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**Joint Committee of Public Accounts and Audit  
Answer to Questions on Notice**

**Department/Agency:** Australian National Audit Office

**Inquiry:** Commonwealth Financial Statements 2019–20

**Date of inquiry:** 15 September 2021

**Type of question:** Additional questions

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**Question 1 Legislative breach finding**

In the 2019–20 CFS report, the ANAO reported a significant legislative breach in relation to the Northern Land Council (NLC), which was originally identified during the 2012–13 reporting period. The 2019–20 report provides an update on this matter which states that efforts have been made to address the breach, but the breach still continues to be an issue.

- Can the ANAO comment on the NLC’s efforts to address this breach?
- Can the ANAO outline the impact of breaches or significant/moderate findings that are unresolved for long periods? Is there an alternative way in which identified findings or breaches can be addressed?

**Response**

The Northern Land Council (NLC) commenced a royalty reform project in 2016–17 to address the legislative requirements under the *Aboriginal Land Rights (Northern Territory) Act 1976* (ALRA). The project was aimed at reducing incidents of non-compliance with the ALRA and reconciling outstanding balances in the royalty trust account to identify the appropriate owners for distribution.

In November 2020, the NLC received an independent business case report on the establishment of a restructured and reformed Royalty Unit, the Benefits Distribution Unit. Post the receipt of budgetary approval in July 2021, recruitment for two key positions was finalised by August 2021 and additional recruitment is currently in progress. NLC management will be implementing additional strategies from October to December 2021 to ensure that procedures are in place to support distributions being made within the six months in accordance with the Act.

In October 2021, NLC management advised that the legal process was in progress to seek direction from the court where the recipients of unallocated funds could not be identified.

Other than the NLC significant legislative breach at the end of 2019–20, there were five moderate findings that had been outstanding for 12 months or longer. These included:

- ANSTO: Financial statements and key accounting papers preparation process. First opened during the final audit 2017–18.
- Moorebank: Support and Quality Assurance over the Financial statement close process. First opened during the final audit 2017–18.
- Department of Defence: Monitoring and management of privileged user accounts. First opened during the interim audit 2018–19.
- Northern Land Council: Payroll exceptions. First opened during final 2018–19.

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- Northern Land Council: Financial statements close process. first opened during final 2018–19.

Where findings remain outstanding, the ANAO has the ability to escalate the level of the finding. Where significant findings are raised for issues that pose a significant financial statements or business risk, the ANAO will write to the Minister to inform them of the finding.

As part of the financial statements audit approach, the ANAO will assess the impact of any identified issues on our ability to obtain sufficient and appropriate audit evidence to support the issue of the auditor's report. Where issues are identified, this usually results in the extending of original planned procedures and could include further testing of detailed transactions and undertaking additional audit work not originally anticipated. The ANAO assesses each issue based on the risk involved to the financial statements audit and amends the audit approach accordingly.

### Question 2 Impact of COVID-19

Both the CFS and the Interim Report note that the ANAO experienced issues in physically accessing the entities under audit due to restrictions as a result of COVID-19.

- In the ANAO's view, does the inability to physically access the entities during the audits impact the Audit Office's findings, such as types of data that are accessible or technological restrictions?
- Has the ANAO identified and implemented changes to working practices in order to overcome such restrictions? Does this have an impact on how audits are conducted or the outcome of findings?
- How did COVID-19 restrictions impact on the timeliness of financial reporting? Did the ANAO experience timeliness issues in relation to agencies providing financial information for audit?
- The 2020-21 Interim Report notes that the rapid implementation of policy and measures to address the COVID-19 situation could 'present new and increased risks to sound public administration and the proper use of public resources', and that audit teams may need to change their audit approaches. Can the ANAO expand its comments in relation to the risks presented, and how audit teams may be required to change?

### Response

As mentioned in the *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2020*, ANAO staff were restricted in their ability to physically access entities' premises leading to the increased use of remote access to entity financial management and relevant operational systems. This remote access allowed the ANAO audit teams, to obtain the documentation and information (including data) required to undertake the work to support the issuing of audit opinions on the financial statements.

Remote access is suitable in the short term especially where the ANAO audit team and financial management team are stable, however if it were to continue for an extended period, we would expect a deterioration in the understanding of key processes, adequacy of documentation and information provided to support audit evidence which may in turn impact findings.

For the 2019–20 audits of financial statements the ANAO worked with entities to implement processes to support remote working. Examples include remote monitoring of stocktakes (except Department of Defence), use of technology to transfer large data files, use of entity technology to access systems

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and increased planning to conduct audits in a remote environment. Entities across the sector engaged positively with us to support the timely delivery and high quality of financial statements. That said, there were specific entities (such as security entities), and certain audit procedures (for example, stocktake procedures for the Department of Defence) where the ANAO could not undertake the work remotely which resulted in delaying the conclusion of the audit.

There was minimal impact on the ANAO's ability to develop an understanding of the entities and their processes, and identify improvements and findings. The ANAO also notes that there was a small decline in the timeliness of financial statements during 2019–20 with 64 per cent of entities delivering financial statements in line with the agreed timeframes compared to 69 per cent in 2018–19.

The ANAO noted that all entities reconsidered risk as part of their response to the COVID-19 pandemic. The Auditor-General adopted inclusion of Key Audit Matters (KAM) in 2016–17 and this continued in 2019–20 for the 24 entities included in Auditor-General Report No.38 2019–20 *Interim Report on Key Financial Controls of Major Entities* and also in the Consolidated Financial Statements (CFS) from 2017–18.

The following three new KAM were included in 2019–20 as a result of risks identified relating to the COVID-19 pandemic:

- the valuation of administered investments held by the Department of the Prime Minister and Cabinet as a result of impact of the COVID-19 pandemic on the tourism industry and the loans provided by Indigenous Business Australia;
- the eligibility assessments and completeness of subsidy expenses in the Australian Taxation Office financial statements as a result of the implementation of the stimulus measures administered in connection with JobKeeper and the Cash Flow Boost payments; and
- the existence and completeness of inventories in the National Medical Stockpile maintained by the Department of Health.

In addition to the new KAM, five existing KAM were updated to include additional audit procedures required to address revised risks resulting from the COVID-19 pandemic. This included existing KAM for the Departments of: Defence; Infrastructure, Transport, Regional Development and Communications; and Social Services, the Future Fund Management Agency and Board of Guardians and NBN Co Limited.

More broadly, the Government's increasing utilisation of online services in supporting the response to major events such as COVID-19 necessitates that those charged with governance understand their information and data risks along with the need to protect critical information from malicious actors. From 2019–20, the ANAO audit teams have started to extend cyber security elements to expand on our traditional IT General Controls testing and increase our focus on how entities have responded to cyber security risks including risks associated with remote working.

As the IT control environment remains the category that consistently has the most number of financial audit findings, IT control and Commonwealth entity compliance with mandatory Australian Government cyber security frameworks will remain a particular focus of ANAO's audit work going forward.