



19 September 2017

Mr Greg Hood
Chief Commissioner and Chief Executive Officer
Australian Transport Safety Bureau
62 Northbourne Avenue
CANBERRA ACT 2601

Dear Mr Hood

**AUSTRALIAN TRANSPORT SAFETY BUREAU
FINANCIAL STATEMENTS AUDIT 2016–17
CLOSING AUDIT LETTER**

I am writing to advise that we have completed the work necessary to form our audit opinion on the Australian Transport Safety Bureau's (ATSB) financial statements for 2016–17.

I expect my auditor's report will include an unmodified opinion on the financial statements. This is subject to the receipt of the signed financial statements and the written representations that we have requested.

The audit is conducted pursuant to the *Public Governance, Performance and Accountability Act 2013*, the written terms of engagement previously agreed on 2 August 2016 and the provisions of the *Auditor-General Act 1997*.

This letter summarises the results of our 2016–17 financial statements audit work, which we have discussed with the Audit Committee and the Acting Chief Financial Officer.

We have completed the audit of the financial statements of ATSB in accordance with the Audit Strategy Document (ASD) provided to you and the Chair of the Audit Committee on 8 June 2017.

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Observations arising from the audit

Our audit included particular attention to the key area of audit focus identified in the ASD and complemented this with appropriate audit procedures on remaining areas. Our audit has not identified any audit issues in the current year and there were no unresolved prior year issues. There were no major changes to the key areas of focus during the audit.

Key area of audit focus: Revenue and Expenses Related to the Search of Flight MH 370

ATSB led the search operations for the missing flight MH 370 in the southern Indian Ocean. Revenue and expenditures were incurred primarily in the first seven months of the 2016–17 financial year until the suspension of the search in January 2017.

Our audit approach for this area of audit focus was consistent with that communicated within the ASD with results including:

- walkthroughs of key controls provided assurance of the design effectiveness of controls over revenue from governments and the purchase to pay process;
- reconciling revenues from the Commonwealth and other jurisdictions to agreements for the search of flight MH370;
- detailed transaction testing for a sample of transactions;
- concluding appropriate accounting treatments have been applied to the recognition of revenues received from the Commonwealth and other jurisdictions involved in the search;
- detailed substantive analytical procedures provided assurance over the population of purchases transactions, including analysis of payment periods, payments and invoice matching, stratification of procurement and expenditure data by location and division; and
- confirmation that the disclosure requirements under the Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR) were addressed.

We have concluded that ATSB's revenues and expenses incurred for the search of flight MH370 are materially stated and have been disclosed appropriately in the financial statements.

Other observations arising from the audit

Refer to Appendix A for details relating to further observations from the audit, including:

- areas of accounting practice;
- other areas of audit focus
- segregation of duties;
- fraud;
- compliance with laws and regulations;
- going concern; and
- related party disclosures.

Summary of audit differences

We have accumulated all audit differences identified during the audit, other than those which are clearly trivial. We have communicated all these audit differences on a timely basis to the appropriate level of management and requested that they be adjusted.

All material adjustments identified during the audit have been correctly accounted for in the financial statements. Details of these audit differences are listed in Appendix B.

Commonwealth of Australia Consolidated Financial Statements

To assist the ANAO engagement executive responsible for the audit of the Commonwealth of Australia's Consolidated Financial Statements (CFS), we have also completed audit procedures on the CFS Reporting Pack required by the Department of Finance. These procedures are separate to our responsibility to audit the ATSB's financial statements.

We report any findings related to these procedures to the ANAO engagement executive responsible for the CFS audit who considers these findings in light of their overall responsibilities for that audit. Those responsibilities may require the engagement executive to report any such findings to your responsible Minister, the Minister for Finance or Department of Finance officials responsible for the preparation of CFS. We will only report to you any findings that we consider pose business, financial management or legal risks to the ATSB.

We have no findings to report with regard to the procedures related to the CFS Reporting Pack.

Independence

We confirm that the ANAO is independent of ATSB and that, to the best of our knowledge and belief, we have met the independence requirements of Australian Accounting Professional Ethical Standards.

Final Audit Cost

The audit cost was estimated to be \$48,500. The cost has been correctly reflected in the financial statements.

Completing our 2016–17 audit

Inconsistencies in the annual report between the audited financial statements and other information may undermine the credibility of the financial statements. We will check the consistency of this information in completing our audit. We therefore request that the final version of your annual report (i.e. printer's proofs) be provided to us prior to its submission for publishing, giving us sufficient time to identify and resolve any inconsistencies.

Planning our 2017–18 audit

We intend to commence the planning for the 2017–18 financial statements audit of ATSB early in the calendar year 2018. At this stage, we plan to provide our Audit Strategy to the ATSB by March 2018. This will be achieved in consultation with management so that an

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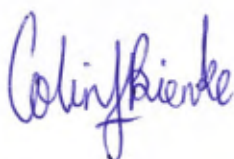
effective and efficient audit is achieved and to maximise the benefits of the audit work to ATSB.

I am providing a copy of this letter to the Chair of the Audit Committee in light of the Committee's responsibility to advise on the preparation and review of the ATSB's financial statements and to the Acting Chief Financial Officer.

If you wish to discuss this letter or any matter relating to the financial statements audit please contact me on (02) 6203 7451, or alternatively please contact Wira Wibowo, Audit Manager on (02) 6203 7319.

I would like to take this opportunity to thank the staff of ATSB for the co-operation provided to the members of the audit team.

Yours sincerely



Colin Bienke
Senior Director

cc: Mr Andrew Fleming, Chair, Audit Committee
Mr Naranjan Rajput, Acting Chief Financial Officer

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Appendix A – Observations arising from the audit

In light of your responsibility for ATSB's financial statements, we have outlined below our observations arising from the audit that we believe are significant and relevant to you. Further, in accordance with Australian Auditing Standards, we are required to communicate certain matters with those charged with governance. Some of these matters (such as the scope and timing of the audit) have been described in our ASD and other written communications which have been copied to the Audit Committee.

Areas of accounting practice

We have concluded that the accounting policies adopted by Australian Transport Safety Bureau (ATSB) are appropriate and comply with relevant recognition, measurement and presentation criteria of Australian Accounting Standards. We note that there have been no major changes to ATSB's accounting policies for the 2016–17 financial year.

The financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations – Reduced Reporting Requirements issued by the Australian Accounting Standards Board. The disclosures included in the financial statements are relevant for ATSB, have been consistently applied and considered appropriate for the expected users of the financial statements.

Appropriation Note Disclosure

During the 2017–18 budget process, ATSB received further \$1.677 million appropriation revenue. We have considered ATSB's accounting treatment and disclosure of this amount. ATSB's 2016–17 financial statements have correctly included a footnote to clarify that this appropriation is received in 2017–18 financial year.

Other areas of audit focus

We have performed audit procedures in other key areas of audit focus consistent with that communicated in the ASD and results are as follows:

Expenditure

During the conduct of our audit we noted several supplier expenses transactions were recorded against an incorrect general ledger account. We have provided feedback that as part of supplier expenses approval process ATSB should include a review of the proposed general ledger account attribution. The classification of these expenses did not impact the financial statements.

We concluded that supplier expenses and payables are materially stated.

Employee Expenses and Provisions

We completed our tests relating to employee expenses and provisions with satisfactory results. This included concluding the appropriateness of methodology and inputs used to value employee provisions.

Our testing of the completeness and accuracy of ATSB's key management personnel remuneration note was also completed with satisfactory results.

Asset Management

In accordance with accounting standard requirements, ATSB conducted a revaluation its non-financial assets. We concluded ATSB's valuation expert had appropriate competence, qualification and capacity to conduct the valuation. We also concluded the expert's assumptions and judgements were reasonable and appropriate. We have concluded that ATSB's non-financial assets are materially stated.

Segregation of duties

The relatively small size of the entity makes consistent effective segregation of duties difficult to maintain over the course of the financial year. This presents a significantly higher opportunity for undetected error and fraud. For this reason, it is recommended that management considers the need for compensating detective controls to reduce the risk that errors or fraud are undetected.

We have not identified any breakdowns of controls that should be reported to you.

Fraud
<p>During the audit we were advised that there was a positive response in the staff Census to the following question:</p> <p><i>Excluding behaviour reported to you as part of your duties, in the last 12 months have you witnessed another APS employee in your agency engaging in behaviour that you consider may be serious enough to be viewed as corruption?</i></p> <p>We have been advised the staff member did not provide specific details in their response. We understand that management subsequently reviewed the matter and has confirmed that no formal complaint has been made or registered and have not identified any indicators of fraud or corruption.</p> <p>We have not become aware of any other alleged, suspected or known instances of fraud or corruption.</p> <p>We have made enquiries with the Acting Chief Financial Officer and the Audit Committee and not been advised of any such instances other than the matter communicated above.</p> <p>We have not identified any indicators of fraud or corruption.</p>
Compliance with laws and regulations
<p>During the audit we have not become aware of any known or suspected non-compliance with laws and regulations relating to the preparation of the financial statements, other than those that are clearly inconsequential.</p>
Going concern
<p>We are not aware of any events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.</p>
Related party disclosures
<p>From 1 July 2016, AASB 124 <i>Related Party Disclosures</i> applies to all Commonwealth entities and companies. This change in the accounting standards requires ATSB to disclose transactions with related parties including key management personnel. We have observed that management has a process in place for identifying related parties and key management personnel. ATSB carried out data collection and quality assurance activities to complete the required disclosures for the 2016–17 financial statement. There were no significant matters during the audit related to the entity's related parties.</p>

Appendix B – Audit differences

Adjusted audit differences

All adjustments identified during the audit have been correctly accounted for in the financial statements.

The following is a summary of the audit adjustments identified by the audit team and made by management.

Description	Line item	Balance sheet effect		Income statement effect	
		DR (\$)	CR (\$)	DR (\$)	CR (\$)
Adjusted audit differences					
Classification of separation and redundancies liability	Provision for redundancies	384,362			
	Redundancies payables		384,362		
Total adjusted audit differences		384,362	384,362	-	-

Unadjusted audit differences

There were no unadjusted audit differences.



Australian Transport Safety Bureau

Closing Letter

Financial Statements Audit 2015–16



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27 September 2016

Mr Greg Hood
Chief Commissioner
Australian Transport Safety Bureau
PO BOX 967
CIVIC SQUARE ACT 2608

Dear Mr Hood

**AUSTRALIAN TRANSPORT SAFETY BUREAU
FINANCIAL STATEMENTS AUDIT 2015–16
CLOSING AUDIT LETTER**

I am writing to advise that we have substantially completed the work necessary to form our audit opinion on the Australian Transport Safety Bureau's (ATSB) financial statements for 2015–16.

I expect my auditor's report will include an **unqualified opinion** on the financial statements. This is subject to the receipt of the signed financial statements and the written representations that we have requested.

The audit is conducted pursuant to the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), the written terms of engagement previously agreed on 28 July 2016 and the provisions of the *Auditor-General Act 1997*.

This letter summarises the results of our 2015–16 financial statements audit work, which we have discussed with the Audit Committee and the Chief Financial Officer.

We have completed the audit of ATSB's financial statements in accordance with the Audit Strategy Letter (ASL) provided to you and the previous Chief Commissioner, Mr Martin Dolan, and the Chair of the Audit Committee on 26 April 2016.

No issues have arisen during the audit which would cause us to revise our initial assessment of a low risk of material misstatement in the financial statements. An overview of our audit approach can be found at Appendix A of the ASL.

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This document is provided in confidence and must not be copied or disseminated except on a strictly need to know basis. Unauthorised disclosure may be an offence against the *Auditor-General Act 1997*.

Summary of audit differences

The only audit difference related to the classification of \$20 million received from the Government of Malaysia for the search for MH370. The accounting treatment is discussed below, and the details are shown at Appendix B.

There are no unadjusted audit differences.

Commonwealth of Australia Consolidated Financial Statements (CFS)

We have also completed audit procedures on the CFS Reporting Pack required by the Department of Finance. These procedures are separate to our responsibility to audit the ATSB's financial statements.

We have no findings to report with regard to the procedures related to the CFS Reporting Pack.

Observations arising from the audit

In light of your responsibility for the ATSB's financial statements, we have outlined below our observations arising from the audit that we believe are significant and relevant to you. Further, in accordance with Australian Auditing Standards, we are required to communicate certain matters with those charged with governance. Some of these matters (such as the scope and timing of the audit) have been described in our ASL and other written communications which have been copied to the Audit Committee.

1. Areas of accounting practice

In December 2015 the Government of Malaysia committed to provide an additional \$20 million to the commitments and funding already provided for the search for flight MH370. This was received by ATSB in June 2016 and was not used by 30 June 2016. ATSB proposed to treat this cash as unearned revenue in the financial statements.

We took into consideration the source and nature of the funding including the circumstances it was provided to ATSB. The money received from Malaysia is more appropriately recorded as contribution under Australian Accounting Standard, AASB 1004 *Contributions* and recorded as revenue upon receipt. This is not immediately intuitive.

AASB 1004 defines a contribution as non-reciprocal transfer, which the entity who provides the funding do not receive back assets or services with approximately equal value in exchange.

ATSB has correctly recorded the \$20 million in the financial statements. Details of the adjustment are shown in Appendix B.

2. Preparation of Financial Statements

The quality of first draft financial statements, supporting work papers and schedules received were of a high standard. The disclosures in the financial statements were appropriate and only minor amendments were identified. .

3. *Fraud*

During the audit we have not found or been made aware of any known or suspected instances of fraud.

4. *Compliance with laws and regulations*

During the audit we have not found or been made aware of any known or suspected non-compliance with laws and regulations, other than those that are clearly inconsequential.

5. *Going concern*

We are not aware of any events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

6. *Related parties*

We have not found or been made aware of any significant matters during the audit related to the ATSB's related parties.

7. *Segregation of Duties*

The relatively small size of the entity makes consistent effective segregation of duties difficult to maintain over the course of the financial year. This presents a significantly higher opportunity for undetected error or fraud. For this reason, it is recommended that management consider the need for compensating detective controls and review a mix of higher risk and randomly selected payments on a regular basis.

Independence

We confirm that the ANAO is independent of the ATSB and that, to the best of our knowledge and belief; we have met the independence requirements of Australian Accounting Professional Ethical Standards.

Final Audit Fee

The audit fee was estimated to be \$48,500. The fee has been correctly reflected in the financial statements.

Completing our 2015–16 audit

Inconsistencies in the annual report between the audited financial statements and other information may undermine the credibility of the financial statements. We will check the consistency of this information in completing our audit. We therefore request that the final version of your annual report (i.e. printer's proofs) be provided to us prior to its submission for publishing, giving us sufficient time to identify and resolve any inconsistencies.

Planning our 2016–17 audit

We intend to commence the planning for the 2016–17 financial statements audit of the ATSB early in 2017. At this stage, we plan to provide our Audit Strategy by March 2017. This will be achieved in consultation with management so that an effective and efficient audit is achieved and to maximise the benefits of the audit work to the ATSB.

I am providing a copy of this letter to the Chair of the Audit Committee in light of the Committee's responsibility to advise on the preparation and review of the ATSB's financial statements and to the Chief Financial Officer.

If you wish to discuss this letter or any matter relating to the financial statements audit please contact me on (02) 6203 7600, or alternatively please contact Wira Wibowo, Director on (02) 6203 7319.

I would like to take this opportunity to thank the staff of the ATSB for the co-operation provided to the members of the audit team.

Yours sincerely

A handwritten signature in black ink, appearing to read "B. M. Jarrett". The signature is written in a cursive style with a small flourish at the end.

Brandon Jarrett
Executive Director

cc: Mr Andrew Fleming, Chair, Audit Committee
Mr Jason McGuire, Chief Financial Officer

Appendix A – ANAO reporting policy

The Auditor-General reports on audits of financial statements to the Parliament twice a year. The first of these reports, *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Entities*, reports on our coverage of key financial systems and controls in major agencies. The second report, *Audits of the Financial Statements of Australian Government Entities*, reports on the results of the financial statements audits of all Australian Government entities.

Category A, B and L1 audit issues are reported individually to the Minister and the Parliament in both reports. The aggregated number of Category C findings in major agencies is also reported to the Parliament in the Audit Report *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Entities*. The categories are:

Category	Description
Category A:	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.
Category 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.
Category C:	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.
Category L1:	Instances of significant potential or actual breaches of the Constitution; and instances of non-compliance with the entity's enabling legislation, legislation that the entity is responsible for administering, and the PGPA Act.
Category L2:	Other instances of non-compliance with legislation the entity is required to comply with.
Category L3:	Instances of non-compliance with subordinate legislation, such as the PGPA Rules.

Appendix B – Audit differences

Adjusted audit differences

The following is a summary of the material audit adjustments identified by the audit team and made by management.

Line item	Balance sheet effect		Income statement effect	
	DR (\$)	CR (\$)	DR (\$)	CR (\$)
Unearned Revenue	\$20,000,000			
Cost Recovery Revenue				\$20,000,000
Reclassification of revenue received from the Government of Malaysia towards the search of MH370.				
	\$20,000,000	-	-	\$20,000,000



6 October 2015

Mr Martin Dolan
Chief Commissioner
Australian Transport Safety Bureau
PO Box 967
CIVIC SQUARE ACT 2608

Dear Mr Dolan

**AUSTRALIAN TRANSPORT SAFETY BUREAU
FINANCIAL STATEMENTS AUDIT 2014-15
CLOSING AUDIT LETTER**

I am writing to advise that we have substantially completed the work necessary to form our audit opinion on the Australian Transport Safety Bureau's (ATSB) financial statements for 2014-15.

I expect my auditor's report will include an unmodified opinion on the financial statements. This is subject to receipt of the signed financial statements and the written representations that we have requested.

The audit is conducted pursuant to the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), the written terms of engagement previously agreed on 20 January 2015 and the provisions of the *Auditor-General Act 1997*. This letter summarises the results of our 2014-15 financial statements audit work, which we have discussed with the Audit Committee and the Chief Financial Officer.

We have completed the audit of the financial statements of the ATSB in accordance with the Audit Strategy Letter (ASL) provided to you and the Chair of the Audit Committee on 4 May 2015.

This letter communicates the results of our audit work and matters that are directly relevant to the financial statements of the ATSB.

No issues have arisen during the audit which would cause us to revise our initial assessment of a low risk of material misstatement in the financial statements. An overview of our audit approach is detailed at Appendix A.

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Summary of audit differences

We have accumulated all audit differences identified during the audit, other than those which are clearly trivial. We have communicated all these audit differences on a timely basis to the appropriate level of management and requested that they be adjusted.

In our view all audit differences accumulated within the course of the audit should be adjusted and we request that they be corrected. Management have adjusted for all misstatement communicated as part of the audit.

Details of the adjusted audit differences are listed at Appendix B.

Observations arising from the audit

In light of your responsibility for the ATSB's financial statements, we have outlined below our observations arising from the audit that we believe are significant and relevant to you. Further, in accordance with Australian Auditing Standards, we are required to communicate certain matters with those charged with governance. Some of these matters (such as the scope and timing of the audit) have been described in our ASL and other written communications which have been copied to the Audit Committee.

1. Areas of accounting practice

Accounting policies adopted by the ATSB are appropriate and remain consistent with those adopted in prior financial reporting periods. In the current year, the ATSB applied the requirements of *AASB 1055 Budgetary Reporting* for the first time. We reviewed the relevant disclosures and are satisfied that the ATSB meets the requirements of the new standard.

2. Accounting estimates

The measurements of a number of material balances in the financial statements are subject to management estimation and judgement. Audit conducted work on the following accounting estimates and judgement areas:

- Valuation of non-financial assets; and
- Valuation of employee benefits.

The fair value assessment and valuation of physical and non-physical assets represents a significant portion of the ATSB's assets. Factors affecting asset and liability carrying values, including the entity's bases for determining useful lives assigned to non-financial assets have been assessed and appear fairly stated.

The valuation of employee benefits and the estimates and assumptions around probabilities and discounting have been assessed and appear fairly stated and are reasonable.

3. Financial statement disclosures

Following the acceptance of a number of requested amendments to the financial statements disclosure by management, we have concluded that the form and content of the financial statements is consistent with the requirements of Australian Accounting Standards and the PGPA Financial Reporting Rules.

4. Segregation of Duties

The relatively small size of the entity makes consistent effective segregation of duties difficult to maintain over the course of the financial year. This presents a significantly higher opportunity for undetected error or fraud. For this reason, it is recommended that management consider the need for compensating detective controls and review a mix of higher risk and randomly selected payments on a regular basis.

5. Fraud

During the audit we have not become aware of any known or suspected instances of fraud.



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6. Compliance with laws and regulations

During the audit we have not become aware of any known or suspected non-compliance with laws and regulations, other than those that are clearly inconsequential.

7. Going concern

We are not aware of any events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

8. Related parties

There were no significant matters during the audit related to the entity's related parties.

Independence

We confirm that the ANAO is independent of the ATSB and that, to the best of our knowledge and belief, we have met the independence requirements of Australian Accounting Professional Ethical Standards.

Final Audit Fee

The audit fee was estimated to be \$48,000. The fee has been correctly reflected in the financial statements.

Completing our 2014-15 audit

Inconsistencies in the annual report between the audited financial statements and other information may undermine the credibility of the financial statements. We will check the consistency of this information in completing our audit. We therefore request that the final version of your annual report (i.e. printer's proofs) be provided to us prior to its submission for publishing, giving us sufficient time to identify and resolve any inconsistencies.

Planning our 2015-16 audit

We intend to commence the planning for the 2015-16 financial statements audit of the ATSB in the calendar year 2016 and to provide our Audit Strategy Letter to the ATSB by 31 March 2016. This will be achieved in consultation with the ATSB so that an effective and efficient audit is achieved and to maximise the benefits of the audit work to the ATSB.

I am providing a copy of this letter to the Chair of Audit Committee in light of the Committee's responsibility to advise on the preparation and review of the ATSB's financial statements and to the Chief Financial Officer. If you wish to discuss this letter or any matter relating to the financial statements audit please contact me on (02) 6203 7827, or alternatively please contact Anthony Frost Audit Manager on (02) 6203 7578.

I would like to take this opportunity to thank the staff of the ATSB for the assistance provided to the members of the audit team.

Yours sincerely



Sean Benfield
Audit Principal

cc: Di Fielding, Chair of Audit Committee
Jane Childs, Chief Financial Officer



Appendix A – Overview of audit approach

Audit objective and scope

The Auditor-General is required to report on the financial statements of the ATSB under section 43(1) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). As the external auditor, we provide an independent auditor's report on the financial statements to the Minister for Infrastructure and Regional Development.

In auditing the financial statements, our overall objectives are:

- a) To obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, so that we can express an opinion on whether they are in accordance with the PGPA Act, including complying with Australian Accounting Standards and any other requirements prescribed by the PGPA Rules; and presenting fairly the ATSB's financial position, its financial performance and cash flows; and
- b) To report on the financial statements, and communicate as required by the Australian Auditing Standards, in accordance with our findings.

Audit approach

We conduct our audits of financial statements in accordance with the ANAO Auditing Standards, which incorporate the Australian Auditing Standards made by the Australian Auditing and Assurance Standards Board.

We apply materiality in establishing our overall audit strategy, assessing the risks of material misstatement, determining the nature, timing and extent of audit procedures and evaluating misstatements identified during the audit.

We direct our audit effort to areas most expected to contain risks of material misstatement, whether due to fraud or error, with correspondingly less effort directed at other areas.

We identify these areas by obtaining and updating our understanding of the ATSB, the environment in which it operates, its objectives and strategies and internal control. This will include obtaining an understanding of the information systems and related business processes relevant to the ATSB's financial reporting objectives (including the accounting system) and how the ATSB has responded to any related financial reporting risks. Relevant ANAO performance audits or internal audit activity is considered as part of this process.

Internal controls are designed and implemented by management to address identified operating, compliance and financial reporting risks in order to achieve the ATSB's objectives. Our particular interest is in the strength of internal control affecting financial reporting 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 internal control.

We may gather the audit evidence we need by testing the operating effectiveness of internal control in addition to substantiating the amounts reported in the financial statements. We evaluate the evidence as the basis for forming and expressing our independent opinion on the financial statements.

Given its scope, the audit may not have identified, and the comments in this letter may not be a comprehensive record of, all deficiencies or irregularities that may exist. The matters included in this letter are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit their communication.



Legislative compliance

As part of obtaining an understanding of the ATSB and its environment, we obtain a general understanding of the applicable legal and regulatory framework and how the ATSB is complying with that framework. This includes consideration of processes underpinning the ATSB's annual Compliance Report.

We then obtain evidence regarding compliance with the provisions of those laws and regulations which have a direct effect on the determination of material amounts and disclosures in the financial statements. This includes coverage of compliance with the PGPA Rules relevant to financial reporting and Australian Accounting Standards and the appropriations framework.

We also perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. Any compliance matters identified are reported in accordance with the ANAO reporting policy.

ANAO reporting policy

The Auditor-General reports on audits of financial statements to the Parliament twice a year. The first of these reports, *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Entities*, reports on our coverage of key financial systems and controls in major agencies. The second report, *Audits of the Financial Statements of Australian Government Entities*, reports on the results of the financial statements audits of all Australian Government entities.

Category A, B and L1 audit issues are reported individually to the Minister and the Parliament in both reports. The aggregated number of Category C findings in major agencies is also reported to the Parliament in the Audit Report *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Entities*. The categories are:

Category	Description
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Appendix B – Audit differences

Adjusted audit differences

The following is a summary of the audit adjustments identified by the audit team and made by management.

Description	Line item	Balance sheet effect		Income statement effect	
		DR (\$)	CR (\$)	DR (\$)	CR (\$)
Adjusted audit differences					
Reverse (internally developed) intangibles asset revaluation.	Asset revaluation reserve - intangibles	3,163,400			
	Intangible assets at valuation		3,163,400		
Reverse amortisation and accumulated amortisation associated with above.	Accumulated amortisation - intangibles	632,334			
	Retained earnings		632,334		
Reverse amortisation and accumulated amortisation for the current period associated with above.	Accumulated amortisation - intangibles	107,410			
	Amortisation expense - intangibles				107,410
Adjust Intangibles assets at cost & accumulated amortisation back to carrying version.	Intangibles at cost	3,862,449			
	Accumulated amortisation Intangibles at cost		3,862,449		
Total adjusted audit differences		7,765,593	7,658,183		107,410

A number of minor disclosure adjustments were also discussed and agreed with management, and updated in the final version of the financial statements.





Australian Transport Safety Bureau

MH370 Program Health- Check Report

February 2016

This report contains 19 pages



Third Party Reliance

This Internal Audit report has been prepared at the request of Management of the Australian Transport Safety Bureau in connection with our engagement to perform Internal Audit services. Other than our responsibility to the ATSB, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility.

This report may be provided to the Auditor-General, the ANAO, the external auditor of the ATSB, for its own use. If the Auditor-General intends to rely on Internal Audit work it can only do so in the context of the professional requirement placed on it by the provisions of the Australian Auditing Standard ASA 610 (Considering the Work of Internal Audit).

We believe that the statements made in this report are accurate, but no warranty of accuracy or reliability is given in relation to information and documentation provided by the ATSB's Management and personnel.

Inherent Limitations of Internal Audit

Because of the inherent limitations of any internal control structure it is possible that errors or irregularities may occur and not be detected. An Internal Audit is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed are on a sample basis. As such, except to the extent of sample testing performed, it is not possible to express an opinion on the effectiveness of the internal control structure. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate. The Internal Audit findings expressed in this report have been formed on the above basis.



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1 Executive Summary

The purpose of this report is to present the findings and recommendations made as part of our review of the Australian Transport Safety Bureau's (ATSB's) program management processes associated with the operational search for MH370. Internal Audit's methodology can be found at **Attachment A**.

The following table provides a summary of the review against the audit objective.

<p>The objective of the internal audit was to review whether appropriate processes were implemented by ATSB for program/project management, contract management and financial management with regard to the MH370 Operational Search.</p>	<p>Internal Audit found that overall the ATSB have implemented suitable program management, contract management and financial management processes and procedures with regard to the MH370 Program.</p> <p>While detailed substantive testing of all areas was not conducted it appeared relevant processes were in place and being undertaken.</p> <p>Additionally, we noted that the ATSB had largely implemented the recommendations from the recent <i>MH370 Program Governance Review (2014-15)</i>; this included finalising key program management documents and updating documents to include a consistent format and structure.</p> <p>While otherwise compliant, Internal Audit identified areas of improvement related to key staff dependencies and contract management.</p>
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1.1 Summary of Recommendations

The following table summarises Internal Audit's findings and recommendations made as part of our review.

Recommendation	Rating
<p>Key Staff Dependencies</p> <p>Internal Audit recommends that the ATSB ensure sufficient guidance around key program financial management processes and tools is developed and available to staff.</p>	BIR
<p>Contract Management</p> <p>Internal Audit recommends that the ATSB develop a contract management plan for the Fugro Survey Pty Ltd arrangement which draws together existing processes and procedures.</p>	BIR
<p>Contract Management</p> <p>Internal Audit recommend the Program refer any contract variations executed after 30 June 2015 to the CFO to determine if they constitute a PGPA Act non-compliance¹ and should be included on the ATSB compliance report.</p>	BIR

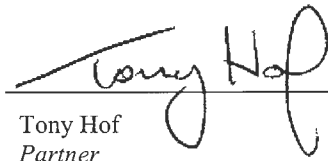
¹ The 2014-15 compliance report has been submitted, no non-compliances prior to 1 July 2015 are required to be reported.



There are areas to note for further consideration in **Section 3** that relate to key staff dependencies and contract management. **Section 4** also documents real-time suggestions communicated to management related to the improvement of risk management and reporting processes.

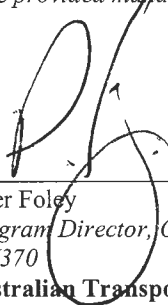
1.2 Sign-off

I acknowledge recommendations within and have provided management comments



Tony Hof
Partner
KPMG

Date 5/2/2016



Peter Foley
Program Director, Operational Search for
MH370
Australian Transport Safety Bureau

Date 7/2/2016



2 Background

The ATSB has available funding and resources of up to \$180 million (\$172 million in cash resources) to coordinate the search of MH370. It is important the ATSB has put in place appropriate processes, controls and delegations to ensure the effective management and use of these funds to meet the program objectives. This review considered whether key elements of MH370 project, contract and financial management have been established to effectively manage the delivery of services in relation to the search of MH370.

2.1 Objective

The objective of the internal audit was to review whether appropriate processes were implemented by ATSB for program/project management, contract management and financial management with regard to the MH370 Operational Search.

2.2 Scope

Internal Audit was limited to the contract for Provision of Services for the Search for Malaysia Airlines Flight MH370 with Fugro Survey Pty Ltd. Only post award contract management activities were considered.

In conducting this review, we also considered what action had been undertaken to address Internal Audit findings and recommendations from the *MH370 Program Governance Review (2014-15)*.



3 Detailed Findings and Observations

3.1 Finding 1: Key Staff Dependencies - Financial Management and Reporting

Finding

The Program Governance and Finance Manager has developed and maintains a detailed budget and forecasting tool within MS Excel. The MS Excel spreadsheet is also used to produce key financial reports for consideration by executive staff. The maintenance and update of the spreadsheet requires manual intervention. The Program Governance and Finance Manager is primarily responsible for the budget, forecasting and reporting processes and most familiar with the use of the tool.

Internal Audit noted limited guidance associated with the maintenance and use of the Program's key financial management tool, highlighting a potential key person risk should the Program Manager not be available

Internal Audit was advised that more program staff were in the process of being familiarised with the relevant processes and tools. Additional automation and instructions were also planned to be incorporated into the budget and forecasting tool.

Implication/risk

The lack of sufficient guidance may result in key financial management activities being compromised where the Program Governance and Finance Manager is unavailable.

Recommendation 1 - BIR

Internal Audit recommends that the ATSB ensure sufficient guidance around key program financial management processes and tools is developed and available to staff.

Management Comment:

The ATSB agrees with this recommendation. Noting that the program management team members have a broad understanding of the tools and processes involved. As observed, this is not in written guidance documentation. The Program Governance and Finance Manager has been aware of this requirement but due to other priorities this work has not been finalised.

Responsible Officer: Program Governance and Finance Manager

Deadline for implementation: 18 March 2016

Description of action: Development of sufficient guidance documentation in relation to key program financial management processes and tools.



3.2 Finding 2: Contract Management

Finding

Contract Management Plan

A key component of the Program is the management of a large contractual arrangement with Fugro Survey Pty Ltd. As such, Internal Audit considered contract management mechanisms in place, including the development of a contract management plan.

A contract management plan documents all key information about how a contract will be managed. It was suggested in the *MH370 Program Governance Review (2014-15)* internal audit report that the program management team should document the overall management approach in a contract management plan. Internal Audit noted that a plan had still not yet been developed for the contract.

Notwithstanding this, the Program Management Team have a number of program management documents and processes in place to support contract management activity (refer to **Attachment B** for further detail). Additionally, we noted that the program management team have been otherwise engaged with management activities and the finalisation of other priority documents.

Contract Variations

Internal Audit noted that contract variations appeared to be processed in a manner consistent with the terms of the original contract, however the original approval to commit relevant money had not been amend/varied for all subsequent contract variations.

The ATSB Accountable Authority Instructions (AAI's) state that officials must ensure that the contract is consistent with the terms of the approved commitment of relevant money. Further discussion with the CFO indicated that this is taken to mean that the approval to commit relevant money must be reviewed and, where appropriate varied, prior to contract variation execution to ensure the commitment is consistent with the contract (in its entirety).

It was identified that while the original approval to commit relevant money was capped at \$60 million, the Program spend has since significantly exceeded this amount. Notwithstanding this, Internal Audit acknowledges that the Program has a number of compensating activities. This includes:

- Contract variations are executed by officials with sufficient delegation to commit relevant money.
- Formal meetings and discussions regarding contract variations are minuted.
- Formal minute developed informing the Chief Commissioner of each major variation.
- Any variation over \$10 million is executed by the Chief Commissioner.
- No payments are made, until contract variations are formally executed.
- All variations to the relevant purchase order must be approved by the Commissioner, Program Director or the ATSB Chief Financial Officer, in the ATSB financial management system before any payment can be made.

Implication/risk

- While a contract management plan is not mandatory for all contracts, it is considered better practice where the contract value is large and/or includes complex requirements. A contract management plan can demonstrate how value for money will be realised and provides a key knowledge base for future reference.
- Where the approval to commit relevant money is not varied for contract variations it may result in non-compliance with Section 23 of the PGPA Act.



Recommendation 2 - BIR

Internal Audit recommends that the ATSB develop a contract management plan for the Fugro Survey Pty Ltd arrangement. This should include, but not limited to:

- Scope of services provided;
- Key roles and responsibilities;
- Risk management approach;
- Key deliverables and milestones; and
- Performance indicators/reporting.

We envisage that this plan would be developed at a high-level and need not be overly long or complex. It would, however summarise the range of existing processes and procedures that have already been established.

Recommendation 3 - BIR

Internal Audit recommend the Program refer any contract variations executed after 30 June 2015 to the CFO to determine if they constitute a PGPA Act non-compliance² and should be included on the ATSB compliance report.

Management Comment:

As noted, the program management team have in place a number of tools and processes to effectively manage the contract with Fugro Survey Pty Ltd.

The ATSB agrees with the recommendation for the development of a Contract Management Plan. Noting that the Program Management team will develop a plan that will balance high level and detailed requirements.

Responsible Officer: Program Governance and Finance Manager

Deadline for implementation: 29 February 2016

Description of action: Development of a Contract Management Plan for the Fugro Survey Pty Ltd contract.

Management Comment:

The ATSB accepts this recommendation. The Program Governance and Finance Manager is in discussion with the ATSB Chief Financial Officer in relation to this issue. Consideration of any breach will be reported in the MH370 Cost Centre Compliance Report and where necessary in the ATSB compliance report.

Responsible Officer: Program Governance and Finance Manager

Deadline for implementation: 15 March 2016

Description of action: Refer and discuss any contract variations executed after 30 June 2015 to the CFO to determine if they constitute a PGPA Act non-compliance³ and should be included on the ATSB compliance report.

The original commitment and spending proposal will also be updated to take account of the current and estimated contract value.

² The 2014-15 compliance report has been submitted, no non-compliances prior to 1 July 2015 are required to be reported.

³ The 2014-15 compliance report has been submitted, no non-compliances prior to 1 July 2015 are required to be reported.



4 Management Suggestions

This section documents high-level suggestions communicated to the program management team during the course of fieldwork.

4.1 Program Reporting

Internal Audit considered regular status reports presented at Program Board, Audit Committee and Commission meetings. We noted that the reports included a comprehensive summary of program activity that provided details of financial position, key decisions, milestones, risks and issues.

To further summarise the information included in status reports, we suggested the use of diagrammatic representation of some key information. For example, depicting the percentage of total search area covered vs a percentage of total expenditure. Details can be provided where large discrepancies exist between expenditure and search area.



4.2 Program Risk Management Plan and Register

The *MH370 Risk Management Plan* outlines the Program's key risk management activities and risk management approach. The document also included a *Summary Program Risk Register*. We highlighted that the inclusion of the summary risk register in the risk management plan would result in the whole document requiring ongoing review and update to ensure the risk register was consistent with the summary. It was suggested the register be removed and managed separately.

Additionally, Internal Audit considered the program risk register supporting the risk management plan and noted the inclusion of over 100 risks in the register. Further, all risks rated as medium or higher in the register were reported to the Program Board on a monthly basis. We indicated that there was limited ability to effectively monitor and update the large number of risks included in the register. It was suggested that further review of the register be undertaken to consolidate and focus risk items which may assist in ongoing maintenance of the register as well as more effective reporting to the Program Board. Internal Audit provided some guidance to Management during the course of the audit on how this might be undertaken. The program risk register was still undergoing review to further refine risks.



A Methodology



Internal Audit performed this assignment using the following approach:

- An entry meeting was held with the Audit Sponsor and key stakeholders which confirmed the objective, scope and approach of this assignment.
- Documentation and guidance relating to ATSB contract management practices were obtained and reviewed.
- Discussions were held with ATSB staff to gain an understanding of:
 - program/project management;
 - contract management;
 - financial management activities related to the MH370 program; and
 - previous improvement recommendations by Internal Audit were also considered.
- Documented all findings and presented a draft report with findings and recommendations to the Audit Sponsor.
- Held an exit interview with the Audit Sponsor to discuss any findings and/or recommendations.
- Provided a draft report detailing findings and recommendations to the Audit Sponsor and obtained management comments.
- Provided the final report to be considered and endorsed by the Audit Committee.





B Summary of Observations




The following table provides a summary of Internal Audit observations.

Area	Observation	Issues Noted
Program Governance		
 Governance	<ul style="list-style-type: none"> • A Program Board has been established with the ATSB Executive and representatives of key Program stakeholders. The Board provides guidance and advice to the Program Director and critical review of Program activities. While not a decision making body it plays an important role in monitoring Program activities. Terms of Reference for the Board have been developed and approved. • A suite of documents have been developed to support governance of the Program. This includes the <i>MH370 Program Management Plan</i> which outlines key program objectives, scope, activities and roles and responsibilities. • A clear governance and reporting structure has been established and outlined in the Program Management Plan. 	No Issues Noted
 Scope	<ul style="list-style-type: none"> • Objectives, outcomes and scope are documented in the MH370 Program Management Plan. The Program Management Plan has been refined and streamlined to better articulate Program scope. • Key program decisions and issues are discussed during Program Board Meetings. The Program Board considers and implements key strategic and policy decisions made by the Governments of Australia, Malaysia and the People’s Republic of China (Tripartite). Similarly, the Program Board develops key strategic and policy decisions that are considered and ratified by the Tripartite. • Key decisions are recorded in a decisions register. 	No Issues Noted




Area	Observation	Issues Noted
 Stakeholders	<ul style="list-style-type: none"> • The Program has a large and diverse collection of stakeholders. As part of a suit of governance documents a MH370 Stakeholder Engagement Strategy has been developed to articulate key engagement mechanisms. The document outlines key stakeholder relationships and methods of engagement including level of awareness needed, frequency of communication and type of communication. Key stakeholder groups described include, but are not limited to: <ul style="list-style-type: none"> – Joint Agency Coordination Centre (JACC) – MH370 Program Board – Malaysian Annex 13 Investigation Team and Accredited Representatives • Key communication methods noted include: <ul style="list-style-type: none"> – Regular status reports to the Program Board, ATSB Commission and Audit Committee – ATSB Operational Search Team ongoing liaison with JACC and participation in JACC meetings – Regular operational progress reports to JACC and weekly briefings • Further details on stakeholder communications are outlined in the <i>Communications and Media Strategy- Search Phase</i> and the <i>Communications and Media Strategy - Recovery Phase (Draft)</i>. 	No Issues Noted
 Risk management	<ul style="list-style-type: none"> • A Risk Management Plan has been developed and approved by the Program Board. This outlines the Program’s key risk management activities and risk management approach. This has been developed to be consistent the ATSB risk management policy and framework (consistent with <i>ISO 31000:2009</i>). • The Risk Management Plan is supported by a detailed risk register which includes details on program risks, risk ratings and relevant controls. • The detailed risk register is made available to the Program Board for review as well as a brief summary of key risks provided in regular Board reports. • Internal Audit provided suggested improvements to the risk register and risk reporting arrangements. These are discussed further at Section 4.2. 	No Issues Noted




Area	Observation	Issues Noted
 Resource management	<ul style="list-style-type: none"> The ATSB Operational Search Team is responsible for conducting day to day search activity including directing operational resources as required. This team works closely with the program management team and regularly provides updates to the JACC and Program Director and Program Board for decision making purposes. Tripartite arrangement is required make any key strategic policy decisions based on operational and financial developments. These issues are discussed at Tripartite meetings, with information supplied by the JACC, Operational Search Team and Program Director. Financial resources are managed and monitored by the program management team. This is discussed further below. 	No Issues Noted
Financial Management		
 Monitoring and reporting	<ul style="list-style-type: none"> The Program Governance and Finance Manager maintains a detailed budget and forecasting tool within MS Excel, which is updated periodically. The forecast and budget is updated with information obtained directly from the ATSB finance system. The tool requires significant manual intervention to update and produce financial reports. It was indicated that a new model was in development which would reduce the level of manual intervention of the process. The Program Governance and Finance Manager compiles a monthly financial update to the MH370 Program Board and the ATSB Chief Financial Officer. This provides a breakdown of expenditure, revenue and budget measures. It highlights key changes or issues and provides reasoning for any changes. A MH370 finance update is also provided at Audit Committee and Commission meetings. This information is generally a summary of the information presented to the Board. 	<p>The Program Manager is primarily responsible for the budget, forecasting and reporting processes. With limited guidance/ procedure documentation currently available, Internal Audit highlighted a potential key person risk should the Program Manager not be available.</p> <p>Refer to Section 3.1.</p>
 Approvals and delegations	<ul style="list-style-type: none"> Key delegations have been outlined in the <i>Accountable Authority's Public Governance, Performance and Accountability Delegations Instrument 2014</i>. To supplement the ATSB delegations schedule the program management team has implemented a MH370 delegations schedule, in recognition of the increased expenditure for the Program. 	No Issues Noted




Area	Observation	Issues Noted
<p>Milestone achievement and payment release</p> 	<ul style="list-style-type: none"> • A process has been implemented and documented for milestone/monthly payment of invoices. This includes a review of: <ul style="list-style-type: none"> – Any calculations; – Delivery against contract; and – Verification that deliverables meet quality standards. <p>All invoices are approved by the Program Director. Further detail on this process and relevant roles can be found at Attachment C.</p>	<p>No Issues Noted</p>



Area	Observation	Issues Noted
Contract Management		
 <p>Contract administration</p>	<p>Contract Management Plan</p> <ul style="list-style-type: none"> A Contract Management Plan has not yet been developed, however Internal Audit noted tools and templates developed and implemented to assist in the management of the contract. A contract management checklist has been created, which at a high-level outlines key contract activities, when they should occur and who is responsible for undertaking the activity. The Program has documented the invoice/payment review and approval process. <p>Tools and Templates</p> <ul style="list-style-type: none"> The Program Management Team maintain a "contract management tool" which tracks service provider search area coverage and costs of the search activity. The MS Excel document records key deliverables, data requirements, rates, search activities and KPI's. It is updated by tracking operational activity through daily, weekly and monthly operational reports. The tool is considered during invoice sign-off process. Invoice details are checked against the information captured within the tool. The tool is supported by some procedure documents detailing its use. We noted the tool could be improved by further automation, as it is currently susceptible to error due to significant manual involvement. However, any errors are likely to be detected by supporting processes. <p>Risk Management</p> <ul style="list-style-type: none"> A separate contract risk management plan has not been developed, however key contract management risks have been documented in the program risk register. A risk assessment was undertaken at the beginning of the procurement process that identified key contract risks. These risks are regularly considered by the program management team and the Program Board. <p>Change requests/variations</p> <ul style="list-style-type: none"> There have been a number of contract variations since execution. Variations are undertaken in accordance with the terms of the contract and executed by an appropriate delegate. A register of variations is maintained by the Program Management Team. Contract variations were not reported AusTender within 42 days as required by the Commonwealth Procurement Rules. These were identified by management and reported on the ATSB Compliance report. <p>Payment Release</p> <ul style="list-style-type: none"> As noted in in the Financial Management Section above, there is a defined process implemented for the review and approval of invoices as well as the defined delegations. 	<ul style="list-style-type: none"> Contract management is a key component of the Program. Better practice would suggest a contract of this substantial size and complexity should be supported by a Contract Management Plan. Refer to Section 3.2 Internal Audit identified that the original approval to commit relevant money had not been varied or amended prior to executing contract variations. The Program has since exceeded the original approved commitment of \$60 million. Refer to Section 3.2

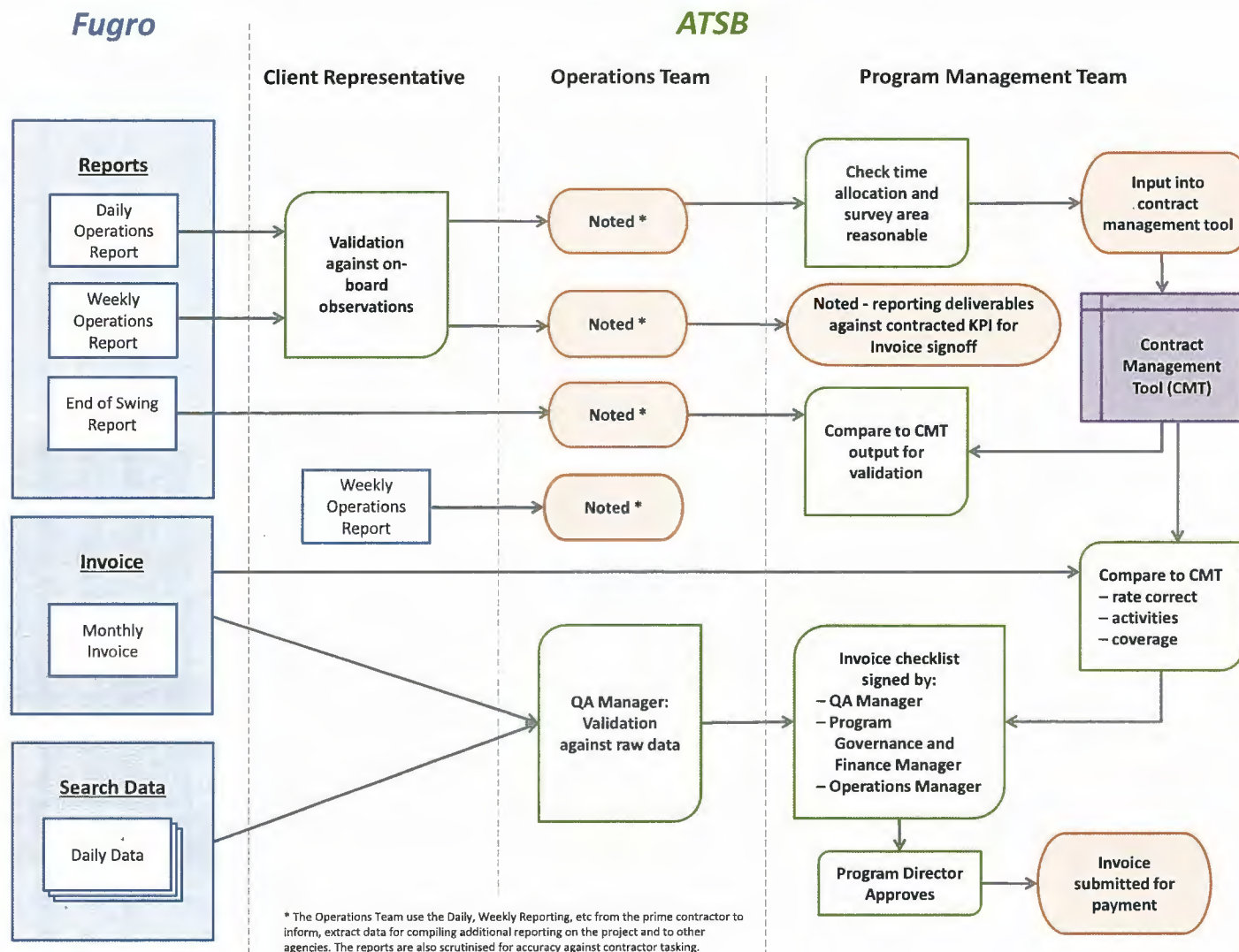


Area	Observation	Issues Noted
 <p>Performance monitoring</p>	<ul style="list-style-type: none"> • Key performance indicators and service levels are outlined in the executed contract. • The service provider provides daily and weekly reports on operational activity which is reviewed by the Operational Search Team. • The monthly invoice approval process forms a key component in monitoring and measuring against KPI's and service levels prior to the release of funds. Refer to Attachment C where Internal Audit have mapped this process. Key information is verified by the ATSB prior to payment. Any discrepancies can result in financial abatements for the service provider. • The ATSB also have a representative on the vessel who provides daily reports on work health and safety issues and validates data, provider reports and daily search activity. • The Program Management Team and Operational Search Team have three meetings per week with the service provider to discuss operational and contract related activities. Key contract meetings are minuted. Further meetings and communication is scheduled outside these times where needed. 	<p>No Issues Noted</p>



C Contract Management Process Flow

Internal Audit have mapped the monthly process for monitoring and measuring against KPI's and service levels prior to approving invoices.





D Category of Findings

Assigning a category to an Internal Audit finding is one of professional judgement. There are various factors that will be considered when an internal auditor assigns a category classification.

The purpose of assigning a classification to a finding is to communicate the importance of that finding with the audit committee, management and staff of the Australian Transport Safety Bureau (ATSB). This communication plays an important part in interpreting the internal auditor's opinion with respect to what priority a finding and its associated recommendation should be given.

In the table below are a number of the factors an internal auditor considers when assigning category classifications. It is important to note that an internal auditor will assign a category classification with the best interests of the 'organisation as a whole' in mind.

<i>Factors considered when categorising findings</i>	CR1 Finding	CR2 Finding	CR3 Finding
<i>Priority of attention required (timeliness of action required)</i>	Immediate commencement of corrective action	As soon as practical within the next 3 – 6 months.	When resources permit at the discretion of the organisation.
<i>Likelihood or impact of the uncontrolled risk</i>	Catastrophic / Major The likelihood/impact of the uncontrolled business or financial risk may threaten either the operation of ATSB or the effective function of a critical/significant project and/or have a severe impact on ATSB's reputation and credibility.	Moderate / Minor The likelihood/impact of the uncontrolled business or financial risk would threaten the efficiency or effectiveness of an aspect of operations.	Insignificant The likelihood/impact of the uncontrolled business or financial risk is not considered of serious consequence.
<i>Suitability of the policies and/or procedures</i>	No policies and/or procedures exist. Policies and/or procedures are not considered appropriate to manage a significant risk or function of the organisation.	No policies and/or procedures exist. Policies and/or procedures are not considered appropriate to manage a core business risk or routine function.	Policies and/or procedures are appropriate but out of date (the effect is not considered of serious consequence).
<i>Compliance with documented procedures and policies</i>	Policies and/or procedures are not being complied with.	Policies and/or procedures are not being complied with consistently (frequency and quality). Documentation does not reflect proper compliance with procedures and policies	Infrequent instances of non-compliance with policies and procedures were identified.
<i>Breach of delegations (financial and non-financial)</i>	Any one of the following individually or in combination.	Any one of the following individually or in combination:	Any one of the following individually or in combination:



<i>Factors considered when categorising findings</i>	CR1 Finding	CR2 Finding	CR3 Finding
	Dollar values: - Large	Dollar values: - Medium	Dollar values: - Small
	Frequency of breaches: - Regular	Frequency of breaches: - Periodic	Frequency of breaches: - Isolated
	Documentation to support exercise of delegation: - Does not exist	Documentation to support exercise of delegation: - Not adequate	Documentation to support exercise of delegation: - Could be improved
	What/how: - Breach of delegation exercised by Section Head and/or above	What/how: - Breach of delegation by middle management	What/how: - Breach of delegation reflecting ignorance
<i>Fraud</i>	All fraud or corrupt conduct identified is reported as CR1	N/A	N/A

BIR Business Improvement Recommendation - Arises where the internal auditor considers that the recommendation, if implemented, would result in a benefit accruing to the organisation (for example, through more efficient and/or cost effective processes, a reduction of expenditure or an increase in revenue).