



Australian Government

**Department of Agriculture,
Fisheries and Forestry**

JCPAA Inquiry into Commonwealth Financial Statements 2022–23

**The inquiry will examine Auditor-General Report No. 9 of
2023–24: *Audits of the Financial Statements of Australian
Government Entities for the Period Ended 30 June 2023***

**Department of Agriculture, Fisheries and Forestry
submission**

Date: 28 March 2024

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Background

The Department of Agriculture, Fisheries and Forestry (the department) thanks the Joint Committee of Public Accounts and Audit (JCPAA) for the opportunity to contribute to the inquiry into Auditor-General Report No. 9 of 2023–24: *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2023*.

Chapter 4.1 of the Auditor-General Report No. 9 of 2023–24 contains specific detail on the Agriculture, Fisheries and Forestry Portfolio, including:

- a summary of financial performance
- the number of audit differences reported
- a summary of the key areas of financial statements risk and the factors contributing to those risks
- the status of significant and moderate audit findings.

This submission provides contextual information and actions of the department in relation to the four areas listed above.

Department of Agriculture Fisheries and Forestry (DAFF) Financial Performance

2022–23 Financial Result

A previous submission by the department to the JCPAA in March 2023 indicated that the department was facing a tight financial situation in 2022–23 and was managing its budget accordingly.

At 30 June 2023, the department recorded a surplus of \$2.5 million (excluding unfunded depreciation/amortisation expenses related to normal and right-of-use assets and adding back principal repayments on unfunded leases). This is a favourable position compared to the approved budget deficit of \$14.0 million.

This surplus was mainly driven by the receipt of \$127.0 million in supplementation funding in June 2023 through the 2022–23 Portfolio Additional Estimates process to address pressures in the delivery of biosecurity services, cost recovery deficits and Machinery of Government related costs.

The department ended the year with a strong cash position that supported its current liabilities. At 30 June 2023, the cash balance held by the department was \$184.9 million, including departmental operating appropriation receivable of \$169.5 million; Cash on hand or on deposit \$3.5 million; Biosecurity, Imported Food and Export Certification Special Account 2020 of \$9.2 million and National Residue Survey Special Account of \$2.7 million.

The department was able to meet its legislative and regulatory obligations, and financial commitments as they fell due in 2022-23, while continuing to deliver its core functions.

Cost recovery supplementation

The Auditor-General's report identifies the department as being one of the Commonwealth agencies reliant on appropriation funding to meet 20% or more of expenses for cost recovered activities. The department's cost recovered activities include export and biosecurity services.

Export Cost Recovery

In the 2020–21 budget, the government introduced a package of reforms to improve export regulation in Australia. As a part of this package, \$71.1 million was provided to supplement export regulatory activity while stepped annual increases to cost recovered fees and charges were implemented, eventually leading to full cost recovery in 2023–24. Ultimately, fees and charges did not keep pace with cost increases brought about by inflation and wages as well as increasing demand on our regulatory services. This resulted in the department meeting some of the expenses for export cost recovery from appropriation funding in 2022-23.

To assist the department meet the future costs of providing cost recovered export regulatory functions, the government has invested an additional \$95.5 million over three years from 2023–24 through the Mid-Year Economic Fiscal Outlook (MYEFO). Of this, \$3.7 million will be used to develop an ongoing and sustainable funding model for our export cost recovery arrangements, one that can adapt more rapidly to fluctuations in the demand for our services or overall costs. This new model will be in place, with updated cost recovery fees and charges, for the 2025–26 financial year. This model will ensure the department is not reliant on appropriation funding to meet some of the costs of providing export cost recovered activities.

Biosecurity Cost Recovery

Prior to the Minister for Agriculture approving an increase to biosecurity fees and charges from 1 July 2023 to adequately reflect and recover the true costs of delivering biosecurity regulatory services management, most biosecurity and import fees and charges had not been updated since 2015. This resulted in the department meeting some of the expenses for biosecurity cost recovered activities in 2022-23. The increase in fees from 1 July 2023 enables the department to better maintain our biosecurity system into the future and ensures the department is not reliant on appropriation funding to cost recovered expenditure.

2023–24 Outlook

The department commenced 2023–24 in a stronger financial position and considers it has sufficient cash reserves to meet its liabilities as they fall due. Following a period of significant austerity in 2022-23, the department is implementing significant new funding measures for its regulatory functions and this provides a positive financial outlook for the department.

The 2023–24 Budget provided the department certainty over future biosecurity funding and enables the department to plan for the long term. The Budget included more than \$1 billion in new biosecurity investments over the next four years, with over \$260 million in new funding per year ongoing from 2027–28.

As identified above, the Government provided a further \$95.5 million over three years (\$47.8 million in 2023–24) through the 2023–24 MYEFO update to sustain export regulatory functions and support the design of a revised funding model.

The department's financial practices are also a key focus of the Transformation Action Plan that has been developed in response to the APSC Capability Review in 2023. One of the priority actions is an uplift in the department's financial management capability. This will

include redesigning our finance operating model to uplift financial literacy and accountability and deliver an enterprise-wide approach that lifts financial maturity and performance across the organisation. The department has already taken a range of steps including:

- the establishment of the Finance and Performance Committee, a subcommittee of the Executive Board, focusing on financial performance and the management of key financial risks
- implementing a suite of new financial training packages available to all staff including master classes on key financial topics
- commencing upgraded to the department's financial management information system to improve budgeting capability, financial reporting and establish electronic procurement processes and controls.

Internal Audit

The Auditor-Generals report identifies the department as being an agency that had a 20 per cent or greater reduction in the internal audit budget from 2020–21 to 2022–23. The report also identifies the department as having a reduction in the internal audits completed from 2020–21 to 2022–23 of between 40-49 per cent.

The primary driver in the reduction of the internal audit budget and completed audits, when comparing 2020-21 to 2022-23, relates to the 1 July 2022 machinery-of-government changes. These changes included the environment and water functions and funding being moved to the newly established Department of Climate Change, Energy, Water and the Environment (DCCEEW). The impact of the austerity measures also reduced the number of completed audits in 2022-23 however, since that time, the number of internal audits completed has returned to a level commensurate with the 2020-21 levels.

Audit Differences

The Australian National Audit Office (ANAO) identified no audit differences in 2022–23 relating to the departmental financial statements.

The ANAO identified four audit differences in 2022–23 relating to the administered financial statements.

Two administered audit differences were adjusted by the department. These were:

- \$8.8 million relating to the misclassification of a payment between “grants expense” and “Commonwealth contributions expense”. There was no impact to the operating result.
- \$4.8 million related to “investment in commonwealth entities” due to a late change in the net assets of one portfolio entity. There was no impact to the operating result.

Two administered audit differences were deemed immaterial and not adjusted by the department:

- a \$3.6 million Commonwealth co-contribution for research and development payable to Fisheries Research & Development Corporation was not recognised.
- overestimate of \$2.4 million for a Commonwealth co-contribution for research and development payable to Wine Australia.
- The net impact to the administered schedule of comprehensive income was \$1.2 million.

The department considers this a positive reflection on the quality of the department's financial reporting.

ANAO Risk Ratings

Overall risk rating

In planning for the 2022–23 financial statements audit, the ANAO initially assessed the overall risk of material misstatement for DAFF as “moderate”.

In March 2023 the ANAO issued their Interim Management Letter, advising that in light of new information received, particularly in relation to financial sustainability, the overall audit risk had been reassessed as “high”.

While the risk rating of ‘high’ was considered appropriate in 2022-23, the department's financial sustainability in 2023-24 is favourable due to:

- funding supplementation received in late 2022-23 which restored the department's cash reserves to an acceptable level
- increases to biosecurity fees and charges on 1 July 2023 approved by the Minister for Agriculture
- additional funding provided by the government through MYEFO to sustain export regulatory functions.

Key areas of financial statement risk

The ANAO identified five areas of financial statement risk for the 2022–23 financial year:

- Financial sustainability
- Accuracy and completion of own-source revenue relating to import and export functions
- Completeness and accuracy of primary industry levies and charges
- Machinery-of-government changes
- Valuation of loans to State and Territory Governments and farm businesses.

The ANAO has maintained these key risks for the 2023–24 financial statement audit, except for the risk related to machinery-of-government changes, which has been removed.

Moderate Audit Finding

ANAO Finding – Removal of User Access

In connection with the 2022–23 financial statements, the department received one new moderate (category B) audit finding relating to user access terminations.

During the 2022–23 audit the ANAO identified users who had accessed the department's network and systems supporting the preparation of the financial statements. This access occurred post the user's termination date.

Unauthorised user access (post termination) poses a business risk and could potentially impact the integrity of the entity's financial or other data.

The ANAO has recommended that the department:

- *Recommendation 1*: review the process for user access termination to ensure that terminations are processed in a timelier manner; and
- *Recommendation 2*: design a process that would allow the department to 'look back' on user activity which occurred post termination to confirm appropriateness.

The department immediately acknowledged the finding and commenced remediation of the issue.

Processes have since been established to guide managers, supervisors and staff on their requirements to ensure user access is terminated on a timely basis. This information is available to all staff on the intranet.

In early 2024, the department circulated communications to all staff reminding managers and supervisors of their responsibility to ensure the timely exit of staff to ensure the security and integrity of our systems and assets. The department will continue to circulate this information throughout the year to ensure that staff are aware of this responsibility on an ongoing basis.

The department also has an automated system control which ensures that accounts are scheduled for deactivation as soon as the termination information is processed in the department's payroll system. The department is enhancing this system control to identify instances where the system termination occurred after the termination date. This process will be documented and include reviewing user access and any remedial action.

Remediation is expected to be fully completed by 31 March 2024.