

AUSTRALIAN NATIONAL AUDIT OFFICE

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AUSTRALIAN NATIONAL AUDIT OFFICE

Section 1: Overview, appropriations and budget measures summary

AGENCY OVERVIEW

The Auditor-General, through the Australian National Audit Office (ANAO), provides an independent review of the performance and accountability of Commonwealth public sector agencies and entities. Through the delivery of an integrated range of high-quality audit products that are timely, cost effective and consistent with public sector values, the ANAO aims to meet the needs and expectations of the Parliament, the Executive and audit clients and to add value to public sector performance and accountability.

The *Auditor-General Act 1997* provides a legislative framework for the Office of the Auditor-General and the ANAO. The Act establishes the Auditor-General as an ‘independent officer of the Parliament’ — a title which symbolises the Auditor-General’s independence and unique relationship with the Parliament. The Act outlines the mandate and powers of the Auditor-General, as the external auditor of Commonwealth public sector entities.

The Auditor-General’s mandate extends to all Australian Government agencies, authorities, companies and subsidiaries with the exception of performance audits of Government Business Enterprises (GBEs) and of persons employed or engaged under the *Members of Parliament Act 1994*. Performance audits of wholly owned GBEs may only be undertaken at the request of the responsible minister, the Finance Minister or the Joint Committee of Public Accounts and Audit.

The ANAO’s outcomes, set out below, are directly related to the role of the Auditor-General.

Improvement in Public Administration — independent assessment of the performance of selected Commonwealth public sector activities including the scope for improving efficiency and administrative effectiveness.

Assurance — independent assurance of Commonwealth public sector financial reporting, administration, control and accountability.

APPROPRIATIONS AND RESOURCING

The total appropriation for the ANAO in the 2004–05 Budget is \$58.597 million. Table 1.1 shows the appropriations by outcome and price of output appropriation.

The Australian National Audit Office will not receive any Administered capital or Departmental equity injections or loans in 2004–05.

Australian National Audit Office — appropriations 2004–05

Table 1.1: Appropriations and other revenue ('000)

Outcome	Departmental (price of outputs) ('\$000)					Administered ('\$000)					Total appropriations ('\$000)
	Revenue from government (appropriations)			Revenue from other sources ⁽⁴⁾	Price of outputs ⁽³⁾	Annual appropriations (\$'000)	Special approps ⁽⁵⁾	Total administered approps	Total appropriations		
	Bill No. 1	Special approps ⁽⁵⁾	Total			Bill No. 1	Bill No. 2 (SPPs & NAOs) ⁽²⁾				
	(A)	(B)	(C = A+B) (C1) ⁽¹⁾	(D)	(E = C+D) (E1) ⁽¹⁾	(F)	(G)	(H)	(I = F+G+H) (I1) ⁽¹⁾	(J=C+I)	
Outcome 1 – Improvement in Public Administration	21,056	183	21,239	36%	298	21,537	-	-	-	-	21,537
Outcome 2 – Assurance	37,174	184	37,358	64%	1,055	38,413	-	-	-	-	38,413
Total	58,230	367	58,597 (K1)⁽¹⁾	100%	1,353	59,950	-	-	(K2)⁽¹⁾	(K3)⁽¹⁾	59,950
Departmental capital (equity injections and loans)											-
Administered assets and liabilities											-
Total appropriations											59,950

1. Cells C1, E1 and I1 refer to information provided in Total Resources for Outcome tables. Amounts K1, K2 to Budgeted Statement of Financial Performance, and amounts K3, K4 to Capital Budget Statements.
2. Under the appropriation structure, Bill No. 2 includes Specific Purpose Payments (SPPs), new agency Outcomes (NAOs), administered capital and departmental capital via departmental injections and loans.
3. Refer to Budgeted Statement of Financial Performance for application of agency revenue.
4. Revenue from other sources includes other revenue from government (for example, audit fees as sales of goods and services. Non-appropriated departmental and administered revenues are detailed in Table 1.3. Receipts from Independent Sources.
5. Estimated expenses from individual Special Appropriations are shown in Table 1.4.

MEASURES — AGENCY SUMMARY

Table 1.2: Summary of measures disclosed in the 2004–05 Budget

Measure	Outcome	Output groups affected	Appropriations budget			Appropriations forward estimate 2005–06 (\$'000)			Appropriations forward estimate 2006–07 (\$'000)			Appropriations forward estimate 2007–08 (\$'000)		
			2004–05 (\$'000)			Admin expenses	Dept outputs	Total	Admin expenses	Dept outputs	Total	Admin expenses	Dept outputs	Total
			Admin expenses	Dept outputs	Total									
Budget measure														
BEFR additional costs of auditing agency annual financial statements	2. Assurance	2.3.1	-	2,035	2,035	-	1,657	1,657	-	1,690	1,690	-	1,726	1,726
Total			-	2,035	2,035	-	1,657	1,657	-	1,690	1,690	-	1,726	1,726

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1. The government is providing funding of \$7.0 million over four years to enable the ANAO to complete its audit of agencies' annual financial statements as soon as the financial year ends, in order to comply with Recommendation No. 2 of the Budget Estimates and Framework Review (BEFR). This recommendation requires agencies to produce annual audited financial statements by 20 July each year, within three years of the BEFR decision of October 2002
2. The cross-portfolio measure, Budget estimates – enforced quality and timeliness was appropriated through the 2003–04 Additional Estimates and is therefore not included in this table.

RECEIPTS FROM INDEPENDENT SOURCES

Table 1.3: Receipts from independent sources

	Estimated revenue 2003–04 \$'000	Estimated revenue 2004–05 \$'000
<i>List items</i>		
Administered audit revenue	10,750	10,750
Departmental audit fees	631	653
Rental revenue	324	680
Disposal of assets	18	-
Miscellaneous	9	20
Total estimated revenue	11,732	12,103

The ANAO is almost wholly budget funded. Fee receipts from audit clients for the statutory audit of their financial statements are paid into the Consolidated Revenue Fund and are not available to the ANAO. Receipts from some audit-related services and certain other minor activities can be retained by the ANAO under section 31 of the *Financial Management and Accountability Act 1997*.

The significant variance between the estimated actual for 2003–04 and the budget for 2004–05 is the increase in rental revenue flowing from the sub-lease of the third floor of Centenary House.

MOVEMENT OF ADMINISTERED FUNDS FROM 2003–04 TO 2004–05

The ANAO has no movement of Administered funds.

SPECIAL APPROPRIATIONS

Table 1.4: Estimates of expenses from special appropriations

<i>List items</i>	Outcome affected	Estimated expenses 2003–04 \$'000	Estimated expenses 2004–05 \$'000
Auditor-General remuneration and expenses	1 & 2	356	367
Total estimated expense		356	367

D = Departmental A = Administered

1. Special Appropriation funding is expended on remuneration and expenses of office of the Auditor-General.

The ANAO receives a Special Appropriation to meet remuneration expenses and allowances for the Office of the Auditor-General. Expenses incurred under the Special Appropriation are included in the total resourcing provided to the ANAO as set out in Map 1: Outcomes and Output Groups and tables 2.1 and 2.2: Total resources for Outcome 1 and Total resources for Outcome 2, respectively.

SPECIAL ACCOUNTS

Table 1.5: Estimates of special account flows and balances

	Opening balance 2004–05⁽¹⁾ <i>2003–04^(1a)</i> \$'000	Estimate, 2004–05 – Bold figures			Closing balance 2004–05 <i>2003–04</i> \$'000
		Receipts	Payments	Adjustments ⁽²⁾	
		2004–05	2004–05	2004–05	
		<i>2003–04</i>	<i>2003–04</i>	<i>2003–04</i>	
Other Trust Monies	46	50	50	0	46
– Comcare Special Account (D)	46	50	50	0	46
Services to Other Governments and Non-Departmental Bodies (D)	0	0	0	0	0
	0	0	0	0	0
Total Special Accounts	46	50	50	0	46
	46	50	50	0	46

D = Departmental A = Administered

Acts glossary:

FMA Act = *Financial Management and Accountability Act 1997*

Note 1 The opening balance for 2004–05 is the same as the closing balance for 2003–04.

Note 2 Receipts from appropriations and other sources are further specified in the Total Resources for Outcome tables (tables 2.1 and 2.2).

Note 3 Investments under s.39 of the FMA Act are not a part of the balance of Special Accounts.

Resourcing provided through Special Accounts is fully integrated in tables 2.1 and 2.2: Total resources for Outcome 1 and Total resources for Outcome 2, respectively.

ADMINISTERED CAPITAL AND DEPARTMENTAL EQUITY INJECTIONS AND LOANS

The ANAO does not have any Administered capital, and will not receive any equity injections or loans in 2004–05.

Section 2: Outcomes and outputs information

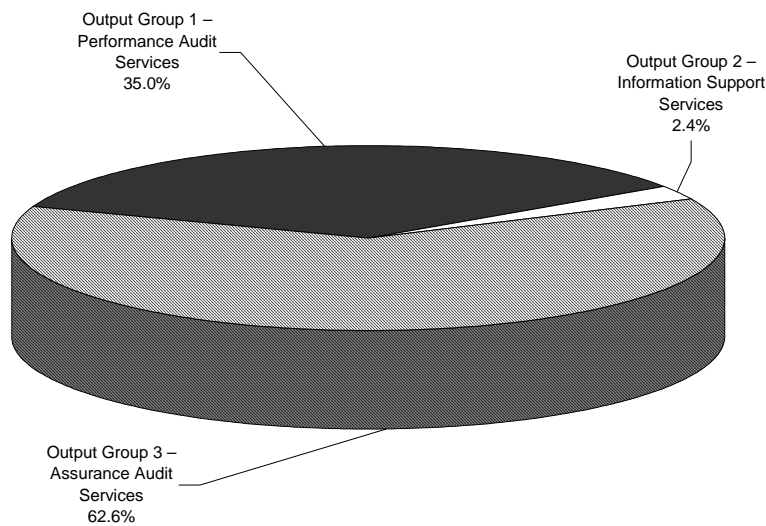
OUTCOMES AND OUTPUT GROUPS

This section provides a departmental overview, and then each outcome is discussed in turn. Map 1, on the following page, shows the relationship between the two outcomes and the contributing outputs for the ANAO, presented as output groups. Financial details for both outcomes by output and output groups appear in tables 2.1 and 2.2, while performance measures and related targets are detailed in Table 2.3.

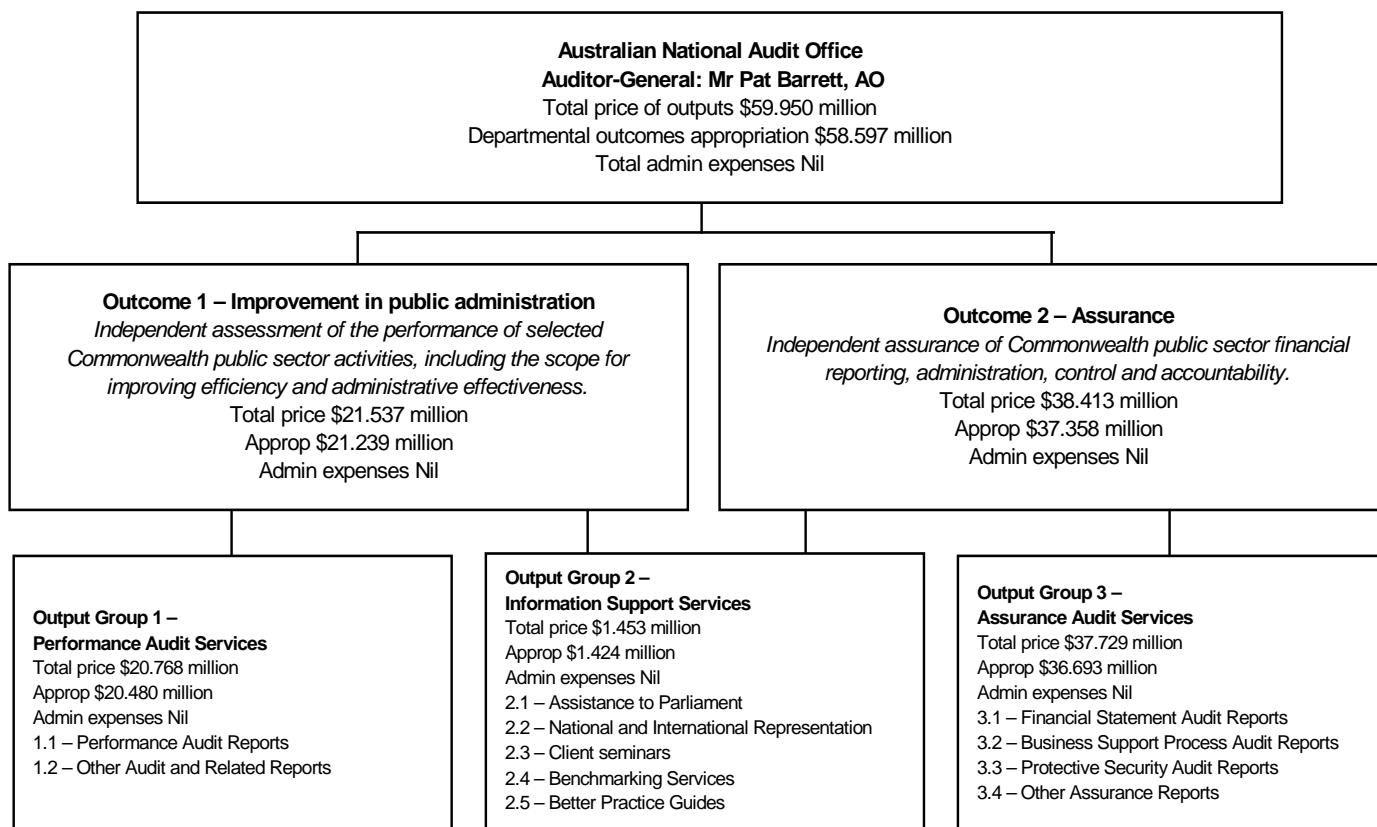
Output cost attribution

The ANAO has management information systems in place to allow it to fully cost all audit and support activities. All audit-related costs are directly costed to the relevant audit or related service, and hours are charged by audit staff on a weekly basis. All other costs not directly attributable to audits or related services are allocated on the basis of the estimated hours to be expended on each output.

Chart 1: Departmental appropriations by output group, 2004–05 (%)



Map 1: Outcomes and output groups



CHANGES TO OUTCOMES AND OUTPUTS

There have been no changes to the ANAO's outcomes and outputs since the 2003–04 Portfolio Budget Statements.

TRENDS IN RESOURCING ACROSS OUTCOMES

Funding of the new measure referred to in Table 1.2 Summary of measures disclosed in the 2004–05 Budget significantly increases Departmental revenue available to the ANAO by some \$2.035 million in the 2004–05 financial year. The measure commences in the 2004–05 Budget. Funding in subsequent years is at a lower level, as the increased cost of completing financial statement audits is expected to stabilise at a lower level with improved capability of client departments and agencies to meet the tighter annual financial reporting timeframe envisaged in Recommendation No. 2 of the Budget Estimates and Framework Review.

Chart 2: Trends in Departmental revenue (\$'000)

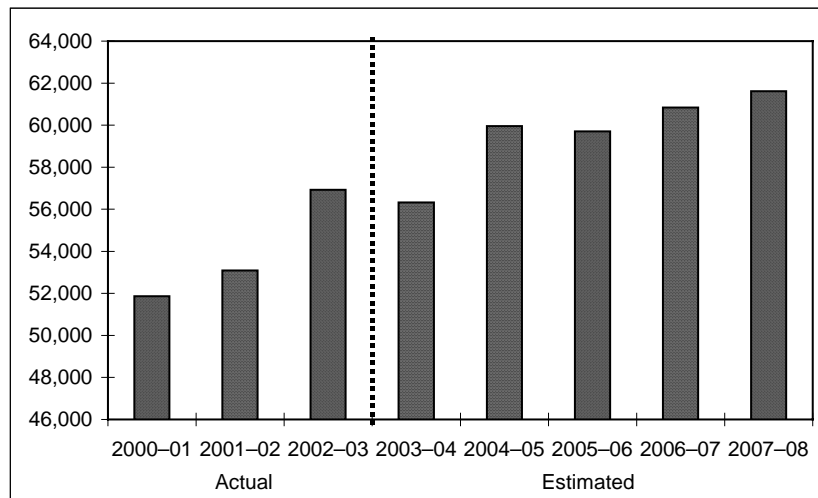


Chart 3: Trends in Departmental expenses (\$'000)

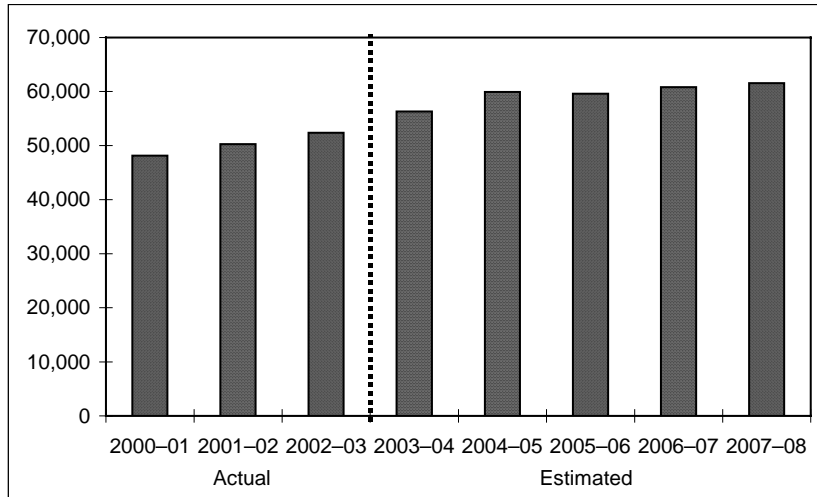
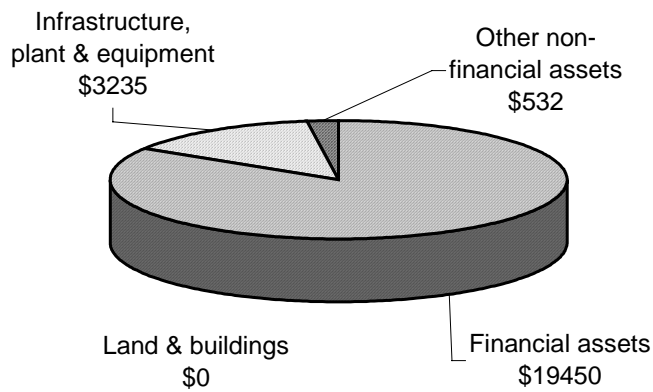


Chart 4: Budgeted assets 2004-05 (\$'000)



OUTCOMES 1 AND 2 — DESCRIPTION

The Australian National Audit Office's planned outcomes are:

1. Independent assessment of the performance of selected Commonwealth public sector activities, including the scope for improving efficiency and administrative effectiveness.
2. Independent assurance of Commonwealth public sector financial reporting, administration, control and accountability.

Outcome 1 — Improvement in public administration

Through the provision of audit services, the ANAO makes a contribution to improve the efficiency and administrative effectiveness of the Commonwealth public sector.

The major contribution to this outcome is the conduct of performance audit services. The ANAO's performance audit and audit-related activities include the review of all or part of an entity's operations to assess its efficiency and/or administrative effectiveness. The ANAO identifies areas where improvements can be made to aspects of public administration, and makes specific recommendations to help public sector agencies improve the efficiency and/or administrative effectiveness of their administration. Greater efficiency and effectiveness is typically reflected in financial benefit, avoidance or minimisation of financial commitments, and better corporate governance arrangements, including risk management regimes.

The ANAO also contributes to improvements in Commonwealth public administration by identifying and promoting better practice, which assists agencies to perform at their most efficient level and add value to their outputs and services. Adopting better practices can help transform and improve business processes and potentially can lead to overall improvements in the administration of the entity as a whole.

Outcome 2 — Assurance

Through its audit services, the ANAO contributes to providing assurance to individual agencies, the Executive and the Parliament about the financial administration and accountability of public sector entities.

The main activity that contributes to this outcome is the conduct of annual financial statement audits of Australian Government entities. These audits are designed to give assurance to stakeholders that an entity's financial statements fairly represent the operation and financial position at year end. The ANAO makes recommendations for improvements in financial administration, further contributing to improvements in efficiency.

An ANAO program of Business Support Process audits and Protective Security audits also contributes to this outcome. These audits are designed to provide individual agencies, and the Parliament, with assurance about the operation of common business processes, and identify better practice and areas where improvements in administration can be made.

Measures affecting Outcomes¹

Budget Estimates and Framework Review – enhanced auditing

The government will provide \$7.0 million over four years to enable the Australian National Audit Office to complete its audit of agencies' annual financial statements as soon as the financial year ends.

This will assist the Australian National Audit Office with managing workload issues associated with implementing the recommendations of the Budget Estimates and Framework Review, which requires agencies to produce annual audited financial statements each year by 20 July, starting with the statements for the 2004–05 financial year.

The measure provides an increase of \$2.035 million in appropriation funding in the 2004–05 financial year for Outcome 2: Assurance Audit Services. This increase in appropriation funding is reflected in Output Group 2.3 Audit Assurance Services, Output 2.3.1 Financial Statement Audit Reports, in Table 2.2 Total resources for Outcome 2.

OUTCOMES — RESOURCING

Tables 2.1 and 2.2 show how the 2004–05 Budget appropriations translate to total resourcing for Outcomes 1 and 2, including revenue from government (appropriation), revenue from other sources, and the total price of outputs. Cell references **C1** and **E1** show the links back to Table 1.1 (Appropriations and other revenue).

¹ This relates to measures disclosed in the 2004–05 budget context (that is, measures agreed since the *Mid-Year Economic and Fiscal Outlook* (MYEFO)).

Part C: Agency Budget Statements — ANAO

Table 2.1: Total resources for Outcome 1 (\$'000)

	Estimated actual 2003–04 \$'000	Budget estimate 2004–05 \$'000
Departmental appropriations		
Output Group 1.1 – Performance Audit Services		
Output 1.1.1 – Performance Audit Reports	18,460	18,656
Output 1.1.2 – Other Audit and Related Reports	1,380	1,824
Subtotal Output Group 1.1	19,840	20,480
Departmental appropriations		
Output Group 1.2 – Information Support Services		
Output 1.2.1 – Assistance to Parliament	308	607
Output 1.2.2 – National and International Representation	154	-
Output 1.2.3 – Client Seminars	76	-
Output 1.2.4 – Benchmarking Services	-	-
Output 1.2.5 – Better Practice Guides	338	152
Subtotal Output Group 1.2	876	759
Departmental appropriations		
Output Group 1.3 – Assurance Audit Services		
Output 1.3.1 – Financial Statement Audit Reports	-	-
Output 1.3.2 – Business Support Process Audit Reports	-	-
Output 1.3.3 – Protective Security Audit Reports	-	-
Output 1.3.4 – Other Assurance Reports	-	-
Subtotal Output Group 1.3	-	-
Total revenue from government (appropriations)	20,716	21,239
Contributing to price of departmental outputs		(C1)⁽¹⁾

Table 2.1: Total resources for Outcome 1 (\$'000) (continued)

	Estimated actual 2003–04 \$'000	Budget estimate 2004–05 \$'000
Revenue from other sources		
Output 1.1.1 – Performance Audit Reports	226	262
Output 1.1.2 – Other Audit and Related Reports	17	26
Output 1.2.1 – Assistance to Parliament	4	8
Output 1.2.2 – National and International Representation	2	-
Output 1.2.3 – Client Seminars	1	-
Output 1.2.4 – Benchmarking Services	-	-
Output 1.2.5 – Better Practice Guides	4	2
Output 1.3.1 – Financial Statement Audit Reports	-	-
Output 1.3.2 – Business Support Process Audit Reports	-	-
Output 1.3.3 – Protective Security Audit Reports	-	-
Output 1.3.4 – Other Assurance Reports	-	-
Total revenue from other sources	254	298
Total price from departmental outputs		
(Total revenue from government and from other sources)	20,970	21,537 (E1) ⁽¹⁾
from Special Accounts (estimated payments from Special Account balances)⁽²⁾		
Other Trust Monies – Comcare Special Account	25	25
Services to Other Government and Non-Departmental Bodies	-	-
Total Departmental Special Account outflows	25	25
Total estimated resourcing for Outcome 1 (Total price of outputs and administered appropriations)	20,970	21,537
	2003–04	2004–05
Average staffing level (number)	120	120

Note 1. Flows into Special Accounts are also shown in the receipts column of the Special Accounts table in Table 1.5.

Note 2. Special Account outflows are shown in the payments column of the Special Account table in Table 1.5. The estimated payments from special account balances are provided by way of note only and do not form part of the total estimated resourcing.

Table 2.2: Total resources for Outcome 2 (\$'000)

	Estimated actual 2003–04 \$'000	Budget estimate 2004–05 \$'000
Departmental appropriations		
Output Group 2.1 – Performance Audit Services		
Output 2.1.1 – Performance Audit Reports	-	-
Output 2.1.2 – Other Audit and Related Reports	-	-
Subtotal Output Group 2.1	-	-
Departmental appropriations		
Output Group 2.2 – Information Support Services		
Output 2.2.1 – Assistance to Parliament	157	131
Output 2.2.1 – National and International Representation	180	375
Output 2.2.3 – Client Seminars	41	-
Output 2.2.4 – Benchmarking Services	121	-
Output 2.2.5 – Better Practice Guides	414	159
Subtotal Output Group 2.2	913	665
Departmental appropriations		
Output Group 2.3 – Assurance Audit Services		
Output 2.3.1 – Financial Statement Audit Reports	28,457	31,314
Output 2.3.2 – Business Support Process Audit Reports	3,689	3,226
Output 2.3.3 – Protective Security Audit Reports	345	840
Output 2.3.4 – Other Assurance Reports	1,048	1,313
Subtotal Output Group 2.3	33,539	36,693
Total revenue from government (appropriations)	34,452	37,358
Contributing to price of departmental outputs		(C1) ⁽¹⁾

Table 2.2: Total resources for Outcome 2 (\$'000) (continued)

	Estimated actual 2003–04 \$'000	Budget estimate 2004–05 \$'000
Revenue from other sources		
Output 2.1.1 – Performance Audit Reports	-	-
Output 2.2.2 – Other Audit and Related Reports	-	-
Output 2.2.1 – Assistance to Parliament	4	4
Output 2.2.2 – National and International Representation	5	11
Output 2.2.3 – Client Seminars	1	-
Output 2.2.4 – Benchmarking Services	3	-
Output 2.2.5 – Better Practice Guides	11	4
Output 2.3.1 – Financial Statement Audit Reports	744	884
Output 2.3.2 – Business Support Process Audit Reports	96	91
Output 2.2.3 – Protective Security Audit Reports	9	24
Output 2.3.4 – Other Assurance Reports	28	37
Total revenue from other sources	901	1,055
Total price from departmental outputs		
(Total revenue from government and from other sources)	35,353	38,413 (E1) ⁽¹⁾
from Special Accounts (estimated payments from Special Account balances)⁽²⁾		
Other Trust Monies – Comcare Special Account	25	25
Services for Other Government and Non-Departmental Bodies	-	-
Total Departmental Special Account outflows	25	25
Total estimated resourcing for Outcome 1 (Total price of outputs and administered appropriations)	35,353	38,413
	2003–04	2004–05
Average staffing level (number)	170	180

Note 1. Flows into Special Accounts are also shown in the receipts column of the Special Accounts table in Table 1.5.

Note 2. Special Account outflows are shown in the payments column of the Special Account table in Table 1.5. The estimated payments from special account balances are provided by way of note only and do not form part of the total estimated resourcing.

OUTCOMES — CONTRIBUTION OF OUTPUTS

The ANAO's contribution to the achievement of the government's outcomes is assessed using indicators and processes as shown in tables 2.1 and 2.2, Total resources for Outcome 1 and Total resources for Outcome 2, respectively.

PERFORMANCE INFORMATION FOR OUTCOMES 1 AND 2

Table 2.3: Performance information for Outcomes 1 and 2

Effectiveness — overall achievement of Outcomes 1 and 2	
Parliament acknowledges the value of the ANAO contribution ^a	90% value role of ANAO
Public sector entities acknowledge the value added by ANAO products and services ^a	90% value role of ANAO
The Joint Committee of Public Accounts and Audit's (JCPAA) general satisfaction with the overall quality, timeliness and coverage of the ANAO's products and services ^a	High standard of satisfaction
Performance information by output component	
Output	Performance information
Output Group 1: Performance audit services	
Number of performance audit reports to be produced	<i>Quantity: 47</i>
Ratio of estimated financial benefits to the total cost of performance audit outputs	<i>Quality: 2:1</i>
Percentage of audit recommendations supported by the JCPAA and other Parliamentary Committees	<i>Quality: 90%</i>
Percentage of audits where public sector entities acknowledge the value added by the audit ^a	<i>Quality: 90%</i>
Quality assurance results indicate all reviewed audits meet ANAO Auditing Standards.	<i>Quality: 100%</i>
Full costs are allocated to audit products and services	<i>Quality: 100%</i>
Output Group 2: Information support services	
Number of audit products to be produced	<i>Quantity: 6</i>
Number of client seminar series	<i>Quantity: 2</i>
Percentage completed in accordance with budgeted timeframe	<i>Quantity: 100%</i>
Seminar topics meet the needs of participants	<i>Quality: 75% satisfaction level</i>

Output Group 3: Assurance audit services	
Number of financial statement audit opinions to be issued ^b	Quantity: 260
Number of audit products produced	Quantity: 10
Number of Other audit opinions	Quantity: 2
Timeliness of issuing financial statement audit opinions ^c	Quality: 100%
Percentage completed in accordance with agreed timeframes (financial statements)	Quality: 100%
Quality assurance results indicate all reviewed audits meet ANAO Auditing Standards	Quality: 100%
Full costs are recovered either notionally or actually	Quality: 100%

a Achievement will be measured through the analysis of specific questions (included in Parliamentary and audit client surveys).

b The actual number of audit opinions is dependent on government decisions on entity structures.

c The relative dates of issue of the financial statement audit opinion to that of the financial statements being signed is largely dependent on the agency meeting its financial statement preparation timetable. Our aim is to issue the audit opinion on the same day as the signed financial statements are received by the ANAO.

EVALUATIONS

In 2004–05 the Australian National Audit Office will continue its program of peer reviews, quality assurance reviews and benchmarking exercises to assist in the evaluation of its own performance.

ANAO activities are subject to review by an ANAO Independent Auditor who undertakes an audit of the ANAO's annual financial statements and periodically conducts performance audits of selected areas of operation.

A comprehensive internal audit programme is also undertaken which focuses on the areas of risk identified in the ANAO's Risk Management Plan.

Section 3: Budgeted financial statements

ANALYSIS OF BUDGETED FINANCIAL STATEMENTS

DEPARTMENTAL FINANCIAL STATEMENTS

Budgeted Departmental Statement of Financial Performance

The ANAO is budgeting for a break-even financial result for the 2004–05 financial year.

Total revenue for 2004–05 is estimated at \$59.950 million (\$56.323 million for 2003–04). Revenue from government (appropriation funding) has increased from \$55.168 million in 2003–04 to an estimated \$58.597 million for 2004–05. The increase in revenue from government is primarily due to the new measure identified in Table 1.2 (Summary of measures disclosed in the 2004–05 Budget), supplementation for changes in the cost of goods and services required by the ANAO for operating purposes, and allowance for the increase in the annual Comcover premium. Other revenue has varied from \$1.155 million in 2003–04 to an estimated \$1.353 million in 2004–05. The major increase in other revenue is rental revenue from the sub-lease of the third floor of Centenary House.

Operating expenses for 2004–05 are estimated to total \$59.950 million (\$56.323 million in 2003–04). The change in operating expenses is due to an increase in employee expenses (\$0.703 million), and purchase of goods and services from external suppliers, including auditing services, property rent and outgoings, IT support services etc (\$3.895 million). The increase in employee expenses is due to a change in staffing numbers and the financial effect of the current certified agreement.

Budgeted Departmental Statement of Financial Position

The financial position of the ANAO remains strong, reflecting the beneficial effects of prudent resource and financial management. The liquidity position of the ANAO is strong, with assets significantly exceeding short-term and long-term liabilities. The ANAO has managed resources tightly over several years to ensure that it is in a position to meet increased operating expenses that may emerge in future years.

Budgeted Departmental Statement of Cash Flows

The cash flow position reflects the ANAO's focus on prudent resource management with a strong focus on managing its resources to allow the office to meet its future liabilities and commitments.

Departmental Capital Budget Statement

The capital budget shows a continuing prudent investment in non-financial assets.

Departmental Non-financial Assets — Summary of Movement

The ANAO plans to maintain its modest investment in non-financial assets. That position is reflected in the movement in non-financial assets.

SCHEDULE OF ADMINISTERED ACTIVITY

Schedule of Budgeted Revenues and Expenses Administered on behalf of government

Estimated administered revenues from provision of audit services to certain Australian Government agencies reflects the estimated effect of recovery of increased auditing costs due to changes in audit charge-out rates and the compressed annual financial reporting timeframe as recommended in Recommendation No. 2 of the BEFR Review.

Schedule of Budgeted Assets and Liabilities Administered on behalf of government

The estimated administered assets and liabilities relate to ongoing audit activity and the transfer of audit fee revenue to the Official Public Account. No non-financial administered assets are held.

Schedule of Budgeted Administered Cash Flows

Administered monies are transferred to the Official Public Account on an ongoing basis.

Schedule of Administered Capital Budget

No administered non-financial assets are held.

Schedule of Administered Non-financial Assets — Summary of Movement

No administered non-financial assets are held.

**Table 3.1: Budgeted departmental statement of financial performance
for the period ended 30 June**

	Estimated actual 2003–04 \$'000	Budget estimate 2004–05 \$'000	Forward estimate 2005–06 \$'000	Forward estimate 2006–07 \$'000	Forward estimate 2007–08 \$'000
REVENUE					
Revenues from ordinary activities					
Revenues from government	55,168	58,597	58,276	59,357	60,037
Goods and services	804	653	701	755	794
Revenue from sales of assets	18	-	-	-	-
Reversals of previous asset write-downs	-	-	-	-	-
Rents	324	680	680	680	680
Correction of fundamental error	-	-	-	-	-
Other	9	20	40	50	100
Revenues from ordinary activities	56,323	59,950	59,697	60,842	61,611
EXPENSE					
Expenses from ordinary activities (excluding borrowing costs expense)					
Employees	26,296	26,999	27,539	28,090	28,652
Suppliers	28,656	32,551	30,861	31,019	31,202
Depreciation and amortisation	1,371	400	1,200	1,685	1,697
Expenses from ordinary activities (excluding borrowing costs expense)	56,323	59,950	59,600	60,794	61,551
Borrowing costs expense	-	-	-	-	-
Correction of fundamental error	-	-	-	-	-
Operating surplus or (deficit) from ordinary activities	-	-	97	48	60
Correction of fundamental error	-	-	-	-	-
Net surplus or (deficit)	-	-	97	48	60

**Table 3.1: Budgeted departmental statement of financial performance
for the period ended 30 June (continued)**

	Estimated actual 2003–04 \$'000	Budget estimate 2004–05 \$'000	Forward estimate 2005–06 \$'000	Forward estimate 2006–07 \$'000	Forward estimate 2007–08 \$'000
Outside equity interests in net surplus or (deficit)	-	-	-	-	-
Net surplus or deficit attributable to the Australian Government	-	-	97	48	60
Net credit or (debit) to asset revaluation reserve	-	-	-	-	-
Adjustments arising from Standards recognised as direct debit or (credit) to equity	-	-	-	-	-
Initial adjustments from transitional UIG consensus view recognised as direct debit or (credit) to equity	-	-	-	-	-
Total revenues, expenses and valuation adjustments attributable to members of the parent entity and recognised directly in equity	-	-	-	-	-
Total changes in equity other than those resulting from transactions with owners as owners	-	-	-	-	-

**Table 3.2: Budgeted departmental statement of financial position
as at 30 June**

	Estimated actual 2003–04 \$'000	Budget estimate 2004–05 \$'000	Forward estimate 2005–06 \$'000	Forward estimate 2006–07 \$'000	Forward estimate 2007–08 \$'000
ASSETS					
Financial assets					
Cash	854	900	850	900	949
Receivables	18,528	18,438	18,924	19,208	19,175
Other financial assets	20	112	119	120	122
Total financial assets	19,402	19,450	19,893	20,228	20,246
Non-financial assets					
Infrastructure, plant and equipment	2,615	2,605	1,635	1,150	1,453
Intangibles	359	630	848	860	860
Other non-financial assets	895	532	536	546	546
Total non-financial assets	3,869	3,767	3,019	2,556	2,859
Total assets	23,271	23,217	22,912	22,784	23,105
LIABILITIES					
Interest bearing liabilities					
Other interest bearing liabilities	3,047	2,367	1,881	1,360	803
Total interest bearing liabilities	3,047	2,367	1,881	1,360	803
Provisions					
Employees	7,762	8,072	8,395	8,647	8,907
Other provisions	31	-	-	-	-
Total provisions	7,793	8,072	8,395	8,647	8,907
Payables					
Suppliers	1,918	2,265	2,026	2,120	2,677
Other payables	190	190	190	190	190
Total payables	2,108	2,455	2,216	2,310	2,867
Total liabilities	12,948	12,894	12,492	12,317	12,577

**Table 3.2: Budgeted departmental statement of financial position
as at 30 June (continued)**

	Estimated actual 2003–04 \$'000	Budget estimate 2004–05 \$'000	Forward estimate 2005–06 \$'000	Forward estimate 2006–07 \$'000	Forward estimate 2007–08 \$'000
EQUITY*					
Parent entity interest					
Contributed equity	4,929	4,929	4,929	4,929	4,929
Reserves	579	579	579	579	579
Retained surpluses or accumulated deficits	4,815	4,815	4,912	4,959	5,020
Total parent entity interest	10,323	10,323	10,420	10,467	10,528
Total equity	10,323	10,323	10,420	10,467	10,528
Total assets and liabilities by maturity:					
Current assets	19,402	19,450	19,893	20,228	20,246
Non-current assets	3,869	3,767	3,019	2,556	2,859
Current liabilities	6,923	6,894	6,679	6,586	6,725
Non-current liabilities	6,025	6,000	5,813	5,731	5,852

* Note: 'Equity' is the residual interest in assets after deduction of liabilities.

**Table 3.3: Budgeted departmental statement of cash flows
for the period ended 30 June**

	Estimated actual 2003–04 \$'000	Budget estimate 2004–05 \$'000	Forward estimate 2005–06 \$'000	Forward estimate 2006–07 \$'000	Forward estimate 2007–08 \$'000
OPERATING ACTIVITIES					
Cash received					
Goods and services	1,135	1,353	1,421	1,485	1,574
Appropriations	55,168	58,597	58,276	59,357	60,037
Other	1,975	2,256	2,259	2,450	2,490
Total cash received	58,278	62,206	61,956	63,292	64,101
Cash used					
Employees	26,796	27,799	28,639	29,090	29,852
Suppliers	29,188	32,864	31,470	32,469	31,692
Other					
Total cash used	55,984	60,663	60,109	61,559	61,544
Net cash from or (used by) operating activities	2,294	1,543	1,847	1,733	2,557
INVESTING ACTIVITIES					
Cash received					
Proceeds from sales of property, plant and equipment	20	-	-	-	-
Total cash received	20				
Cash used					
Purchase of property, plant and equipment	1,680	680	1,200	1,000	2,000
Total cash used	1,680	680	1,200	1,000	2,000
Net cash from or (used by) investing activities	(1,660)	(680)	(1,200)	(1,000)	(2,000)
FINANCING ACTIVITIES					
Cash received					
Other	0	0	0	0	0
Total cash received	0	0	0	0	0
Cash used					
Other	0	0	0	0	0
Total cash used	0	0	0	0	0
Net cash from/(used by) financing activities	0	0	0	0	0
Net increase or (decrease) in cash held	634	863	647	733	557
Cash at the beginning of the reporting period	1,634	2,268	3,131	3,778	4,511
Cash at the end of the reporting period	2,268	3,131	3,778	4,511	5,068

Table 3.4: Departmental capital budget statement

	Estimated actual 2003–04 \$'000	Budget estimate 2004–05 \$'000	Forward estimate 2005–06 \$'000	Forward estimate 2006–07 \$'000	Forward estimate 2007–08 \$'000
CAPITAL APPROPRIATIONS					
Total equity injections	-	-	-	-	-
Total loans	-	-	-	-	-
Total capital appropriations					
Represented by:					
Purchase of non-financial assets	-	-	-	-	-
Other	-	-	-	-	-
Total represented By	-	-	-	-	-
PURCHASE OF NON-FINANCIAL ASSETS					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	1,680	680	1,200	1,000	2,000
Total	1,680	680	1,200	1,000	2,000

1 These two lines link to (K3) in Table 1.1

Table 3.5: Departmental non-financial assets — summary of movement (Budget year 2004–05)

	Land	Buildings	Specialist military equipment	Other infrastructure plant and equipment	Heritage and cultural assets	Computer software	Other intangibles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at the start of year	-	-	-	2,615	-	359	-	2,974
Additions	-	-	-	500	-	180	-	680
Disposals	-	-	-	(20)	-	-	-	(20)
Net revaluation increments/decrements	-	-	-	-	-	-	-	-
Recoverable amount write-downs	-	-	-	-	-	-	-	-
Depreciation/amortisation expense	-	-	-	(390)	-	(9)	-	(399)
Recoverable amount write-downs	-	-	-	-	-	-	-	-
Other movements (give details below)	-	-	-	-	-	-	-	-
Carrying amount at the end of year	-	-	-	2,705	-	530	-	3,235
Total additions								
Represented by:								
Self-funded	-	-	-	500	-	180	-	680
Appropriations	-	-	-	-	-	-	-	-
Total represented by:	-	-	-	500	-	180	-	680

Table 3.6: Schedule of budgeted revenues and expenses administered on behalf of government for the period ended 30 June

	Estimated actual 2003–04 \$'000	Budget estimates 2004–05 \$'000	Forward estimate 2005–06 \$'000	Forward estimate 2006–07 \$'000	Forward estimate 2007–08 \$'000
REVENUES					
Non-taxation (revenues from government)					
Other sources of non-taxation	10,750	10,911	10,911	12,000	12,100
Total non-taxation	10,750	10,911	10,911	12,000	12,100
Total revenues administered on behalf of government	10,750	10,911	10,911	12,000	12,100
EXPENSES					
Other	-	-	-	-	-
Total expenses administered on behalf of government	-	-	-	-	-
TRANSFERS					
Cash to Commonwealth Public Account	10,964	10,911	10,911	12,000	12,100
Net change in assets administered on behalf of government	(214)	-	-	-	-

Table 3.7: Schedule of budgeted assets and liabilities administered on behalf of government as at 30 June

	Estimated actual 2003–04 \$'000	Budget estimate 2004–05 \$'000	Forward estimate 2005–06 \$'000	Forward estimate 2006–07 \$'000	Forward estimate 2007–08 \$'000
ASSETS					
Financial assets					
Cash	-	-	-	-	-
Receivables	2,165	2,200	2,250	2,300	2,350
Other financial assets	538	538	538	538	538
Total financial assets	2,703	2,738	2,788	2,838	2,888
Non-financial assets					
Infrastructure, plant and equipment	-	-	-	-	-
Other non-financial assets	-	-	-	-	-
Total non-financial assets	-	-	-	-	-
Total assets administered on behalf of government	2,703	2,738	2,788	2,838	2,888
LIABILITIES					
Payables					
Other payables	247	247	247	247	247
Total payables	247	247	247	247	247
Total liabilities administered on behalf of government	247	247	247	247	247

**Table 3.8: Schedule of budgeted administered cash flows
for the period ended 30 June**

	Estimated actual 2003–04 \$'000	Budget estimate 2004–05 \$'000	Forward estimate 2005–06 \$'000	Forward estimate 2006–07 \$'000	Forward estimate 2007–08 \$'000
OPERATING ACTIVITIES					
Cash received					
Other	10,750	11,911	11,911	13,200	13,300
Total cash received	10,750	11,911	11,911	13,200	13,300
Cash used					
Cash to Official Public Account from – Other	9,987	10,911	10,911	12,000	12,100
Transfers to other entities (Finance – Whole of Government) Other	977	1,000	1,000	1,200	1,200
Total cash used	10,964	11,911	11,911	13,200	13,300
Net cash from/(used by) operating activities	(214)	-	-	-	-
Net increase or (decrease) in cash held					
	(214)	-	-	-	-
Cash at beginning of reporting period	214	-	-	-	-
Effect of exchange rate movements on cash at beginning of reporting period	-	-	-	-	-
Cash at end of reporting period	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

Departmental Financial Statements and Schedule of Administered Activity

Under the Australian Government's accrual-based budgeting framework, and consistent with Australian Accounting Standards, transactions that agencies control (Departmental transactions) are separately budgeted for and reported on from transactions agencies do not have control over (Administered transactions). This ensures that agencies are only held fully accountable for the transactions over which they have control.

- Departmental items are those assets, liabilities, revenues and expenses in relation to an agency or authority that are controlled by the agency. Departmental expenses include employee and supplier expenses and other administrative costs, which are incurred by the agency in providing its goods and services.
- Administered items are revenues, expenses, assets and liabilities that are managed by an agency or authority on behalf of the government according to set government directions. Administered expenses include subsidies, grants and personal benefit payments, and Administered revenues include taxes, fees, fines and excises.

Appropriations in the accrual budgeting framework

Under the Australian Government's accrual budgeting framework, separate annual appropriations are provided for:

- Departmental price of outputs appropriations: representing the government's funding for outputs from agencies
- Departmental capital appropriations: for investments by the government for either additional equity or loans in agencies
- Administered expense appropriations: for the estimated Administered expenses relating to an existing outcome, a new outcome or a Specific Purpose Payment to the states
- Administered capital appropriations: for increases in Administered equity through funding non-expense Administered payments.

Special appropriations fund the majority of payments from the Consolidated Revenue Fund (especially those that are entitlement driven or involve transfers to state governments).

Administered investments in controlled entities

Each Australian Government department is required to show an Administered investment in each *Commonwealth Authorities and Companies (CAC) Act 1997* entity within its portfolio. These Administered investments should be valued at the Commonwealth's ownership interest in the net assets of those CAC entities, fixed at a notional acquisition date of 30 June 1997.

Asset valuation

From 1 July 2002, Australian Government agencies and authorities are required to use either the cost basis or the fair value basis to measure property, plant and equipment. The shift from the deprival method of valuation to fair value should occur gradually over a three-year period. Fair value essentially reflects the current market value of an asset.

Accounting policy

The budgeted financial statements have been prepared on an accruals basis, having regard to Statements of Accounting Concepts, and in accordance with:

- the Finance Minister's Orders
- Australian Accounting Standards
- other authoritative pronouncements of the Australian Accounting Standards Boards
- the Consensus Views of the Urgent Issues Group.

Departmental and Administered items

ANAO Departmental assets, liabilities, revenues and expenses are those items controlled by the ANAO that are used in producing outputs, and include:

- computers, plant and equipment used in providing goods and services
- liabilities for employee entitlements
- revenue from appropriations or independent sources in payment for outputs
- employee, supplier and depreciation expenses incurred in providing ANAO outputs.

Administered items are those items incurred in providing programs that are controlled by the government and managed, or oversighted, by the ANAO on behalf of the government. Most revenue earned for provision of audit services is Administered.

Revenue from government

Revenues from government are revenues relating to the core operating activities of the ANAO. From 1 July 1999, the Federal Budget has been prepared under an accruals framework. Appropriations to ANAO for its Departmental outputs are recognised as revenue to the extent they have been received into the ANAO's bank account or are entitled to be received by the ANAO at year end. A breakdown of revenues from government by outcome is provided in Table 1.1.

Sale of goods and services

All revenues described in this note are revenues relating to the audit and related operating activities of the ANAO, whether in its own right or on behalf of the Commonwealth, except for revenues received from the sub-lease of surplus space, gains from the sale of ANAO assets and interest income. Revenue from the provision of services is recognised upon the delivery of audit and related services. Sale of goods and services includes rental revenue from the sub-lease of space in the Canberra office. Audit revenue is recognised by reference to the stage of completion, determined according to the proportion that costs incurred to date relating to the estimated total costs of the transaction. Interest and other income is recognised when received into the ANAO's bank account or at the point where an entitlement exists.

Employee expenses

Employee expenses consist of salaries, leave entitlements, fringe benefits tax, redundancy expenses, superannuation and workers compensation insurance.

Suppliers

Suppliers expenses consist of contract audit costs, audit disbursements, information technology and systems development costs, property operating costs, professional development and administrative costs.

Cash

Cash includes notes and coins held and any deposits held with a bank or financial institution.

Receivables

Departmental receivables include interest due and receivable, goods and services input tax credits and other receivables as required by the *Requirements and Guidance for the Preparation of Financial Statements of Commonwealth Agencies and Authorities*.

Administered receivables represents audit fees due and payable by Australian Government companies, authorities and agencies. The accrued revenue represents the value of audit work undertaken which has not been billed at balance date.

Non-financial assets

Purchases of infrastructure, plant and equipment are recognised initially at cost in the Statement of Financial Position, with the exception of purchases costing less than \$2,000 which are expensed in the year of acquisition (other than where they form part of the purchase of a group of similar items which are significant in total). Other non-financial assets include prepayments.

Infrastructure, plant and equipment assets are written off to their estimated residual values over their estimated useful lives to the ANAO using, in all cases, the straight-line method of depreciation. Leasehold improvements are amortised on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation/amortisation rates (useful lives) and methods are reviewed at each balance date and necessary adjustments are recognised in the current and/or future reporting periods, as appropriate. Residual values are re-estimated for a change in prices only when assets are revalued.

From 1 July 2002, Australian Government agencies and authorities are required to use either the cost basis or the fair value basis to measure property, plant and equipment. The shift from the deprival method of valuation to fair value should occur gradually over a three-year period. Fair value essentially reflects the current market value of an asset.

Employee provisions

Employee provisions consist of annual leave, long service leave, superannuation and other employee-related liabilities.

Interest bearing liabilities

In accordance with UIG Abstract 1 'Lessee Accounting for Surplus Space Under a Non-Cancellable Operating Lease', the cost of Centenary House surplus space in the financial year ended 30 June 1998 was written off. This resulted in a charge to the Operating Statement of \$10.655 million and the establishment of a surplus space liability for an equivalent amount in the Statement of Financial Position. This liability will be progressively reduced to nil over the period of the lease, which will expire in 2008 and includes adjustments in respect of the sub-lease of the surplus space in 1998-99 for four and a half years and in 2002-03 for the remainder of the lease term. There is also a corresponding increase in revenue equal to the net present value of the amount of the sub-lease.

Contributed equity

The contributed equity comprises an equity injection of \$5.33 million received from government in 1998–99 and \$0.713 million in 1999–2000.

Capital usage charge

The government discontinued the Capital Use Charge from 1 July 2003.

Section 4: Purchaser–provider and cost recovery arrangements

The Australian National Audit Office has no purchaser–provider relationships in place with other agencies, and has no cost recovery arrangements.

