



## Response to Question on Notice

### SENATE SELECT COMMITTEE ON A NATIONAL INTEGRITY COMMISSION

Australian National Audit Office

#### GENERAL COMMENTS

Nil

#### SPECIFIC QUESTIONS ON NOTICE

##### Question 1

**Senator KAKOSCHKE-MOORE:** How many of these higher level risk reports have you produced in the last few financial years?

**Mr Hehir:** With respect to fraud?

**Senator KAKOSCHKE-MOORE:** Yes, with respect to fraud.

##### Response

In the last few financial years the Australian National Audit Office (ANAO) has identified and reported a number of Significant (A) and Moderate (B) audit findings to Commonwealth entities and Parliament. Where these findings have been identified and reported the ANAO did not identify fraud that resulted in a material misstatement in the financial statements. The ANAO also did not identify fraud matters requiring reporting to an external entity.

The table below details findings relating to weaknesses that indicate an increased exposure to the risk of fraud for the 2014–15 and 2015–16 financial years, together with interim results for the current period.

ANAO Audit Reports	Total category A and B findings	Category A and B findings that indicate an increased fraud risk
Audit Report No. 60 2016–17 Interim Report on Key Financial Controls of Major Entities ( <i>covering 25 entities</i> )	21	13
Audit Report No. 33 2016–17 Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2016 ( <i>covering 246 entities</i> )	36	19

Audit Report No. 15 2015–16 Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2015 ( <i>covering 253 entities</i> )	33	16
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In assessing the risk of material misstatement of an entity's financial statements, the auditor considers misstatement 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 arising from misappropriation of assets. All audits consider, as a significant fraud risk, the risk that management can override controls to manipulate accounting records and the presumption of fraud risk in respect of revenue recognition (required under ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*).

The ANAO's financial statements audits assess entity controls including establishment of a fraud control plan, considering the entity's view of fraud risks, and fraud reporting to governance committees including instances of fraud.

If the ANAO identifies an entity with a significant risk of material misstatement as a result of fraud, specific procedures are designed to address the risk during the conduct of the financial statements audit. With respect to the 2016–17 financial statement audits, the ANAO has not identified a significant risk of material misstatement as a result of fraud (other than those areas required under ASA 240 as detailed above).

A more detailed summary of these findings is provided at Attachment A.

**ATTACHMENT A: SUMMARY OF ANAO SIGNIFICANT AND MODERATE AUDIT FINDINGS FOR THE PERIOD: 2014–15 (all entities); 2015–16 (all entities); Interim 2016–17 (25 entities reported on)**

**Audit Report No. 60 2016–17 Interim Report on Key Financial Controls of Major Entities**

<https://www.anao.gov.au/work/financial-statement-audit/interim-report-key-financial-controls-major-entities-2016-17>

Category A and B findings	Number of Findings	Finding Title	Report paragraph reference	Weaknesses reported in finding indicate an increased exposure to risk of fraud	Fraud identified resulting in a material misstatement in the financial statements	Fraud identified requiring reporting to an external party by the ANAO
Attorney- General's Department	1	Administration of the National Disaster Relief and Recovery Arrangements	3.2.15	Y	N	N
Department of Defence	6	Monitoring of the privileged activities performed by Service Providers	3.6.14	Y	N	N
		Accounting for explosive ordinance at repair and maintenance facilities	3.6.17	N	N	N
		Data integrity of the specialist military equipment fixed asset register	3.6.22	N	N	N
		Revaluation and impairment of general assets	3.6.26	N	N	N
		Estimation of MSI impairment	3.6.31	N	N	N
		Estimation of Impairment of DWP including assets under construction	3.6.34	N	N	N
Department of Education and Training	2	Child care compliance - estimated incorrect payments	3.8.23	Y	N	N
		Financial statements preparation process	3.8.28	N	N	N
Department of Employment	1	Governance arrangements for shared services centre	3.9.15	Y	N	N
Department of Finance	1	Governance arrangements for shared services centre	3.11.15	Y	N	N
Department of Health	1	High cost drug recoveries - Pharmaceutical Benefits Scheme	3.14.17	N	N	N
Department of Immigration and Border Protection	4	Customs duty compliance program	3.15.16	Y	N	N
		Human Resource Management	3.15.20	Y	N	N
		Record keeping	3.15.23	Y	N	N
		Management of privileged security users in the IT networks	3.15.29	Y	N	N
Department of Industry	1	Administration of North West Shelf royalties	3.16.15	Y	N	N
Australian Taxation Office	4	Administration of penalties and interest	3.24.17	Y	N	N
		Estimation and allocation processes for revenue and expenses	3.24.21	Y	N	N
		Debt provision assessments	3.24.24	Y	N	N
		Support and quality assurance over manual inputs to the financial statements	3.24.28	N	N	N
Total A and B findings		21				

Category A and B findings	Number of Findings	Finding Title	Report paragraph reference	Weaknesses reported in finding indicate an increased exposure to risk of fraud	Fraud identified resulting in a material misstatement in the financial statements	Fraud identified requiring reporting to an external party by the ANAO
Attorney- General's Department	1	Administration of the National Disaster Relief and Recovery Arrangements	4.2.20	Y	N	N
Australian Film, Television and Radio School	1	Audit logging and monitoring of privileged user profiles	4.3.88	Y	N	N
Department of Defence	4	Data integrity of the specialist military equipment fixed asset register	4.4.18	N	N	N
		Revaluation and impairment of general assets	4.4.21	N	N	N
		Estimation of MSI impairment	4.4.36	N	N	N
		Estimation of Impairment of DWP including assets under construction	4.4.38	N	N	N
Defence Housing Australia	1	Financial statements preparation process	4.4.48	N	N	N
Department of Education and Training	3	Governance arrangements for shared services centre	4.5.19	Y	N	N
		Financial statements preparation process	4.5.23	N	N	N
		Child care compliance - estimated incorrect payments	4.5.27	Y	N	N
Department of Employment	1	Governance arrangements for shared services centre	4.6.18	Y	N	N
Fair Work Commission	1	Access to the online payment system and security measure	4.6.44	Y	N	N
Office of the Fair Work Ombudsmen	1	Access to the Financial Management Information System and online payment system	4.6.48	Y	N	N
Department of Health	1	High cost drug recoveries - Pharmaceutical Benefits Scheme	4.10.21	N	N	N
Department of Immigration and Border Protection	3	Record keeping	4.11.17	Y	N	N
		Customs duty compliance program	4.11.22	Y	N	N
		Human Resource Management	4.11.25	Y	N	N
Department of Industry and Innovation	1	Administration of North West Shelf royalties	4.12.16	Y	N	N
Administration of Norfolk	7	The findings were grouped and summarised in the report rather than split as individual issues. A number of the weaknesses including lack of corporate governance framework, and maintenance of accounts and records indicate an increased exposure to the risk of fraud	4.13.68 to 4.13.77	Y	N	N
					N	N
					N	N
					N	N
					N	N
					N	N
					N	N
					N	N
	Norfolk Island Hospital Enterprise	2				N
National Disability Insurance Scheme Launch Transition Agency	3	Assurance framework - compliance program	4.16.43	Y	N	N
		Employee commencements	4.16.49	N	N	N
		Segregation of duties - participant eligibility and participant plan approval	4.16.54	Y	N	N
Australian Taxation Office	4	Estimation and allocation processes for revenue and expenses	4.17.78	Y	N	N
		Debt provision assessments	4.17.81	Y	N	N
		Support and quality assurance over manual inputs to the financial statements	4.17.85	N	N	N
		Administration of penalties and interest	4.17.88	Y	N	N
Royal Australian Mint	2	Payment controls	4.17.102	Y	N	N
		Access to payroll processing systems	4.17.106	Y	N	N
Total A and B findings		36				

Category A and B findings	Number of Findings	Finding Title	Report paragraph reference	Weaknesses reported in finding indicate an increased exposure to risk of fraud	Fraud identified resulting in a material misstatement in the financial statements	Fraud identified requiring reporting to an external party by the ANAO
Attorney- General's Department	2	Administration of the National Disaster Relief and Recovery Arrangements	5.2.6	Y	N	N
		IT network user access management	5.2.9	Y	N	N
Department of Defence	3	Estimation of MSI impairment	5.4.13	N	N	N
		Estimation of Impairment of DWP	5.4.16	N	N	N
		General Stores Inventory Pricing	5.4.18	N	N	N
Defence Materiel Organisation	4	Accuracy and completeness of month end System Project Officer financial information	5.4.36	N	N	N
		Accounting for commitments	5.4.37	N	N	N
		Effectiveness of assurance processes	5.4.39	Y	N	N
		Valuation and management of overseas project bank accounts	5.4.41	N	N	N
Australian Electoral Commission	1	IT change management control	5.8.22	Y	N	N
Comsuper	1	Controls over changes to payroll	5.8.36	Y	N	N
Department of Immigration and Border Protection	2	Personal benefits payments	5.11.13	Y	N	N
		Appropriation revenue adjustments associated with the funding model agreement	5.11.16	N	N	N
Australian Customs and Border Protection Service	1	Customs duty compliance program	5.11.24	Y	N	N
Administration of Norfolk	5	The findings were grouped and summarised in the report rather than split as individual issues. A number of the weaknesses including lack of corporate governance framework, and maintenance of accounts and records indicate an increased exposure to the risk of fraud	5.13.24 to 5.13.26	Y	N	N
					N	N
					N	N
					N	N
					N	N
					N	N
Norfolk Island Hospital Enterprise	2				N	N
Department of Parliamentary Services	3	All related to weaknesses in user access to key financial systems	5.14.7 to 5.14.12	Y	N	N
					N	N
					N	N
Department of Prime Minister and Cabinet	2	Compliance processes - remote jobs and communities programme	5.15.7	Y	N	N
		Grant acquittal management processes	5.15.9	Y	N	N
Northern Land Council	1	Financial management and financial statement close process	5.15.17	Y	N	N
Department of Social Services	2	Child care compliance - estimated incorrect payments	5.16.9	Y	N	N
		Disability employment services assurance and compliance framework	5.16.6	Y	N	N
Department of Human Services	1	Farm Household Allowance payments	5.16.25	Y	N	N
National Disability Insurance Scheme Launch Transition Agency	1	Segregation of duties	5.16.32	Y	N	N
Royal Australian Mint	1	Inventory costing model	5.17.51	N	N	N
Consolidated Financial Statements	1	CFS preparation process	1.13	N	N	N
<b>Total A and B findings</b>	<b>33</b>					