

Audit Report No.22 2010–11

Audits of Financial Statements of Australian Government Entities

Introduction

- 2.1 Financial statement audits are an independent examination of the financial accounting and reporting of public sector entities undertaken to provide reasonable assurance that the financial statements are free from material misstatement, whether due to fraud or error. Audit procedures include examination of the entity's records and its internal control, information systems, and statutory disclosure requirements.¹
- 2.2 The Australian National Audit Office (ANAO) tables two reports annually addressing the financial statement audits. In addition to the year-end report², an interim report³ reviews internal controls to assess entities' abilities to prepare complete and accurate information for financial reporting. This interim stage provides agencies with an opportunity to address emerging issues prior to the final audit.

1 ANAO Audit Report No. 22 2010–11, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2010*, p. 36.

2 For example, ANAO Audit Report No. 22 2010–11, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2010*.

3 For example, ANAO Audit Report No. 50 *Interim phase of the Audit of the Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2010*.

- 2.3 Consistent with results of recent years, the ANAO found agencies made good progress addressing issues raised in the interim report, leading to positive year-end results. The audit opinions on all 255 Australian entities' financial statements were unqualified, and the number of significant and moderate audit findings decreased.⁴
- 2.4 Taking this into consideration, the Committee decided to use this inquiry to focus on the broader financial framework, financial reporting and auditing, and the underlying standards, rather than individual entity audit results.

Financial statements

- 2.5 The preparation of audited financial statements in compliance with the Finance Minister's Orders is a key element of the financial management and accountability regime applicable to Australian Government entities. The Acts underpinning the reporting and auditing framework include:
- *Financial Management and Accountability Act 1997;*
 - *Commonwealth Authorities and Companies Act 1997; and*
 - *Auditor-General Act 1997.*
- 2.6 The key elements of the Australian Government's financial reporting and auditing framework are outlined in Appendix 2 of the ANAO Audit Report No. 22.
- 2.7 In addition to demonstrating the financial health of an individual entity, accurate financial statements also feed into the Australian Government's Consolidated Financial Statements (CFS). The ANAO describes the CFS as a 'general purpose financial report consolidating the financial activities and financial position of all agencies, authorities and other entities controlled by the Commonwealth Government.'⁵ The CFS provides an indicator as to whether the Government is operating at a sustainable level.

Accounting and auditing framework

- 2.8 The Australian Government's financial reporting framework is based, in large part, on the Australian Accounting Standards Board (AASB) standards. These standards are in turn based on the International Financial Reporting Standards issued by the International Public Sector

4 ANAO Audit Report No. 22 2010-11, pp. 15-16.

5 ANAO Audit Report No. 22 2010-11, p. 258.

Accounting Standards Board. Additional standards are prepared by the AASB to address public sector reporting.⁶

- 2.9 The Auditor-General has been a member of the AASB since 2009. A senior Department of Finance and Deregulation representative has observer status on the AASB, and is also a member of the International Public Sector Accounting Standards Board.
- 2.10 The Department of Finance and Deregulation (Finance) is responsible for the Commonwealth's financial framework and reporting. This includes preparation of guidance material to ensure consistency of accounting policy choices across government entities where Australian Accounting Standards allow choices. Consistency ensures comparability of financial reports across entities and facilitates the preparation of the CFS.
- 2.11 The ANAO's auditing framework is based on standards developed by the Australian Auditing and Assurance Standards Board (AUASB), which in turn are based on International Auditing Standards.

Future developments in the public sector reporting framework

- 2.12 The audit report noted ongoing developments in accounting and auditing frameworks and standards continue to have an impact on the financial reporting responsibilities of public sector entities and on the ANAO's auditing methodology.
- 2.13 Recent developments by the AASB include: differential financial reporting – reduced disclosure requirements; and relief from consolidated financial reporting for certain entities with a not-for-profit parent entity. The ANAO notes harmonisation of accounting standards is progressing with continuing convergence between the Australian and New Zealand accounting standards, as well as major projects underway in the international sphere.⁷
- 2.14 According to the ANAO, the implementation of recent changes made by the AUASB to Australian Auditing Standards enhances their quality and maintains uniformity with International Auditing Standards. However, they note the revisions have led to a significant increase in the number of mandatory requirements, and as such will lead to some increase in audit costs. These costs are likely to be proportionately greater for smaller audits.⁸

6 ANAO Audit Report No. 22 2010–11, p. 20.

7 ANAO Audit Report No. 22 2010–11, pp. 22–26.

8 ANAO Audit Report No. 22 2010–11, pp. 20–27.

The ANAO audit⁹

Audit objective

- 2.15 The report provides the results of the audits of 2009–10 financial statement of Australian Government entities, ordered by portfolio, and the Consolidated Financial Statement. The report also outlines developments in the public sector accounting and auditing.

Audit findings¹⁰

- 2.16 All 255 auditors' reports issued, including for the CFS, were unqualified, indicating that the financial statements are fair and true. Two auditors' reports contained reference to 'Other Legal and Regulatory requirements', relating to breaches of section 83 of the Constitution.¹¹
- 2.17 In addition to the continuing trend of unqualified audits, there was also a significant reduction in the number of significant and moderate audit findings. The ANAO also noted entities have taken advantage of the opportunity to rectify matters raised in the interim audit phase.
- 2.18 However, while most entities met the financial statement preparation timeline, a number continued to experience difficulty in submitting audit cleared information to Finance within three months of the end of financial year.

The Committee's review

- 2.19 The Committee held a public hearing on Wednesday 14 September 2011, with the following witnesses:
- Australian National Audit Office; and
 - Department of Finance and Deregulation.

9 ANAO Audit Report No. 22 2010–11, p. 43.

10 ANAO Audit Report No. 22 2010–11, p.p. 15–16.

11 Australian Taxation Office and the Productivity Commission. See ANAO Audit Report No.22 2010–11, p. 41.

2.20 The Committee took evidence on the following issues:

- Australian Government financial reporting
 - ⇒ individual entities (including specific evidence in regard to the Australian Taxation Office)
 - ⇒ Commonwealth financial reporting
- managing liabilities
 - ⇒ superannuation
 - ⇒ Australian Public Service leave balances
- the public sector reporting framework
 - ⇒ international comparisons
 - ⇒ comparability of Australian Government data
 - ⇒ implementation of new standards
 - ⇒ impact on small agencies
- transparency
 - ⇒ the Budget versus financial statements
 - ⇒ cross-agency reporting
 - ⇒ auditing of Commonwealth funding to states and territories.

Australian Government financial reporting

2.21 In the report, the ANAO reaffirmed the importance of the audits of Australian Government financial statements, both of individual entities and the Consolidated Financial Statements, as a means of determining effective financial management. The report also acknowledged the significant investment of time and resources committed by the ANAO and Australian Government entities in the preparation and audit of financial statements.¹²

Individual entities

2.22 In his opening statement the Auditor-General noted the ANAO devotes about 60 per cent of agency resources to the critically important role of 'providing assurance to the parliament that the Australian Government and public sector entities are correctly reporting their financial position'. Further, the Auditor-General noted the continued improvement in individual government entity reporting processes, which he contributed to

12 ANAO Audit Report No. 22 2010–11, p. 13.

the sustained efforts toward the implementation of accrual accounting and reporting.¹³

- 2.23 In response to the opening statement, the Committee noted that financial reporting arrangements have been in place for some time, yet Audit Report No. 22 2010–11 commented on the potential for increased errors and resources caused by tight completion requirements or rushed preparations.¹⁴ The Committee asked for evidence of any occurrences and what mitigating steps were being taken to limit this problem.
- 2.24 The Auditor-General explained that there are controls around the audit process, including the need for each chief executive to sign off an agency's financial statements. However, he did note that on occasion an agency may work to a self-imposed deadline risking the integrity of the financial statements.¹⁵ Both the ANAO and Finance agreed that the message to agencies was while it is a positive that agencies were driven by timely completion, the focus should be on preparing accurate financial statements.¹⁶

Australian Taxation Office

- 2.25 The ANAO reported an audit finding against the Australian Taxation Office (ATO) with a reference to breaches of section 83 of *The Constitution* under 'Other Legal and Regulatory requirements'.¹⁷ The Committee asked for further details on the 604 incorrect payments making up these breaches and what triggered awareness of the breaches.
- 2.26 The Auditor-General advised that in addition to undertaking audits in accordance with Australian auditing standards, the ANAO also responds to requests from parliament (including those from the Joint Committee of Public Accounts and Audit) to look at matters of importance for public entities. One such area is ensuring compliance with section 83 of *The Constitution*, which requires an agency to spend within its authorised appropriation.¹⁸

13 Mr Ian McPhee, Auditor-General, Australian National Audit Office, *Committee Hansard*, Canberra, 14 September 2011, p.1.

14 ANAO Audit Report No. 22 2010–11, pp. 43–46.

15 Dr Stein Helgeby, Deputy Secretary, Department of Finance and Deregulation, *Committee Hansard*, Canberra, 14 September 2011, p. 2.

16 Mr McPhee, ANAO, *Committee Hansard*, Canberra, 14 September 2011, pp. 1-2.; and Dr Stein Helgeby, Deputy Secretary, Finance, *Committee Hansard*, Canberra, 14 September 2011, p. 2.

17 ANAO Audit Report No. 22 2010–11, p. 246.

18 Mr McPhee, ANAO, *Committee Hansard*, Canberra, 14 September 2011, p. 5.

- 2.27 The ANAO indicated, in this case, they were satisfied that the ATO identified the breaches during the Certificate of Compliance process, sought legal advice and alerted the ANAO. The Auditor-General considered these breaches ‘nothing other than inadvertent overpayments’, most of which had been rectified.¹⁹

Commonwealth financial reporting

- 2.28 With Finance responsible for Australian Government financial reporting, the Committee was interested in whether the department has been meeting published reporting standards in terms of timeliness of monthly and end of year reporting. Finance informed the Committee that they have a key performance indicator for timeliness of monthly financial reporting, with results published in Finance’s annual report, noting:

...there have been some years where it has been a little bit harder to achieve that target than others... While our key performance indicator kind of blends everything into a statistical average, in many months we achieve it fairly easily and in other months it is a bit more problematic.²⁰

Managing liabilities

- 2.29 Reviewing the Australian Government’s balance sheet, the ANAO noted that the 2009–10 Consolidated Financial Statement reported a \$68.6 billion decrease in the net worth position of the Government from the 2008–09 position. This was attributed to the increase in liabilities being significantly greater than the increase in assets. Contributing to the increase in liabilities was a \$16.5 million increase in public service superannuation obligations.²¹

Superannuation liabilities

- 2.30 Superannuation liability was also raised by the ANAO as a significant issue for Finance’s 2009–10 financial statement audit.²² Notably because the unfunded superannuation liability is based on a set of complex

19 Mr McPhee, and Mr Michael Watson, Group Executive Director, ANAO, *Committee Hansard*, Canberra, 14 September 2011, pp.5–6.

20 Dr Helgeby, Deputy Secretary, Finance, *Committee Hansard*, Canberra, 14 September 2011, p. 8.

21 ANAO Audit Report No. 22 2010–11, pp. 33–34.

22 Finance is the administrator of the Australian Government’s superannuation schemes.

assumptions, and continues to grow as members' employment tenure and wage increases.²³

- 2.31 The Committee asked about the accounting treatment of the superannuation liability, and how the unknown amount and timing of the payment obligation is managed.
- 2.32 ANAO confirmed Finance's view that the full liability is accounted for and is underpinned by regular actuarial assessment. The Auditor-General went on to explain the purpose of the Future Fund as partially offsetting the Government's superannuation liability. Beyond this, he indicated the liability is bundled in with the rest of the liabilities, and offset by the many Commonwealth assets.²⁴
- 2.33 The Auditor-General also noted the benefits of the Australian Government's use of accrual accounting. This increased the visibility of liabilities on financial statements brought the issue into focus, and put Australia on the 'right path', compared to those countries that are still only accounting for the annual superannuation outflows.²⁵

Annual leave liabilities

- 2.34 Other liabilities, such as leave entitlements, may be more easily accounted for and effectively managed on a yearly basis than superannuation, yet still present an ongoing challenge for agencies. The audit report noted that the Attorney-General's department liabilities had increased due in part to employee leave provisions.²⁶
- 2.35 The Committee asked how government agencies were managing leave liabilities, noting that a lot of effort had gone toward reducing leave banks. Additionally, while the Committee accepted Finance's advice that leave is to a certain extent managed at the agency level²⁷, there was interest in whether there was any mechanism for whole-of-government oversight.
- 2.36 The Auditor-General responded to the question in two parts. First, Mr McPhee advised that leave liabilities are being properly accounted for. He then moved to explain the actions individual agencies may take to address management of leave liabilities, using the ANAO as an example. The ANAO enterprise agreement includes reference to the annual leave
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23 ANAO Audit Report No. 22 2010-11, pp. 149-150.

24 Mr McPhee, ANAO, *Committee Hansard*, Canberra, 14 September 2011, p. 2.

25 Mr McPhee, ANAO, *Committee Hansard*, Canberra, 14 September 2011, pp. 2-3.

26 ANAO Audit Report No. 22 2010-11, p. 65.

27 Mr Peter Gibson, Assistant Secretary, Finance, *Committee Hansard*, Canberra, 14 September 2011, p. 3.

cap and remedies for those who are holding excess leave.²⁸ Finance concurred, and noted that they used a similar system.²⁹

- 2.37 ANAO felt there were some agencies that were not as strong in the area of leave management. However, Finance did not consider there were ‘any indications of inherent problems’ at the broader level.³⁰

Public sector reporting framework

- 2.38 In the report, the ANAO noted that ‘at the international level, work continues on new conceptual frameworks for financial reporting so as to provide a sound base for the future development of accounting standards’.³¹ The AASB closely monitors these developments, incorporating relevant changes. During 2009–10, a new format for the main statement of financial performance was released, along with enhanced disclosures for the fair value of financial instruments.³²
- 2.39 In light of the ongoing international financial instability, the Committee expressed an interest in the robustness of the Australian Government’s financial reporting system, and Australia’s international standing.

International comparison

- 2.40 In his opening statement, the Auditor-General commented on the importance of transparency in financial reporting, as demonstrated by the recent, and ongoing, international events:

Recent events in Europe have shown that transparency in financial reporting by government is more important than ever to properly inform their stakeholders of government revenues, expenses, cash flows, and financial position, and to allow assessments to be made of the capacity of governments to meet the cost of current policies and new policies.³³

- 2.41 Finance drew the Committee’s attention to the Sovereign Fiscal Responsibility Index 2011³⁴. While American-centric, this report provides

28 Mr McPhee, ANAO, *Committee Hansard*, Canberra, 14 September 2011, p. 3.

29 Mr Gibson, Finance, *Committee Hansard*, Canberra, 14 September 2011, p. 3.

30 Mr Gibson, Finance, *Committee Hansard*, Canberra, 14 September 2011, p. 3.

31 ANAO Audit Report No. 22 2010–11, p. 14.

32 ANAO Audit Report No. 22 2010–11, p. 20.

33 Mr McPhee, ANAO, *Committee Hansard*, Canberra, 14 September 2011, p. 1.

34 Produced by Stanford University under the guidance of Comeback America Initiative CEO <http://siepr.stanford.edu/system/files/shared/documents/policybrief_04_2011.pdf> - the report lists Australia as first in the overall Sovereign Fiscal Responsibility Index rankings.

independent analysis suggesting that Australia's fiscal position is very strong relative to the other 33 major industrialised nations reviewed in the study.³⁵

- 2.42 The Committee noted that the international circumstances have highlighted comparability issues. The Committee was interested in further detail on how Australian accounting standards compared with international standards.
- 2.43 Finance confirmed the G20's push toward improved international standards, noting that it is Finance's view that the Australian standards are toward the 'top end' of best practice. Finance reconfirmed that the Australian standards are based on the international standards. Further, Finance indicated the G20 is advocating a move toward global application of the international standards.³⁶
- 2.44 When considering these international organisations, the Committee asked what assurance processes the International Monetary Fund (IMF) has in place to ensure comparability of data provided to them by various countries.
- 2.45 Finance explained IMF data is constructed on a statistical basis, reflecting an economic view of the world. Countries producing data for the IMF, including Australia, are governed by a set of standards, which is translated into the system of national accounts. The Australian Bureau of Statistics (ABS) consolidates the data and produces the national accounts.
- 2.46 Finance also advised that the 'IMF or one of its bodies' periodically undertakes country visits to ensure the ABS processes are consistent with the IMF framework.³⁷
- 2.47 In regard to the comparability of data published by the IMF and the Australian Government's financial statements, Finance indicated that while 'different standards apply to some components' they are in large measure comparable.³⁸

Comparability of Australian Government data

- 2.48 The Committee questioned Finance on the comparability of Australian Government financial data and how it is reconciled. Finance noted that over the past decade there have been significant moves to 'harmonise
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35 Dr Helgeby, Finance, *Committee Hansard*, Canberra, 14 September 2011, p. 6.

36 Mr Gibson, Finance, *Committee Hansard*, Canberra, 14 September 2011, p. 3.

37 Dr Helgeby, Finance, *Committee Hansard*, Canberra, 14 September 2011, p. 7.

38 Dr Helgeby, Finance, *Committee Hansard*, Canberra, 14 September 2011, p. 7.

these things', and that there are now Australian accounting standards which 'require reporting on a basis which essentially tries to reconcile all these differences'.³⁹

- 2.49 Finance summarised the process of production for both the ABS Government Finance Statistics and the Australian Government financial statements, noting that they are broadly comparable.

They are reconcilable to each other and ...to the frameworks within which they are constructed...

Harmonisation took a very large step about two years ago, with the adoption of a particular accounting standard, which requires reporting on a basis, which essentially tries to reconcile all of these differences.⁴⁰

- 2.50 Finance explained that typically in the general government accounts section in the Budget papers there would be a disclosure of differences between what is being published and the relevant standard.⁴¹

Implementation of new standards

- 2.51 Noting the accounting and auditing framework developments outlined in the ANAO report⁴², the Committee asked how government agencies are progressing to ensure that their reporting adheres to newly introduced standards. Finance agreed with the Committee's comment that it takes 'two or three years' for full implementation of new standards.⁴³
- 2.52 Finance considers that while some of the standards 'present challenges because they may require additional data collection or they may involve complex concepts', overall implementation across agencies is 'reasonably good'. Finance provides a range of assistance measures to agencies including guidance material and training on both the content and the implication of the standards.⁴⁴
- 2.53 The Auditor-General commended the elevation of the position of the Chief Executive Officer within many agencies to that of a Senior Executive Officer, often either at the Deputy Secretary or First Assistant Secretary

39 Dr Helgeby, Finance, *Committee Hansard*, Canberra, 14 September 2011, p. 7.

40 Dr Helgeby, Finance, *Committee Hansard*, Canberra, 14 September 2011, p. 7.

41 Dr Helgeby, Finance, *Committee Hansard*, Canberra, 14 September 2011, p. 7.

42 ANAO Audit Report No. 22 2010-11, pp. 20-22.

43 Mr Gibson, Finance, *Committee Hansard*, Canberra, 14 September 2011, p. 5.

44 Mr Gibson, Finance, *Committee Hansard*, Canberra, 14 September 2011, p. 5.

level. Mr McPhee considers that this has 'provided serious executive focus on not only the business but the requirements of standards'.⁴⁵

Impact on small agencies

- 2.54 In 2009–10, the AASB implemented a two-tier differential reporting regime⁴⁶ that provides for reduced disclosure requirements for the majority of reporting entities. In the audit report, the ANAO support the differential reporting regime, suggesting it is an opportunity to reduce administrative workloads and make financial reports easier to read, yet still meeting the needs of Parliament and providing sufficient transparency.⁴⁷
- 2.55 The Committee asked for further information on the potential benefits for small entities if the reduced reporting regime was implemented, and also whether the changes would affect the robustness of the financial statements.
- 2.56 Finance and the ANAO agreed that the changes appear to make sense and address the ongoing complaints from small agencies about the burdens imposed with the complexity and detail required for agency financial statements. However, both indicated that there was merit in further scrutiny of the regime, and its suitability for the Commonwealth, before a policy decision is made.⁴⁸
- 2.57 In responding to the question of robustness, the Auditor-General went on to explain that:

The actual numbers, the recognition and measurement of the transactions would be the same as has traditionally has been done. The reduced disclosure regime is just to try and reduce the amount of information included in the notes to the financial statement. The judgment has been made by the Australian Accounting Standards Board as to where they believe – in some cases, the information is not so significant in the small entities as to require disclosure.⁴⁹

45 Mr McPhee, ANAO, *Committee Hansard*, Canberra, 14 September 2011, p.5

46 ANAO Audit Report No. 22 2010–11, p. 22. Federal, state and territory governments are in the first tier. However, entities controlled by these governments and all universities may opt for either tier, subject to the requirements of their regulators.

47 ANAO Audit Report No. 22 2010–11, pp. 22–23.

48 Mr McPhee, ANAO and Dr Helgeby, Finance, *Committee Hansard*, Canberra, 14 September 2011, pp. 7–8.

49 Mr McPhee, ANAO, *Committee Hansard*, Canberra, 14 September 2011, p. 8.

- 2.58 While acknowledging the final decision rests with the Finance Minister, the Auditor-General expressed support for Finance's investigation of the benefits of the reduced reporting regime, particularly for smaller agencies. He noted for these agencies it may help alleviate the burden and significant cost of preparing financial statements.⁵⁰

Transparency

The Budget versus financial reports

- 2.59 Using the National Broadband Network (NBN) as an example, the Committee asked for an explanation as to why some government activities are not included in the Budget, but are reported in the end-of-year financial reports.
- 2.60 Finance explained that for government and statistical purposes all the organisations that are controlled by the government fall into three sectors which comprise the general government sector and two corporation sectors. The Budget is only focused on measuring the impact of the government on the economy, which is defined by the general government sector.⁵¹
- 2.61 The NBN is a public corporation, and therefore not included in the aggregate budget numbers. Instead, they are presented as government investments identified in the Budget papers as 'investments in other government bodies'.⁵² However, Finance also noted that any equity injection the Government put into the NBN would be accounted for in the general government sector.⁵³
- 2.62 The Auditor-General added to Finance's comments, advising that while the Budget papers relate largely to the general government sector transactions, the Australian Government consolidated financial statements represent the totality of the Australian government's activities, including all corporations. He summarised that 'you have to add them all together to get to the Government's full accounts position'.⁵⁴

50 Mr McPhee, ANAO, *Committee Hansard*, Canberra, 14 September 2011, p. 8.

51 Mr Gibson, Finance, *Committee Hansard*, Canberra, 14 September 2011, pp. 6–7.

52 Mr Gibson, Finance, *Committee Hansard*, Canberra, 14 September 2011, pp. 6–7.

53 Dr Helgeby, Finance, *Committee Hansard*, Canberra, 14 September 2011, p. 5.

54 Mr McPhee, ANAO, *Committee Hansard*, Canberra, 14 September 2011, p. 7.

Cross-agency reporting

- 2.63 In addition to the focus on agency-specific matters, the ANAO also takes into account relevant cross-agency performance audits to inform the audit coverage of an entity's financial statements. An instance in the 2009-10 financial year was the cross-agency performance audit of the Home Insulation Program.⁵⁵ The Committee commented on this apparent trend toward whole-of-government service delivery, and asked what guidelines are in place in regard to reflecting cross-agency arrangements in the financial statements.
- 2.64 The Auditor-General explained the current system whereby, in accordance with legislation, each secretary or agency head is responsible for accounting for their part of any obligations incurred as a result of a whole-of-government initiative within their own agency's financial statements. While it will always be necessary to maintain the 'silo approach', he noted that in recent reports, the ANAO has been raising the need for better reporting across government, particularly in light of the Council of Australian Governments' agreements.⁵⁶
- 2.65 Referring to the ANAO's recent work, including an audit report on effective cross-agency agreements⁵⁷, Finance agreed there is a need to make the arrangements more transparent, at least in terms of reporting to Parliament.

At the moment, reporting to parliament is typically done through portfolio or departmental structure. It goes through the department's or agency's annual report and through the portfolio budget statement, which, by its definition, takes a portfolio focus. We think there might be some things that could be done to make the cross-read between those documents easier to understand. That is an area where we intend to do some work going forward as to how they relate to each other.⁵⁸

Auditing of Commonwealth funding to states and territories

- 2.66 Further to the discussion on reporting, the Committee asked what sort of auditing is done for Commonwealth funding of state projects to ensure

55 ANAO Audit Report No. 22 2010-11, p. 37 and ANAO Audit Report No. 12 2010-11 *Home Insulation Program*.

56 Mr McPhee, ANAO, *Committee Hansard*, Canberra, 14 September 2011, pp. 5-6.

57 Audit Report No.41 2009-10 Effective Cross-Agency Agreements, available at <http://www.anao.gov.au/~media/Uploads/Documents/2009%2010_audit_report_41.pdf>.

58 Dr Helgeby, Finance, *Committee Hansard*, Canberra, 14 September 2011, p. 6.

value for money outcomes for the Commonwealth. The Committee used a hypothetical national highway project to illustrate their concerns.

- 2.67 The Auditor-General agreed this is a contemporary issue, and went on to outline the expectations that agencies and departments undertake a risk assessment, and then develop a monitoring and reporting plan to ensure the Commonwealth is ultimately getting value for money. In the case of a highway, this would include reports from the state on progress of the road against the schedule and costs. He also stressed the importance of on-the-ground inspections to confirm statements in written reports.⁵⁹
- 2.68 While the Auditor-General supports the Committee's earlier recommendation⁶⁰ to increase the ANAO's ability to audit Commonwealth funding agreements made with states and territories, he expressed the view that agencies and departments need to take responsibility for ensuring the agreements put in place give them sufficient project oversight.⁶¹
- 2.69 The Committee asked for Finance's view on the existing arrangements for agreements between the Commonwealth and states/territories, and specifically inquired as to whether there are systems in place to 'catch the projects where there should be concerns'. Finance noted they are not aware of any systemic issues and these agreements are generally 'subject to quite a degree of scrutiny', summarising that, 'broadly speaking the system of decision making, agreement setting, monitoring and audit is a robust system'.⁶²

Committee comment

- 2.70 The Committee notes the considerable work Australian Government entities, in cooperation with the ANAO, devote to preparing accurate financial statements, generally in a timely manner. The Committee welcomed the positive audit trend continuing this year, with a reduction in significant issues and all audit reports issued unqualified.
- 2.71 This being the case, the Committee's focus during the hearing was to ensure the underlying framework was sound and will continue to support Australia's international positioning as a well respected financial manager.

59 Mr McPhee, ANAO, *Committee Hansard*, Canberra, 14 September 2011, p. 4.

60 Recommendation 10, *JCPAA Report 419 - Inquiry into the Auditor-General Act 1997*.

61 Mr McPhee, ANAO, *Committee Hansard*, Canberra, 14 September 2011, p. 4.

62 Dr Helgeby, Finance, *Committee Hansard*, Canberra, 14 September 2011, p. 5.

- 2.72 The Committee accepts and appreciates the assurances provided by Finance and the ANAO regarding the robustness of the financial framework and Australia's influence and esteem in the international arena. Further, the Committee notes the support and guidance they provide to entities to assist them in meeting their financial reporting obligations and incorporating new accounting standards into agency processes.
- 2.73 Transparency in reporting to Parliament and the ability to demonstrate value for money to the people of Australia are fundamentally important to this Committee. The Committee considers that the current visibility for programs delivered across agencies or through state/territory agreements is insufficient.
- 2.74 The Committee also continues to hold the position that the Auditor-General should be able to scrutinise all funding agreements between the Commonwealth and other levels of Government.
- 2.75 The Committee acknowledges that Finance and ANAO are considering how to improve financial reporting to provide increased visibility across a whole project rather than the current portfolio approach. However, this work seems to be very much at the conceptual stage.
- 2.76 Noting that the Minister for Finance and Deregulation announced that Finance has commenced a major review – Commonwealth Financial Accountability Review – the Committee makes the following recommendation.

Recommendation 1

The Joint Committee of Public Accounts and Audit recommends that the Department of Finance and Deregulation develop options for improved cross-agency and cross-jurisdictional financial reporting as part of the Commonwealth Financial Accountability Review.