas of financial statements risk.

**Figure 3.7.1: Key departmental financial statement items and areas of financial statements risk**



Source: ANAO analysis and DVA's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Figure 3.7.2: Key administered financial statement items and areas of financial statements risk**



Source: ANAO analysis and DVA's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.7.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact DVA's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of DVA's environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.7.3 and the ANAO's understanding of the operations of DVA, the ANAO has assessed the risk of a material misstatement as **moderate**.

### Key financial statements items

3.7.4 Annual appropriation funding of \$415.7 million (departmental) and \$116.1 million (administered) was provided to DVA in 2018–19 to support the achievement of the entity's outcomes.<sup>81</sup> DVA was also budgeted to receive special appropriation funding of \$10.7 billion<sup>82</sup> for income and disability support, community and residential care, and various healthcare and rehabilitation services for war veterans, members of the Australian Defence Force, members of the Australian Federal Police and their dependants.

3.7.5 Table 3.7.1 and Table 3.7.2 provide a summary of the key 2018–19 departmental and administered estimated financial statements items.

**Table 3.7.1: Key expenses and total own-sourced income**

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
<b>Total expenses</b>	<b>453.5</b>	<b>11,305.8</b>
Employee benefits	191.3	9.4

81 This is provided through *Appropriation Act (No.1) 2018–2019*, *Appropriation Act (No.2) 2018–2019*, *Appropriation Act (No.3) 2018–2019* and *Appropriation Act (No.4) 2018–2019*.

82 Part 1: Special Appropriations Table, *Agency Resourcing, Budget Paper No.4, 2019–20*.

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
Suppliers	198.0	–
Depreciation and amortisation	26.4	–
Personal benefits	–	6,357.5
Health care payments	–	4,750.3
Payments to corporate entities	–	50.9
Other	37.8	137.7
<b>Total own-source income</b>	<b>48.8</b>	<b>21.0</b>
Net premium revenue	36.1	–
Other	12.7	21.0
<b>Net (cost of)/ contribution by services</b>	<b>(404.7)</b>	<b>(11,284.8)</b>

Source: DVA's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Table 3.7.2: Key assets and liabilities**

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
<b>Total assets</b>	<b>238.0</b>	<b>1,667.3</b>
Investments	53.7	1,474.4
Appropriation receivables	27.9	–
Trade and other receivables	35.4	65.0
Intangibles	78.6	–
Land and buildings	27.5	–
Other	14.9	127.9
<b>Total liabilities</b>	<b>171.5</b>	<b>14,134.3</b>
Supplier and other payables	85.8	232.3
Employee provisions	62.6	2.1
Personal benefits provisions	–	8,721.9
Healthcare and other provisions	–	5,178.0
Other	23.1	0
<b>Net assets/ (liabilities)</b>	<b>66.5</b>	<b>(12,467.0)</b>

Note: DVA's estimated average staffing level for 2018–19 is 1,723.

Source: DVA's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

## Key areas of financial statements risk

3.7.6 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 3.7.3.

**Table 3.7.3: Key areas of financial statements risk**

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> personal benefit and healthcare provisions \$13.9 billion	Valuation of military compensation provision KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>judgements involved in determining the assumptions and calculations underpinning the actuarial assessment of the military compensation provision, including assumptions relating to future trends in medical costs, permanent incapacity, and inflation rates;</li> <li>increasing value of the provision as an unfunded liability; and</li> <li>availability, quality and completeness of data used to derive the valuation.</li> </ul>
<i>Administered</i> personal benefits expense \$6.4 billion  health care expenses \$4.8 billion	Accuracy of personal benefits and health care payments	<b>Higher</b>	<ul style="list-style-type: none"> <li>complexity of overseeing and maintaining a large number of IT business systems which are supported by the shared services provider, the Department of Human Services (DHS);</li> <li>complexity of legislation applicable to individual claims;</li> <li>reliance on accurate and complete veteran-provided information; and</li> <li>reliance on a risk-based quality assurance program to identify errors and initiate debt recovery arrangements in individual claims.</li> </ul>
All financial statement line items IT control environment	Effectiveness of the IT control environment and the continued expansion of shared service arrangements with DHS	<b>Higher</b>	<ul style="list-style-type: none"> <li>access, logging and monitoring of a large number of system users;</li> <li>multiple interactions between information and payment systems;</li> <li>legacy 'aged' administered payment management systems;</li> <li>increased complexity of ongoing maintenance of IT controls, particularly security management, under shared service arrangements; and</li> <li>incident and problem solving and change management for new system releases or upgrades.</li> </ul>

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Departmental</i> non-financial assets \$106.1 million	Valuation of non-financial assets including land and buildings and internally-developed intangibles	<b>Moderate</b>	<ul style="list-style-type: none"> <li>land and buildings may not be accurately valued in accordance with AASB 116 <i>Property, Plant and Equipment</i>;</li> <li>additions to internally-developed intangibles may not be recorded in accordance with recognition and measurement criteria outlined in AASB 138 <i>Intangible Assets</i>;</li> <li>annual impairment assessment may not identify indicators of impairment, particularly in relation to ageing legacy systems; and</li> <li>depreciation rates may not reflect patterns of usage.</li> </ul>
<i>Administered</i> All financial statement line items	Accounting for legislative changes	<b>Moderate</b>	<ul style="list-style-type: none"> <li>complexity of legislative changes required to IT systems for DVA's digital readiness program;</li> <li>introduction of non-liability health care provisions on claim processing, assessment and payment arrangements.</li> </ul>

Source: ANAO 2018–19 risk assessment for DVA and DVA's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

## Audit results

3.7.7 The ANAO has completed its 2018–19 interim audit coverage, including: an assessment of the department's methodology to estimate the military compensation provision; and an assessment of the controls supporting personal benefits and healthcare payments.

3.7.8 Audit coverage also included an assessment of: IT general and application controls in the financial management information system and human resources management information system; manual controls relating to cash and asset management, non-financial assets, supplier expenses and employee benefits.

3.7.9 As part of the 2018–19 final audit, further audit procedures will be performed to: substantiate the year-end balances in respect of the military compensation provision and personal benefits and healthcare payments; review the work of the valuation experts; and review the department's disclosures relating to legislative compliance.

3.7.10 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings. The 2017–18 audit also did not identify any significant or moderate audit findings.

**Conclusion**

3.7.11 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that DVA will be able to prepare financial statements that are free of material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2018–19 final audit.

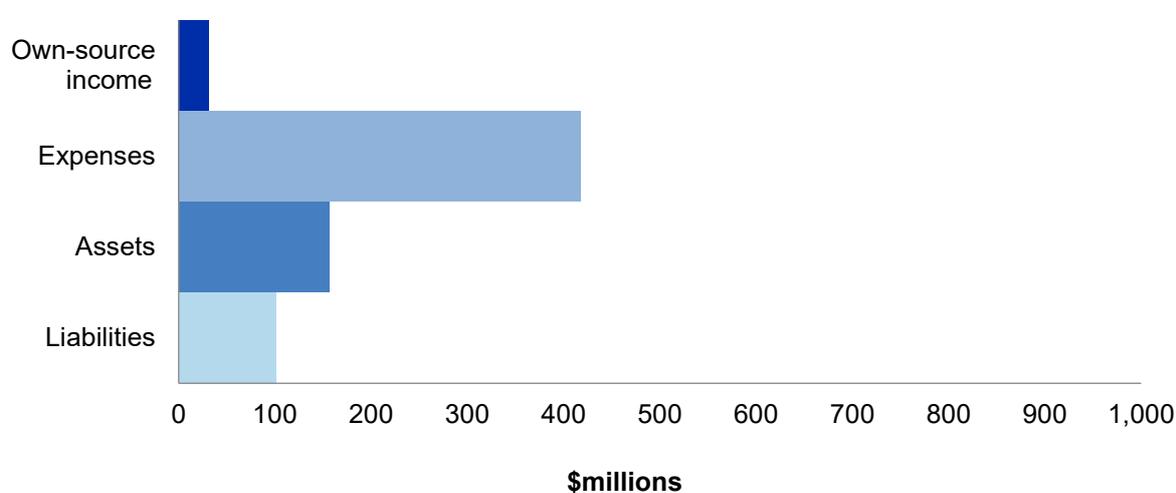
## 3.8 Department of Education and Training

### Overview

3.8.1 The Department of Education and Training (Education) is responsible for national policies and programs that help Australians access quality and affordable early child care and childhood education, school education, higher education, vocational education and training, international education and research.

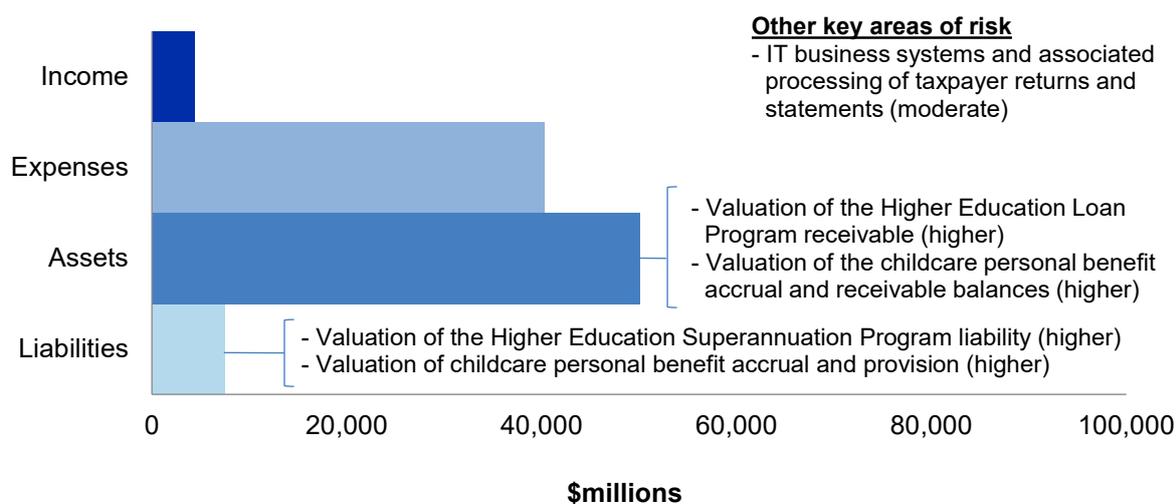
3.8.2 Figure 3.8.1 and Figure 3.8.2 show the 2018–19 departmental and administered financial statement items reported by Education and the key areas of financial statements risk.

**Figure 3.8.1: Key departmental financial statement items and areas of financial statements risk**



Source: ANAO analysis and Education's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Figure 3.8.2: Key administered financial statement items and areas of financial statements risk**



Source: ANAO analysis and Education's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.8.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact Education's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of Education's environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.8.3 and the ANAO's understanding of the operations of Education, the ANAO has assessed the risk of a material misstatement as **moderate**.

### Key financial statements items

3.8.4 Annual appropriation funding of \$361.1 million (departmental) and \$1.9 billion (administered) was provided to Education in 2018–19 to support the achievement of the entity's outcomes.<sup>83</sup> Education was also budgeted to receive special appropriation funding of \$44.5 billion<sup>84</sup> for child care, schools, and higher education, including research grants.

3.8.5 Table 3.8.1 and Table 3.8.2 provide a summary of the key 2018–19 departmental and administered estimated financial statements items.

**Table 3.8.1: Key expenses and total own-sourced income**

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
<b>Total expenses</b>	<b>417.8</b>	<b>40,240.8</b>
Employee benefits	220.7	-
Suppliers	171.8	707.0
Subsidies	-	398.3
Personal benefits	-	7,824.9
Grants	-	29,724.4
Write-down and impairment of assets	-	1,030.3
Depreciation and amortisation	25.3	-
Finance costs	-	555.9
<b>Total own-source income</b>	<b>31.7</b>	<b>4,433.1</b>
Sale of goods and rendering of services	8.4	-
Other taxes	-	5.9
Interest	-	1,214.2
Gains	-	2,965.3
Other	23.3	247.7
<b>Net (cost of)/contribution by services</b>	<b>(386.1)</b>	<b>(35,807.7)</b>

Source: Education's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

83 This is provided through *Appropriation Act (No.1) 2018–2019*, *Appropriation Act (No.2) 2018–2019*, *Appropriation Act (No.3) 2018–2019* and *Appropriation Act (No.4) 2018–2019*.

84 Part 1: Special Appropriations Table, *Agency Resourcing, Budget Paper No.4, 2019–20*.

**Table 3.8.2: Key assets and liabilities**

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
<b>Total assets</b>	<b>156.1</b>	<b>50,103.2</b>
Trade and other receivables	59.1	635.5
Other investments	–	2,683.5
Other financial assets	0.2	46,784.2
Land and buildings	30.7	–
Property, plant and equipment	0.7	–
Intangibles	55.9	–
Other	9.5	–
<b>Total liabilities</b>	<b>101.0</b>	<b>7,440.7</b>
Suppliers	17.5	133.1
Other payables	18.5	18.7
Personal benefits	–	105.9
Grants	–	4.6
Personal benefits provision	–	793.3
Provision for grants	–	6,385.1
Employee provisions	64.1	–
Other	0.9	–
<b>Net assets/(liabilities)</b>	<b>55.1</b>	<b>42,662.5</b>

Note: Education's estimated average staffing level for 2018–19 is 1,786.

Source: Education's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

### Key areas of financial statements risk

3.8.6 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 3.8.3.

**Table 3.8.3: Key areas of financial statements risk**

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<p><i>Administered</i> other financial assets: HELP receivable (a component of other financial assets balance of \$46.7 billion)</p> <p>write-down and impairment of assets (a component of write-down and impairment of assets balance of \$1.0 billion)</p> <p>HELP loans fair value losses (a component of write-down and impairment of assets balance of \$1.0 billion)</p>	<p>The valuation of the outstanding loan receivable under the Higher Education Loan Program (HELP) KAM</p>	<b>Higher</b>	<ul style="list-style-type: none"> <li>the balances of outstanding loans and impairment are derived from complex actuarial estimates and the estimate contains a degree of estimation uncertainty;</li> <li>the complexity involved in estimating future income of individuals that need to repay HELP debts, the timing of expected repayments and the amount of the loan not expected to be recovered; and</li> <li>payment data is reliant on sources external to Education such as: the Australian Taxation Office; universities; and other third parties.</li> </ul>
<p><i>Administered</i> provision for grants \$6.4 billion</p> <p>other receivables - Higher Education Superannuation Program (HESP) (component of other financial assets balance of \$46.7 billion)</p>	<p>The valuation of the HESP provision and receivable KAM</p>	<b>Higher</b>	<ul style="list-style-type: none"> <li>the valuation of the HESP liability is subject to an actuarial estimation process and is highly sensitive to movements in discount factors and bond rates; and</li> <li>the valuation is complex and depends on the accurate provision of source data by universities.</li> </ul>

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<p><i>Administered</i></p> <p>personal benefits receivable (a component of other financial assets balance of \$46.7 billion)</p> <p>personal benefits payable \$105.9 million</p> <p>personal benefits provision \$793.3 million</p>	<p>Implementation and management of the new Child Care Subsidy Legislation including the valuation of the childcare personal benefit provision and receivable balances and the accuracy and completeness of the child care subsidy expense.</p> <p>KAM</p>	<b>Higher</b>	<ul style="list-style-type: none"> <li>• complex legislation and administration arrangements that apply to child care benefits;</li> <li>• complex estimation process for personal benefits provision and receivable balances;</li> <li>• payments are reliant on self-assessed information provided by child care service providers and claimants; and</li> <li>• the IT environment is highly dependent on external information systems which are administered by the Departments of: Social Services and Human Services.</li> </ul>
<p><i>Administered</i></p> <p>all financial statement items</p>	<p>IT business systems and associated processing of taxpayer returns and statements</p>	<b>Moderate</b>	<ul style="list-style-type: none"> <li>• large and complex IT environment with business applications processing a high volume of transactions;</li> <li>• many IT systems are bespoke or heavily customised to Education; and</li> <li>• reliance on customised reports to prepare financial statements balances.</li> </ul>

Source: ANAO 2018–19 risk assessment for Education and Education's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.8.7 The ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. Auditor-General Report No.11 2018–19 *Design and Implementation of the VET Student Loans Program* was tabled during 2018–19 and was relevant to the administered HELP receivable risk outlined in Table 3.8.3. The recommendations outlined in the report related to analysis of maturing payments data under the new program and development of new performance indicators to support measurement of the program. The financial statements audit approach includes a review of the payments data analysis that forms part of the HELP receivable balance (estimated actual for 2018–19 is \$46.7 billion).

## Audit results

3.8.8 The ANAO has completed its 2018–19 interim audit coverage, including an assessment of the controls relating to: transactional processing of supplier expenses and payables, revenue and receivables, and payroll performed by the Department of Finance's Service Delivery Office on behalf of Education and the monitoring controls in place at Education relating to these processes.

3.8.9 In addition, the ANAO has reviewed controls relating to administered grants payments; HELP, Vocational Education and Training (VET) FEE-HELP and VET student loans; reconciliations

between administered business systems and the financial information systems for grants payments, administered supplier and subsidy payments and IT application controls.

3.8.10 Audit procedures relating to: accounting for the HELP, HESP and personal benefits receivables and provisions; payments to providers, schools and universities; and detailed testing over the new child care subsidy payments will be completed during the final audit phase.

3.8.11 The following table summarises the status of audit findings reported by the ANAO in 2017–18 and 2018–19.

**Table 3.8.4: Status of audit findings raised by the ANAO**

Category	Closing Position (2017–18)	New Findings (2018–19)	Findings Resolved (2018–19)	Closing position (2018–19)
A	–	–	–	–
B	–	2	–	2
<b>TOTAL</b>	<b>–</b>	<b>2</b>	<b>–</b>	<b>2</b>

#### *New moderate audit findings*

##### Monitoring of privileged access to databases

3.8.12 Maintaining and supporting IT systems requires that some individuals have powerful access rights — known as privileged access. This level of access can be used to bypass security controls and make changes, either to system settings or directly to system data. Individuals with privileged access should have their activity regularly monitored to detect any unauthorised use.

3.8.13 Education's database systems are hosted and maintained by the Department of Jobs and Small Business (Jobs) including privileged user access. Although Jobs manage the granting of privileged access, Education is accountable for ensuring that privileged access is used appropriately. During the interim audit, no evidence of the regular monitoring of privileged user access was able to be provided by Education.

3.8.14 Education has committed to: developing and implementing a logging and monitoring policy for all privileged user activity at the database level; and implementing processes to gain assurance that Jobs IT staff have appropriate access to Education's systems and data in line with business requirements. The ANAO will review these processes as part of the final phase of 2018–19 audit.

##### Unauthorised network access

3.8.15 During the interim audit testing, the ANAO's review of user access to Education's systems found weaknesses in the process for termination of user access to the department's network and systems. The ANAO identified an instance where a user continued to actively use the network and systems for over two weeks following separation from Education.

3.8.16 The Department did not identify this access and ongoing activity through their existing control framework, and once made aware of the access provided advice that they were not able to fully determine which systems had been accessed. As a result of not identifying the control breakdown, Education had not followed the processes required by their security policies.

3.8.17 The ANAO has recommended that Education undertake a detailed review of all logs related to the unauthorised access; determine which systems have been accessed; assess the impact to the department from both a business and a financial aspect; review the current terminations processes to identify the cause of the issue; implement necessary changes to these processes to ensure the controls prevent and/or detect inappropriate and unauthorised access to departmental systems and data; and confirm all requirements of the department's security and user access policies have been complied with. The ANAO will review Education's progress in addressing this issue during the final audit phase.

### **Conclusion**

3.8.18 At the completion of the interim audit, the ANAO has reported a number of areas where improvements are required. The audit findings outlined above reduce the level of confidence that can be placed on the key elements of internal control that support the preparation of the financial statements that are free from material misstatement. During the 2018–19 final audit the ANAO will undertake further procedures and assess action taken by Education to address the weaknesses identified.

## 3.9 Department of the Environment and Energy

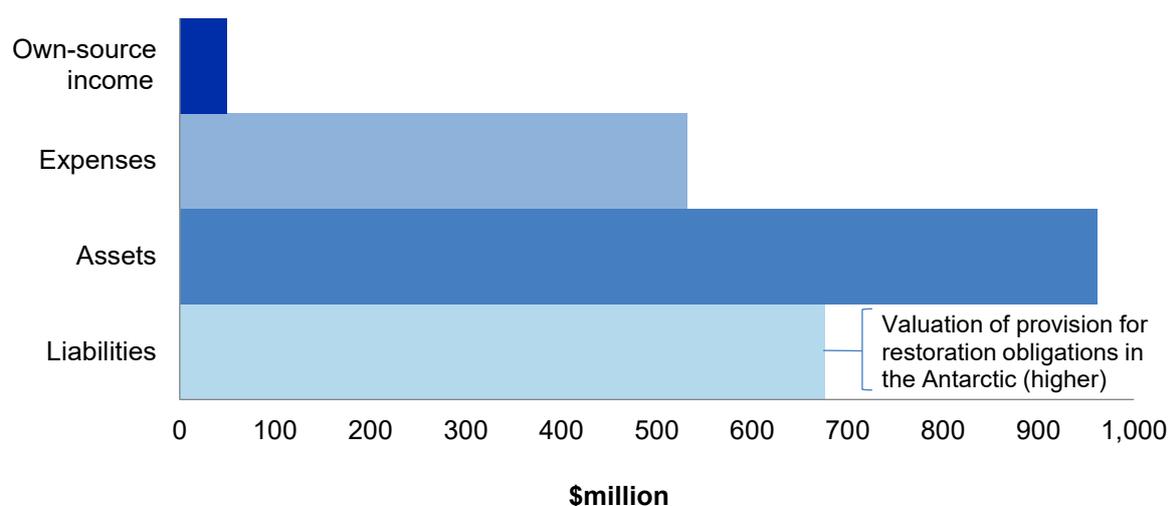
### Overview

3.9.1 The Department of the Environment and Energy (Environment) is responsible for developing and implementing, environmental and energy policy to support the government. The department is also responsible for managing the conservation, protection and sustainability of Australia's natural resources, biodiversity, ecosystems, environment and heritage, and contributing to the national response to climate change. In addition, the department's role includes advancing Australia's interests in the Antarctic, managing environmental water use, and supporting the reliable, sustainable and secure operation of energy markets.

3.9.2 On the 29 June 2018, the Commonwealth acquired the remaining 87% of Snowy Hydro Ltd (SHL) from the NSW and Victorian State Governments. The 100% ownership of SHL is recorded as an administered investment by the Department.

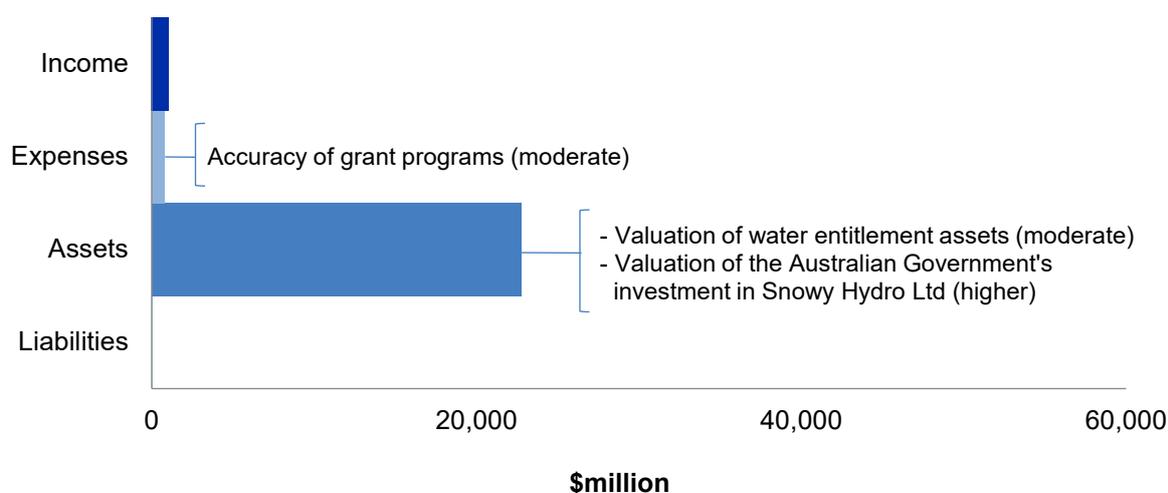
3.9.3 Figure 3.9.1 and Figure 3.9.2 show the 2018–19 departmental and administered financial statement items reported by Department of the Environment and Energy (Environment) and the key areas of financial statements risk.

**Figure 3.9.1: Key departmental financial statement items and areas of financial statements risk**



Source: ANAO analysis and Environment's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Figure 3.9.2: Key administered financial statement items and areas of financial statements risk**



Source: ANAO analysis and Environment's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.9.4 The ANAO's audit approach identifies key areas of risk that have the potential to impact Environment's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of the Department's environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.9.3 and the ANAO's understanding of the operations of Environment, the ANAO has assessed the risk of a material misstatement as **moderate**.

### Key financial statements items

3.9.5 Annual appropriation funding of \$898.2 million (departmental) and \$666.5 million (administered) was provided to Environment in 2018–19 to support the achievement of the entity's outcomes.<sup>85</sup> Environment was also budgeted to receive special appropriation funding of \$235.4 million<sup>86</sup> primarily for payments under *Australian Renewable Energy Agency Act 2011*.

3.9.6 Table 3.9.1 and Table 3.9.2 provide a summary of the key 2018–19 departmental and administered estimated financial statements items.

85 This is provided through *Appropriation Act (No.1) 2018–2019*, *Appropriation Act (No.2) 2018–2019*, *Appropriation Act (No.3) 2018–2019* and *Appropriation ACT (No.4) 2018–2019*.

86 Part 1: Special Appropriations Table, *Agency Resourcing, Budget Paper No.4, 2019–20*.

**Table 3.9.1: Key expenses and total own-sourced income**

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
<b>Total expenses</b>	<b>532.3</b>	<b>794.7</b>
Employee benefits	232.3	–
Suppliers	230.9	132.8
Depreciation and amortisation	50.4	0
Finance costs	17.1	–
Grants	1.1	261.6
Payments to Commonwealth entities	–	399.1
Other	0.4	1.3
<b>Total own-source income</b>	<b>49.3</b>	<b>1061.0</b>
Sale of goods and rendering of services	41.3	6.0
Dividends	–	140.0
Fees and fines	–	22.9
Other gains	–	887.9
Other	8.0	4.2
<b>Net (cost of)/contribution by services</b>	<b>(483.0)</b>	<b>(266.3)</b>

Source: Environment's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Table 3.9.2: Key assets and liabilities**

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
<b>Total assets</b>	<b>961.6</b>	<b>22,771.5</b>
Cash and cash equivalents	8.4	6,207.1
Trade and other receivables	70.9	48.7
Buildings	251.8	–
Investments	–	12,277.7
Intangibles	19.8	–
Property, plant and equipment	596.4	–
Water assets	–	4,225.2
Other	14.4	12.7
<b>Total liabilities</b>	<b>676.4</b>	<b>16.3</b>
Suppliers	19.9	8.7
Employee provisions	73.7	–

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Department of the Environment and Energy

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
Antarctic make good provisions	568.4	–
Other	14.4	7.6
<b>Net assets/(liabilities)</b>	<b>285.2</b>	<b>22,755.1</b>

Note: Environment's estimated average staffing level for 2018–19 is 1,995.

Source: Environment's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

### Key areas of financial statements risk

3.9.7 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 3.9.3.

**Table 3.9.3: Key areas of financial statements risk**

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> investments \$12.3 billion	Valuation of the Australian Government's investment in Snowy Hydro Ltd KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>a unique asset that is not readily traded in the open market, subject to complex estimation and significant judgement relating to forecasts of future performance.</li> </ul>
<i>Administered</i> water entitlements \$4.2 billion	Valuation of water entitlement assets	<b>Moderate</b>	<ul style="list-style-type: none"> <li>the balance and impairment process is subject to estimation and judgement, and impacted by factors including the maturity and assessment of the water market; and</li> <li>information to support the valuation is provided by third parties.</li> </ul>
<i>Departmental</i> other provisions \$568.4 million	Valuation of provision for restoration obligations in the Antarctic KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>the balance is subject to judgement and estimation, particularly relating to discount rates, escalation factors, asset replacement costs and useful lives.</li> </ul>
<i>Administered</i> grants expense \$261.6 million	Accuracy of grants programs	<b>Moderate</b>	<ul style="list-style-type: none"> <li>Environment administers a wide variety of grant programs which constitute a significant expense reported in the department's financial statements and are reliant on third party grant service administrators.</li> </ul>

Source: ANAO 2018–19 risk assessment for Environment and Environment's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

## **Audit results**

3.9.8 The ANAO has completed its 2018–19 interim audit coverage, including an assessment of the controls relating to: drawdowns, administered grant payments; payroll processing (including commencements and terminations); revenue and supplier expenses. As part of the interim audit coverage, a review of key accounting judgements relating to the areas of audit focus and an assessment of Environment's key IT general and application controls has been undertaken.

3.9.9 Audit procedures relating to valuations of water assets and Snowy Hydro Limited; and the assessment of the estimated restoration costs for Antarctic bases will be undertaken as part of the 2018–19 final audit.

3.9.10 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings. The 2017–18 audit also did not identify any significant or moderate audit findings.

## **Conclusion**

3.9.11 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that Environment will be able to prepare financial statements that are free of material misstatements. The effective operation of these internal controls for the full financial year will be assessed during the 2018–19 final audit.

## 3.10 Department of Finance

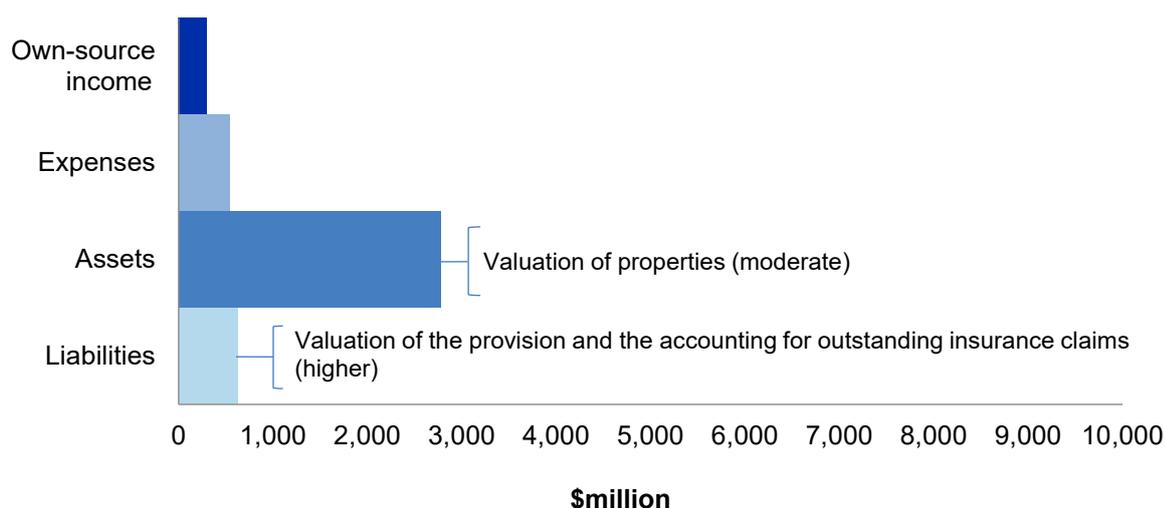
### Overview

3.10.1 The Department of Finance (Finance) assists the Australian Government to achieve its fiscal and policy objectives by advising on expenditure, managing sustainable public sector resourcing, driving public sector transformation and delivering efficient, cost effective services to, and for, the government.

3.10.2 The department is also responsible for the Service Delivery Office and the preparation of the annual Consolidated Financial Statements. The Service Delivery Office provides shared services to 14 Commonwealth agencies. The Consolidated Financial Statements includes both the whole-of-government and the general government sector (GGs) financial statements. The GGS statements includes the reporting of the Australian Government's financial outcome.

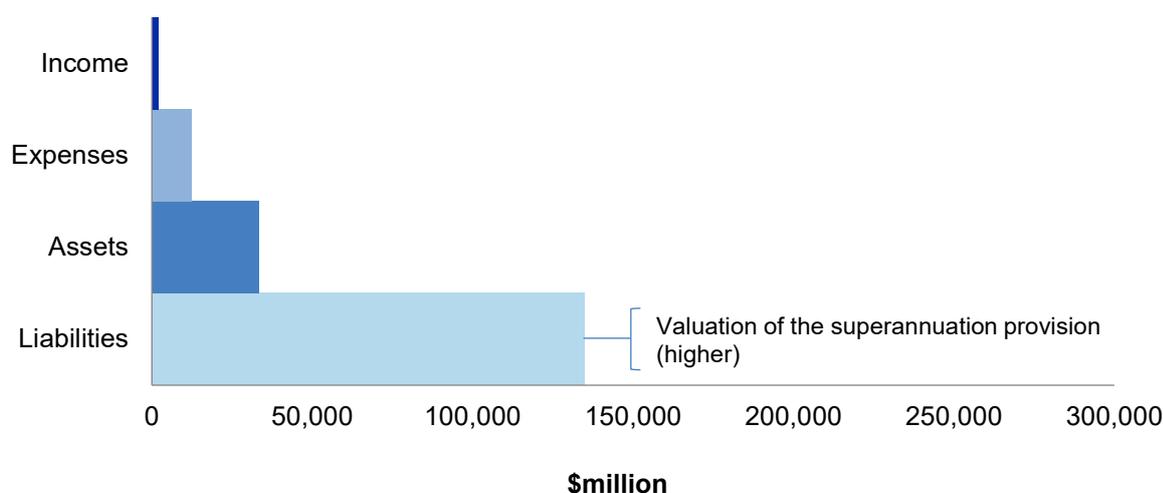
3.10.3 Figure 3.10.1 and Figure 3.10.2 show the 2018–19 departmental and administered financial statement items reported by Finance and the key areas of financial statements risk.

**Figure 3.10.1: Key departmental financial statement items and areas of financial statements risk**



Source: ANAO analysis and Finance's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Figure 3.10.2: Key administered financial statement items and areas of financial statements risk**



Source: ANAO analysis and Finance's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.10.4 The ANAO's audit approach identifies key areas of risk that have the potential to impact on Finance's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of Finance's environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.10.3 and the ANAO's understanding of the operations of Finance, the ANAO has assessed the risk of a material misstatement as **moderate**.

### Key financial statements items

3.10.5 Annual appropriation funding of \$309.7 million (departmental) and \$536.3 million (administered) was provided to Finance in 2018–19 to support the achievement of the entity's outcomes.<sup>87</sup> Finance was also budgeted to receive special appropriation funding of \$8,685.1 million.<sup>88</sup> The special appropriation funding is largely to settle payments for superannuation liabilities.

3.10.6 Finance is responsible for the payment of superannuation through public sector civilian (non-Defence) superannuation schemes. Finance recognises the unfunded liability on behalf of the Commonwealth and meets the ongoing payments of superannuation liabilities. The majority of the liabilities are managed by the Commonwealth Superannuation Corporation on behalf of Commonwealth.

3.10.7 Table 3.10.1 and Table 3.10.2 provide a summary of the key 2018–19 departmental and administered estimated financial statements items.

87 This is provided through *Appropriation Act (No.1) 2018–2019*, *Appropriation Act (No.2) 2018–2019*, *Appropriation Act (No.3) 2018–2019* and *Appropriation Act (No.4) 2018–2019*.

88 Part 1: Special Appropriations Table, *Agency Resourcing, Budget Paper No.4, 2019–20*.

**Table 3.10.1: Key expenses and total own-sourced income**

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
<b>Total expenses</b>	<b>539.8</b>	<b>12,353.8</b>
Employee benefits	162.8	344.3
Suppliers	180.3	206.4
Depreciation and amortisation	43.8	20.7
Insurance claims	140.9	–
Superannuation	–	8,455.6
Distribution from investment funds	–	3,193.0
Other	12.0	133.8
<b>Total own-source income</b>	<b>299.4</b>	<b>2,114.0</b>
Sale of goods and rendering of services	74.8	3.9
Insurance premiums	130.4	–
Superannuation contributions	–	1,164.5
Interest and dividends	–	931.9
Rental income	75.3	–
Other	18.9	13.7
<b>Net (cost of)/contribution by services</b>	<b>(240.4)</b>	<b>10,239.8</b>

Source: Finance's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Table 3.10.2: Key assets and liabilities**

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
<b>Total assets</b>	<b>2,776.4</b>	<b>33,293.2</b>
Cash and cash equivalents	639.6	–
Trade and other receivables	148.7	169.6
Land and buildings (including investment properties)	1,770.6	23.0
Property, plant and equipment	80.3	72.9
Intangibles	116.7	1.2
Investments	–	33,013.6
Other	20.5	12.9
<b>Total liabilities</b>	<b>625.7</b>	<b>134,880.2</b>
Suppliers	77.7	12.1
Employee provisions	66.0	235.9

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
Return of equity	57.1	–
Superannuation provision	–	134,602.7
Insurance provisions	381.9	–
Other	43.0	29.5
<b>Net assets/(liabilities)</b>	<b>2,150.7</b>	<b>(101,587.0)</b>

Note: Finance's estimated average staffing level for 2018–19 is 1,250.

Source: Finance's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

### Key areas of financial statements risk

3.10.8 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 3.10.3.

**Table 3.10.3: Key areas of financial statements risk**

Relevant financial statement line item	Key area	Audit risk rating	Factors contributing to risk assessment
<i>Administered</i> superannuation provision \$134.6 billion	Valuation of the superannuation provision KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>• complex calculation of each superannuation fund's liability and sensitivity of each fund to demographic factors and other movements, such as salary growth and bond rates; and</li> <li>• reliance on the Commonwealth Superannuation Corporation for the processing of superannuation benefit payments and the provision of complete and accurate data to Finance's actuary.</li> </ul>
<i>Departmental</i> insurance provision \$381.9 million	Valuation of the provision and the accounting for outstanding insurance claims KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>• complex calculation based on assumptions that require significant judgement; and</li> <li>• reliance on the control environment of an external service provider for the effective management of the claims process.</li> </ul>

Relevant financial statement line item	Key area	Audit risk rating	Factors contributing to risk assessment
<i>Departmental</i> land and buildings (including investment properties) \$1.8 billion	Valuation of properties KAM	<b>Moderate</b>	<ul style="list-style-type: none"> <li>use of different valuation methods that require significant judgement on the selection of assumptions within the valuation models across a large portfolio of properties.</li> </ul>

Source: ANAO 2018–19 risk assessment for Finance and Finance’s 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.10.9 The ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. ANAO Report No.8 2018–19 *Management of Commonwealth Leased Office Property* was tabled during 2018–19. The observations of the report were considered in designing audit procedures to address areas considered to pose a lower risk of material misstatement.

### Audit results

3.10.10 The ANAO has completed its 2018–19 interim audit coverage, including an assessment of the controls relating to: administered investment funds, property management, payroll management and supplier expenditure. As part of the interim coverage, the ANAO has also assessed controls relating to the payment of entitlements to Parliamentarians and their staff.

3.10.11 Audit procedures relating to valuations of superannuation provisions, insurance provisions and properties will be undertaken as part of the planned 2018–19 final audit.

3.10.12 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings. The 2017–18 audit also did not identify any significant or moderate audit findings.

### Conclusion

3.10.13 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that Finance will be able to prepare financial statements that are free of material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2018–19 final audit.

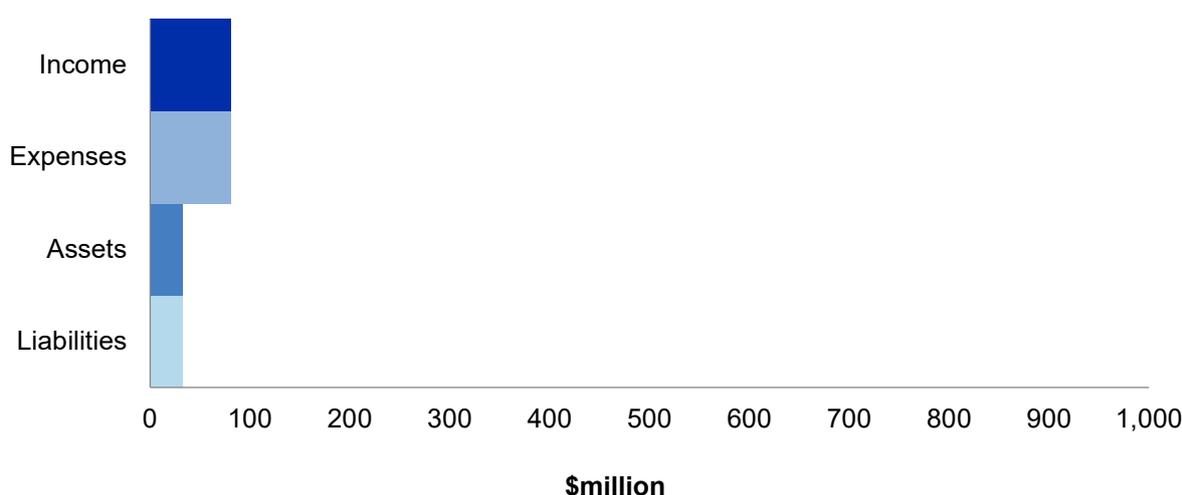
## 3.11 Future Fund Management Agency and Board of Guardians

### Overview

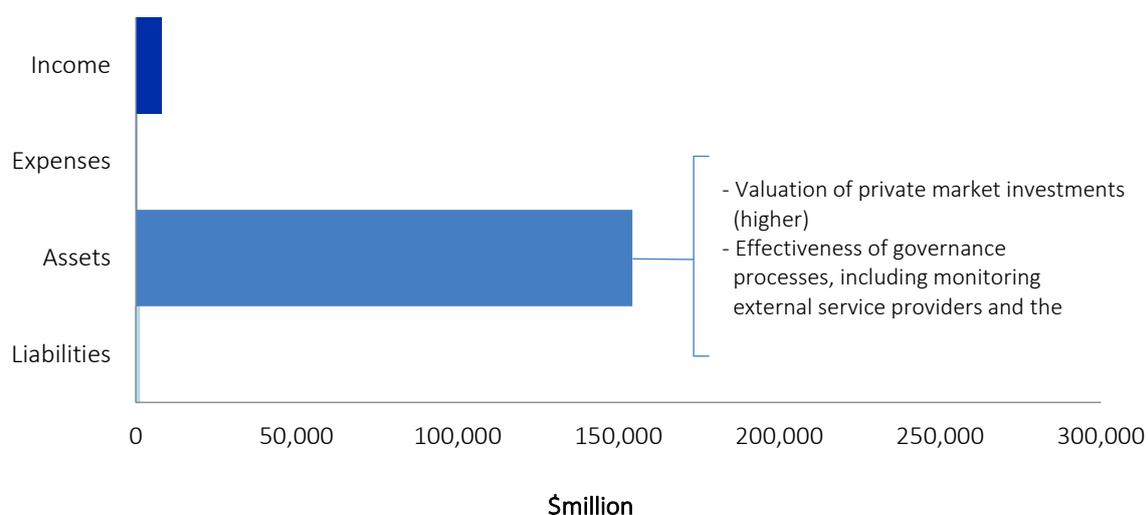
3.11.1 The Future Fund Board of Guardians supported by the Future Fund Management Agency (together the Future Fund) is responsible for investing the assets of the Future Fund under the *Future Fund Act 2006* and other investment funds, managed on behalf of the Department of Finance, under the *Nation-building Funds Act 2008*, the *DisabilityCare Australia Fund Act 2013*, *Aboriginal and Torres Strait Islander Land and Sea Future Fund Act 2018* and the *Medical Research Future Fund Act 2015*, for the benefit of future generations of Australians.

3.11.2 Figure 3.11.1 and Figure 3.11.2 show the 2018–19 departmental and administered financial statement items reported by the Future Fund and the key areas of financial statements risk.

**Figure 3.11.1: Key departmental financial statement items and areas of financial statements risk**



Source: ANAO analysis of the Future Fund's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Figure 3.11.2: Key administered financial statement items and areas of financial statements risk**

Source: ANAO analysis of the Future Fund's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.11.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact the Future Fund's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of the Future Fund's environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.11.3 and the ANAO's understanding of the operations of Future Fund, the ANAO has assessed the risk of a material misstatement as **moderate**.

### Key financial statements items

3.11.4 From May 2006 to November 2008, the Government made cash contributions to the Future Fund totalling \$51.3 billion as well as providing Telstra shares to the value of \$9.2 billion. No further Government contributions have been received since this time.

3.11.5 As a result, the operational functions of the Future Fund are funded through payments from the administered Future Fund special account and the other Australian Government Investment Funds. In 2018–19, these payments are estimated to total \$80.5 million.

3.11.6 Table 3.11.1 and Table 3.11.2 provide a summary of the key 2018–19 departmental and administered estimated financial statements items.

**Table 3.11.1: Key expenses and total own-sourced income**

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
<b>Total expenses</b>	<b>80.7</b>	<b>427.0</b>
Employee benefits	48.8	0.9
Suppliers	27.1	426.1
Depreciation and amortisation	4.8	–

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
<b>Total own-source income</b>	<b>80.7</b>	<b>7,979.7</b>
Payments from the Future Fund special account	76.1	–
Payments from the Australia Government Investment Funds	4.4	–
Interest and dividends	–	6,794.9
Other gains	–	1,184.8
Other	0.2	–
<b>Net (cost of)/contribution by services</b>	<b>0</b>	<b>7,552.7</b>

Source: The Future Fund's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Table 3.11.2: Key assets and liabilities**

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
<b>Total assets</b>	<b>33.0</b>	<b>154,303.6</b>
Trade and other receivables	27.1	2,165.4
Non-financial assets	5.9	–
Investments	–	152,138.2
<b>Total liabilities</b>	<b>33.0</b>	<b>1,003.8</b>
Employee provisions	9.1	–
Suppliers payable	3.2	26.0
Investment settlement liabilities	20.7	977.8
<b>Net assets/(liabilities)</b>	<b>0</b>	<b>153,299.8</b>

Note: Future Fund's estimated average staffing level for 2018–19 is 162.

Source: The Future Fund's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

### Key areas of financial statements risk

3.11.7 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 3.11.3.

**Table 3.11.3: Key areas of financial statements risk**

Relevant financial statement line item	Key area	Audit risk rating	Factors contributing to risk assessment
<i>Administered</i> Investments — Collective Investments \$152.1 billion	Valuation of private market investments KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>the inherent subjectivity and significant judgements and estimates required where market data is not available to determine the fair value of these investments.</li> </ul>
<i>Administered</i> Investments \$152.1 billion	Effectiveness of governance processes, including monitoring external service providers and the custodian	<b>Moderate</b>	<ul style="list-style-type: none"> <li>reliance on information from the custodian (including asset valuation, rights, obligations and existence of assets); and</li> <li>potential for financial loss where custodian or sub-custodian fails to meet their obligations in accordance with the agreed terms.</li> </ul>

Source: ANAO 2018–19 risk assessment for the Future Fund and the Future Fund’s 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

## Audit results

3.11.8 The ANAO has completed its 2018–19 interim audit coverage, including an assessment of the controls relating to the management of investments; monitoring of services providers; and operational expenses incurred by the Future Fund.

3.11.9 The valuation of investments, including the assessment of controls that reside within the outsourced custodian, will be completed as part of the 2018–19 final audit.

3.11.10 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings. The 2017–18 audit also did not identify any significant or moderate audit findings.

## Conclusion

3.11.11 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that the Future Fund will be able to prepare financial statements that are free of material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2018–19 final audit.

## 3.12 Department of Foreign Affairs and Trade

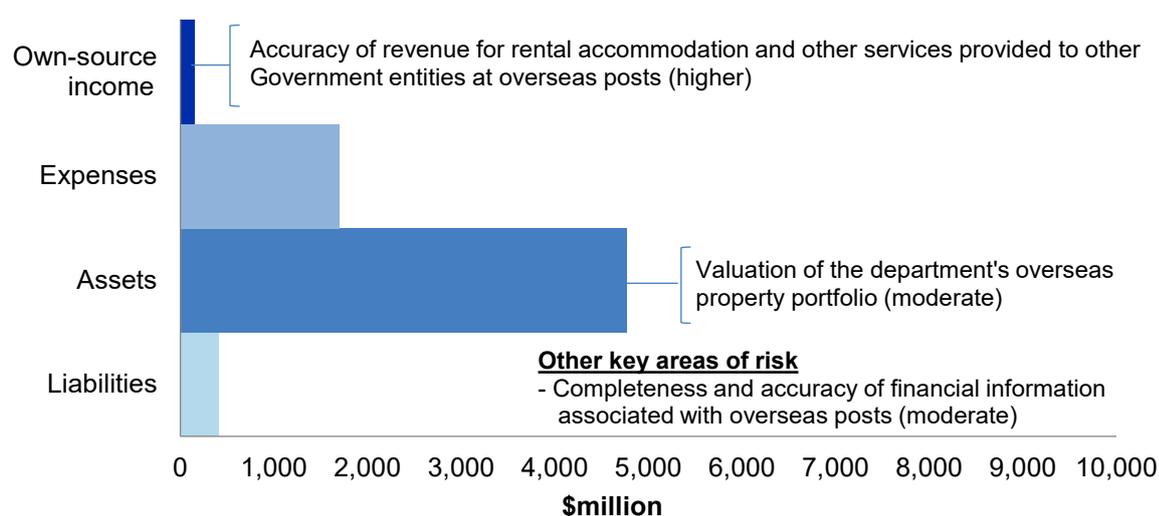
### Overview

3.12.1 The Department of Foreign Affairs and Trade (DFAT) supports Australia's foreign, trade and investment, development and international security policy priorities. DFAT is the lead agency managing Australia's international presence and will lead efforts to maximise Australia's security and prosperity through implementation of the Foreign White Paper.

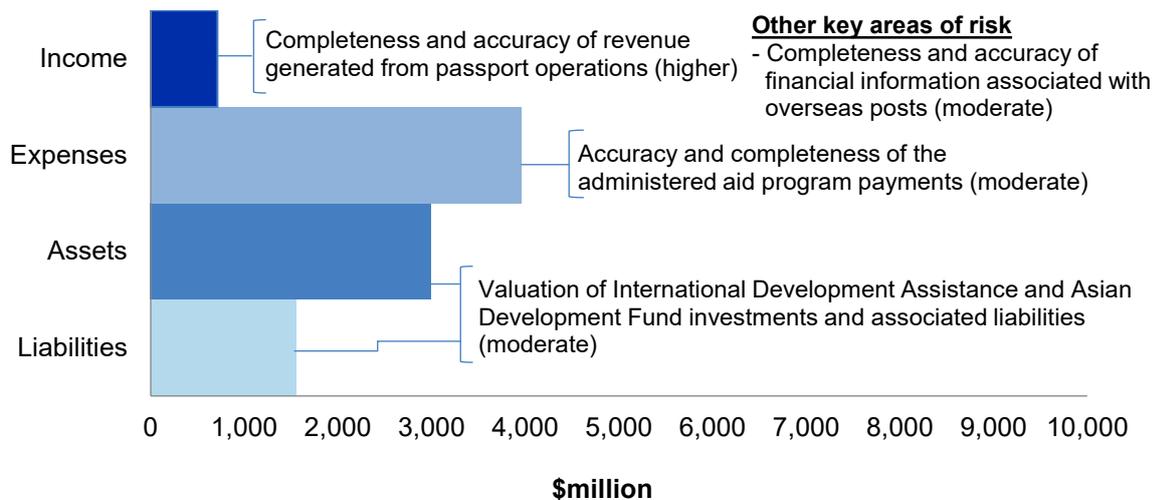
3.12.2 As the lead overseas agency, in locations where DFAT has a presence they provide support under service level agreements to Australian government entities. This includes: management of property through DFAT's Overseas Property Office; engaging and managing the payroll for locally engaged staff; and processing financial transactions.

3.12.3 Figure 3.12.1 and Figure 3.12.2 show the 2018–19 departmental and administered financial statement items reported by DFAT and the key areas of financial statements risk.

**Figure 3.12.1: Key departmental financial statement items and areas of financial statements risk**



Source: ANAO analysis of DFAT's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Figure 3.12.2: Key administered financial statement items and areas of financial statements risk**

Source: ANAO analysis of DFAT's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.12.4 The ANAO's audit approach identifies key areas of risk that have the potential to impact DFAT's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of DFAT's environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.12.3 and the ANAO's understanding of the operations of DFAT, the ANAO has assessed the risk of a material misstatement as **moderate**.

### Key financial statements items

3.12.5 Annual appropriation funding of \$1 590.0 million (departmental) and \$3 845.3 million (administered) was provided to DFAT in 2018–19 to support the achievement of the entity's outcomes.<sup>89</sup>

3.12.6 Table 3.12.1 and Table 3.12.2 provide a summary of the key 2018–19 departmental and administered estimated financial statements items.

**Table 3.12.1: Key expenses and total own-sourced income**

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
<b>Total expenses</b>	<b>1,696.7</b>	<b>3,952.6</b>
Employee benefits	786.9	–
Suppliers	723.6	–
Depreciation and amortisation	181.7	0.5
International Development Assistance (IDA)	–	3,205.3
Multilateral replenishments	–	76.7

<sup>89</sup> This is provided through *Appropriation Act (No.1) 2018–2019*, *Appropriation Act (No.2) 2018–2019*, *Appropriation Act (No.3) 2018–2019* and *Appropriation Act (No.4) 2018–2019*.

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
Other Contributions	–	529.9
Other	4.4	140.2
<b>Total own-source income</b>	<b>154.4</b>	<b>713.1</b>
Sale of goods and rendering of services	142.5	–
Fees and charges	–	617.4
Other	11.9	95.7
<b>Net (cost of)/contribution by services</b>	<b>(1,542.2)</b>	<b>(3,239.5)</b>

Source: DFAT's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Table 3.12.2: Key assets and liabilities**

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
<b>Total assets</b>	<b>4,774.4</b>	<b>2,995.2</b>
Cash and cash equivalents	348.3	40.1
Trade and other receivables	506.9	36.7
Multilateral investments	–	2,291.0
Land and buildings	3,321.6	–
Property, plant and equipment	359.9	0
Other	237.7	627.4
<b>Total liabilities</b>	<b>414.5</b>	<b>1,552.1</b>
Suppliers Payable	109.1	–
Multilateral replenishments payable	–	1,242.6
Other Payables	58.2	230.0
Employee provisions	229.2	79.6
Other Provisions	17.9	–
<b>Net assets/(liabilities)</b>	<b>4,359.9</b>	<b>1,443</b>

Note: DFAT's estimated average staffing level for 2018–19 is 5,613.

Source: DFAT's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

### Key areas of financial statements risk

3.12.7 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 3.12.3.

**Table 3.12.3: Key areas of financial statements risk**

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> fees and charges \$617.4 million	Completeness and accuracy of revenue generated from passport operations	<b>Higher</b>	<ul style="list-style-type: none"> <li>a significant proportion of revenue is collected under contractual arrangements by a third party on behalf of the department; and</li> <li>passport production is managed by a third party on behalf of the department.</li> </ul>
<i>Departmental</i> sale of goods and rendering of services \$142.5 million	Accuracy of revenue for rental accommodation and other services provided to other Government entities at overseas posts	<b>Higher</b>	<ul style="list-style-type: none"> <li>multiple sources of revenue; and</li> <li>revenue is assessed based on attached agencies' staffing profiles at post, agreed floor space and other factors.</li> </ul>
<i>Departmental</i> land and buildings \$3.3 billion	Valuation of the department's overseas property portfolio KAM	<b>Moderate</b>	<ul style="list-style-type: none"> <li>variety of valuation methodologies applied;</li> <li>subject to complex estimation and judgements affected by market conditions at overseas locations and foreign exchange adjustments; and</li> <li>the management of overseas property is undertaken by a third party through contract arrangements.</li> </ul>
<i>Administered</i> International Development Association (IDA) and Asian Development Fund (ADF) assets \$2.3 billion  multilateral replenishments payable \$1.2 billion	Valuation of IDA and ADF investments and associated liabilities KAM	<b>Moderate</b>	<ul style="list-style-type: none"> <li>significant judgements, which involve timing of future cash flows, currency and interest rate risks and selection of appropriate discount rates; and</li> <li>complexity of the membership arrangements determines Australia's share in the funds.</li> </ul>
<i>Administered</i> IDA expenses \$3.2 billion  aid program liabilities \$230.0 million	Accuracy and completeness of the administered aid program payments KAM	<b>Moderate</b>	<ul style="list-style-type: none"> <li>there is significant geographical spread of aid program recipients and a diverse range of aid program payments with a significant component paid through third party providers.</li> </ul>

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
All financial statement line items	Completeness and accuracy of financial information associated with overseas posts	<b>Moderate</b>	<ul style="list-style-type: none"> <li>financial information is collected through decentralised operations; and</li> <li>locally engaged staff payments are subject to various employee conditions and benefits based on local laws and regulations.</li> </ul>

Source: ANAO 2018–19 risk assessment for DFAT and DFAT's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

## Audit results

3.12.8 The ANAO has completed its 2018–19 interim audit coverage, including an assessment of the controls relating to: departmental revenue for rental accommodation and services provided to other entities at overseas posts; administered passport revenue; and management of appropriations.

3.12.9 Interim audit coverage has also been completed over the department's processes relating to cash and asset management, employee and supplier expenditure, IT general controls in the Financial Management Information System (FMIS) and Human Resource Management Information System (HRMIS). In addition, the ANAO has reviewed a sample of administered aid program expenses to ascertain that the payments have been made in accordance with the agreements.

3.12.10 Audit procedures relating to the financial statement balances subject to valuation and IDA and ADF grants will be undertaken as part of the 2018–19 final audit. In addition, testing will be performed on the above processes for the remainder of the financial year.

3.12.11 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings. The 2017–18 audit also did not identify any significant or moderate audit findings.

## Conclusion

3.12.12 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that DFAT will be able to prepare financial statements that are free of material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2018–19 final audit.

## 3.13 Department of Health

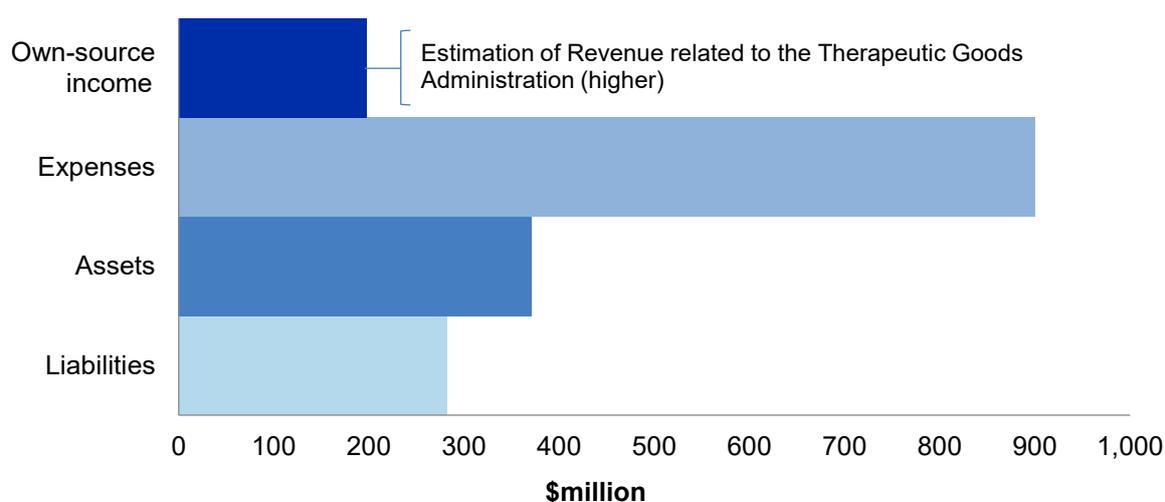
### Overview

3.13.1 The Department of Health (Health) is responsible for achieving the Australian Government's health priorities through the development of policy; administering programs and services, including Medicare, the Pharmaceutical Benefits Scheme and aged care; managing increasing pressures on health expenditure, including for public hospitals and mental health care; progressing reforms to Australia's health system; undertaking regulatory and compliance activities; and forming partnerships with the states and territories, other Australian Government entities, consumers and stakeholders.

3.13.2 The Department of Human Services (Human Services) delivers approximately \$55 billion of health related payments on behalf of Health. These payments primarily relate to the Medicare Benefits Schedule, the Pharmaceutical Benefits Scheme, the Private Health Insurance Rebate and services funded under the *Aged Care Act 1997*.

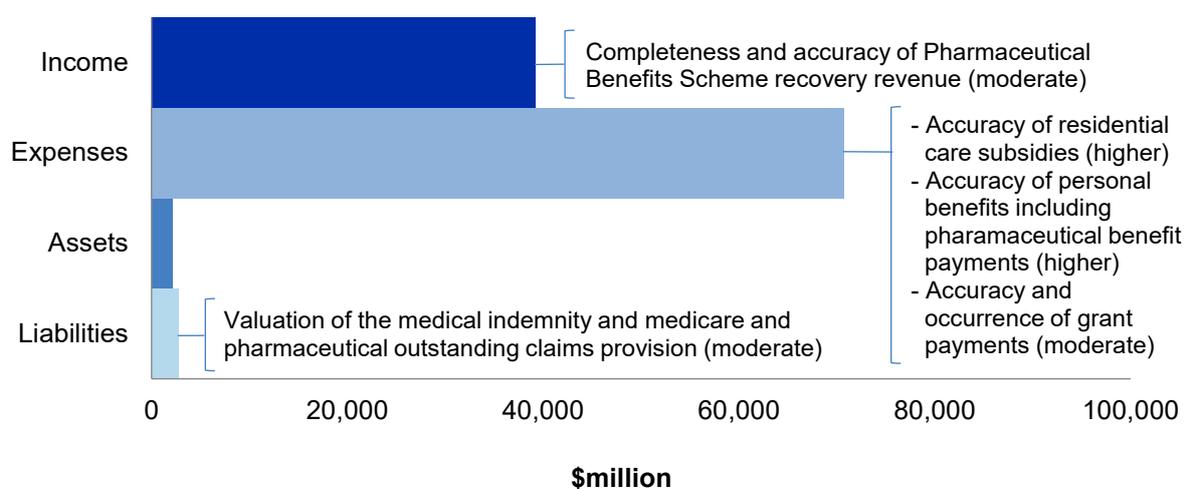
3.13.3 Figure 3.13.1 and Figure 3.13.2 show the 2018–19 departmental and administered financial statement items reported by Health and the key areas of financial statements risk.

**Figure 3.13.1: Key departmental financial statement items and areas of financial statements risk**



Source: ANAO analysis of Health's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Figure 3.13.2: Key administered financial statement items and areas of financial statements risk**



Source: ANAO analysis of Health's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.13.4 The ANAO's audit approach identifies key areas of risk that have the potential to impact Health's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of Health's environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.13.3 and the ANAO's understanding of the operations of Health, the ANAO has assessed the risk of a material misstatement as **moderate**.

### Key financial statements items

3.13.5 Annual appropriation funding of \$759.4 million (departmental) and \$10.4 billion (administered) was provided to Health in 2018–19 to support the achievement of the entity's outcomes.<sup>90</sup> Health was also budgeted to receive special appropriation funding of \$23.0 billion<sup>91</sup> for payments and rebates made under legislation including: *Aged Care Act 1997* (\$14.8 billion); *Private Health Insurance Act 2007* (\$6.2 billion); and *National Health Act 1953* (\$1.6 billion).

3.13.6 Table 3.13.1 and Table 3.13.2 provide a summary of the key 2018–19 departmental and administered estimated financial statements items.

90 This is provided through *Appropriation Act (No.1) 2018–2019*, *Appropriation Act (No.2) 2018–2019*, *Appropriation Act (No.3) 2018–2019* and *Appropriation Act (No.4) 2018–2019*.

91 Part 1: Special Appropriations Table, *Agency Resourcing, Budget Paper No.4, 2019–20*.

**Table 3.13.1: Key expenses and total own-sourced income**

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
<b>Total expenses</b>	<b>900.5</b>	<b>70,758.9</b>
Employee benefits	505.0	–
Suppliers	360.0	998.7
Subsidies	–	12,951.1
Depreciation and amortisation	33.0	–
Personal benefits	–	46,547.6
Grants	–	9,544.1
Payments to corporate Commonwealth entities	–	686.8
Other	2.5	30.6
<b>Total own-source income</b>	<b>197.1</b>	<b>39,163.8</b>
Sale of goods and rendering of services	194.2	–
Other revenue & gains	2.9	392.0
Recoveries	–	2,817.6
Other taxes	–	22.4
Special Account transfers	–	35,918.9
Other	–	12.9
<b>Net (cost of)/contribution by services</b>	<b>(703.4)</b>	<b>(31,595.1)</b>

Source: Health's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Table 3.13.2: Key assets and liabilities**

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
<b>Total assets</b>	<b>371.0</b>	<b>2,106.8</b>
Receivables	44.0	1,353.4
Cash and cash equivalents	102.2	20.0
Investments	–	616.2
Inventories	–	117.2
Land and buildings	50.6	–
Property, plant and equipment	5.4	–
Intangibles	137.5	–
Other	31.2	–

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
<b>Total liabilities</b>	<b>281.6</b>	<b>2,726.8</b>
Personal benefits payable	–	788.0
Subsidies payable	–	99.7
Suppliers payable	74.5	35.6
Grants payable	–	307.0
Other payables	45.3	–
Personal benefits provision	–	1,074.3
Subsidies provision	–	422.2
Employee provisions	130.6	–
Other	31.2	–
<b>Net assets/(liabilities)</b>	<b>89.4</b>	<b>(620.0)</b>

Note: Health's estimated average staffing level for 2018–19 is 4,058.

Source: Health's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

### Key areas of financial statements risk

4.1.6 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 3.13.3.

**Table 3.13.3: Key areas of financial statements risk**

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> subsidies \$12.9 billion	Accuracy of Residential Care subsidies KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>payment of aged care subsidies to nursing home providers are based on Aged Care Funding Instrument assessments prepared by the same providers and involve judgements regarding the level of patient care.</li> </ul>
<i>Departmental</i> sale of goods and rendering of services \$194.2 million	Estimation of Revenue related to the Therapeutic Goods Administration	<b>Higher</b>	<ul style="list-style-type: none"> <li>the estimation of revenue under the <i>Therapeutic Goods Act (TGA) 1989</i> involves judgements and assumptions related to the assessment of registration and conformity fees.</li> </ul>
<i>Administered</i> personal benefits \$46.5 billion	Accuracy of personal benefit payments including medical benefits and pharmaceutical benefit payments KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>volume and complexity of health care payments with varying eligibility requirements; and</li> <li>processed by Human Services on complex IT systems.</li> </ul>

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> recoveries \$2.8 billion	Completeness and accuracy of Pharmaceutical Benefits Scheme recovery revenue	<b>Moderate</b>	<ul style="list-style-type: none"> <li>manual calculation of complex information in spreadsheets; and</li> <li>reliance on data sourced from the Department of Human Services (DHS) and complex arrangements in place with pharmaceutical companies for recovery of expenditure.</li> </ul>
<i>Administered</i> personal benefits provisions \$1.1 billion  subsidies provision \$422.2 million	Valuation of the Medical Indemnity and Medicare and Pharmaceuticals Outstanding Claims provisions	<b>Moderate</b>	<ul style="list-style-type: none"> <li>judgements over future claims and economic assumptions including discount rate and future claims that underpin the estimation indemnity provisions and rely on the quality of underlying data.</li> </ul>
<i>Administered</i> grants expense \$9.5 billion	Accuracy and occurrence of grant payments.	<b>Moderate</b>	<ul style="list-style-type: none"> <li>significant number of grant programs are administered by Health with different eligibility criteria.</li> </ul>

Source: ANAO 2018–19 risk assessment for Health and Health's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

## Audit results

3.13.7 The ANAO has undertaken its 2018–19 interim audit coverage, including an assessment of the controls relating to IT security and change management in the financial management information system and human resource management information system, cash and appropriations management, supplier expenses, assets, payroll processing, Therapeutic Goods Administration revenue, personal benefits, subsidies, and grant payments.

3.13.8 Other areas of audit focus including the compliance processes for Aged Care subsidies and Medicare payments and an assessment of the valuation methodologies used to estimate the medical indemnity program and Medicare outstanding claims liability provisions will be performed as part of the 2018–19 final audit.

3.13.9 To date, our 2018–19 audit coverage of the above areas has identified one new moderate audit finding and no new significant audit findings. The following table summarises the status of audit findings reported by the ANAO in 2017–18 and 2018–19.

**Table 3.13.4: Status of audit findings raised by the ANAO**

Category	Closing Position (2017–18)	New Findings (2018–19)	Findings Resolved (2018–19)	Closing position (2018–19)
A	–	–	–	–
B	–	1	–	1
<b>TOTAL</b>	–	<b>1</b>	–	<b>1</b>

### *New moderate audit finding*

#### Monitoring of privileged user activity

3.13.10 During the 2018–19 interim audit, the ANAO's testing identified weaknesses in the monitoring of users with privileged access to IT business systems relevant to the collection of Therapeutic Goods Administration revenue and management of aged care providers. Privileged user access typically allows users to make significant changes to the IT business systems configuration and operations, and bypass critical security and segregation of duties settings. A lack of monitoring of privileged user activity increases the risk of unauthorised changes to business systems and underlying data. Privileged user access, should be appropriately restricted, logged and regularly monitored.

3.13.11 The ANAO identified that there were no processes in place to effectively monitor the activity of privileged users with access to several key IT business systems. The Department uses a program to monitor privileged user access at the network level and has committed to extend this program to the individual business systems. In addition the Department has advised it will perform regular reviews of activity reports.

### **Conclusion**

3.13.12 Based on our audit coverage to date, except for the finding outlined above, the ANAO identified that key elements of internal control were operating effectively to provide reasonable assurance that Health will be able to prepare financial statements that are free of material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2018–19 final audit.

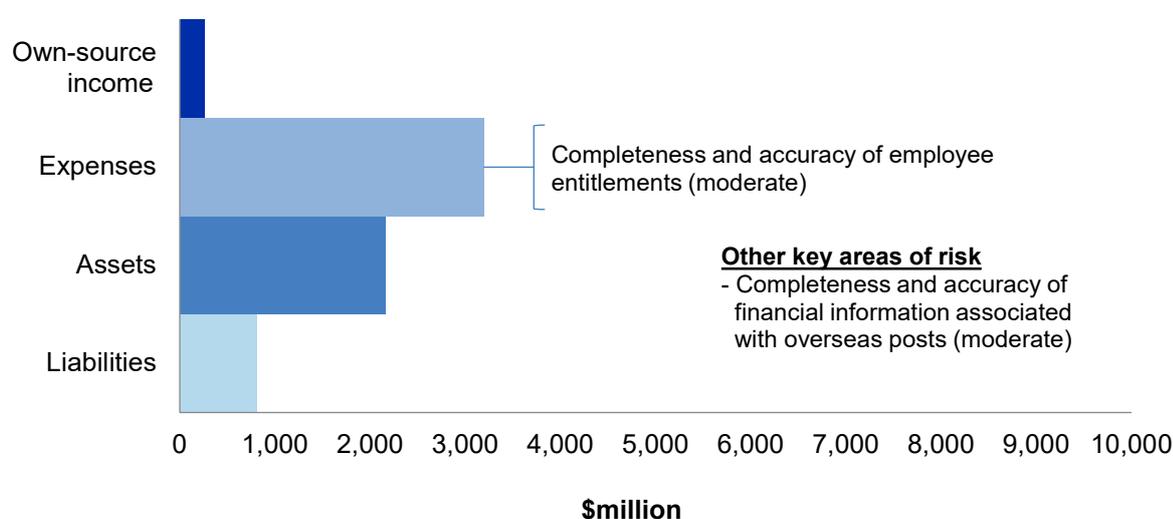
## 3.14 Department of Home Affairs

### Overview

3.14.1 The Department of Home Affairs (Home Affairs) is responsible for Australia's national and transport security, federal law enforcement, criminal justice, cyber security, border, immigration, multicultural affairs, emergency management and trade related functions.

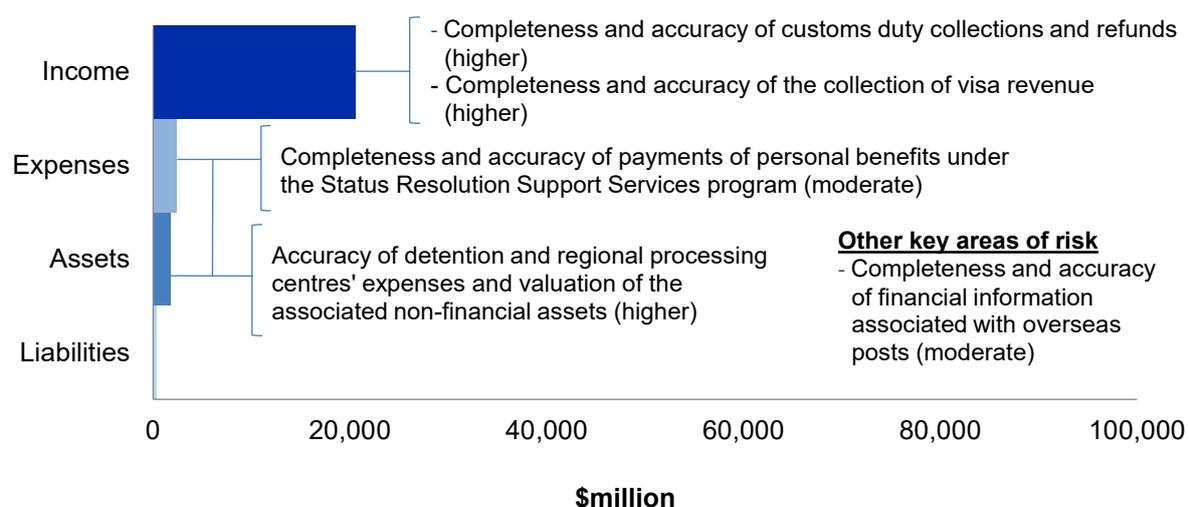
3.14.2 Figure 3.14.1 and Figure 3.14.2 show the 2018–19 departmental and administered financial statement items reported by Home Affairs and the key areas of financial statements risk.

**Figure 3.14.1: Key departmental financial statement items and areas of financial statements risk**



Source: ANAO analysis of Home Affairs' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Figure 3.14.2: Key administered financial statement items and areas of financial statements risk**



Source: ANAO analysis of Home Affairs' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.14.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact Home Affairs' financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of Home Affairs' environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.14.3 and the ANAO's understanding of the operations of Home Affairs, the ANAO has assessed the risk of a material misstatement as **high**.

### Key financial statements items

3.14.4 Annual appropriation funding of \$2,935 million (departmental) and \$2,052.8 million (administered) was provided to Home Affairs in 2018–19 to support the achievement of the entity's outcomes.<sup>92</sup> Home Affairs was also budgeted to receive special appropriation funding of \$784.7 million.<sup>93</sup> Special appropriation funding is used for payment of refunds of customs duty and visa application charges and for the return of customs duty paid upon export of an item.

3.14.5 Table 3.14.1 and Table 3.14.2 provide a summary of the key 2018–19 departmental and administered estimated financial statements items.

**Table 3.14.1: Key expenses and total own-sourced income**

Expenses and own-source income	Departmental	Administered
	estimated actual (\$m) 2018–19	estimated actual (\$m) 2018–2019
<b>Total expenses</b>	<b>3,197.8</b>	<b>2,449.8</b>
Employee benefits	1,512.9	–
Suppliers	1,377.1	1,960.6
Depreciation and amortisation	307.4	97.4
Personal benefits	–	247.9
Other	0.4	143.9
<b>Total own-source income</b>	<b>258.0</b>	<b>20,582.8</b>
Sale of goods and rendering of services	159.2	–
Customs duty	–	16,519.4
Other taxes	–	3,973.9
Fees and fines	13.6	54.5
Other	85.2	35.0
<b>Net (cost of)/contribution by services</b>	<b>(2,939.8)</b>	<b>18,133.0</b>

Source: Home Affairs' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

92 This is provided through *Appropriation Act (No.1) 2018–2019*, *Appropriation Act (No.2) 2018–2019*, *Advance to the Finance Minister Determination (No. 2 of 2018–19)*, *Appropriation Act (No.3) 2018–2019* and *Appropriation Act (No.4) 2018–2019*.

93 Part 1: Special Appropriations Table, *Agency Resourcing, Budget Paper No.4, 2019–20*.

**Table 3.14.2: Key assets and liabilities**

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
<b>Total assets</b>	<b>2,159.3</b>	<b>1,781.0</b>
Trade and other receivables	543.4	109.7
Taxation receivables	–	528.7
Land and buildings	212.7	803.3
Property, plant and equipment	680.6	246.9
Intangibles	584.1	0.4
Other	138.5	92.0
<b>Total liabilities</b>	<b>810.8</b>	<b>391.7</b>
Employee provisions	452.0	–
Payables	310.6	359.6
Other	48.3	32.1
<b>Net assets/(liabilities)</b>	<b>1,348.5</b>	<b>1,389.3</b>

Note: Home Affairs' estimated average staffing level for 2018–19 is 14,100.

Source: Home Affairs' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

### Key areas of financial statements risk

3.14.6 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 3.14.3.

**Table 3.14.3: Key areas of financial statements risk**

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> customs duty revenue \$16.5 billion  customs duty (a component of taxation receivable) \$528.7 million)	Completeness and accuracy of customs duty collections and refunds  KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>the significant value of customs duty revenue;</li> <li>the self-assessment nature of the import declaration process;</li> <li>reliance on compliance risk management processes over the completeness of revenue; and</li> <li>the complexity of the information technology (IT) environment used to manage customs duty</li> </ul>

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<p><i>Administered</i> visa application charges (component of other taxes \$4.0 billion)</p>	<p>Completeness and accuracy of the collection of visa revenue KAM</p>	<p><b>Higher</b></p>	<ul style="list-style-type: none"> <li>the significant value of visa application charges;</li> <li>the decentralised approach to the collection of visa revenue which occurs in a number of locations domestically and internationally, using a number of payment mechanisms; and</li> <li>the complexity of the IT environment used to collect and process visa application charges</li> </ul>
<p><i>Administered</i> non-financial assets \$1.1 billion</p> <p>services rendered — detention (component of suppliers expenses \$2.0 billion)</p>	<p>Accuracy of detention and regional processing centres expenses and valuation of the associated non-financial assets KAM</p>	<p><b>Higher</b></p>	<ul style="list-style-type: none"> <li>the significance of expenses and complexity of contracts associated with managing the detention and regional processing centres;</li> <li>the variability of the costs associated with administering the detention and regional processing network, as the level of expenses is dependent on the rate of arrival and detention of unauthorised maritime arrivals;</li> <li>the complexity of performing valuations in a range of markets given the geographically dispersed land, buildings and equipment including assets located overseas; and</li> <li>the financial implications of the closure of regional processing centres.</li> </ul>
<p><i>Administered</i> SRSS personal benefits expenses (a component of personal benefits expenses \$247.9 million)</p>	<p>Completeness and accuracy of payments of personal benefits under the Status Resolution Support Services (SRSS) program</p>	<p><b>Moderate</b></p>	<ul style="list-style-type: none"> <li>complex eligibility criteria for the categories of allowable personal benefits;</li> <li>payments are made under third-party arrangements with the Department of Human Services and other providers; and</li> <li>the self-assessment nature of the personal benefits process.</li> </ul>

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Departmental</i> employee benefits expense \$1.5 billion  employee provisions \$452.0 million	Completeness and accuracy of employee entitlements	<b>Moderate</b>	<ul style="list-style-type: none"> <li>selected Home Affairs staff are entitled to a range of allowances, subject to a number of conditions under different enterprise agreements until the consolidation of agreements which occurred in February 2019; and</li> <li>staff are located both in Australia and overseas, including locally engaged staff who may be entitled to varying employment conditions and benefits based on local laws and regulations.</li> </ul>
<i>Administered and Departmental</i> Multiple financial statement line items	Completeness and accuracy of financial information associated with overseas posts	<b>Moderate</b>	<ul style="list-style-type: none"> <li>decentralised nature of operations and controls; and</li> <li>managed under third party arrangements through service level agreements with the Department of Foreign Affairs and Trade, and the Australian Trade and Investment Commission.</li> </ul>

Source: ANAO 2018–19 risk assessment for Home Affairs and Home Affairs' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

## Audit results

3.14.7 The ANAO has completed its 2018–19 interim audit coverage, including an assessment of the controls relating to: collection of customs duty revenue and visa application revenue; the management of the onshore immigration detention centres and overseas regional processing centres; accounting for employee entitlements; and the reporting of overseas transactions.

3.14.8 Interim audit coverage has also included an assessment of IT general controls, including security and change management processes relevant to the financial management information system and human resources management information system.

3.14.9 Audit procedures relating to: payment of personal benefits under the SRSS program; IT application controls; and testing on the processes above for the remainder of the financial year will be undertaken as part of the planned 2018–19 final audit.

3.14.10 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings. The 2017–18 audit also did not identify any significant or moderate audit findings.

## Conclusion

3.14.11 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that Home Affairs will be able to prepare financial statements that are free of material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2018–19 final audit.

## 3.15 Department of Industry, Innovation and Science

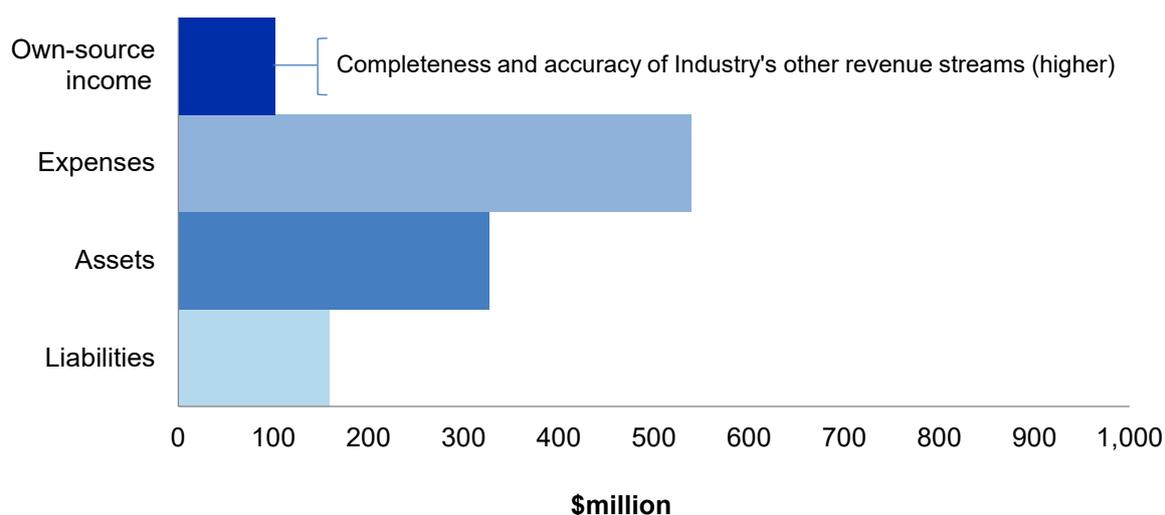
### Overview

3.15.1 The Department of Industry, Innovation and Science (Industry) is responsible for supporting science and commercialisation; growing business investment and improving business capability; developing northern Australia; and streamlining regulation.

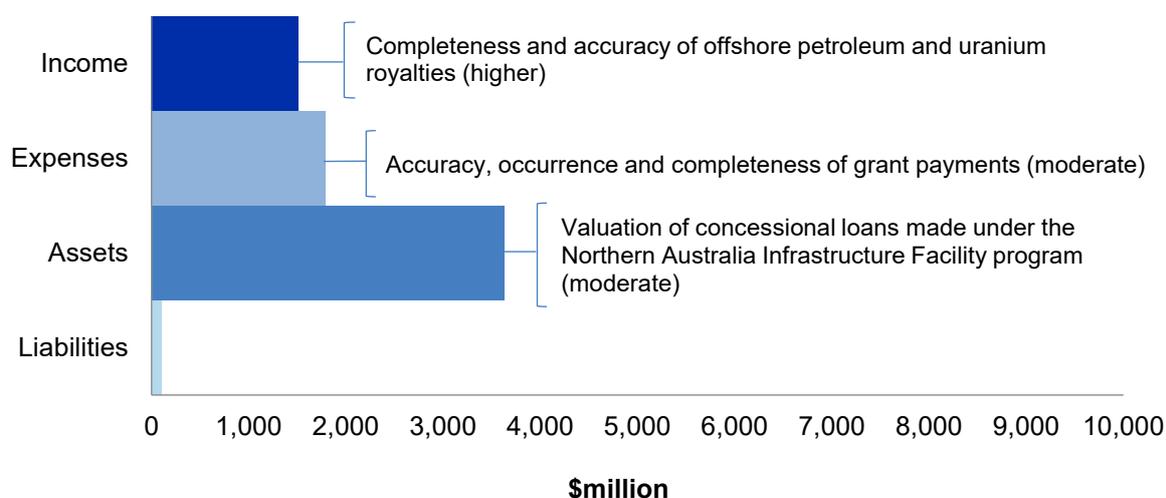
3.15.2 Industry has established a grants hub and shared service centre which provides other Commonwealth entities with administrative support including grants administration and payments processing; human resources and financial transaction processing and provision of management information systems supporting these processes.

3.15.3 Figure 3.15.1 and Figure 3.15.2 show the 2018–19 departmental and administered financial statement items reported by Industry and the key areas of financial statements risk.

**Figure 3.15.1: Key departmental financial statement items and areas of financial statements risk**



Source: ANAO analysis of Industry's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Figure 3.15.2: Key administered financial statement items and areas of financial statements risk**

Source: ANAO analysis of Industry's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.15.4 The ANAO's audit approach identifies key areas of risk that have the potential to impact Industry's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of Industry's environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.15.3 and the ANAO's understanding of the operations of Industry, the ANAO has assessed the risk of a material misstatement as **moderate**.

### Key financial statements items

3.15.5 Annual appropriation funding of \$428.6 million (departmental) and \$575.6 million (administered) was provided to Industry in 2018–19 to support the achievement of the entity's outcomes.<sup>94</sup> Industry was also budgeted to receive special appropriation funding of \$158.5 million<sup>95</sup> which includes: loan funding relating to the Northern Australia Infrastructure Facility; funding provided to the National Offshore Petroleum Safety and Environmental Management Authority; and the Automotive Transformation Scheme.

3.15.6 Table 3.15.1 and Table 3.15.2 provide a summary of the key 2018–19 departmental and administered estimated financial statements items.

**Table 3.15.1: Key expenses and total own-sourced income**

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
<b>Total expenses</b>	<b>539.2</b>	<b>1,789.2</b>
Employee benefits	306.1	6.9

94 This is provided through *Appropriation Act (No.1) 2018–2019*, *Appropriation Act (No.2) 2018–2019*, *Appropriation Act (No.3) 2018–2019* and *Appropriation Act (No.4) 2018–2019*.

95 Part 1: Special Appropriations Table, *Agency Resourcing, Budget Paper No.4, 2019–20*.

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
Suppliers	197.3	107.5
Depreciation and amortisation	35.0	1.7
Write-down and impairment of assets	–	–
Subsidies	–	42.4
Grants	0.8	452.1
Payments to corporate Commonwealth entities	–	1,144.3
Concessional loan discount	–	34.3
Other	–	0
<b>Total own-source income</b>	<b>101.8</b>	<b>1,511.9</b>
Royalties	–	1,417.0
Sale of goods and rendering of services	92.1	–
Other	9.7	94.9
<b>Net (cost of)/contribution by services</b>	<b>(437.4)</b>	<b>(277.3)</b>

Source: Industry's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Table 3.15.2: Key assets and liabilities**

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
<b>Total assets</b>	<b>327.2</b>	<b>3,627.4</b>
Investments	–	3,287.8
Trade and other receivables	97.1	158.2
Other financial assets	14.4	172.6
Land and buildings	98.1	2.7
Property, plant and equipment	37.5	1.2
Other	80.1	4.9
<b>Total liabilities</b>	<b>158.9</b>	<b>99.8</b>
Employee provisions	81.0	1.5
Grants payable	2.3	51.2
Other	75.6	47.1
<b>Net assets/(liabilities)</b>	<b>168.3</b>	<b>3,527.6</b>

Note: Industry's estimated average staffing level for 2018–19 is 2,303.

Source: Industry's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

## Key areas of financial statements risk

3.15.7 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 3.15.3.

**Table 3.15.3: Key areas of financial statements risk**

Relevant financial statement line item	Key area	Audit risk rating	Factors contributing to risk assessment
<p><i>Administered</i></p> <p>royalties revenue \$1.4 billion</p> <p>accrued revenue (a component of the other financial assets balance \$172.6 million)</p>	<p>Completeness and accuracy of offshore petroleum and uranium royalties</p> <p>KAM</p>	<b>Higher</b>	<ul style="list-style-type: none"> <li>reliance on data included in self-assessments provided by uranium and petroleum producers</li> </ul>
<p><i>Departmental</i></p> <p>own-source income \$101.8 million</p>	<p>Completeness and accuracy of Industry's other revenue streams</p>	<b>Higher</b>	<ul style="list-style-type: none"> <li>diversity of revenue streams;</li> <li>reliance on manual calculations to quantify some revenue amounts; and</li> <li>large volume of cash based transactions.</li> </ul>
<p>Administered loans (a component of trade and other receivables \$158.2 million)</p>	<p>Valuation of concessional loans made under the Northern Australia Infrastructure Facility program</p>	<b>Moderate</b>	<ul style="list-style-type: none"> <li>subject to significant judgement relating to the determination of the market interest rate and long terms for use in the valuation; and</li> <li>complexity and variety of concessions that are able to be provided increases the risk of determining an inaccurate value.</li> </ul>
<p><i>Administered</i></p> <p>Grants expense \$452.1 million</p> <p>Grants payable \$51.2 million</p>	<p>Accuracy, occurrence and completeness of grant payments</p>	<b>Moderate</b>	<ul style="list-style-type: none"> <li>significant number of individual grant programs which operate under separate grant agreements and are subject to different eligibility criteria.</li> </ul>

Source: ANAO 2018–19 risk assessment for Industry and Industry's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

## Audit results

3.15.8 The ANAO has completed its 2018–19 interim audit coverage, including an assessment of the controls relating to employee and supplier expenditure; appropriations and special accounts; and asset and cash management. As part of the interim audit coverage, the ANAO has also assessed controls relating to selected departmental and administered revenue streams, grant and subsidy payments and IT general and applications controls for key financial systems.

3.15.9 Audit procedures relating to the completeness and accuracy of royalties; and valuation of the administered advances and loans, investments and non-financial assets will be undertaken as part of the planned 2018–19 final audit. To date, our audit coverage has not identified any new significant or moderate audit findings. The following table summarises the status of audit findings reported by the ANAO in 2018–19.

**Table 3.15.4: Status of audit findings raised by the ANAO**

Category	Closing Position (2017–18)	New Findings (2018–19)	Findings Resolved (2018–19)	Closing position (2018–19)
A	–	–	–	–
B	1	–	1	–
<b>TOTAL</b>	<b>1</b>	<b>–</b>	<b>1</b>	<b>–</b>

### *Resolved moderate audit finding*

#### Human Resources Shared Services User Access Management

3.15.10 Industry provides a Human Resources Shared Services (HRSS) offering to other government agencies. The services offered relate to the management and the administration of payroll.

3.15.11 The 2017–18 financial statements audit noted that the configuration of password controls were inconsistent across the HRSS instances reviewed, with some configurations not being in accordance with the Australian Signals Directorate's *Information Security Manual* (ISM) requirements. The monitoring of privileged user access was inconsistent across the HRSS instances reviewed, with some lacking evidence of review, and others being noncompliant with internal procedures, such as storing reports in non-editable formats. Reports supporting the monitoring of privileged users were inconsistent, with some presenting incomplete and inaccurate information. A number of privileged users were inadvertently excluded from the reports.

3.15.12 In addition, there was a lack of segregation of duties between the preparation and review of payroll activities performed by staff within the payroll team, which had the potential to result in staff reviewing their own work.

3.15.13 Industry has completed a review and implemented measures to address the issues raised in this finding. ANAO's interim audit confirmed Industry's configuration of password controls is now consistent and compliant with ISM. The monitoring of privileged user access is now consistent, reviewed independently, and compliant with internal procedures. Reports supporting the monitoring of privileged users are consistent, complete and accurate. Staff roles within the payroll

team have been formally allocated to minimise the risk of self-review. In addition, Industry has implemented a quality assurance process that reviews the functioning of controls.

## **Conclusion**

3.15.14 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that Industry will be able to prepare financial statements that are free of material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2018–19 final audit.

## 3.16 Department of Infrastructure, Regional Development and Cities

### Overview

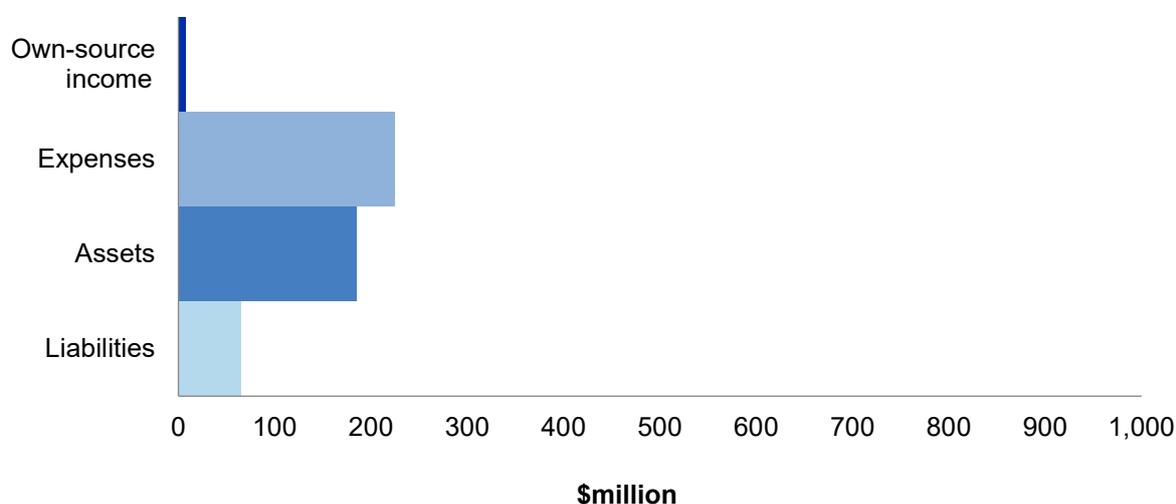
3.16.1 The Department of Infrastructure, Regional Development and Cities (Infrastructure) is responsible for improving infrastructure across Australia through funding coordination of transport and other infrastructure; providing an efficient, sustainable, competitive and safe transport system for all transport users; strengthening the sustainability, capacity and diversity of regional economies providing advice on population policy, implementing the national policy on cities and supporting governance arrangements in the Australian territories.

3.16.2 Infrastructure is responsible for the oversight of the delivery of significant construction projects including the \$5.3 billion Western Sydney Airport and \$9.1 billion Inland Rail projects, which are being delivered by entities within the Infrastructure, Regional Development and Cities portfolio.

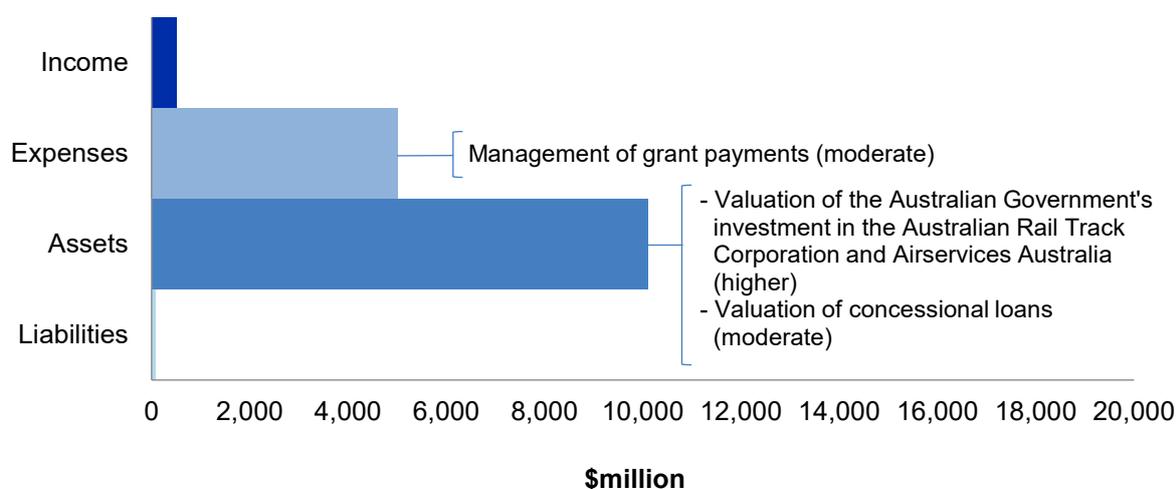
3.16.3 Infrastructure commenced the transition of grant administration and milestone assessment to the Australian Government Business Grants Hub managed by the Department of Industry, Innovation and Science in 2017–18 and this continues in 2018–19.

3.16.4 Figure 3.16.1 and Figure 3.16.2 show the 2018–19 departmental and administered financial statement items reported by Infrastructure and the key areas of financial statements risk.

**Figure 3.16.1: Key departmental financial statement items and areas of financial statements risk**



Source: ANAO analysis of Infrastructure's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Figure 3.16.2: Key administered financial statement items and areas of financial statements risk**

Source: ANAO analysis of Infrastructure's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.16.5 The ANAO's audit approach identifies key areas of risk that have the potential to impact Infrastructure's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of Infrastructure's environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.16.3 and the ANAO's understanding of the operations of Infrastructure, the ANAO has assessed the risk of a material misstatement as **moderate**.

### Key financial statements items

3.16.6 Annual appropriation funding of \$218.0 million (departmental) and \$4,431.0 million (administered) was provided to Infrastructure in 2018–19 to support the achievement of the entity's outcomes.<sup>96</sup> Infrastructure was also budgeted to receive special appropriation funding of \$2,753.9 million primarily relating to funding for local councils determined in accordance with the *Financial Assistance (Local Government) Act 1995*.<sup>97</sup>

3.16.7 Infrastructure also administer the assessment and oversight functions for national partnership payments on behalf of the Department of the Treasury relating to: road, rail and water infrastructure projects and programs. Whilst these payments to State and Territory Governments are recorded in the Treasury financial statements, the project approval, advice to Government, milestone assessment, project monitoring and analysis processes are undertaken by Infrastructure. Expenses for these projects are estimated to be \$5,361.5 million in 2018–19.<sup>98</sup>

96 This is provided through *Appropriation Act (No.1) 2018–2019*, *Appropriation Act (No.2) 2018–2019* including *Advance to the Finance Minister Determination (No. 1 of 2018–19)*, *Appropriation Act (No.3) 2018–2019* and *Appropriation Act (No.4) 2018–2019*.

97 Part 1: Special Appropriations Table, *Agency Resourcing, Budget Paper No.4, 2019–20*.

98 Table 2.2, *Department of the Treasury Portfolio Budget Statements 2019–20*.

3.16.8 Table 3.16.1 and Table 3.16.2 provide a summary of the key 2018–19 departmental and administered estimated financial statements items.

**Table 3.16.1: Key expenses and total own-sourced income**

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
<b>Total expenses</b>	<b>224.4</b>	<b>5,013.7</b>
Employee benefits	122.1	14.6
Suppliers	95.5	268.9
Depreciation and amortisation	6.8	36.4
Grants	–	4,308.5
Subsidies	–	244.6
Other	–	140.7
<b>Total own-source income</b>	<b>7.6</b>	<b>510.2</b>
Sale of goods and rendering of services	7.4	20.2
Other taxes	–	47.1
Fees and fines	–	149.0
Other	0.2	293.9
<b>Net (cost of)/contribution by services</b>	<b>(216.8)</b>	<b>(4,503.5)</b>

Source: Infrastructure's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Table 3.16.2: Key assets and liabilities**

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
<b>Total assets</b>	<b>185.5</b>	<b>10,108.3</b>
Financial assets	140.9	9,424.3
Land and buildings	17.3	234.4
Property, plant and equipment	17.0	327.6
Other	10.3	122.0
<b>Total liabilities</b>	<b>65.2</b>	<b>83.2</b>
Subsidies	–	11.2
Grants	–	27.8
Employee provisions	39.6	3.9
Other	25.6	40.3
<b>Net assets/(liabilities)</b>	<b>120.3</b>	<b>10,025.1</b>

Note: Infrastructure's estimated average staffing level for 2018–19 is 894.

Source: Infrastructure's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

### Key areas of financial statements risk

3.16.9 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 3.16.3.

**Table 3.16.3: Key areas of financial statements risk**

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> investments (component of financial assets \$9.4 billion)	Valuation of the Australian Government's investment in the Australian Rail Track Corporation and Airservices Australia KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>valuations are subject to complex estimation processes using a discounted cash flow model. The use of this model requires Infrastructure to make significant judgements in the selection of assumptions and inputs, such as future cash flows and discount rates; and</li> <li>complexities in selecting the appropriate valuation approach to account for the valuation of the Australian Rail Track Corporation due to the construction and delivery of the \$9.1 billion Inland Rail project being undertaken by the company.</li> </ul>
<i>Administered</i> concessional loans	Valuation of concessional loans	<b>Moderate</b>	<ul style="list-style-type: none"> <li>complexity of the valuation and required calculations for loan</li> </ul>

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
(component of financial assets \$9.4 billion) concessional loan commitments provision (component of other liabilities \$40.3 million)  concessional loans interest revenue (component of other income \$293.9 million)  concessional loans expense (component other expenses \$140.7 million)	KAM		balances, including the level of estimation required to determine the appropriate market rate for the concessional component of new loans; and <ul style="list-style-type: none"> <li>impairment considerations that may apply considering the nature and length of loan arrangements.</li> </ul>
<i>Administered</i> grants expense \$4.3 billion  grants payable \$27.8 million	Management of grant payments	<b>Moderate</b>	<ul style="list-style-type: none"> <li>complex, significant and diverse range of programs that include a number of different administrative and legislative arrangements and conditions; and</li> <li>level of subjectivity and judgement applied in determining whether a recipient meets eligibility and funding milestone requirements.</li> </ul>

Source: ANAO 2018–19 risk assessment for Infrastructure and Infrastructure’s 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.16.10 The ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. ANAO Report No.3 2018–19 *Award of Funding under the Community Development Grants Program* was tabled during 2018–19. This report included observations relevant to the management of grant payments outlined in Table 3.16.3 particularly relating to the assessment and award of grant funding, which have been considered when designing audit procedures related to grants expenses.

### Audit results

3.16.11 The ANAO has completed its 2018–19 interim audit coverage, including an assessment of the controls relating to: cash; non-financial assets; payments of equity funding to portfolio entities; appropriations and special accounts; grants; concessional loans; supplier expenditure and employee payroll.

3.16.12 The ANAO’s interim audit coverage has also included an assessment of: IT general controls including security and change management processes relevant to the financial management

information system and human resources management information system; and controls over the accuracy of departmental and administered revenue.

3.16.13 Audit procedures relating to: period end valuation of administered investments; accuracy of subsidy claims for Tasmanian freight and passenger shipping programs for which claims are assessed and paid on behalf of Infrastructure by the Department of Human Services; and period end valuation of other assets including non-financial assets and concessional loans will be performed as part of the final audit phase.

3.16.14 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings. The 2017–18 audit also did not identify any significant or moderate audit findings.

### **Conclusion**

3.16.15 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that Infrastructure will be able to prepare financial statements that are free of material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2018–19 final audit.

## 3.17 Department of Jobs and Small Business

### Overview

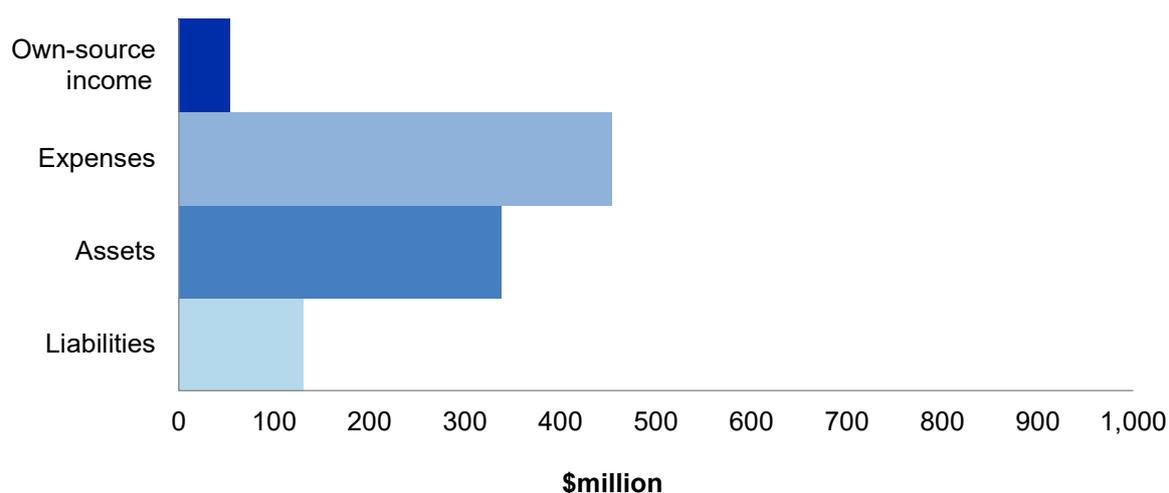
3.17.1 The Department of Jobs and Small Business (Jobs) is responsible for the provision of national policies and programs that help Australians find and keep employment, facilitate the growth of small business, and work in safe, fair and productive workplaces.

3.17.2 From December 2017 to August 2018 the department had been a component of the Jobs and Innovation Portfolio. Jobs and Small Business was established as a standalone portfolio on 28 August 2018 as a result of an Administrative Arrangements Order.

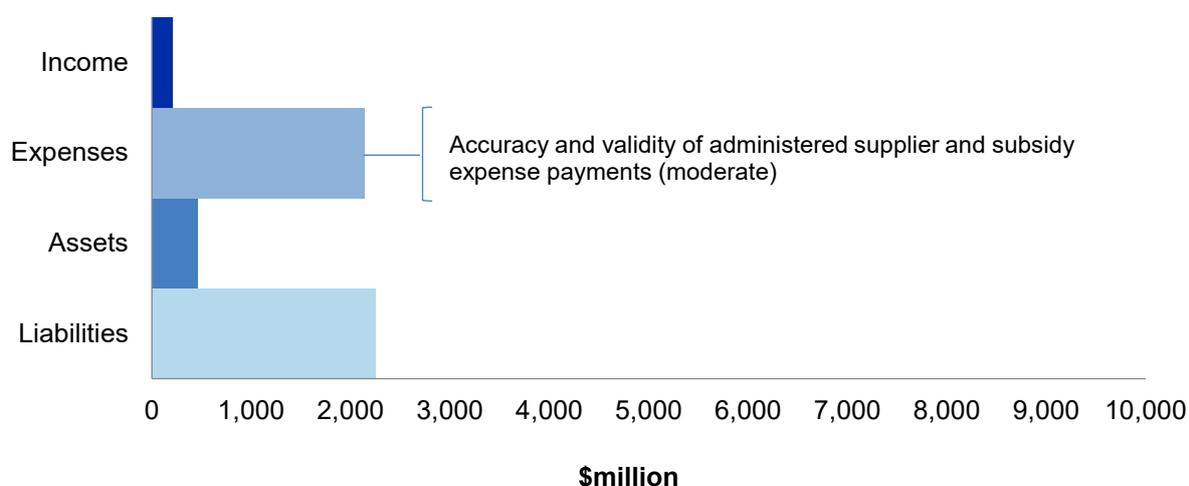
3.17.3 Jobs is a user of the shared services provided by the Service Delivery Office of the Department of Finance. Jobs retains responsibility for the IT general control environment over the IT infrastructure underpinning the shared services systems.

3.17.4 Figure 3.17.1 and Figure 3.17.2 show the 2018–19 departmental and administered financial statement items reported by Jobs and the key areas of financial statements risk.

**Figure 3.17.1: Key departmental financial statement items and areas of financial statements risk**



Source: ANAO analysis of Jobs' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Figure 3.17.2: Key administered financial statement items and areas of financial statements risk**

Source: ANAO analysis of Jobs' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.17.5 The ANAO's audit approach identifies key areas of risk that have the potential to impact Jobs' financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of Jobs' environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.17.3 and the ANAO's understanding of the operations of Jobs, the ANAO has assessed the risk of a material misstatement as **moderate**.

### Key financial statements items

3.17.6 Annual appropriation funding of \$387.5 million (departmental) and \$1,751.1 million (administered) was provided to Jobs in 2018–19 to support the achievement of the entity's outcomes.<sup>99</sup> Jobs was also budgeted to receive special appropriation funding of \$376.5 million<sup>100</sup> for work related to the fair work entitlements guarantee; coal mining industry long service leave funding; asbestos-related claims; and safety and rehabilitation compensation.

3.17.7 Table 3.17.1 and Table 3.17.2 provide a summary of the key 2018–19 departmental and administered estimated financial statements items.

**Table 3.17.1: Key expenses and total own-sourced income**

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
<b>Total expenses</b>	<b>453.4</b>	<b>2,133.9</b>
Employee benefits	237.0	–
Suppliers	151.7	1,503.5

99 This is provided through *Appropriation Act (No.1) 2018–2019*, *Appropriation Act (No.2) 2018–2019*, *Appropriation Act (No.3) 2018–2019* and *Appropriation Act (No.4) 2018–2019*.

100 Part 1: Special Appropriations Table, *Agency Resourcing, Budget Paper No.4, 2019–20*.

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
Subsidies	–	258.0
Grants	–	75.5
Depreciation and amortisation	64.7	–
Personal benefits	–	290.3
Other	–	6.6
<b>Total own-source income</b>	<b>54.0</b>	<b>203.2</b>
Sale of goods and rendering of services	52.7	–
Other taxes	–	125.9
Recoveries	–	74.1
Other	1.3	3.2
<b>Net (cost of)/ contribution by services</b>	<b>(399.4)</b>	<b>(1,930.7)</b>

Source: Jobs' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Table 3.17.2: Key assets and liabilities**

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
<b>Total assets</b>	<b>337.8</b>	<b>460.4</b>
Cash and cash equivalents	0.5	–
Other financial assets	2.6	410.4
Trade and other receivables	145.5	43.4
Leasehold Improvements	28.6	–
Intangibles	109.2	–
Property, plant and equipment	29.6	–
Other non-financial assets	21.8	6.6
<b>Total liabilities</b>	<b>130.9</b>	<b>2,254.1</b>
Employee provisions	75.7	–
Grants payable	–	2,085.6
Suppliers	39.4	82.4
Other payables	15.7	11.5
Subsidies	–	73.2
Other liabilities	0.1	1.4
<b>Net assets/(liabilities)</b>	<b>206.9</b>	<b>(1,793.7)</b>

Note: Jobs' estimated average staffing level for 2018–19 is 1,983.

Auditor-General Report No.46 2018–19  
Interim Report on Key Financial Controls of Major Entities

Source: Jobs' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

### Key areas of financial statements risk

3.17.8 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2018–19 is provided in Table 3.17.3.

**Table 3.17.3: Key area of financial statements risk**

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> Supplier expenses \$1.5 billion  subsidies \$258.0 million  personal benefits \$290.3 million	Accuracy and validity of administered supplier and subsidy expense payments  KAM	<b>Moderate</b>	<ul style="list-style-type: none"> <li>payments are reliant on assessments made by third party service providers; and</li> <li>the success of the department's compliance activities are crucial to the integrity of the jobactive program.</li> </ul>

Source: ANAO 2018–19 risk assessment for Jobs and Jobs' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

### Audit results

3.17.9 The ANAO has completed its 2018–19 interim audit coverage, including an assessment of the controls relating to: administered supplier expenses; personal benefits and subsidy payments; and grants expenditure. Interim audit coverage also included an assessment of IT general controls, and the design and implementation of the jobactive compliance program.

3.17.10 Detailed testing procedures over the above areas and review of the department's monitoring of the jobactive compliance program will be completed as part of the 2018–19 final audit.

3.17.11 The following table summarises the status of audit findings reported by the ANAO in 2017–18 and 2018–19.

**Table 3.17.4: Status of audit findings raised by the ANAO**

Category	Closing Position (at end of the 2017–18 final audit)	New Findings (during 2018–19 interim audit)	Findings Resolved (at the time of the 2018–19 interim audit)	Closing position (at the end of the 2018–19 interim audit)
A	–	–	–	–
B	–	1	–	1
<b>TOTAL</b>	<b>–</b>	<b>1</b>	<b>–</b>	<b>1</b>

### *New moderate audit findings*

#### Monitoring of privileged access to databases

3.17.12 The Department of Jobs and Small Business has two key administered IT systems: the Employment Services System (ESS); and the electronic Fair Entitlements Guarantee (eFEG) system. The ESS is the IT system used to capture data and process payments relating to job seekers and employment service providers. The processing and calculation of payments in ESS flows to the Financial Management Information System (FMIS) for payments to be made to recipients. The eFEG system is the application that receives and tracks claims by employees under the Fair Entitlements Guarantee program that pays entitlements to workers whose employers have gone bankrupt and/or their firm has gone into liquidation.

3.17.13 Maintaining and supporting IT system databases requires that some individuals have powerful access rights — known as privileged access. This level of access can be used to bypass security controls and make changes, either to system settings or directly to system data. Individuals with privileged access should have their activity regularly monitored to detect any unauthorised use. During the interim audit, no evidence of regular monitoring of privileged user access in relation to the ESS and eFEG IT database systems was able to be provided by Jobs.

3.17.14 Jobs has committed to developing a logging and monitoring policy for all databases, to developing and implementing a process to review the activities of Job's privileged users. The ANAO will review these processes as part of the final phase of 2018–19 audit.

### **Conclusion**

3.17.15 At the completion of the interim audit, and except for the finding outlined above, the ANAO identified that key elements of internal control were operating effectively to provide reasonable assurance that Jobs will be able to prepare financial statements that are free from material misstatement. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2018–19 final audit.

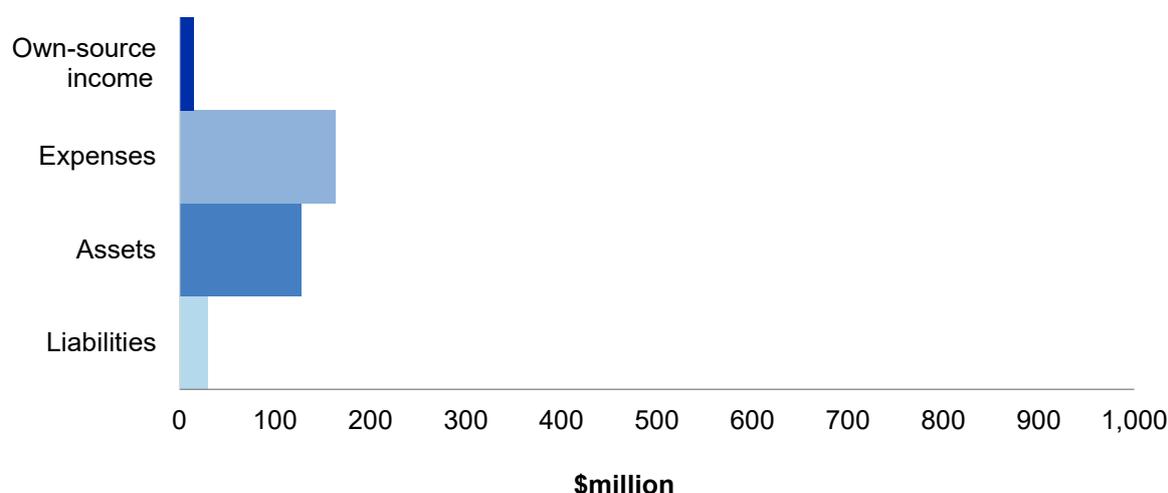
## 3.18 Department of Parliamentary Services

### Overview

3.18.1 The Department of Parliamentary Services (DPS) is responsible for supporting the Parliament through a range of services including library, Hansard, broadcasting, communications, building security and maintenance.

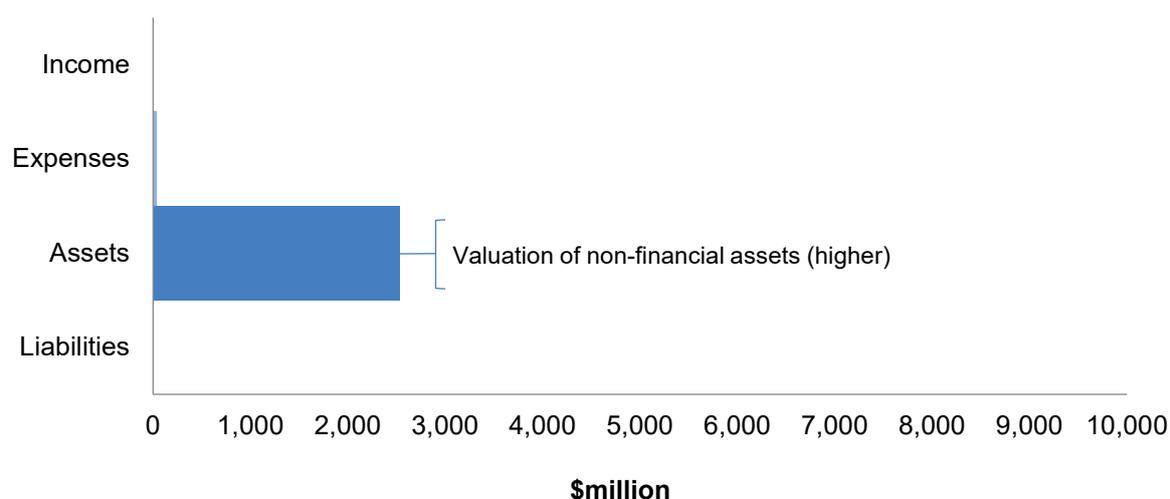
3.18.2 Figure 3.18.1 and Figure 3.18.2 show the 2018–19 departmental and administered financial statement items reported by DPS and the key areas of financial statements risk.

**Figure 3.18.1: Key departmental financial statement items and areas of financial statements risk**



Source: ANAO analysis of DPS's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Figure 3.18.2: Key administered financial statement items and areas of financial statements risk**



Source: ANAO analysis of DPS's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.18.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact DPS's financial statements. The ANAO's risk assessment process considers the nature of the

financial statements items and an understanding of DPS's environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.18.3 and the ANAO's understanding of the operations of DPS, the ANAO has assessed the risk of a material misstatement as **moderate**.

### Key financial statements items

3.18.4 Annual appropriation funding of \$146.0 million (departmental) and \$51.7 million (administered) was provided to DPS in 2018–19 to support the achievement of the entity's outcomes.<sup>101</sup>

3.18.5 Table 3.18.1 and Table 3.18.2 provide a summary of the key 2018–19 departmental and administered estimated financial statements items.

**Table 3.18.1: Key expenses and total own-sourced income**

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
<b>Total expenses</b>	<b>163.8</b>	<b>40.9</b>
Employee benefits	86.8	0.9
Suppliers	54.1	5.4
Depreciation and amortisation	22.9	34.6
<b>Total own-source income</b>	<b>14.6</b>	<b>–</b>
Sale of goods and rendering of services	13.9	–
Other	0.7	–
<b>Net (cost of)/contribution by services</b>	<b>(149.2)</b>	<b>(40.9)</b>

Source: DPS's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Table 3.18.2: Key assets and liabilities**

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
<b>Total assets</b>	<b>127.3</b>	<b>2,535.5</b>
Financial assets	28.9	1.5
Land and buildings	–	2,363.8
Property, plant and equipment	51.2	167.2
Intangibles	42.0	3.0
Other	5.2	–
<b>Total liabilities</b>	<b>29.4</b>	<b>2.0</b>

101 This is provided through *Appropriation (Parliamentary Departments) Act (No.1) 2018–2019* and *Appropriation (Parliamentary Departments) Act (No.2) 2018–2019*.

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
Suppliers	4.2	0.6
Employee provisions	24.0	–
Other payables	1.2	1.4
<b>Net assets/(liabilities)</b>	<b>97.9</b>	<b>2,533.5</b>

Note: DPS's estimated average staffing level for 2018–19 is 900.

Source: DPS's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

### Key areas of financial statements risk

3.18.6 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2018–19 is provided in Table 3.18.3.

**Table 3.18.3: Key area of financial statements risk**

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> non-financial assets (excluding intangibles) \$2.4 billion	Valuation of non-financial assets KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>the unique nature of Parliament House, its contents and the purpose of the land, increases the judgement applied and complexity in establishing a fair value.</li> </ul>

Source: ANAO 2018–19 risk assessment for DPS and DPS's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

### Audit results

3.18.7 The ANAO has completed its 2018–19 interim audit coverage, including an assessment of the controls relating to: cash and asset management; payroll processing; and supplier expenses. In addition, the ANAO has undertaken testing of IT general controls over the financial management and human resource management information systems.

3.18.8 As part of the 2018–19 final audit, audit procedures will be performed over all material financial statement line items, including the valuation of non-financial assets.

3.18.9 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings. The 2017–18 audit also did not identify any significant or moderate audit findings.

**Conclusion**

3.18.10 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that the Department will be able to prepare financial statements that are free of material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2018–19 final audit.

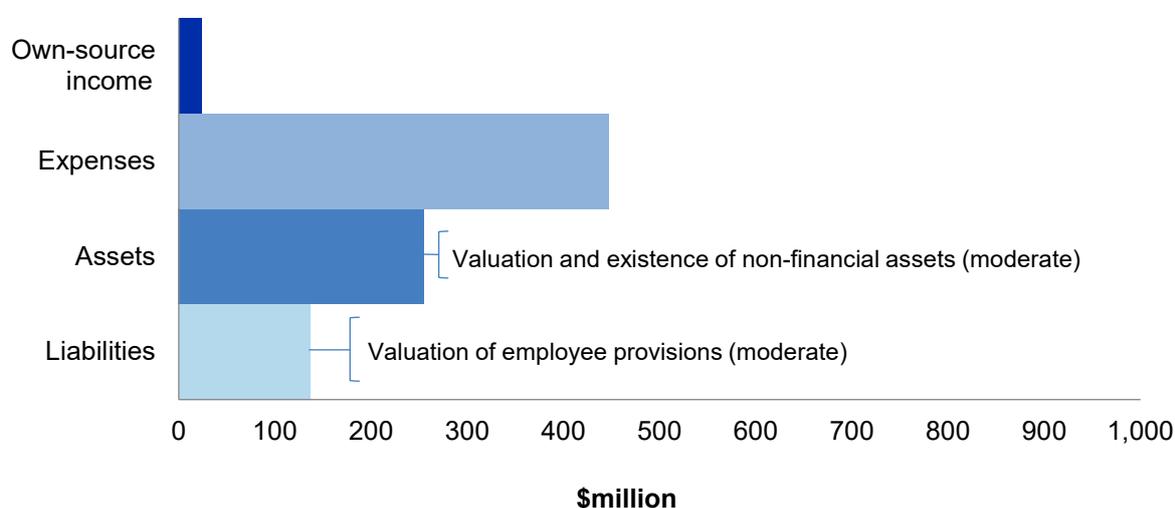
## 3.19 Department of the Prime Minister and Cabinet

### Overview

3.19.1 The Department of the Prime Minister and Cabinet (PM&C) is responsible for coordinating policy development across government in economic, domestic and international affairs; and Aboriginal and Torres Strait Islander advancement.

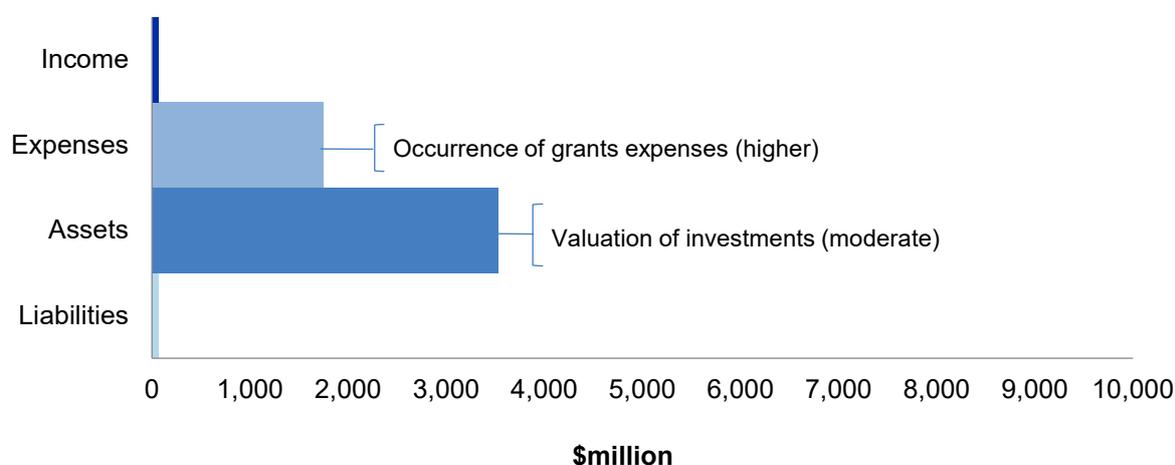
3.19.2 Figure 3.19.1 and Figure 3.19.2 show the 2018–19 departmental and administered financial statement items reported by Department of the Prime Minister and Cabinet (PM&C) and the key areas of financial statements risk.

**Figure 3.19.1: Key departmental financial statement items and areas of financial statements risk**



Source: ANAO analysis of PM&C's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Figure 3.19.2: Key administered financial statement items and areas of financial statements risk**



Source: ANAO analysis of PM&C's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.19.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact PM&C's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of PM&C's environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.19.3 and the ANAO's understanding of the operations of PM&C, the ANAO has assessed the risk of a material misstatement as **moderate**.

### Key financial statements items

3.19.4 Annual appropriation funding of \$433.2 million (departmental) and \$1,278.3 million (administered) was provided to PM&C in 2018–19 to support the achievement of the entity's outcomes.<sup>102</sup> PM&C was also budgeted to receive special appropriation funding of \$510.2 million. Special appropriation funding provides for payments to Aboriginal Land Councils and for programs that support Indigenous children.<sup>103</sup>

3.19.5 Table 3.19.1 and Table 3.19.2 provide a summary of the key 2018–19 departmental and administered estimated financial statements items.

**Table 3.19.1: Key expenses and total own-sourced income**

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
<b>Total expenses</b>	<b>447.1</b>	<b>1,743.4</b>
Employee benefits	279.9	0.9
Suppliers	148.0	66.6
Depreciation and amortisation	18.8	0.3
Grants	0.4	1,307.5
Payments to corporate entities	–	111.1
Other	–	255.0
<b>Total own-source income</b>	<b>23.5</b>	<b>66.1</b>
Sale of goods and rendering of services	18.3	0.0
Interest	–	55.3
Other	5.2	10.8
<b>Net (cost of)/contribution by services</b>	<b>(423.6)</b>	<b>(1,677.3)</b>

Source: PM&C's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

102 This is provided through *Appropriation Act (No.1) 2018–2019*, *Appropriation Act (No.2) 2018–2019*, *Appropriation Act (No.3) 2018–2019* and *Appropriation Act (No.4) 2018–2019*.

103 Part 1: Special Appropriations Table, *Agency Resourcing, Budget Paper No.4, 2019–20*.

**Table 3.19.2: Key assets and liabilities**

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
<b>Total assets</b>	<b>255.3</b>	<b>3,533.2</b>
Cash and cash equivalents	1.9	23.6
Trade and other receivables	89.1	56.5
Land and buildings	93.7	50.5
Property, plant and equipment	22.0	0.7
Intangibles	38.6	–
Investments	–	3,399.4
Other	10.0	2.5
<b>Total liabilities</b>	<b>136.7</b>	<b>70.8</b>
Employee provisions	83.9	0.3
Suppliers	22.7	3.9
Grants	0.2	48.2
Other	29.9	18.4
<b>Net assets/(liabilities)</b>	<b>118.6</b>	<b>3,462.4</b>

Note: PM&C's estimated average staffing level for 2018–19 is 2,057.

Source: PM&C's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

### Key areas of financial statements risk

3.19.6 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 3.19.3.

**Table 3.19.3: Key areas of financial statements risk**

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> grants \$1.3 billion	Occurrence of grants expenses KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>the magnitude and diversity of grant programs with multiple administrative processes; and</li> <li>a decentralised eligibility assessment and approval process.</li> </ul>

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Departmental</i> employee benefits \$279.9 million  employee provisions \$83.9 million	Valuation of employee provisions	<b>Moderate</b>	<ul style="list-style-type: none"> <li>significant balance within the departmental financial statements with a component of employee benefits relating to allowances paid to staff in remote areas.</li> </ul>
<i>Departmental</i> property, plant and equipment \$115.7 million  Intangibles \$38.6 million	Valuation and existence of non-financial assets	<b>Moderate</b>	<ul style="list-style-type: none"> <li>subject to judgement and estimation in determining property conditions and market values of assets dispersed across multiple regional locations.</li> </ul>
<i>Administered</i> investments in Commonwealth entities \$2.3 billion  Term deposits \$1.1 billion	Valuation of investments	<b>Moderate</b>	<ul style="list-style-type: none"> <li>appropriateness of the selection of valuation techniques and underlying assumptions applied by PM&amp;C to determine fair value for investments in Commonwealth entities; and</li> <li>inaccurate or incomplete consolidation of the Aboriginals Benefit Account investment balances into the administered financial statements.</li> </ul>

Source: ANAO 2018–19 risk assessment for PM&C and PM&C's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.19.7 The ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. Auditor-General Report No.7 2018–19 *Management of the Regional Network*, was considered for this purpose. While this report did not include recommendations regarding risks to PM&C's administrative processes as they relate to the financial statements, the observations of this report were considered in designing audit procedures.

### Audit results

3.19.8 The ANAO has completed its interim audit coverage, including an assessment of the controls relating to selected administered grant programs and IT general and application controls for key financial systems, including those provided through shared service arrangements with other entities. Audit procedures relating to valuation of non-financial assets and administered investment will be undertaken during the final audit phase.

3.19.9 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings. There were no unresolved significant or moderate audit findings from the 2017–18 audit.

**Conclusion**

3.19.10 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that PM&C will be able to prepare financial statements that are free of material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2018–19 final audit.

## 3.20 Department of Social Services

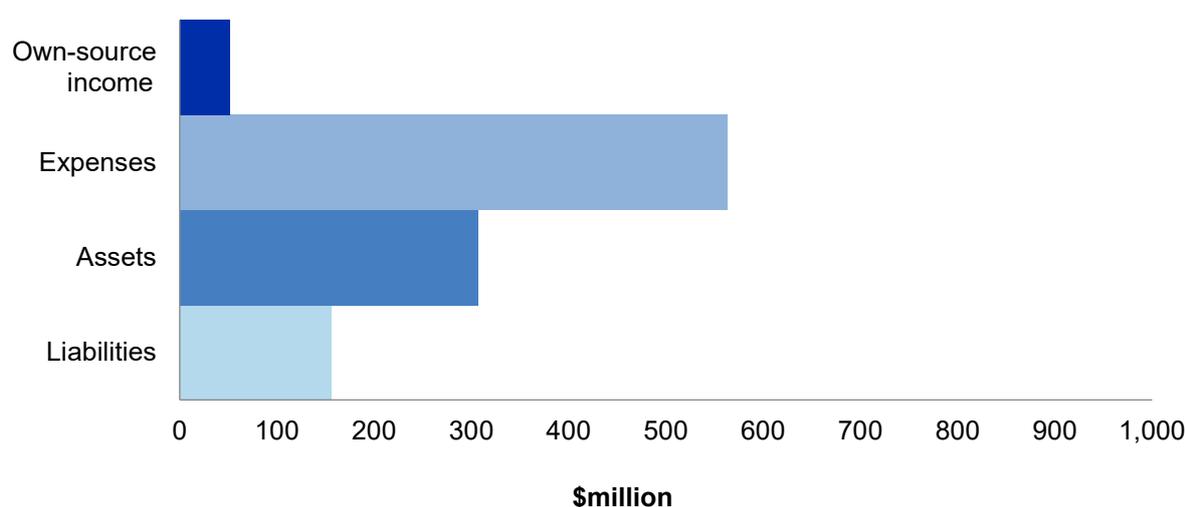
### Overview

3.20.1 The Department of Social Services (DSS) is responsible for social security, families and communities, disability and carers, and housing. DSS works in partnership with other government and non-government organisations, on a range of policies, programs and services focused on improving the wellbeing of people and families in Australia.

3.20.2 DSS provides shared services arrangements to other entities through the Community Grants Hub. In 2018–19 as a result of an Administrative Arrangement Order (AAO), 284 staff transferred from Department of Health to DSS. DSS is now responsible for managing a large number of grant programs on behalf of Department of Health.

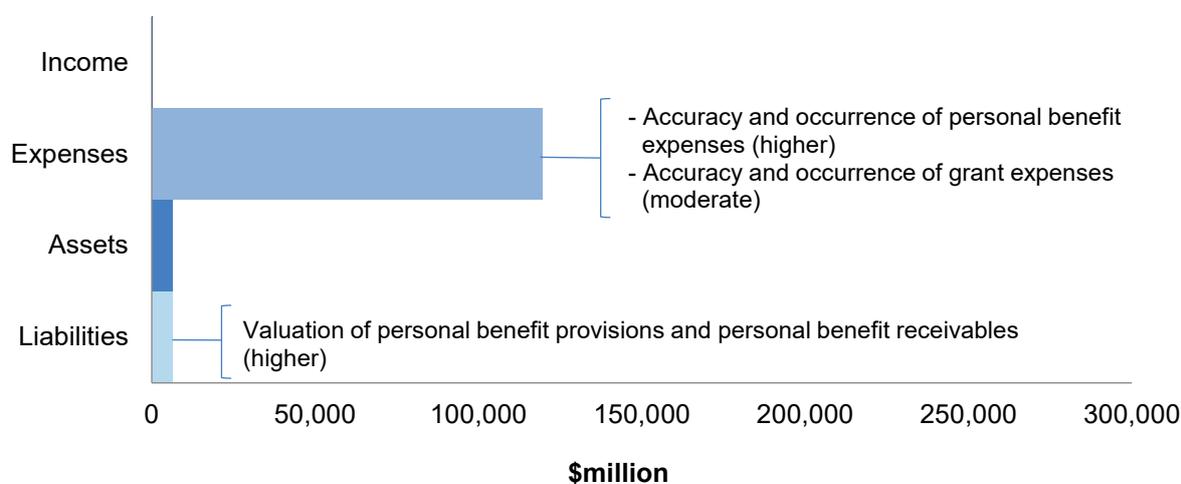
3.20.3 Figure 3.20.1 and Figure 3.20.2 show the 2018–19 departmental and administered financial statement items reported by DSS and the key areas of financial statements risk.

**Figure 3.20.1: Key departmental financial statement items and areas of financial statements risk**



Source: ANAO analysis of DSS' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Figure 3.20.2: Key administered financial statement items and areas of financial statements risk**



Source: ANAO analysis of DSS' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.20.4 The ANAO's audit approach identifies key areas of risk that have the potential to impact DSS' financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of DSS' environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.20.3 and the ANAO's understanding of the operations of DSS, the ANAO has assessed the risk of a material misstatement as **moderate**.

### Key financial statements items

3.20.5 Annual appropriation funding of \$420.7 million (departmental) and \$8.3 billion (administered) was provided to DSS in 2018–19 to support the achievement of the entity's outcomes.<sup>104</sup> DSS was also budgeted to receive special appropriation funding of \$111.4 billion<sup>105</sup> which relates to payment of personal benefits under the social security and families and communities outcomes.

3.20.6 DSS also administer the assessment and oversight functions for national partnership payments to State and Territory Governments on behalf of the Department of the Treasury relating to: Social Impact Assessment, Social and Community Sector, transition to the National Disability Insurance Scheme and National Housing and Homelessness. Whilst these payments are recorded in the Treasury financial statements, the compliance with conditional requirements and payment certificate approval processes are undertaken by DSS. Expenses for national partnership payments are estimated to be \$3.3 billion in 2018–19.<sup>106</sup>

3.20.7 Table 3.20.1 and Table 3.20.2 provide a summary of the key 2018–19 departmental and administered estimated financial statements items.

104 This is provided through *Appropriation Act (No.1) 2018–2019*, *Appropriation Act (No.2) 2018–2019*, *Appropriation Act (No.3) 2018–2019* and *Appropriation Act (No.4) 2018–2019*.

105 Part 1: Special Appropriations Table, *Agency Resourcing, Budget Paper No.4, 2019–20*.

106 Table 2.2, *Department of the Treasury Portfolio Budget Statements 2019–20*.

**Table 3.20.1: Key expenses and total own-sourced income**

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
<b>Total expenses</b>	<b>562.6</b>	<b>119,604.6</b>
Employee benefits	275.0	–
Suppliers	192.6	297.4
Depreciation and amortisation	90.5	–
Personal benefits	–	110,661.9
Grants	–	2,298.1
Subsidies	–	122.2
Other	4.5	6,225.0
<b>Total own-source income</b>	<b>51.5</b>	<b>184.6</b>
Sale of goods and rendering of services	50.1	–
Other	1.4	184.6
<b>Net (cost of)/contribution by services</b>	<b>(511.1)</b>	<b>(119,420.0)</b>

Source: DSS' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Table 3.20.2: Key assets and liabilities**

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
<b>Total assets</b>	<b>306.4</b>	<b>6,361.1</b>
Leasehold improvements	52.4	–
Property, plant and equipment	25.6	–
Intangibles	122.7	–
Receivables	70.9	3,712.4
Other	34.8	2,648.7
<b>Total liabilities</b>	<b>155.8</b>	<b>6,381.9</b>
Employee provisions	87.0	–
Personal benefits payable	–	2,140.7
Personal benefits provision	–	4,028.3
Other	68.8	212.9
<b>Net assets/(liabilities)</b>	<b>150.6</b>	<b>20.8</b>

Note: DSS' estimated average staffing level for 2018–19 is 2,085.

Source: DSS' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

## Key areas of financial statements risk

3.20.8 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 3.20.3.

**Table 3.20.3: Key areas of financial statements risk**

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> personal benefit expenses \$110.7 billion	Accuracy and occurrence of personal benefit expenses KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>reliance on the correct self-disclosure of personal circumstances by a large number of diverse recipients; and</li> <li>reliance on the Department of Human Services' complex information technology system for the processing of a high volume of payments across numerous personal benefit types with varying complexities.</li> </ul>
<i>Administered</i> personal benefit provisions \$4.0 billion  personal benefit receivables (component of receivables) \$3.7 billion)	Valuation of personal benefit provisions and personal benefit receivables KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>provisions and receivables involve estimation models which require significant judgements and assumptions, and are dependent on a number of factors. These factors include, but are not limited to, new budget measures affecting benefit programs, timing of payments, personal circumstances of recipients and the economic environment; and</li> <li>the accuracy and completeness of the source data used by the actuary in developing the estimation of the provisions and receivables is also a key component of the valuation process.</li> </ul>
<i>Administered</i> grant expenses \$2.3 billion	Accuracy and occurrence of grant expenses KAM	<b>Moderate</b>	<ul style="list-style-type: none"> <li>a large number of grants programs with differing legislative and policy requirements which make the management of grant processes complex and this has the potential to impact the validity of grant expenses.</li> </ul>

Source: ANAO 2018–19 risk assessment for DSS and DSS' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

## Audit results

3.20.9 The ANAO has completed its 2018–19 interim audit coverage, including an assessment of the IT general controls; and compliance activities and assurance processes relating to personal benefits and disability services. Audit coverage of the processes relating to: grants; cash;

appropriations; special accounts; asset management; payroll processing; suppliers expenses; departmental revenue and payments on behalf of other entities has also been completed.

3.20.10 Audit procedures relating to the assessment of the valuation of personal benefits asset and liability balances including the valuation of investments and testing of the application controls for the IT systems that process payments related to personal benefits, disability services and grants will be undertaken as part of the planned 2018–19 final audit.

3.20.11 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings. The 2017–18 audit also did not identify any significant or moderate audit findings.

### **Conclusion**

3.20.12 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that DSS will be able to prepare financial statements that are free of material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2018–19 final audit.

## 3.21 Department of Human Services

### Overview

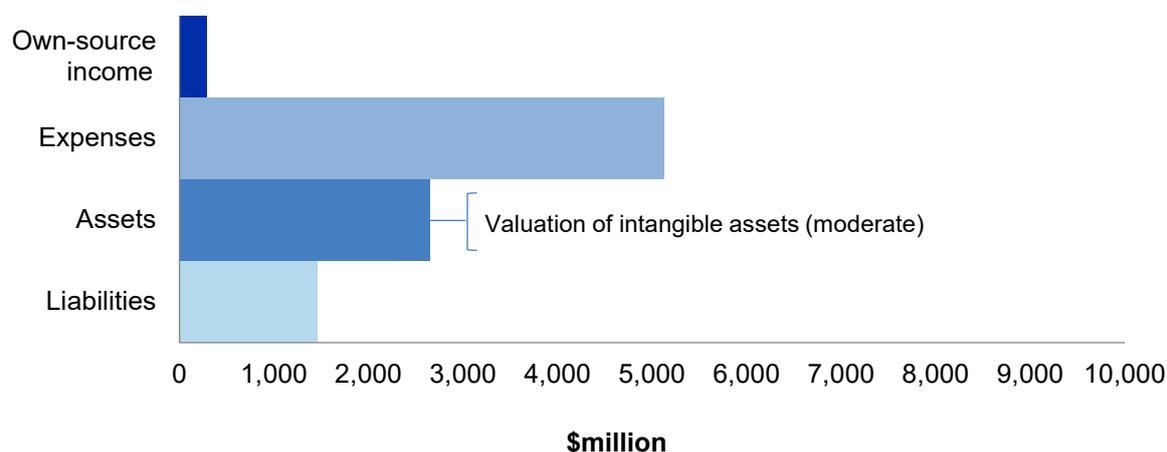
3.21.1 The Department of Human Services (Human Services) is responsible for delivering a range of payments and services to support individuals, families and communities, as well as providers and businesses. These include: income support payments and services; aged care payments; Medicare payments and services; and child support services.

3.21.2 The range of social and health related payments and services delivered by Human Services on behalf of other entities in 2018–19 is forecast to be \$183.6 billion and includes:

- Centrelink payments and services for: retirees, the unemployed, families, carers, parents, students, people with disabilities, Indigenous Australians, farmers, people from diverse cultural and linguistic backgrounds, people living overseas, and provision of services at times of major change, including disaster recovery payments;
- services and programs that support the health of Australians such as Medicare, the Pharmaceutical Benefits Scheme, the Private Health Insurance Rebate, and the Australian Childhood Immunisation Register; and
- Aged Care payments to services funded under the *Aged Care Act 1997*, including residential care, home care, and flexible care services.

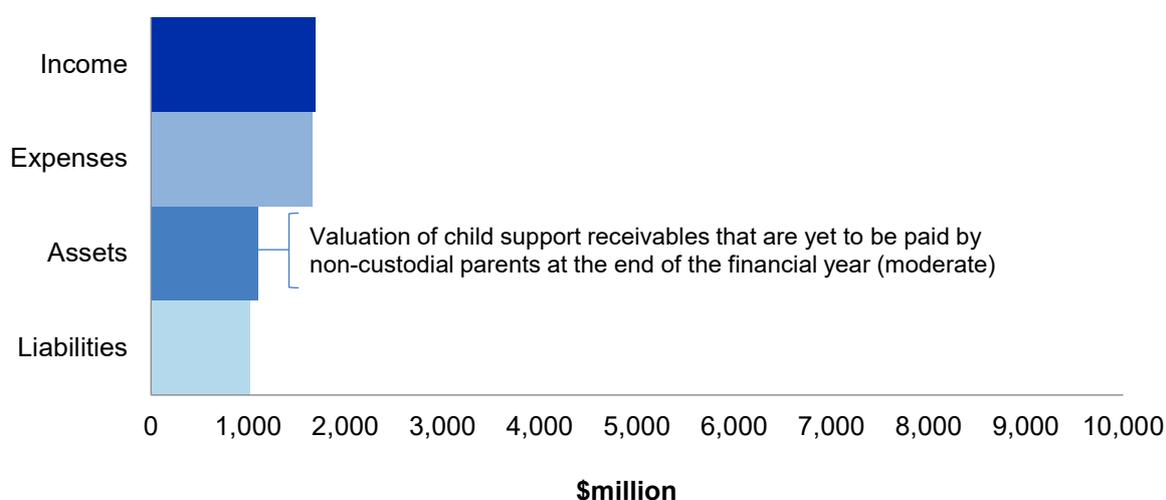
3.21.3 Figure 3.21.1 and Figure 3.21.2 show the 2018–19 departmental and administered financial statement items reported by Human Services and the key areas of financial statements risk.

**Figure 3.21.1: Key departmental financial statement items and areas of financial statements risk**



Source: ANAO analysis of Human Services' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Figure 3.21.2: Key administered financial statement items and areas of financial statements risk**



Source: ANAO analysis of Human Services' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.21.4 The ANAO's audit approach identifies key areas of risk that have the potential to impact Human Services' financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of Human Services' environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.21.3 and the ANAO's understanding of the operations of Human Services, the ANAO has assessed the risk of a material misstatement as **moderate**.

### Key financial statements items

3.21.5 Annual appropriation funding of \$4.6 billion (departmental) and \$1.6 million (administered) was provided to Human Services in 2018–19 to support the achievement of the entity's outcomes.<sup>107</sup> Human Services was also budgeted to receive special appropriation funding of \$0.3 million relating to refunds under the PGPA Act.<sup>108</sup>

3.21.6 Table 3.21.1 and Table 3.21.2 provide a summary of the key 2018–19 departmental and administered estimated financial statements items.

107 This is provided through *Appropriation Act (No.1) 2018–2019*, *Appropriation Act (No.2) 2018–2019*, *Appropriation Act (No.3) 2018–2019* and *Appropriation Act (No.4) 2018–2019*.

108 Part 1: Special Appropriations Table, *Agency Resourcing, Budget Paper No.4, 2019–20*.

**Table 3.21.1: Key expenses and total own-source income**

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
<b>Total expenses</b>	<b>5,132.0</b>	<b>1,659.3</b>
Employee benefits	2,816.9	–
Suppliers	1,992.8	–
Depreciation and amortisation	301.9	–
Child support maintenance	–	1,556.4
Write-down and impairment of assets	16.2	102.9
Other	4.2	–
<b>Total own-source income</b>	<b>289.2</b>	<b>1,693.5</b>
Rendering of services	272.5	–
Rental income	13.3	–
Child support maintenance revenue	–	1,639.0
Dividends	–	11.4
Other	3.4	43.2
<b>Net (cost of)/contribution by services</b>	<b>(4,842.8)</b>	<b>34.2</b>

Source: Human Services' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Table 3.21.2: Key assets and liabilities**

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
<b>Total assets</b>	<b>2,651.7</b>	<b>1,098.6</b>
Cash	15.0	123.2
Trade and other receivables	1,267.5	7.0
Land and buildings	369.1	–
Property and equipment	298.9	–
Software	461.0	–
Prepayments	240.2	–
Child Support receivables	–	896.2
Investment — Australian Hearing	–	72.2
<b>Total liabilities</b>	<b>1,458.8</b>	<b>1,017.5</b>
Suppliers	400.1	–
Lease incentives	97.1	–
Other payables and provisions	41.0	–

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
Employee payables and provisions	920.6	–
Child Support and other payables	–	31.7
Recovery of compensation	–	70.8
Child Support payments received in advance	–	20.7
Child Support provisions	–	894.3
<b>Net assets/(liabilities)</b>	<b>1,192.9</b>	<b>81.1</b>

Note: Human Services' estimated average staffing level for 2018–19 is 27,534.

Source: Human Services' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

### Key areas of financial statements risk

3.21.7 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 3.21.3.

**Table 3.21.3: Key areas of financial statements risk**

Relevant financial statement line item	Key area	Audit risk rating	Factors contributing to risk assessment
<i>Administered</i> child support receivables \$896.2 million	Valuation of child support receivables that are yet to be paid by non-custodial parents at the end of the financial year KAM	<b>Moderate</b>	<ul style="list-style-type: none"> <li>significant judgements and assumptions around the collection rates of child support obligations are applied in determining the valuation of child support receivables, and require the involvement of an actuary. These judgements rely on the quality of the underlying data used in the estimation process which is maintained in spreadsheets and requires manual processing; and</li> <li>a large volume of child support financial transactions are processed under the complex <i>Child Support Act 1988</i>. This complexity increases the judgements and estimates associated with the child support receivable valuation.</li> </ul>

Relevant financial statement line item	Key area	Audit risk rating	Factors contributing to risk assessment
<i>Departmental</i> intangible assets \$461.0 million	Valuation of intangible assets KAM	<b>Moderate</b>	<ul style="list-style-type: none"> <li>significant judgements involved in considering the indicators of impairment to estimate the value of intangible assets; and</li> <li>judgements involved in estimating the capitalisation of the staff and other costs attributed to developing the software applications.</li> </ul>

Source: ANAO 2018–19 risk assessment for Human Services and Human Services' 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.21.8 As referred at paragraph 3.21.2 above, Human Services delivers payments on behalf of the Departments of Social Services, Health and a number of other Commonwealth entities. These payments are reported in the respective entities' financial statements and are budgeted to be approximately \$183.6 billion in 2018–19. The areas highlighted for specific audit coverage in relation to these payments<sup>109</sup> for 2018–19 are outlined in this report against the relevant responsible entity

3.21.9 The ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. The following performance audit reports were tabled during 2018–19 relevant to the financial management or administration of Human Services:

- Auditor-General's Report No.10 2018–19 *Design and Implementation of the Quality Framework Department of Human Services*; and
- Auditor-General's Report No.15 2018–19 *Human Services' Compliance Strategies*.

3.21.10 While these reports did not include recommendations regarding risks to Human Services' financial administration as it relates to the financial statements, the observations of these reports were considered in designing audit procedures.

## Audit results

3.21.11 The ANAO has completed its 2018–19 interim audit coverage including an assessment of controls in relation to areas of audit focus and IT controls over security and change management of the financial management and human resource management information systems.

3.21.12 As part of the 2018–19 final audit, the ANAO will also assess the controls over social services and health related payments made by Human Services on behalf of other Commonwealth entities, including associated compliance and quality assurance activities. In addition, the ANAO's final audit coverage will include the valuation of child support debts and non-financial assets, particularly intangibles.

<sup>109</sup> The ANAO has identified an additional three risks in relation to the services provided by Human Services for other Commonwealth entities.

3.21.13 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings. The 2017–18 audit also did not identify any significant or moderate audit findings.

### **Conclusion**

3.21.14 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that Human Services will be able to prepare financial statements that are free of material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2018–19 final audit.

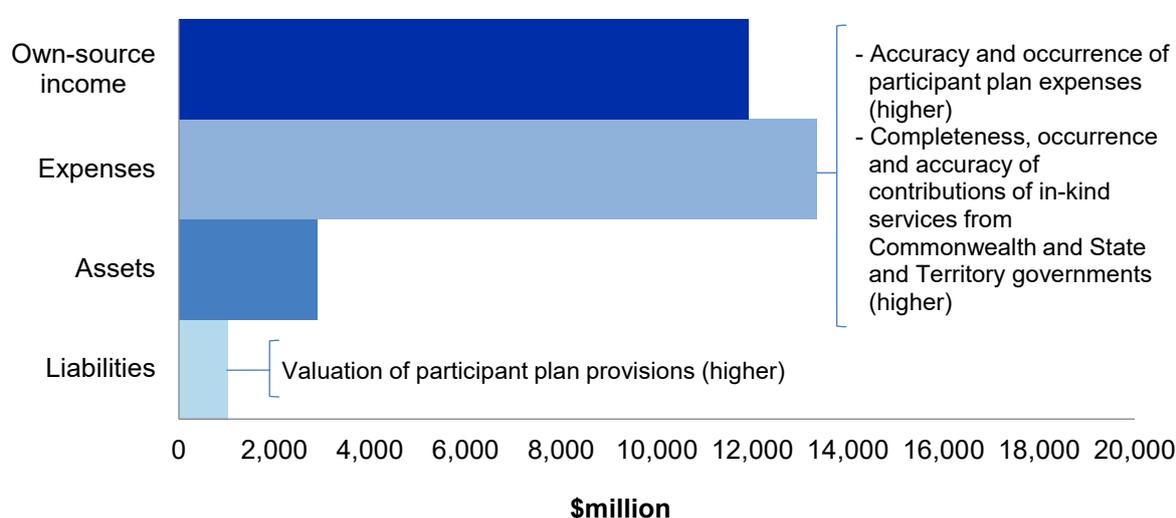
## 3.22 National Disability Insurance Agency

### Overview

3.22.1 The National Disability Insurance Agency (NDIA), which commenced operations on 1 July 2013, was established under the *National Disability Insurance Scheme Act 2013*. The NDIA is responsible for delivering the National Disability Insurance Scheme (NDIS). The NDIS is designed to provide individual control and choice in the delivery of reasonable and necessary care and support; to improve the independence, and social and economic participation of eligible people with disabilities, their families and carers; and to provide associated referral services and activities.

3.22.2 Figure 3.22.1 shows the 2018–19 financial statement items reported by the NDIA and the key areas of financial statements risk.

**Figure 3.22.1: Key financial statement items and areas of financial statements risk**



Source: ANAO analysis of NDIA's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.22.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact NDIA's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of NDIA's environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.22.3 and the ANAO's understanding of the operations of NDIA, the ANAO has assessed the risk of a material misstatement as **high**.

### Key financial statements items

3.22.4 Annual funding of \$13.3 billion is estimated to be provided to NDIA in 2018–19 to support the achievement of NDIA's outcomes. The funding comprises \$1.5 billion appropriations from the Commonwealth government for operating costs, \$10.2 billion from Commonwealth, State and Territories governments for participant costs and \$1.6 billion services provided in-kind to participants from the Commonwealth, State and Territories governments.

3.22.5 Table 3.22.1 and Table 3.22.2 provide a summary of the key 2018–19 estimated financial statements items.

**Table 3.22.1: Key expenses and total own-sourced income**

Expenses and own-source income	Estimated actual (\$m) 2018–19
<b>Total expenses</b>	<b>13,345.1</b>
Employee benefits	315.5
Suppliers	1,143.1
Grants	114.3
Depreciation and amortisation	20.3
Participant plan expenses	11,916.8
<b>Total own-source income</b>	<b>11,916.8</b>
Sales of goods and rendering services	10,218.3
Other	1,698.5
<b>Net (cost of)/contribution by services</b>	<b>(1,428.3)</b>

Source: NDIA's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Table 3.22.2: Key assets and liabilities**

Assets and liabilities	Estimated actual (\$m) 2018–19
<b>Total assets</b>	<b>2,889.1</b>
Cash and cash equivalents	2,358.5
Trade and other receivables	243.8
Non-financial assets	130.6
Other	156.2
<b>Total liabilities</b>	<b>1,014.2</b>
Suppliers	242.7
Grants	706.4
Employee provisions	56.1
Other	9.0
<b>Net assets/(liabilities)</b>	<b>1,874.9</b>

Note: NDIA's estimated average staffing level for 2018–19 is 3,138.

Source: NDIA's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

### Key areas of financial statements risk

3.22.6 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 3.22.3.

**Table 3.22.3: Key areas of financial statements risk**

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Participant plan expenses \$11.9 billion	Accuracy and occurrence of participant plan expenses KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>ongoing growth in Scheme participant numbers and the need to cater for a diverse group of participants with varying and changing needs;</li> <li>reliance on third parties to provide information to support payments, making these payments more susceptible to fraud;</li> <li>no supporting documentation required as part of the claiming process; and</li> <li>significant work required to implement a successful compliance program supporting payments to participants.</li> </ul>
Grants Participant plan provision \$706.4 million	Valuation of participant plan provisions KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>reliance on accounting estimates based on relatively immature longitudinal data given the maturity of the Scheme; and</li> <li>complexity of calculations due to the significant number of participant plans and the diverse nature of goods and services provided.</li> </ul>
Contributions in-kind from Commonwealth, State and Territory governments \$1.6 billion	Completeness, occurrence and accuracy of contributions of in-kind services from Commonwealth and State and Territory governments KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>the complexity of large data matching processes that support the allocation of in-kind services to participant plans;</li> <li>the magnitude of the balance in the financial statements; and</li> <li>the manual management of some components of the in-kind contributions outside the customer relationship management (CRM) system.</li> </ul>

Source: ANAO 2018–19 risk assessment for NDIA and NDIA's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

## Audit results

3.22.7 The ANAO has completed its 2018–19 interim audit coverage, including an assessment of the controls relating to: the NDIA's IT general controls over security and change management; processes relating to cash; asset management; payroll processing; suppliers expenses; grants expenses; and participant expenses.

3.22.8 Audit coverage of the application controls in the financial management and human resource management information systems and the CRM system will be completed prior to the final phase of the 2018–19 audit.

3.22.9 Audit procedures relating to the valuation of the participant provision, the completeness and accuracy of in-kind revenue and our review of the NDIA's quality assurance framework supporting participant expenses will be undertaken as part of the planned 2018–19 final audit.

3.22.10 To date, our audit coverage has not identified any new significant or moderate audit findings. The following table summarises the status of audit findings reported by the ANAO in 2018–19.

**Table 3.22.4: Status of audit findings raised by the ANAO**

Category	Closing Position (2017–18)	New Findings (2018–19)	Findings Resolved (2018–19)	Closing position (2018–19)
A	–	–	–	–
B	3	–	–	3
<b>TOTAL</b>	<b>3</b>	<b>–</b>	<b>–</b>	<b>3</b>

#### *Unresolved moderate audit findings*

##### Business Assurance — Compliance Program

3.22.11 Access to the Scheme is regulated via NDIA's assessment and approval of individual applicants against eligibility criteria. Once approved as eligible for the Scheme, a participant plan is formulated and approved that outlines the reasonable and necessary supports required by the participant.

3.22.12 Scheme participants can choose to self-manage their approved plan of supports or have their plan managed by the NDIA. Where plans are managed by the NDIA, payments are made to the provider subject to claims lodged online. Self-managed participants also claim online but funds are paid directly to the individual participant. No supporting documentation is required as part of the claiming process. Providers are expected to maintain evidence supporting the claims. Self-managed participants are required to keep copies of receipts for supports provided.

3.22.13 In 2015–16 the ANAO's review of the NDIA's progress towards implementing an assurance framework, including a compliance program, over the integrity of claims paid to both scheme participants and service providers identified weaknesses. The review noted that there were no documented compliance activities for payments made directly to self-managed participants and that the review program for payments made to providers was based on a non-statistical sample methodology which does not allow results to be extrapolated across the population to estimate the potential rate of non-compliance within the Scheme.

3.22.14 The ANAO also identified that there was insufficient documentary evidence to demonstrate quality assurance processes over the integrity of decisions made concerning provider registrations, participant identity or eligibility and participant plan approvals.

3.22.15 The NDIA has advised the ANAO that it has a plan to fully address this finding by 30 June 2019 and that they are on track to meet this target date. The ANAO will review the progress as part of the final phase of the 2018–19 audit.

### Streamlined Access to Scheme — Defined Programs

3.22.16 Streamlined access processes for participants were introduced to facilitate the timely transition of large numbers of people into the Scheme. One of the streamlined pathways is through Defined Programs. Defined Programs are existing State, Territory and Commonwealth disability support programs that have been assessed by the NDIA as having eligibility requirements that align with Scheme access requirements. People currently receiving support from a Defined Program are automatically deemed eligible for the Scheme, as long as they meet the Scheme age and residence requirements. The NDIA advised that between 1 July 2017 and 30 June 2018, approximately 55 per cent of NDIS participants entered the Scheme through a Defined Program.

3.22.17 The Commonwealth, state and territory governments provide information to the NDIA on existing disability clients transitioning into the Scheme in accordance with an agreed data standard, including if a potential participant is a participant in a Defined Program.

3.22.18 Due to the reliance on state and territory information and the limited access review processes for participants once they have been accepted as eligible to the Scheme, there is an increased risk of ineligible participants entering the Scheme and not being identified as ineligible in a timely manner. A risk mitigation strategy had not been implemented to address this risk.

3.22.19 The NDIA has advised that the redesigned participant pathway, which guides the interactions between the Scheme and participants, will include a review of the access decision for Defined Program participants as part of their participant plan review. The NDIA has also advised that risk profiling of Defined Program participants is scheduled for implementation in 2019–20. The ANAO will review the progress of these developments as part of the final phase of the 2018–19 audit.

### Approval of Supports to Participants of the Scheme

3.22.20 The NDIA uses the SAP Customer Relationship Management (CRM) system to manage Scheme participant records, assess their eligibility for access to the Scheme, create and approve their support plans, create and register disability support service providers, and process service bookings and claims.

3.22.21 Roles in the CRM enable NDIA staff to perform these duties in the system. Roles are allocated both on the basis of a user's job description and, where applicable, their delegation in accordance with the signed *Instrument of Delegation*. The *Instrument of Delegation* grants the legislative authority to allow NDIA staff to perform their duties under the delegation of the Chief Executive Officer and for participant plan approvals sets the dollar value limit that a delegate may approve.

3.22.22 ANAO testing of participant plan expenses in 2017–18 identified instances where participant plan budget values were increased after a delegate had exercised their delegation and approved the total value of the plan. These instances included participant plans that contained supports that required a quote to be provided, the manual payment of participant supports outside of the CRM system and participant plans that were extended beyond their initial term subsequent to the delegate's approval. These changes in the participant plan budget were not subject to re-approval by an appropriate delegate.

3.22.23 Plan expenditure that exceeds the delegate's approval is a breach of the legislative *Instrument of Delegation*. This also increases the risk of inappropriate or unauthorised transactions

being processed and plans being approved outside of expected ranges which could impact on the Scheme's sustainability.

3.22.24 The NDIA has advised that processes will be implemented to manage this issue and ensure that appropriate approvals are obtained. The intended approach includes the implementation of manual controls as well as proposed changes to the SAP CRM system. The NDIA has advised a target completion date of 30 June 2019. The ANAO will review the progress made to address this issue as part of the final phase of the 2018–19 audit.

### **Conclusion**

3.22.25 At the completion of the interim audit, the ANAO has reported a number of areas where improvements are required. The audit findings outlined above reduce the level of confidence that can be placed on the key elements of internal control that support the preparation of the financial statements that are free from material misstatement. During the 2018–19 final audit the ANAO will undertake further procedures and assess action taken by NDIA to address the weaknesses identified.

## 3.23 Department of the Treasury

### Overview

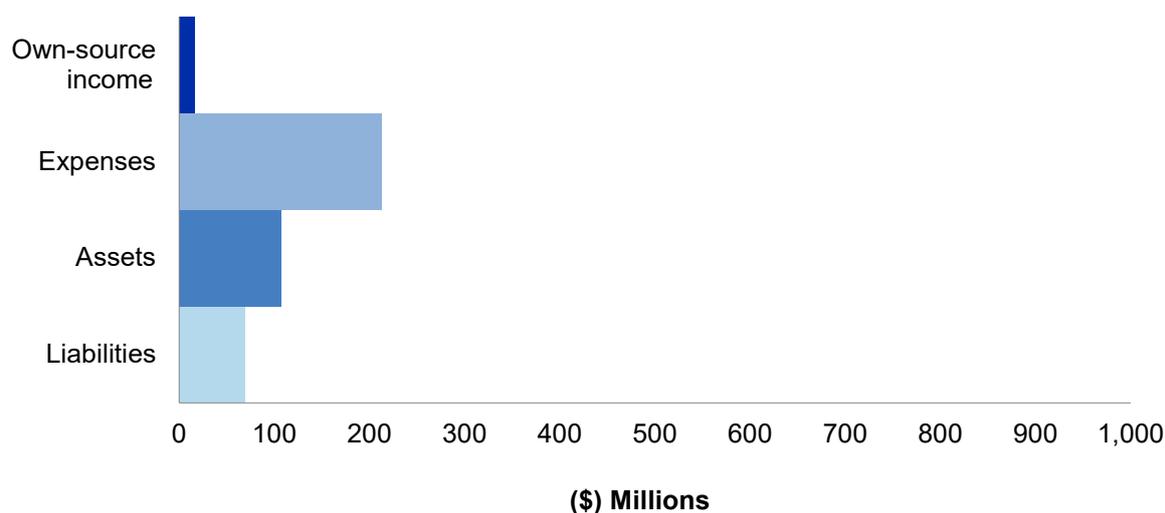
3.23.1 The Department of the Treasury (Treasury) is responsible for the development, delivery and implementation of economic analysis and authoritative policy advice on issues such as; the economy; budget; taxation; financial sector; foreign investment; structural policy; superannuation; small business; housing affordability and international economic policy.

3.23.2 The Treasury also works with State and Territory governments on key policy areas, as well as managing federal financial relations. The Commonwealth, through the Treasury, currently provides grants to the States and Territories under the *Federal Financial Relations Act 2009* (FFR Act) through: National Specific Purpose Payments; National Health Reform Funding; General Revenue Assistance; and National Partnership Payments. In 2018–19, a significant portion of the National Partnership Payments were delivered by the Departments of Infrastructure, Regional Development and Cities and Social Services.

3.23.3 In 2018–19, Treasury was involved in the establishment of the National Housing Finance Investment Corporation (NHFIC). NHFIC is corporate Commonwealth entity within the Treasury portfolio dedicated to improving affordable housing outcomes. It offers loans, investments and grants to encourage investment in housing, with a particular focus on new affordable housing. The Commonwealth, through the Treasury, provides funding to NHFIC in the form of grants, equity funding and a line of credit.

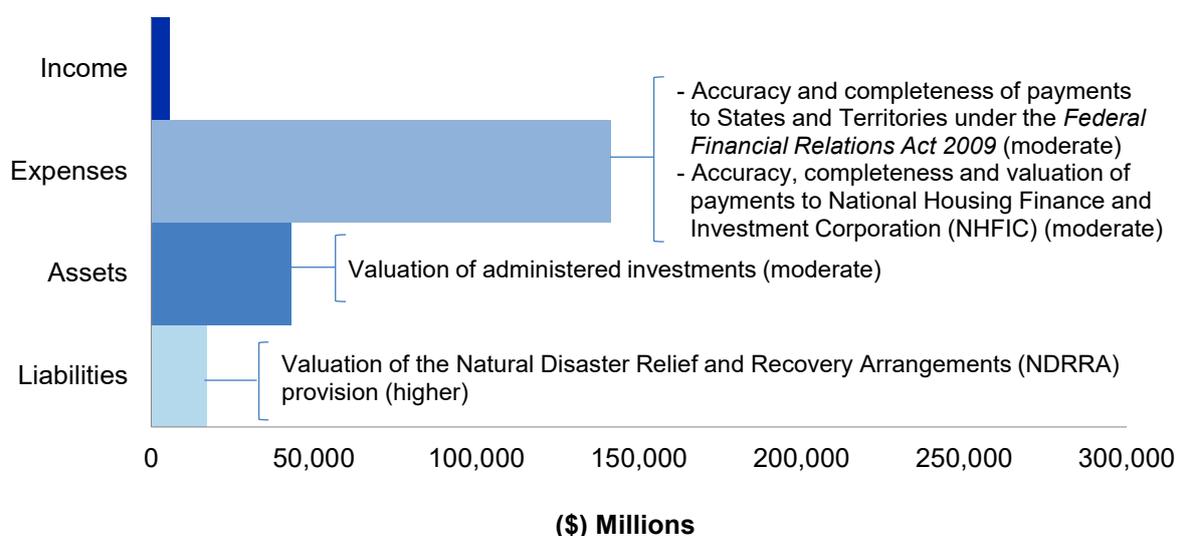
3.23.4 Figure 3.23.1 and Figure 3.23.2 show the 2018–19 departmental and administered financial statement items reported by the Treasury and the key areas of financial statements risk.

**Figure 3.23.1: Key departmental financial statement items and areas of financial statements risk**



Source: ANAO analysis and the Treasury's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Figure 3.23.2: Key administered financial statement items and areas of financial statements risk**



Source: ANAO analysis and the Treasury's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.23.5 The ANAO's audit approach identifies key areas of risk that have the potential to impact the Treasury's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of the Treasury's environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.23.3 and the ANAO's understanding of the operations of the Treasury, the ANAO has assessed the risk of a material misstatement as **moderate**.

### Key financial statements items

3.23.6 Annual appropriation funding of \$199.7 million (departmental) and \$441.8 million (administered) was provided to the Treasury in 2018–19 to support the achievement of the entity's outcomes.<sup>110</sup> The Treasury was also budgeted to receive special appropriation funding of \$91.0 billion, the majority of which relates to payments made under the FFR Act.<sup>111</sup>

3.23.7 Table 3.23.1 and Table 3.23.2 provide a summary of the key 2018–19 departmental and administered estimated financial statements items.

**Table 3.23.1: Key expenses and total own-sourced income**

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
<b>Total expenses</b>	<b>213.1</b>	<b>141,466.3</b>
Employee benefits	139.9	–
Suppliers	61.2	24.6

110 This is provided through *Appropriation Act (No.1) 2018–2019*, *Appropriation Act (No.2) 2018–2019*, *Appropriation Act (No.3) 2018–2019* and *Appropriation Act (No.4) 2018–2019*.

111 Part 1: Special Appropriations Table, *Agency Resourcing, Budget Paper No.4, 2019–20*.

Department of the Treasury

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
Grants	4.8	105,141.5
Payments to the Medicare Guarantee Fund	–	35,704.0
Interest	–	106.7
Foreign Exchange losses	–	489.4
Other	7.2	–
<b>Total own-source income</b>	<b>16.6</b>	<b>5,742.6</b>
Sales of goods and services	11.7	605.5
Interest	–	22.6
Dividends	–	1,562.6
COAG revenue from government entities	–	3,177.1
Other	4.9	93.5
Foreign Exchange Gains	–	281.3
<b>Net (cost of)/contribution by services</b>	<b>(196.5)</b>	<b>(135,723.7)</b>

Source: The Treasury's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Table 3.23.2: Key assets and liabilities**

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
<b>Total assets</b>	<b>106.7</b>	<b>43,016.1</b>
Cash and cash equivalents	0.6	205.0
Advances and loans	–	441.2
Trade and other receivables	64.1	1,569.0
Land and buildings	15.5	–
Property, plant and equipment	12.2	–
Intangibles	9.7	–
Investments	–	40,204.3
Other	4.6	596.6
<b>Total liabilities</b>	<b>68.6</b>	<b>17,096.5</b>
Suppliers	11.3	–
Other payables	4.7	5,996.8
Employee provisions	49.1	–
Grants payable	–	77.6

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Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
Loans	–	10,365.5
Other provisions	3.5	656.6
<b>Net assets/(liabilities)</b>	<b>38.1</b>	<b>25,919.6</b>

Note: The Treasury's estimated average staffing level for 2018–19 is 857.

Source: The Treasury's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

## Key areas of financial statements risk

3.23.8 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 3.23.3.

**Table 3.23.3: Key areas of financial statements risk**

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> other provisions \$656.6 million	Valuation of the Natural Disaster Relief and Recovery Arrangements Provision (NDRRA) KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>complexities in judgements involved in estimating the provision arising from reliance on information provided by state and territory governments relating to the estimation of future costs to restore infrastructure to its original condition at the time of the natural disaster and the timing of future payments.</li> </ul>
<i>Administered</i> grants expense \$105,141.5 million  grants payable \$77.6 million	Accuracy and completeness of payments to States and Territories under the <i>Federal Financial Relations Act 2009</i> KAM	<b>Moderate</b>	<ul style="list-style-type: none"> <li>the significance of the value of grants paid and the complex eligibility criteria for a number of grants; and</li> <li>reliance on other government entities to provide information to support payments and confirm the eligibility criteria have been met.</li> </ul>
<i>Administered</i> investments \$40,204.3 million	Valuation of Administered Investments	<b>Moderate</b>	<ul style="list-style-type: none"> <li>the significance of the value of administered investments and the potential impact of the volatility of inputs, such as exchange rates used, in re-measurement of the international financial institutions.</li> </ul>

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> grant expense \$105.1 billion  investments \$40.2 billion  advances and loans \$441.2 million	Accuracy, completeness and valuation of National Housing Finance and Investment Corporation (NHFIC) transactions	<b>Moderate</b>	<ul style="list-style-type: none"> <li>complex legislative arrangements which govern the funding arrangements for NHFIC and the accurate recording in the financial statements of associated transactions.</li> </ul>

Source: ANAO 2018–19 risk assessment for the Treasury and the Treasury's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

## Audit results

3.23.9 The ANAO has completed its 2018–19 interim audit coverage, including an assessment of the controls relating to: cash and asset management, payroll processing, revenue and receivables, supplier expenses and appropriations. Audit coverage also included an assessment of the IT general controls.

3.23.10 Interim audit coverage has been completed over program management and eligibility managed by other entities and the Treasury's internal payment processes for National Partnership Payments made under the *Federal Financial Relations Act 2009*.

3.23.11 Audit procedures relating to: the valuation of NDRRA; administered investments and transactions relating to the NHFIC will be undertaken as part of the 2018–19 final audit. Procedures will also be undertaken over the assurance processes for payments made under the *Federal Financial Relations Act 2009*, including those yet to be completed relating to the National Partnership Payments.

3.23.12 To date, our audit coverage has not identified any new significant or moderate audit findings. The 2017–18 audit also did not identify any significant or moderate audit findings.

## Conclusion

3.23.13 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that the Treasury will be able to prepare financial statements that are free of material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2018–19 final audit.

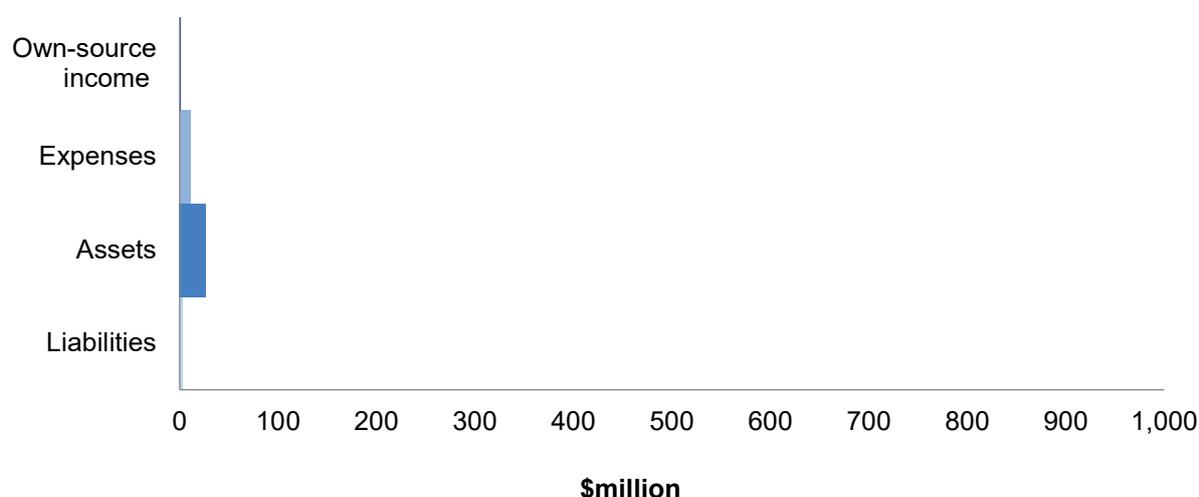
## 3.24 Australian Office of Financial Management

### Overview

3.24.1 The Australian Office of Financial Management (AOFM) is responsible for managing Australian Government debt and financial assets and the issuing of Treasury bonds, Treasury indexed bonds and Treasury notes into financial markets.

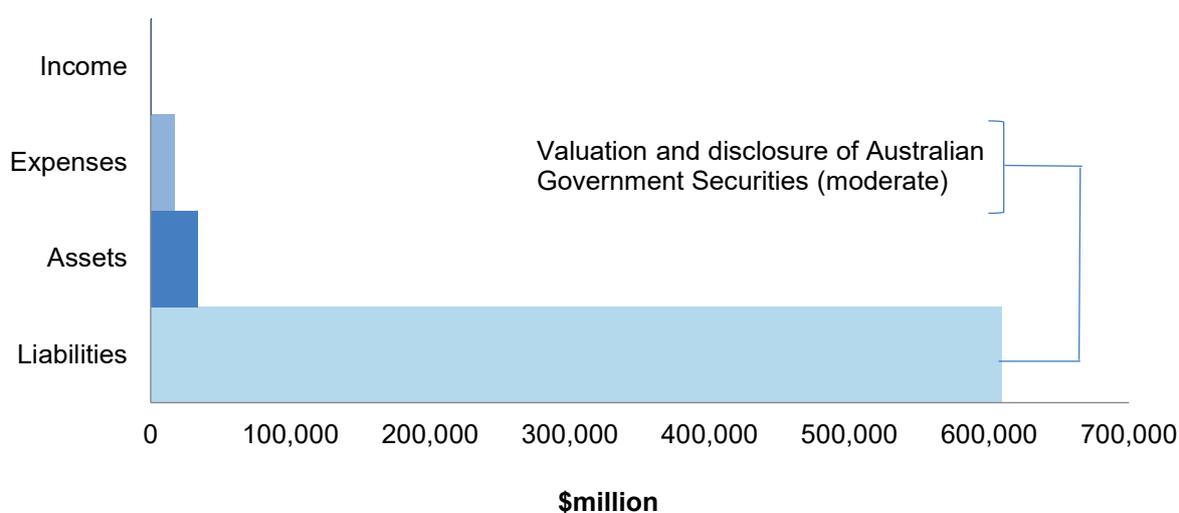
3.24.2 Figure 3.24.1 and Figure 3.24.2 show the 2018–19 departmental and administered financial statement items reported by the AOFM and the key areas of financial statements risk.

**Figure 3.24.1: Key departmental financial statement items and areas of financial statements risk**



Source: ANAO analysis and the AOFM's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Figure 3.24.2: Key administered financial statement items and areas of financial statements risk**



Source: ANAO analysis and the AOFM's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.24.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact the AOFM's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of the AOFM's environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.24.3 and the ANAO's understanding of the operations of the AOFM, the ANAO has assessed the risk of a material misstatement as **moderate**.

### Key financial statements items

3.24.4 Annual appropriation funding of \$12.4 million (departmental) was provided to the AOFM in 2018–19 to support the achievement of the entity's outcomes.<sup>112</sup> The AOFM was also budgeted to receive special appropriation funding of \$519.0 billion<sup>113</sup>, which provides the payment of principal and interest on debt managed by the AOFM and for the purchase of investments.

3.24.5 Table 3.24.1 and Table 3.24.2 provide a summary of the key 2018–19 departmental and administered estimated financial statements items.

**Table 3.24.1: Key expenses and total own-sourced income**

Expenses and own-source income	Departmental	Administered
	estimated actual (\$m) 2018–19	estimated actual (\$m) 2018–2019
<b>Total expenses</b>	<b>11.2</b>	<b>17,153.9</b>
Employee benefits	7.2	–
Suppliers	3.5	–
Depreciation and amortisation	0.5	–
Interest costs	–	17,133.9
Other	–	20.0
<b>Total own-source income</b>	<b>0.7</b>	<b>(179.0)</b>
Sale of goods and rendering of services	0.4	–
Resources received free of charge	0.3	–
Interest revenue	–	595.2
Net loss on debt repurchase and asset sales	–	(774.2)
Net gain/(losses) on market revaluation	–	(21,463.6)
<b>Net (cost of)/contribution by services</b>	<b>(10.5)</b>	<b>(38,796.5)</b>

Source: The AOFM's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

112 This is provided through *Appropriation Act (No.1) 2018–2019*.

113 Part 1: Special Appropriations Table, *Agency Resourcing, Budget Paper No.4, 2019–20*.

**Table 3.24.2: Key assets and liabilities**

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
<b>Total assets</b>	<b>27.0</b>	<b>33,469.2</b>
Cash and cash equivalents	0.1	0.6
Trade and other receivables	23.5	1,711.5
Investments	–	31,757.1
Non-financial assets	3.4	–
<b>Total liabilities</b>	<b>3.0</b>	<b>608,637.3</b>
Employee provisions	2.1	–
Australian Government securities	–	608,637.3
Other	0.9	–
<b>Net assets/(liabilities)</b>	<b>24.0</b>	<b>(575,168.1)</b>

Note: The AOFM's estimated average staffing level for 2018–19 is 40.

Source: The AOFM's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

### Key areas of financial statements risk

3.24.6 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. The area highlighted for specific audit coverage in 2018–19 is provided in Table 3.24.3.

**Table 3.24.3: Key area of financial statements risk**

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> Australian Government securities \$608.6 billion	Valuation and disclosure of Australian Government securities KAM	<b>Moderate</b>	<ul style="list-style-type: none"> <li>significant value of the liability and significant volume of instruments issued;</li> <li>fair value movements have a material impact on the financial statements and are impacted by price changes in money markets and capital markets; and</li> <li>complex financial statement disclosure requirements for financial assets and liabilities measured at fair value through profit and loss.</li> </ul>

Source: ANAO 2018–19 risk assessment for the AOFM and the AOFM's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

### Audit results

3.24.7 The ANAO 2018–19 interim audit coverage is substantially complete, including an assessment of the controls relating to: the authorisations of new tenders, debt coupon payments and redemptions; debt buybacks; the review of market valuations of debt, appropriations, and

payroll processes. IT and general application controls coverage specific to debt management are currently in progress.

3.24.8 Audit procedures relating to: the valuation of Australian Government securities, loans to state and territories, and term deposits; appropriations and procedures covering employee benefits and supplier expenses will be undertaken as part of the 2018–19 final audit.

3.24.9 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings. The 2017–18 audit also did not identify any significant or moderate audit findings.

### **Conclusion**

3.24.10 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that the AOFM will be able to prepare financial statements that are free of material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2018–19 final audit.

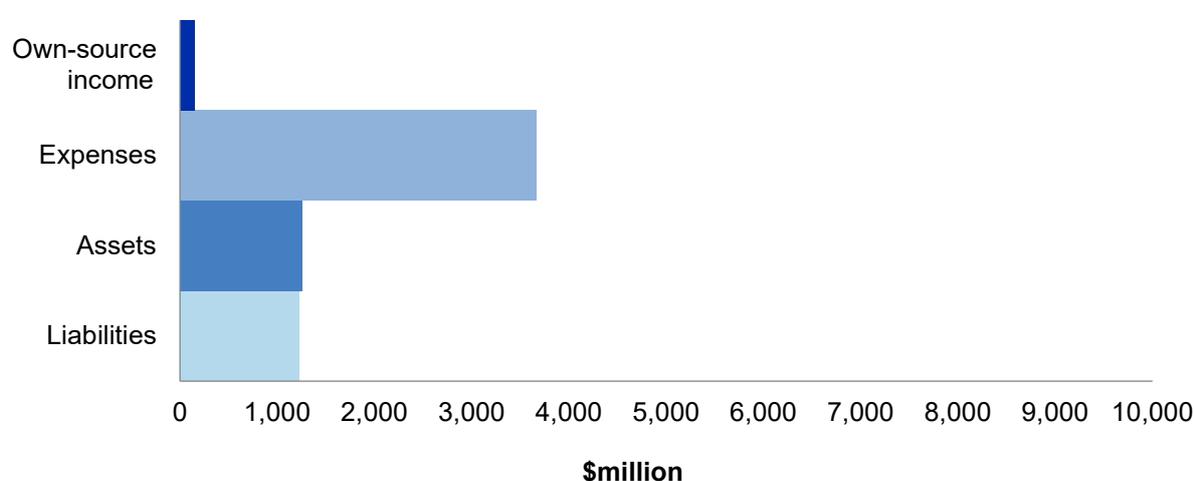
## 3.25 Australian Taxation Office

### Overview

3.25.1 The Australian Taxation Office's (ATO) core areas of responsibility are managing and shaping tax, excise and superannuation systems that fund services for Australians, together with the provision of support to the Tax Practitioners Board, the Australian Business Register and the Australian Charities and Not-for-profits Commission.

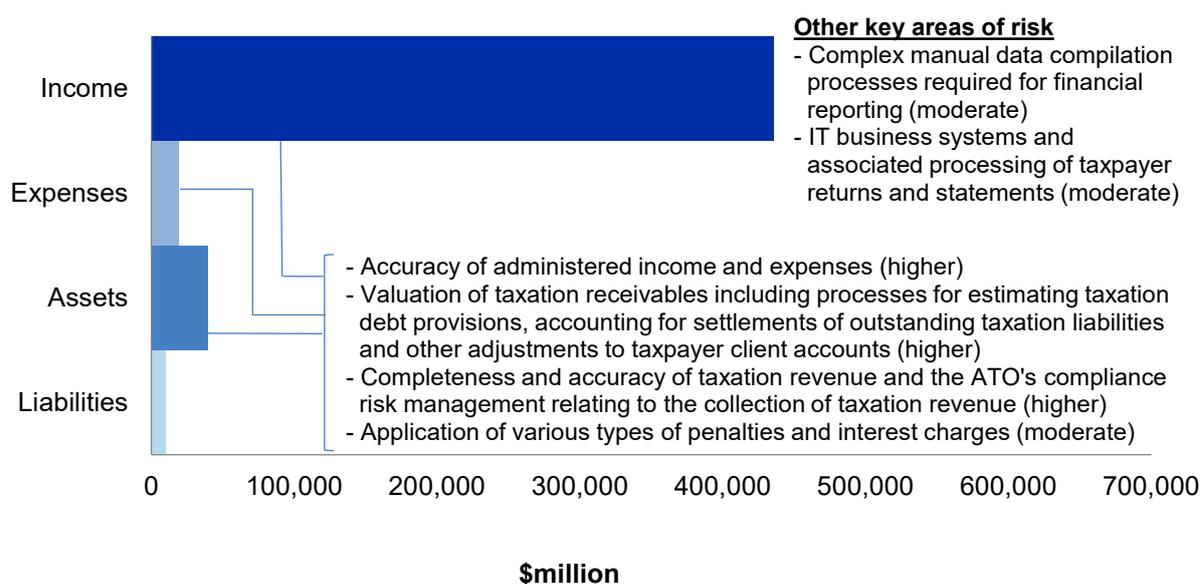
3.25.2 Figure 3.25.1 and Figure 3.25.2 show the 2018–19 departmental and administered financial statement items reported by ATO and the key areas of financial statements risk.

**Figure 3.25.1: Key departmental financial statement items and areas of financial statements risk**



Source: ANAO analysis and ATO's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Figure 3.25.2: Key administered financial statement items and areas of financial statements risk**



Source: ANAO analysis and ATO's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

3.25.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact ATO's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of ATO's environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.25.3 and the ANAO's understanding of the operations of ATO, the ANAO has assessed the risk of a material misstatement as **high**.

### Key financial statements items

3.25.4 Annual appropriation funding of \$3.4 billion (departmental) and \$6.2 million (administered) was provided to ATO in 2018–19 to support the achievement of the entity's outcomes.<sup>114</sup> ATO is also budgeted to receive special appropriation funding of \$11.7 billion for administered subsidies including: fuel tax credits; research and development tax incentive; and Australian Screen Production Incentive; and tax refunds items worth \$99.7 billion which includes \$260 million collected on behalf of the ATO by the Department of Home Affairs (Home Affairs) for the Tourist Refund Scheme (TRS) under Section 16 of the *Tax Administration Act*.<sup>115</sup>

3.25.5 Table 3.25.1 and Table 3.25.2 provide a summary of the key 2018–19 departmental and administered estimated financial statements items.

114 This is provided through *Appropriation Act (No.1) 2018–2019*, *Appropriation Act (No.2) 2018–2019*, *Appropriation Act (No.3) 2018–2019* and *Appropriation Act (No.4) 2018–2019*.

115 Part 1: Special Appropriations Table, *Agency Resourcing, Budget Paper No.4, 2019–2020*.

**Table 3.25.1: Key expenses and total own-sourced income**

Expenses and own-source income	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–2019
<b>Total expenses</b>	<b>3,659.1</b>	<b>19,122.1</b>
Employee benefits	1,880.7	-
Suppliers	1,549.4	1.9
Depreciation and amortisation	229.0	-
Subsidies	-	9,818.2
Personal benefits	-	1,139.0
Penalty and Interest charge remission	-	1,305.0
Write-down and impairment of assets	-	6,166.0
Interest	-	140.0
Other	-	552.0
<b>Total own-source income</b>	<b>149.2</b>	<b>435,981.0</b>
Sale of goods and rendering of services	114.0	-
Income tax	-	340,089.0
Indirect tax	-	93,105.0
Other taxes	-	2,787.0
Other	35.2	(38.7)
<b>Net (cost of)/contribution by services</b>	<b>(3,509.9)</b>	<b>416,820.2</b>

Source: ATO's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

**Table 3.25.2: Key assets and liabilities**

Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
<b>Total assets</b>	<b>1,259.2</b>	<b>40,062.3</b>
Trade and other receivables	428.0	-
Non-financial assets	802.2	-
Taxation receivables	-	25,046.7
Accrued revenues	-	14,609.3
Other	29.0	406.3
<b>Total liabilities</b>	<b>1,226.2</b>	<b>10,360.2</b>
Suppliers	392.7	-
Employee provisions	723.5	-
Subsidies	-	3,602.7

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Assets and liabilities	Departmental estimated actual (\$m) 2018–19	Administered estimated actual (\$m) 2018–19
Taxation refunds provided	-	2,459.9
Other provisions	27.0	1,910.7
Personal benefits	-	1,230.0
Other	83.0	1,156.9
<b>Net assets/(liabilities)</b>	<b>33.0</b>	<b>29,702.1</b>

Note: ATO's estimated average staffing level for 2018–19 is 17,416.

Source: ATO's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

### Key areas of financial statements risk

3.25.6 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 3.25.3.

**Table 3.25.3: Key areas of financial statements risk**

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> taxation revenue \$435.9 billion  expenses \$19.1 billion	Accuracy of administered income and expenses  KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>• complex estimation processes, involving significant judgement and specialist knowledge;</li> <li>• completeness, relevance and accuracy of source data; and</li> <li>• volatility in economic conditions, such as wage growth, gross domestic product and historical information increases the uncertainty of factors underpinning the estimates.</li> </ul>

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<p><i>Administered</i> taxation revenue \$435.9 billion</p> <p>expenses \$19.1 billion</p> <p>provisions for credit amendments and impairment allowance (component of the taxation receivable balance \$25.0 billion)</p> <p>provisions for refunds \$2.5 billion</p>	<p>Valuation of taxation receivables including processes for estimating taxation debt provisions, accounting for settlements of outstanding taxation liabilities and other adjustments to taxpayer client accounts</p> <p>KAM</p>	<p><b>Higher</b></p>	<ul style="list-style-type: none"> <li>• significant value of transactions subject to complex estimation processes drawing on specialist knowledge of debt provisions, including allowance for credit amendment and impairment losses associated with taxation receivable balances;</li> <li>• completeness, relevance and accuracy of source data;</li> <li>• complexity associated with negotiations and dispute resolutions;</li> <li>• application of significant judgement for settlement resulting from differing deeds and terms; and</li> <li>• quality assurance processes for key judgements relating to debt provisions including credit amendments; impairment losses; and accounting for settlements of outstanding taxation liabilities and other adjustments to client accounts.</li> </ul>
<p>Administered taxation revenue \$435.9 billion</p>	<p>Completeness and accuracy of taxation revenue and the ATO's compliance risk management relating to the collection of taxation revenue.</p> <p>KAM</p>	<p><b>Higher</b></p>	<ul style="list-style-type: none"> <li>• the significant value of revenue transactions that rely on information provided by taxpayers in a self-assessment and voluntary compliance regime;</li> <li>• the effectiveness of the design and implementation of the compliance risk management regime that reduces the risk that inappropriate taxation returns may not be detected and corrected by the ATO, which makes the deterrence of tax evasion more effective; and</li> <li>• judgements associated with the risk management approach to compliance activities.</li> </ul>

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
<i>Administered</i> taxation revenue \$435.9 billion  penalty and interest charge remission expenses \$1.3 billion  taxation receivables \$25.0 billion	Occurrence and accuracy of the various types of penalties and interest charges applied, remitted and cancelled to taxation liabilities.	<b>Moderate</b>	<ul style="list-style-type: none"> <li>significant manual process surrounding imposition and remission of penalties;</li> <li>application of various types of penalties and interest charges imposed by legislative requirements; and</li> <li>application of judgement surrounding cancellation or remission of penalties and interest charges on unpaid or amended taxation liabilities.</li> </ul>
<i>Administered</i> all financial statement items	Completeness and accuracy relating to financial reporting due to complex manual compilation of data processes required for financial reporting purposes.	<b>Moderate</b>	<ul style="list-style-type: none"> <li>manual calculation of complex information in spreadsheets increases the risk of miscalculation due to data linkages and human error.</li> </ul>
<i>Administered</i> all financial statement items	Accuracy and completeness of balances due to ATO's IT business systems and associated processing of taxpayer returns and statements	<b>Moderate</b>	<ul style="list-style-type: none"> <li>large and complex IT environment with several hundred business applications processing a high volume of transactions;</li> <li>many IT systems are bespoke or heavily customised to the ATO; and</li> <li>reliance on specialised reports to prepare financial statements balances.</li> </ul>

Source: ANAO 2018–19 risk assessment for ATO and ATO's 2018–19 estimated actuals as reported in the 2019–20 Portfolio Budget Statements.

## Audit results

3.25.7 The ANAO has substantially completed its 2018–19 interim audit coverage, including an assessment of the controls relating to the ATO's business operations which incorporated ATO's key financial administration systems and its key revenue collection processes.

3.25.8 Audit procedures relating to the ANAO's interim audit coverage included an assessment of the ATO's IT general controls and departmental application controls. The assessment included logical security, change and release management and controls in the ATO's financial management information system, human resource management information system and other key administered financial systems.

3.25.9 As part of the 2018–19 final audit, audit coverage in relation to the estimation and allocation processes associated with reporting of taxation revenue; processes for estimating taxation debt provisions and accounting transactions for settlements of outstanding taxation liabilities including adjustments to taxpayer client accounts, will be finalised. The ANAO will also

finalise the assessment of the complex manual processes for financial reporting and coverage over the ATO's external compliance program as part of the 2018–19 final audit. The ANAO will also conduct further testing on the effective operation of the ATO's IT application controls during the 2018–19 final audit.

3.25.10 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings. The 2017–18 audit also did not identify any significant or moderate audit findings.

### **Conclusion**

3.25.11 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that ATO will be able to prepare financial statements that are free of material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2018–19 final audit.

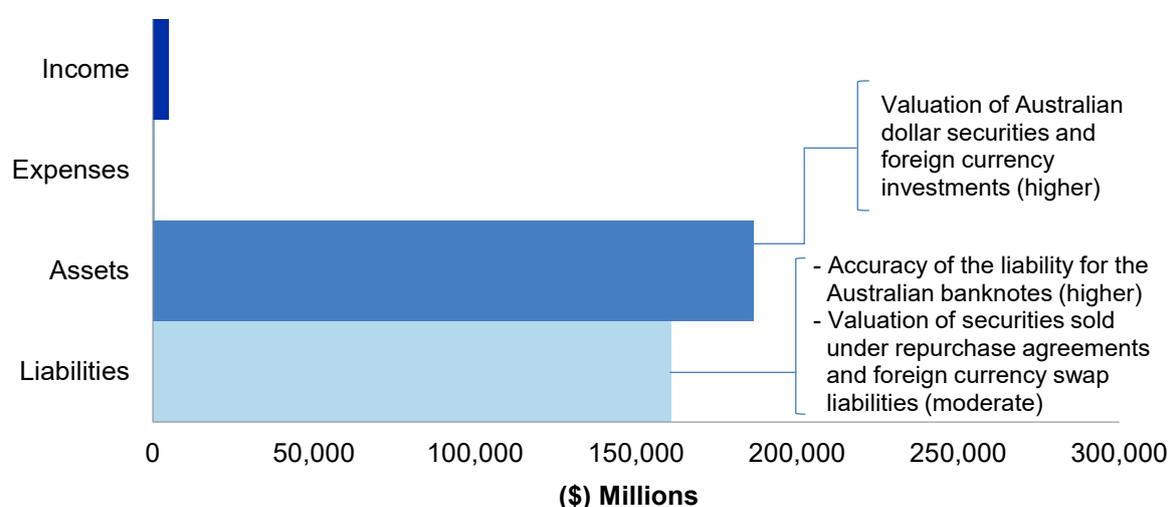
## 3.26 Reserve Bank of Australia

### Overview

3.26.1 The objective of the Reserve Bank of Australia (RBA) is to determine and implement monetary policy, work to maintain a strong financial system, and issue the nation's currency. As well as being a policymaking body, the RBA provides selected banking services to a range of Australian Government entities and to a number of overseas central banks and official institutions. The RBA is also responsible for the management of Australia's gold and foreign exchange reserves.

3.26.2 Figure 3.26.1 shows the 2017–18 financial statements items reported by RBA and the key areas of financial statements risk.

**Figure 3.26.1: Key financial statements items and areas of financial statements risk**



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

3.26.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact RBA's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of RBA's environment and governance arrangements, including its financial reporting regime and system of internal control. In light of the key areas of risk identified in Table 3.26.3 and the ANAO's understanding of the operations of RBA, the ANAO has assessed the risk of a material misstatement as **moderate**.

### Key financial statements items

3.26.4 The operational functions of the RBA are funded from: net interest income earnings; net gains on securities and foreign exchange; and fees and commissions income.

3.26.5 Table 3.26.1 and Table 3.26.2 provide a summary of the key 2017–18 audited financial statements items.

**Table 3.26.1: Key expenses and total own-sourced income**

Expenses and own-source income	Actual (\$m) 2017–18
<b>Total expenses</b>	<b>588.0</b>
General administrative	421.0
Other	167.0
<b>Total own-source income</b>	<b>4,435.0</b>
Net gains on securities and foreign exchange	3,002.0
Net interest income	901.0
Fees and commission	475.0
Other	57.0
<b>Net profit/(loss)</b>	<b>3,847.0</b>

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

**Table 3.26.2: Key assets and liabilities**

Assets and liabilities	Actual (\$m) 2017–18
<b>Total assets</b>	<b>186,341.0</b>
Cash and cash equivalents	373.0
Australian dollar investments	104,253.0
Foreign currency investments	75,912.0
Gold	4,344.0
Property, plant and equipment	679.0
Other	780.0
<b>Total liabilities</b>	<b>160,964.0</b>
Deposits	81,474.0
Distribution payable to the Commonwealth	889.0
Australian banknotes on issue	75,565.0
Other	3,036.0
<b>Net assets/(liabilities)</b>	<b>25,377.0</b>

Note: RBA's full time equivalent staffing level at 30 June 2018 was 1,327.

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

### Key areas of financial statements risk

3.26.6 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. Areas highlighted for specific audit coverage in 2018–19 are provided in Table 3.26.3.

**Table 3.26.3: Key areas of financial statements risk**

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Australian dollar investments \$104.3 billion  foreign currency investments \$75.9 billion  net gain on security and foreign exchange \$3.0 billion	Valuation of Australian dollar securities and foreign currency investments  KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>complexity in determining the fair value of a range of investments and securities; and</li> <li>potential for a significant financial impact from fluctuations in the value of the Australian dollar.</li> </ul>
Australian banknotes on issue \$75.6 billion	Accuracy of the liability for the Australian banknotes  KAM	<b>Higher</b>	<ul style="list-style-type: none"> <li>the accuracy of the liability for Australian banknotes on issue is dependent on the assumption that all Australian notes on issue retain their legal tender status; and</li> <li>high volume of note production and the supply and security of banknotes is structurally significant to the economy.</li> </ul>

Source: ANAO 2018–19 risk assessment for RBA and RBA's financial statements for the year ended 30 June 2018.

## Audit results

3.26.7 The ANAO has completed its 2018–19 interim audit coverage, including an assessment of the effectiveness of controls relating to: the initiation and authorisation of Australian dollar and foreign currency investments; the return and issuance of Australian banknotes on issue; the processing of term deposits; and key IT controls over change management, user access management and technology operations for key systems supporting the financial statements.

3.26.8 Audit procedures over the effectiveness of key controls for the remaining areas of audit focus, where appropriate, will be undertaken as part of the 2018–19 final audit. This includes an assessment of the effectiveness of controls relating to: payments and settlements; trading activities in overseas offices; financial administration; and investment portfolio pricing controls.

3.26.9 In addition, detailed testing procedures relating to: the accuracy of net gains on security and foreign exchange; the valuation of foreign currency and Australian dollar investments and deposits; and accuracy of Australian banknotes on issue will be performed as part of the 2018–19 final audit.

3.26.10 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings. The 2017–18 audit also did not identify any significant or moderate audit findings.

## Conclusion

3.26.11 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that RBA will be able to prepare financial statements that are free of material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2018–19 final audit.

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Grant Hehir  
Auditor-General

Canberra ACT  
13 June 2019

## Appendices

## Appendix 1 Listing of entities by portfolio

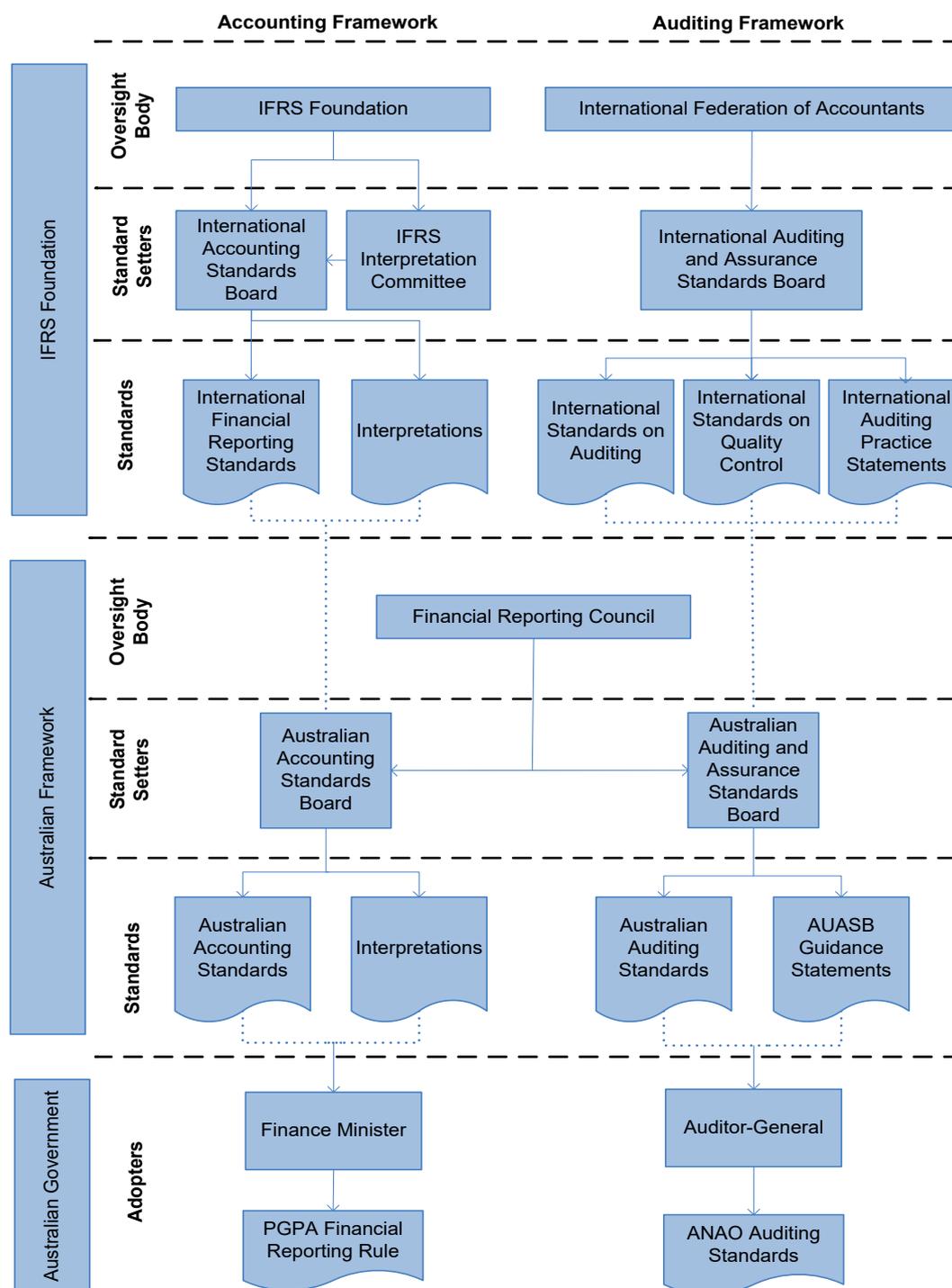
1. The following entities have been considered in this report, selected on the basis of their contribution to the income, expenses, assets and liabilities within the consolidated financial statements. The entities are presented in order of portfolio.

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

## Appendix 2 The financial reporting and auditing standards frameworks for 2018–19

1. The figure below depicts the standard setting framework for financial reporting and auditing, in the Australian Government context.

Figure A.1: Australian Government standard setting framework

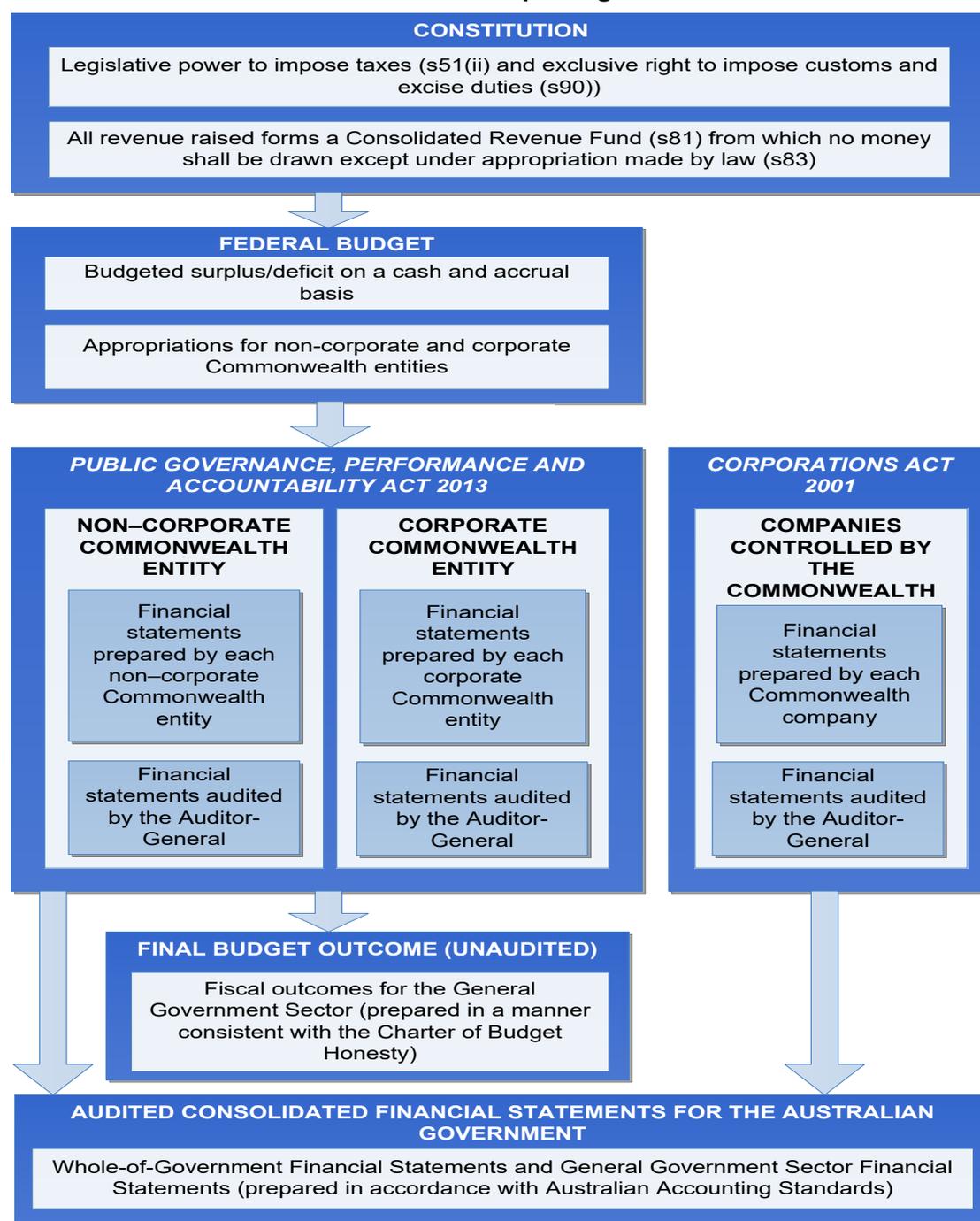


Source: ANAO compilation.

## Appendix 3 The financial reporting and auditing framework for 2018–19 financial statements

1. Key elements of the Australian Government's financial reporting framework are outlined in the diagram below. An overview of the financial reporting requirements for the various types of Australian Government entities covered by the framework and the audit approach for the financial statements of these entities is also described below.

**Figure A.2: Australian Government financial reporting framework**



Source: ANAO compilation.

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## Australian Government reporting entities

### Commonwealth Government of Australia

1. Section 48 of the PGPA Act requires the Finance Minister to prepare annual consolidated financial statements for the Commonwealth Government of Australia. These financial statements are general purpose financial statements consolidating the financial activities and financial position of Commonwealth entities and other entities controlled by the Commonwealth Government.
2. The PGPA Act prescribes the Australian Accounting Standards (AASs), and any other requirements prescribed by the rules, as the applicable financial reporting framework for the consolidated financial statements.

### Commonwealth entities

3. Section 10 of the PGPA Act defines a Commonwealth entity as a department of state, a Parliamentary department, a listed entity or a body corporate of the Commonwealth. Section 11 of the PGPA Act determines that there are two types of Commonwealth entities: a non-corporate Commonwealth entity, which is a Commonwealth entity that is not a body corporate<sup>116</sup>; and a corporate Commonwealth entity, which is a Commonwealth entity that is a body corporate and legally separate from the Commonwealth.
4. Section 42 of the PGPA Act requires the accountable authority of a Commonwealth entity to prepare annual financial statements that comply with the AASs and any other requirements prescribed by the rules.
5. Resource Management Guide 125: *The Commonwealth Entities Financial Statements Guide* applies to all Commonwealth reporting entities responsible for preparing financial statements under the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*. The guide includes definitions of terms that have been used in this report.

#### *Non-corporate Commonwealth entities*

6. Non-corporate Commonwealth entities, comprising departments of state, Parliamentary departments and listed entities, are subject to the provisions of the PGPA Act.
7. The PGPA Act prescribes the AASs and PGPA Financial Reporting Rule (FRR) as the applicable financial reporting framework for non-corporate Commonwealth entities.

#### *Corporate Commonwealth entities and subsidiaries*

8. Corporate Commonwealth entities are bodies corporate that hold money on their own account and have been created to perform specific functions. Corporate Commonwealth entities operate under their own enabling legislation and also must comply with the relevant provisions of the PGPA Act.

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116 Three entities have a body corporate status but are prescribed as non-corporate Commonwealth entities. These are the Australian Competition and Consumer Commission; the Australian Prudential Regulation Authority; and the Australian Securities and Investments Commission.

9. The PGPA Act prescribes the AASs and FRR as the applicable financial reporting framework for corporate Commonwealth entities. The financial reporting framework applicable to subsidiaries of corporate Commonwealth entities depends on the nature of the subsidiary.

### **Commonwealth companies and subsidiaries**

10. Commonwealth companies are companies that are controlled by the Australian Government through majority share holdings or voting rights, or via control over the composition of the company's board. Commonwealth companies operate and prepare financial statements under the Corporations Act.

11. The applicable financial reporting framework for Commonwealth companies is the *Corporations Act 2001* (Corporations Act), including the AASs and the Corporations Regulations.

12. The financial reporting framework applicable to subsidiaries of Commonwealth companies depends on the nature of the subsidiary.

### **Other bodies**

13. The ANAO also audits the financial statements of other bodies under Commonwealth legislation other than the PGPA Act, including the 'by arrangement' provisions in section 20 of the *Auditor-General Act 1997*. Examples of these other bodies include statutory bodies not established as Commonwealth entities and trusts. The financial reporting framework applicable to these other bodies depends on legislation or other rules that govern that entity.

## **Audit of Australian Government entity financial statements**

### **Audit scope**

14. The accountable authority of a Commonwealth entity is responsible for the preparation and fair presentation of the financial statements and for maintaining records, internal controls, procedures and processes that support the preparation of those statements.

15. The Directors of a Commonwealth company, or a company that is a subsidiary of either a Commonwealth entity or a Commonwealth company, are responsible for the preparation of financial statements that give a true and fair view and for maintaining records, internal controls, procedures and processes that support the preparation of that report.

16. The ANAO's independent audits of financial statements are undertaken to form an opinion whether they are free from material misstatement and present fairly in accordance with applicable accounting standards and legislation. These audits are conducted in accordance with the ANAO Auditing Standards, which incorporate the Australian Auditing Standards and provide reasonable assurance.

17. Audit procedures include an examination of the entity's records and its internal control, information systems, control procedures and statutory disclosure requirements. Evidence supporting the amounts and other information in the statements is examined on a test basis, and accounting policies and significant accounting estimates are evaluated.

18. The entity's internal control relevant to the entity's preparation and fair presentation of the financial statements or reports is considered in order to design audit procedures that are

appropriate in the circumstances. In some audits, audit procedures concentrate primarily on substantiating the amounts appearing in the financial statements and do not include detailed testing of systems and internal controls.

19. The primary responsibility for the prevention and detection of fraud and error rests with both those charged with the governance and the management of an entity. The auditor is not responsible for the prevention or detection of fraud and error.

### **The auditor's report on financial statements**

20. The ANAO auditor's report on the financial statements includes a statement of the auditor's opinion as to whether the financial statements present fairly the entity's financial position, the results of its operations and its cash flows in accordance with the applicable financial reporting framework.

21. If the auditor is not of that opinion, the auditor's opinion is modified, with the reasons being indicated.

22. The auditor's report on the financial statements may also include an 'emphasis of matter,' 'other matter' or 'material uncertainty related to going concern' paragraph. A report on other legal and regulatory requirements may accompany the auditor's report on the financial statements. The inclusion of these paragraphs does not modify the auditor's opinion.

#### *Form of auditor's opinion*

23. An auditor's opinion is described as 'unmodified' when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

24. An auditor's opinion may be 'modified' in one of three ways.

- A 'qualified opinion' is expressed when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in aggregate, are material but not pervasive to the financial statements. A 'qualified opinion' is also expressed when the auditor, having been unable to obtain sufficient appropriate audit evidence, concludes that the possible effects on the financial statements of undetected misstatements could be material but not pervasive.
- A 'disclaimer of opinion' is expressed when the auditor, having been unable to obtain sufficient appropriate audit evidence on which to base the opinion, concludes that the possible effects on the financial statements of undetected misstatements could be both material and pervasive. A 'disclaimer of opinion' is also expressed when the auditor, having been able to obtain sufficient appropriate audit evidence regarding individual uncertainties, concludes that the potential interaction of the uncertainties and their possible cumulative effect on the financial report cannot be determined.
- An 'adverse opinion' is expressed when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements individually or in aggregate, are both material and pervasive to the financial statements.

### *Emphasis of matter*

25. An 'emphasis of matter' paragraph is included in the auditor's report when the auditor considers it necessary to draw to users' attention a matter presented in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to the users' understanding of the financial statements. The circumstances in which an emphasis of matter is used include:

- when financial statements and the auditor's report have been issued and a fact is discovered that leads to revised financial statements and a new auditor's report being prepared; and
- when financial statements have been prepared in accordance with a special purpose framework, and as a result the financial statements may not be suitable for another purpose.

### *Other matter*

26. The auditor's report on the financial statements may also include a reference to an 'other matter'. This allows the auditor to communicate a matter other than a matter that is presented or disclosed in the financial statements that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

### *Material uncertainty related to going concern*

27. The auditor's report on the financial statements will also include a reference to a 'material uncertainty related to going concern' when there are possible or actual events or conditions that may cast significant doubt on an entity's ability to continue as a going concern and the financial statements include adequate disclosure about the uncertainty and management's plans to deal with the uncertainty.

### *Report on other legal and regulatory requirements*

28. The auditor's report on the financial statements may also include a report on other legal and regulatory requirements. This report covers matters that the Auditor-General is required by law to report on in conjunction with the financial statements audit.