

Thank you for the opportunity to respond to the Joint Committee of Public Accounts and Audit recommendations in Report 506: Inquiry into Commonwealth Financial Statements 2022-23, on why our annual report has not been tabled in time to be scrutinised at supplementary budget estimates for the past three years.

The Royal Australian Navy Central Canteens Board (RANCCB) trading as The Navy's Anchorage (TNA) acknowledges the requirement under Division 6 Section 46 part 2(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA) for the annual report to be given to the responsible Minister by the 15th day of the fourth month after the end of the reporting period for the entity. This timing in turn aims to support Resource Management Guide (RMG) 136 which states that normally annual reports are tabled on or before 31 October and it is expected annual reports are tabled prior to the October Estimates Hearings.

Reasons for delay

RANCCB was unable to meet the above timelines and the timing set out in PM&C's Tabling Guidelines as the audits of our annual financial statements by the Australian National Audit Office (ANAO) were not completed in time for our annual report to be finalised and presented to the Minister by 15 October after each of the financial years FY22, FY23 and FY24.

It should be noted that extensions were sought from the Minister and approved for each of the past three years under subsection 34C(5) of the *Acts Interpretation Act 1901*.

There are a number of reasons for the delays in finalisation of the audits of the annual financial statements, of which only some are within the control of RANCCB. Of those factors over which we do have control, we are fully committed to allocating appropriate resources for an entity of our size, to ensure we are not responsible for unduly delaying the process through to the tabling of our annual report. As a not-for-profit entity with the sole purpose of supporting the welfare of Royal Australian Navy members, and a small administration team, it is difficult to justify the additional compliance expense required to mitigate all external factors if timelines are not met due to events outside the control of RANCCB.

RANCCB notes the ANAO's comments at the public hearing that delays in its ability to complete the financial statements audits due to a lack of preparedness by an entity is a key reason why an annual report can be late. While we agree that this may indeed be a key reason generally, it was not a material factor in the delays for the audits of RANCCB over the past three years. We do acknowledge however, that



staff turnover at RANCCB and lack of corporate knowledge may have caused some delays in the provision of information and context to the auditor.

ANAO auditors in general are more experienced in auditing government entities funded by appropriation and it is difficult to find auditors with the experience and knowledge to audit a fully self-funded commercial entity such as RANCCB.

Other complexities include PGPA sometimes not accounting for commercial practices e.g. the liquidation of a fully owned subsidiary, or the interpretation of accounting standards in relation to a 50-year lease where the intent of the accounting standard was to define accounting treatment of shorter term (e.g. 5 year) leases.

Requests for large amounts of supporting information and context are also made during the short time frame of the actual audit. A small entity like RANCCB does not have the large administrative resources of a Government department, however it is expected to respond to the same number of requests in the same timeframes.

Repeated requests for the same information from the auditors indicate there may also be an issue with staff turnover or a lack of communication across the audit team.

The auditor is unable to place a large amount of reliance on internal audit findings, as RANCCB is a small entity without resources for an internal audit function, apart from that provided by Navy for WHS and HACCP (food safety) audits.

Other specific external factors affecting the completion date of the audits of annual financial statements are outlined below for each of the past three years.

FY22 – target date 15 Oct 2022, audit completed in June 2023

1. Change of senior auditor leading to new interpretations of the appropriateness of previously audited processes, and a number of findings being made
2. Breakdown of the relationship between auditor and client due to disagreement over the initial audit report, requiring lengthy discussions before the audit report was finalised

FY23 – target date 15 Oct 2023, audit completed in December 2023

1. Pre-audit work by ANAO delayed by the ongoing audit from FY22
2. Additional work required by RANCCB to clear FY22 findings
3. Staff shortages at ANAO due to illness reducing the resources available and delaying the audit
4. ANAO resourcing issues meant the start time for the actual audit was scheduled in October, directly impacting our ability to complete the annual report on time



5. Clearing FY22 findings required additional referral and signoff by internal ANAO committees in Nov/Dec

FY24 – target date 15 Oct 2024, audit completed in March 2025

1. Preliminary audit work not scheduled by the auditor
2. Change in prior year audit opinion relating to the valuation of a significant asset, requiring complete recalculation, restatement, and audit of 2023 prior-year Financial Statement comparatives, followed by significant ANAO committee processes
3. Staff shortages at ANAO due to illness and other priorities
4. ANAO resourcing issues meant the start time for the actual audit was scheduled in October, which allowed no room for audit overrun as issues were identified requiring further investigation. This also put significant pressure on the audit team and the RANCCB to meet deadlines
5. Complex/Non-standard transactions required additional referral and signoff by internal ANAO committees which did not occur until Jan 2025

Future mitigation activities by RANCCB

RANCCB has been working proactively and positively with the ANAO to implement and improve processes to assist in meeting the required timelines in the future. Examples include:

- Retaining corporate knowledge at both RANCCB and ANAO through staff retention on the audit process
- Much improved professional relationship between RANCCB and ANAO teams with regular meetings and ANAO attendance at RANCCB Risk, Compliance & Audit Committee meetings
- Improved accounting close procedures and preparation of financial reports in a timely manner so they are ready for the final audit process
- Utilisation of standardised Department of Finance PRIMA Tier 2 financial statements
- Utilisation of project and workflow management tools to better track and plan staff resources
- Additional RANCCB staff employed which assists with availability and resources to respond to auditor requests for information
- Additional engagement with auditor throughout the year for 'pre-audit' work
- Allocation of resources to internal RANCCB audit functions, noting the value of this additional effort is dependent on the amount of reliance placed on those functions by the auditor
- Preparation of the annual report template in readiness for insertion of the audited financial statements
- Allocation of resources at short notice for publishing and final proof read, which will be an ongoing requirement unless the audit commences earlier



FY25 audit process

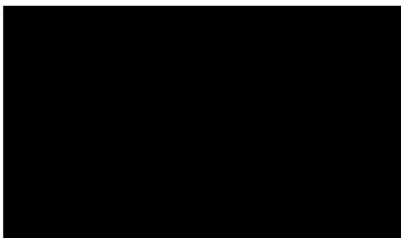
Despite the planned improvements outlined above, the current expected date of audit completion for FY25 is the end of October 2025, which will again not meet the target date of 15 October for presenting the RANCCB FY25 annual report to the Minister. This is due to planned timing of the ANAO audit procedures being dependent on the Department of Defence audit being completed on schedule and finalised by 3 October 2025, and the audit team then being available to commence the final audit processes for RANCCB on 13 October 2025.

RANCCB recommendation

It is estimated by RANCCB that the final audit processes by the ANAO would need to commence by mid-September at the latest to allow the financial statements to be signed by the end of September, and the annual report to be produced and presented to the Minister by the 15 October of any given year. This also assumes outstanding items from previous years' audits are successfully cleared, and the final audit processes do not identify any additional significant or material issues for the current or prior years that require further investigation by the ANAO, discussion with RANCCB, restatement of prior years' financial statements, or referral to ANAO committees whose sitting time may not be able to facilitate a response within the required timeframes.

There appears to be an assumption by the auditors that the RANCCB audit is a 'simple' two-week audit process for an 'immaterial' organisation, however RANCCB is actually financially and commercially more complex than a 'normal' government department, regardless of its size. This assumption sets up the audit team to fail to achieve a two-week audit, and we believe that more time should be allocated either throughout the year on pre-audit work, or on the final audit processes.

RANCCB recommend the ANAO be provided with the appropriate resources to enable an earlier scheduling of the final audit processes for the RANCCB annual financial statements to commence on or around 10 September each year to ensure there is a reasonable chance of meeting the required PGPA timelines.



S J Bowater, OAM
CAPT, RAN
Chair Royal Australian Navy Central Canteens Board
24 April 2025