

Audits of the Financial Statements of Australian Government Entities for the Period  
Ended 30 June 2017

Auditor-General Report No.24 2017–18

Opening Statement by Auditor-General

Joint Committee of Public Accounts and Audit

22 August 2018

1. Good morning Chairperson and committee members.
2. The Auditor-General publishes two reports annually to provide Parliament an independent examination of the financial accounting and reporting of public sector entities.
3. The first report, *Interim Report on Key Financial Controls of Major Entities*, focuses on the results of the interim audit phases of major government sector entities, including an assessment of key internal controls.
4. The second report, *Audits of the Financial Statements of Australian Government Entities*, and which is for discussion with the committee today, provides results of the final audits of the financial statements of all Australian Government entities and the Consolidated Financial Statements.
5. The Joint Committee of Public Accounts and Audit is conducting an inquiry based on any items, matters or circumstances connected with Auditor-General report No. 24 2017-18 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2017*.
6. I note that the JCPAA has highlighted a number of specific topics in its inquiry description including equity investments, concessional loans and contingent liabilities, and the applicable budget, accounting and valuation rules; significant and moderate findings for NDIA; and the management of IT controls.
7. In 2016–17, the Auditor-General and senior staff under delegation issued 234 financial statements auditors' reports including the Consolidated Financial Statements. Two hundred and twenty-nine of these related to 30 June 2017 year-end. All auditors' reports were unmodified. The *Public Governance, Performance and Accountability Act 2013* requires Commonwealth entities to prepare and give an annual report to the entity's responsible Minister by the 15th day of the fourth month after the end of the

reporting period. The annual report must include the annual financial statements. In 2016–17, 91 per cent of these entities were provided with auditor's report within three months of the financial year end. The average time taken for entities to table annual reports from the date the auditor's report was issued was 47 days.

8. *ASA 701 Communicating Key Audit Matters* applied to audits of listed entities from 15 December 2016. The purpose of communicating key audit matters in the independent auditor's report is to provide greater transparency about the audit that was performed and to help users of financial statements better understand those matters that, in the auditor's professional judgement, were of most significance in the financial statements audit. In 2016–17, the Auditor-General adopted Key Audit Matter reporting for the 25 entities included in Auditor-General No. 60 2016–17 *Interim Report on Key Financial Controls of Major Entities*. A summary of the areas that the majority of Key Audit Matters focussed on is included in the Auditor-General Report No. 24.
9. The Australian National Audit Office (ANAO) has a quality assurance framework established under the Australian Auditing Standard ASQC1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* (ASQC 1). The objective of the framework is to provide the ANAO with reasonable assurance that: the ANAO complies with ANAO standards, including relevant ethical requirements, and applicable legal and regulatory requirements; and reports issued by the ANAO are appropriate in the circumstances. To support the continuing competence of ANAO staff and the delivery of quality financial statement audits, the ANAO provides a comprehensive technical training and professional development program. In order to increase the level of external scrutiny over the quality framework, the ANAO engaged the Australian Securities and Investments Commission (ASIC) to undertake a review of the key areas of focus in two audits of financial reports for the year ended 30 June 2017 and aspects of the ANAO's quality control processes and quality assurance framework relating to audits of financial reports. ASIC did not identify any areas where the design of the quality framework did not satisfy the requirements of ASQC 1 within the scope of their review. ASIC made two good practice recommendations in relation to the ANAO's policies to address key requirements of

ASQC 1 and the program of internal quality reviews. The ASIC report has been published on the ANAO website at <https://www.anao.gov.au/about/external-audits-and-reviews>.

10. A total of 222 findings were reported to entities as a result of our 2016–17 financial statement audits. These comprised two significant, 20 moderate and 200 minor findings.
11. Seventy-eight per cent of significant and moderate findings were in the areas of: management of IT controls, particularly the management of privileged users; compliance and quality assurance frameworks supporting program payments; revenue, receivables and cash management; and the management of non-financial assets.
12. Auditor-General Report No. 47 2017-18 *Interim Report on Key Financial Controls of Major Entities* tabled on 14 June 2018 provided an update on the status of findings in major entities. The report noted that the NDIA had addressed elements of one significant finding resulting in it being downgraded to a moderate audit finding, one significant finding was resolved and one moderate audit finding had been downgraded to a minor audit finding.
13. Report No. 24 also included commentary on the following areas:
  - a. Concessional loans – There has been continual growth in loans provided by the Government, with the 2016–17 budgeted loans estimated at more than \$50 billion (2017–18 Budget Paper No. 1). A large proportion of these loans are concessional. Concessional loans are those provided on favourable terms, for example, the interest rate may be below the current market rate for loans of similar risk. The Higher Education Loan Program (HELP) is the largest Australian Government concessional loan program. HELP provides financial assistance to students to remove upfront cost barriers to tertiary education through income contingent loans. These loans are indexed to CPI and repayments are linked to the ability to pay based on income thresholds. The policy of making HELP loans income contingent has a significant cost to the Australian Government. The fair value of HELP loans at 30 June 2017 was \$35.9 billion and the value of the loans paid was \$55.4 billion. The main difference between the value of loans paid and the fair value was the \$17.3 billion impairment adjustment for new loans not expected to

be repaid, representing the accumulated cost to the Government of the loans being income contingent.

- b. **Reduced Disclosure Regime** – Australian Accounting Standards include a Reduced Disclosure Regime (RDR) that allows some specified disclosures to be omitted from the general purpose financial statements of certain entities. The Department of Finance allowed Commonwealth entities to apply RDR for the first time in 2016–17. The ANAO supports these initiatives, to the extent the needs of the Parliament are met.
- c. **Changes in Accounting Standards** – Major changes in accounting standards will be applicable in 2018–19 and 2019–20 with the implementation of revised standards for AASB 9 *Financial Instruments*, AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases*. These new standards will take effort and time to transition to with preparers required to develop business models, write new accounting policies, revise existing accounting policies, write new accounting policies, undertake a review of all the underlying contracts and in some instances consider amending contracts.
- d. **Financial sustainability measures** – in the absence of a public sector framework detailing appropriate measures, the ANAO developed parameters based on generally accepted concepts of financial sustainability and applied these to the operating results and balance sheets of the 68 material entities. The ANAO analysis concluded that the financial sustainability of the majority of these entities was not at risk. Nevertheless, there would be benefit in the Government developing performance targets or benchmarks to enable entities to assess their own financial sustainability against agreed parameters over time and against like entities.
- e. **Executive remuneration disclosure** – The ANAO reported in Auditor-General Report No. 60 2016-17 *Interim Report on Key Financial Controls of Government Entities* that the Minister for Finance and the Secretary of the Department of the Prime Minister and Cabinet requested respectively government business enterprises and government entities to provide additional information relating to senior management personnel remuneration on their websites. All GBEs complied with this request. The request from the Secretary of PM&C was made to

157 government entities. Of these entities 134 published the information and 68 entities published in accordance with the requested timeframe.

14. Officers of the ANAO are available to assist the Committee with its hearing.