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## **Attachment B – Unclassified submission**

### **Submission on the Australian National Audit Office's audit activity within Australian Intelligence Agencies for 2022–23**

#### **Results of Performance Audits**

##### ***Powers of the Auditor-General***

1. The *Auditor-General Act 1997* authorises the Auditor-General to conduct performance audits, assurance reviews or audits of the performance measures of Commonwealth entities, Commonwealth companies and their subsidiaries. A performance audit is a review or examination of any aspect of the operations of an entity which is undertaken in accordance with the ANAO Auditing Standards. The ANAO's performance audits are presented to the Parliament and identify areas where improvements can be made to aspects of public administration. Performance audits may make specific recommendations to assist public sector entities to improve performance. Performance audits may also involve multiple entities and examine common aspects of administration or the joint administration of a program or service.

2. The ANAO identifies subjects for audits through its planning processes and as part of developing the ANAO Annual Audit Work Program. The audit program aims to provide broad coverage of areas of public administration while balancing identified priorities with the ANAO's capacity. Topics are identified based on consideration of potential benefits; the level of public and parliamentary interest in a topic; and risks to reputation and service delivery. The priorities of the Parliament, as determined through the Joint Committee on Public Accounts and Audit are a key consideration in this process. Performance audits can include consideration of:

- economy (minimising cost);
- efficiency (maximising the ratio of outputs to inputs);
- effectiveness (the extent to which intended outcomes were achieved); and
- legislative and policy compliance.

3. The annual Audit Work Program is published annually and can be accessed on the ANAO website at: <https://www.anao.gov.au/work-program>. The ANAO annual audit work program for 2023–24 includes the following potential audit topics relating to Australian intelligence agencies:

- Procurement by National Intelligence Community agencies

*This audit would assess whether entities' procurement activities have been conducted in accordance with the relevant Commonwealth Procurement Rules.*

*This audit would examine whether selected NIC entities have appropriately managed the procurement of major capabilities. It would include procurements used to develop capabilities of individual NIC agencies, as well as those that are for a shared capability across the sector.*

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4. During 2022–23 there were no performance audit reports were tabled in Parliament related to an Australian Intelligence agency.

## **Results of Financial Statements Audits**

### ***Powers of the Auditor-General***

5. The Auditor-General, and his delegates, are required by section 43 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) to examine the annual financial statements of all Commonwealth entities and to report on them to the responsible Minister in accordance with that section. The *Auditor-General Act 1997* provides the Auditor-General powers to access information, records and documentation that are relevant to the annual financial statements in the conduct of these audits.

6. In accordance with the requirements of the ANAO Auditing Standards which incorporate the Australian Auditing Standards<sup>1</sup> written terms of engagement that outline responsibilities of Accountable Authorities for preparing the annual financial statements and confirming access to information required to complete the audit have been agreed with the Accountable Authority of each intelligence agency. The accountable authority of each of the entities has acknowledged that they provide the ANAO with:

- access to all information which the Accountable Authority is aware that is relevant to the preparation of the financial statements;
- additional information that the ANAO request for the purposes of the audit; and
- unrestricted access to persons within the agency from whom the ANAO determine it is necessary to obtain audit evidence.

7. In concluding on the evidence obtained in an audit, the ANAO seeks formal written representations from the Accountable Authority that they have adhered to the requirements of these terms and provided the ANAO with access to all information or persons that may be relevant to the conduct of the audit.

8. Consistent with responsibilities of the Auditor-General outlined in the *Auditor-General Act 1997*, the ANAO conducts the audits of the entities in accordance with the ANAO's Auditing Standards, which incorporate the Australian Auditing Standards, so as to provide reasonable assurance as to whether the financial statements are free from material misstatement. The auditing standards require the ANAO to obtain sufficient and appropriate audit evidence relating to the financial statements that would allow the issuance of our auditor's report that expresses an opinion on the financial statements. A financial statements audit involves performing procedures, which in the judgement of the auditor, will obtain sufficient and appropriate audit evidence about the amounts and disclosures in the financial statements. The procedures that the ANAO perform in each audit depend on the auditor's judgement, including the assessment of the risks of material misstatement in the financial statements, whether due to fraud or error.

9. In planning a financial statement audit the ANAO undertakes a risk assessment of the overall risk of misstatement in the financial statements which includes consideration of the:

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<sup>1</sup> Issued by the Australian Auditing and Assurance Standards Board.

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operating environment, adoption and use of technology, changes in and complexity of the financial reporting framework and results of previous audits. In performing such a risk assessment, the ANAO also considers internal controls relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency internal control. Whilst this risk assessment may cause the ANAO to focus on certain aspects of the financial statements the ANAO considers at greater risk of misstatement the ANAO performs audit procedures on all material financial statements line items and disclosures.

### ***Governance Arrangements at the Australian Intelligence Agencies***

10. The purpose of a financial statements audit is to obtain sufficient and appropriate audit evidence that allows a conclusion to be formed that an agency's financial statements are free from material misstatement, the auditing standards require the ANAO to consider the design and implementation of certain elements of an agency's internal control framework relevant to the preparation of the financial statements and report deficiencies to the agency.

11. The ANAO may test the design and operating effectiveness of certain internal controls, including those relating to information technology (commonly related to the management of the financial management and human resources information systems), this is to provide assurance over the risk of misstatement – accordingly, the ANAO does not express an opinion on the effectiveness of internal controls. Where the ANAO identifies issues with the design or operating effectiveness of internal controls these may be reported to the Accountable Authority of an agency in accordance with the ANAO reporting policy (refer to paragraph 20 for further information).

12. All intelligence agencies<sup>2</sup> have designed and implemented governance arrangements, a financial reporting regime and a system of internal control designed to provide reasonable assurance in the preparation of the annual financial statements. Key elements of the governance arrangements for each agency include:

- a number of management committees that meet regularly to evaluate the agency's performance and financial results;
- a risk management and fraud control process that identifies risks and mitigation strategies;
- an internal audit function that provides the Accountable Authority with assurance on the effectiveness of internal controls;
- accountable authority instructions and delegations drafted to provide officials guidance in relation to their responsibilities under the PGPA Act and Rules; and
- an audit and risk committee that meets at least quarterly and has independent members, including an independent chair.

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<sup>2</sup> Governance arrangements for DIO and AGO reflect those implemented for the Department of Defence.

**Results of individual audits**

13. Section 42 of the PGPA Act requires that all listed Commonwealth entities prepare annual financial statements in accordance with the PGPA Financial Reporting Rules. Australian Security Intelligence Organisation (ASIO), Australian Signals Directorate (ASD), Australian Secret Intelligence Service (ASIS) and Office of National Intelligence (ONI) produced annual financial statements that were prepared in accordance with these requirements and were subject to audit by the ANAO. The Defence Intelligence Organisation (DIO) and Australian Geospatial Intelligence Organisation (AGO) were not listed entities for the purposes of the PGPA Act during 2022–23 and on this basis are not required to prepare separate financial statements as they are divisions within the Department of Defence (Defence). The financial performance and position of AGO and DIO is included in the Defence financial statements.

14. All entities produced financial statements and submitted them for audit by the ANAO. The ANAO issued an unmodified<sup>3</sup> auditor's report on each agency's financial statements.

15. The ANAO may identify audit findings in the course of our audit in relation to systems of internal control or financial statement preparation. As audit findings are identified they are discussed with and reported to management of each agency for formal comment and remediation. The ANAO categorise issues based on our judgement of their severity, through the following classification scale:

**Table 1: Categories of ANAO Audit Findings<sup>a</sup>**

Category	Description
<b>Significant</b>	Issues that pose a significant business or financial management risk to the entity; these include issues that could result in the material misstatement of the entity's financial statements.
<b>Moderate</b>	Issues that pose moderate business or financial management risk to the entity; these may include prior year issues that have not been satisfactorily addressed.
<b>Minor</b>	Issues that pose a low business or financial management risk to the entity; these may include accounting issues that, if not addressed, could pose a moderate risk in the future.

Note a: Further information on the process for ANAO audit findings on the ANAO's website at: <https://www.anao.gov.au/financial-statement-audit-information>

16. There were no new significant or moderate audit issues identified in the audits of intelligence agencies in 2022–23.

**Australian Security Intelligence Organisation**

17. ASIO's role is to identify and investigate threats to security both in Australia and overseas. It fulfils its role by collecting and assessing security intelligence. ASIO also provides assessments, reports and briefings for Government decision makers and client entities to help them manage risks and take appropriate steps to protect Australia, its people and its interests from threats to security whether they arise in or outside Australia.

18. The ANAO assessed the risk of material misstatement in ASIO's financial statements as moderate. The ANAO identified the following areas of audit focus, for which the ANAO

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<sup>3</sup> An unmodified auditor's report is issued when an auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

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performed more detailed audit procedures. The table below provides an overview of these areas of audit focus.

**Table 2: Key areas of audit focus for ASIO**

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Employee benefits expenditure employee leave provisions	Accuracy and completeness of employee benefits	<b>Moderate</b>	<ul style="list-style-type: none"> <li>limitations in the payroll system mean that some entitlements require manual calculation.</li> </ul>
Non-financial assets	Valuation of non-financial assets	<b>Moderate</b>	<ul style="list-style-type: none"> <li>there is complexity and judgement required in determining the fair value of non-financial assets.</li> </ul>

Source: ANAO's 2022–23 audit results

19. The Director-General of Security signed the financial statements on 17 August 2023. The ANAO issued an unmodified audit report on ASIO's 2022–23 financial statements on 17 August 2023.

20. There were no significant or moderate audit findings identified in the 2022–23 or 2021–22 audits.

### ***Australian Signals Directorate***

21. ASD's role is to defend Australia from global threats and advance Australia's national interests through the provision of foreign signals intelligence, cyber security and offensive cyber operations as directed by Government.

22. The ANAO assessed the risk of material misstatement in ASD's financial statements as moderate. The ANAO identified the following areas of audit focus, for which the ANAO performed more detailed audit procedures. The table below provides an overview of these risks.

**Table 3: Key areas of financial statements risk for ASD**

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Non-financial assets	Valuation, allocation and accuracy of non-financial assets, particularly assets under construction	<b>Moderate</b>	<ul style="list-style-type: none"> <li>judgement is applied by ASD in determining whether expenditure on assets, particularly those under construction, should be capitalised or expensed in accordance with the relevant accounting standards; and</li> <li>fair value and impairment considerations for non-financial assets, particularly those complex assets under construction, is subject to an increased level of judgement by ASD.</li> </ul>

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Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Supplier and employee expenses	Completeness and accuracy of transactions made by ASD's shared service provider (Department of Defence)	<b>Moderate</b>	<ul style="list-style-type: none"> <li>significance of the reliance on the internal controls and IT processes that have been established by the shared service provider for transactional accounting.</li> </ul>

Source: ANAO's 2022–23 audit results

23. The Director-General signed the financial statements on 13 September 2023. The ANAO issued an unmodified audit report on ASD's 2022–23 financial statements on 13 September 2023.

24. There were no significant or moderate audit findings identified in the 2022–23 or 2021–22 audits.

### ***Office of National Intelligence***

25. ONI's role is to ensure Australia has an agile, integrated intelligence enterprise that will meet the challenges of Australia's evolving security environment.

26. The ANAO assessed the risk of material misstatement in ONI's financial statements as low.

27. The Director-General of National Intelligence signed the financial statements on 28 September 2023. The ANAO issued an unmodified audit report on ONI's 2022–23 financial statements on 28 September 2023.

28. There were no significant or moderate audit findings identified in the 2022–23 or 2021–22 audits.

### ***Defence Intelligence Organisation, Australian Geospatial Intelligence Organisation***

29. As DIO and AGO are divisions within Defence the related financial transactions for these agencies are included within the Defence financial statements and are considered as part of the ANAO's Defence financial statements audit. In developing the audit strategy for the Defence audit there were no specific risks of material misstatement (and requiring more detailed audit testing) identified relating to these agencies. Whilst no audit procedures were specifically undertaken to target risks of misstatement relating to DIO and AGO individual transactions relating to these agencies may have been selected at random in the wider sample based audit testing applied in the Defence audit – these transactions are not separately identified or selected due to them being related to DIO and AGO.

30. The Secretary of Defence signed the financial statements on 28 September 2023. The ANAO issued an unmodified audit report on Defence's 2022–23 financial statements on 29 September 2023.

31. The has ANAO identified audit findings in the financial statement audit of Defence and reported them to the accountable authority. However, there were no significant or moderate audit findings identified specifically related to the operations or financial management of DIO and AGO.

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32. The results of the ANAO's audit of Defences 2022–23 financial statements will be tabled in Parliament as part of the ANAO's annual report on financial statements audits, Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2023, which is expected to be tabled in late December 2023. Following tabling, the report will be available from the ANAO website (<https://www.anao.gov.au/pubs/financial-statement-audit>).

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