

FINANCIAL STATEMENTS

STATEMENT BY THE INSPECTOR-GENERAL OF INTELLIGENCE AND SECURITY

In my opinion, the attached financial statements for the year ended 30 June 2003 give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*.

W J Blick
Inspector-General of
Intelligence and Security

1 October 2003

OFFICE OF THE INSPECTOR-GENERAL OF INTELLIGENCE AND SECURITY
STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2003

	Notes	2002-03 \$	2001-02 \$
Revenues from ordinary activities			
Revenues from Government	4	657 000	634 000
Reimbursement for Defence inquiry	1.4(b)	-	16 014
Resources received free of charge	1.4 (c)	68 875	79 130
Interest earned		1 628	5 143
Total revenues from ordinary activities		727 503	734 287
Expenses from ordinary activities			
Employees			
Remuneration		481 302	457 422
Superannuation	1.5 (b)	77 753	74 422
Comcare premium		899	866
Total employees		559 954	532 710
Suppliers			
Resources received free of charge	1.4 (c)	68 875	79 130
Other goods and services		111 575	96 368
Total suppliers		180 450	175 498
Equipment depreciation		2 379	4 125
Total expenses from ordinary activities		742 783	712 333
Net surplus /(deficit)		(15 280)	21 954
Total changes in equity other than those resulting from transactions with owners as owners		(15 280)	21 954

The above statement should be read in conjunction with the accompanying notes.

OFFICE OF THE INSPECTOR-GENERAL OF INTELLIGENCE AND SECURITY
STATEMENT OF FINANCIAL POSITION
as at 30 June 2003

	Notes	2002-03 \$	2001-02 \$
ASSETS			
Financial Assets			
Cash (notes, coins and deposits at bank)	3	300 178	264 035
Receivables	1.4(e)		
Accrued interest income		-	1 386
GST receivable		371	330
Total receivables		371	1 716
Total financial assets		300 549	265 751
Non-financial assets			
Prepayments		1 027	1 622
Plant and equipment	1.8		
Equipment (at cost)		58 247	58 247
Less: accumulated depreciation		(54 900)	(52 521)
Total plant and equipment		3 347	5 726
Total non-financial assets		4 374	7 348
Total assets		304 923	273 099
LIABILITIES			
Provisions – employees			
Employee current liabilities			
Salaries and wages		13 411	10 607
Annual leave	1.5 (a)	36 731	30 160
Long Service Leave	1.5 (a)	143 420	-
Superannuation	1.5 (b)	13 371	18 455
Accrued FBT		11 591	4 049
Total employee current liabilities		218 524	63 271
Employee non current liabilities			
Annual leave	1.5 (a)	21 394	29 511
Long service leave	1.5 (a)	70 880	172 620
Total employee non current liabilities		92 274	202 131
Total provisions – employees		310 798	265 402
Payables - trade creditors (current)		2 735	1 027
Total liabilities		313 533	266 429
Net Assets		(8 610)	6 670
EQUITY			
Contributed equity	2	66 000	66 000
Accumulated results	2	(74 610)	(59 330)
Total equity		(8 610)	6 670

The above statement should be read in conjunction with the accompanying notes.

OFFICE OF THE INSPECTOR-GENERAL OF INTELLIGENCE AND SECURITY
STATEMENT OF CASH FLOWS
for the year ended 30 June 2003

	Notes	2002-03 \$	2001-02 \$
OPERATING ACTIVITIES			
Cash received			
Appropriations		657 000	634 000
Reimbursement for Defence inquiry		-	16 014
Interest		3 014	4 394
Expense refunds		-	1 509
Net GST refunds		5 557	3 588
Total cash received		665 571	659 505
Cash used			
Employees		(514 557)	(500 935)
Suppliers		(114 871)	(107 755)
Total cash used		(629 428)	(608 690)
Net cash from operating activities	3	36 143	50 815
Net increase/(decrease) in cash held		36 143	50 815
Cash at beginning of reporting period		264 035	213 220
Cash at the end of the reporting period	3	300 178	264 035

STATEMENT OF COMMITMENTS AND CONTINGENCIES
As at 30 June 2003

The office had no contingencies to report in either 2001-02 or in 2002-03.

The office had at the end of year an operating leasing commitment totalling \$5 497 (2001-02: \$5 497) for the provision of a motor vehicle to the Inspector-General. There are no renewal or purchase options available to the office and this lease matures within one year. No contingent rentals exist.

The above statements should be read in conjunction with the accompanying notes.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2003

Note 1 - Summary of Significant Accounting Policies

1.1 - Objectives of the Office of the Inspector-General of Intelligence and Security

The objective of the office is to meet the following outcome:

Assurance that Australia's intelligence agencies act legally, ethically and with propriety.

The office is structured to meet two outputs:

Output 1: Inspect and report on the activities of the intelligence and security agencies (60% of resources)

Output 2: Conduct inquiries and provide a complaint resolution service (40% of resources)

1.2 Basis of Accounting

The financial statements are required by section 49 of the *Financial Management and Accountability Act 1997* and are a general purpose financial report.

The statements have been prepared in accordance with:

- Finance Minister Orders (or FMO's, being the *Financial Management and Accountability (Financial Statements for reporting periods ending on or after 30 June 2003) Orders*);
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board; and
- Consensus views of the Urgent Issues Group.

The Statements of Financial Performance and Financial Position have been prepared on an accrual basis and are in accordance with the historical cost convention. No allowance is made for the effect of changing prices on the results or the financial position.

Assets and liabilities are recognised in the statement of Financial Position when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured.

Revenues and expenses are recognised in the statement of Financial Performance when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

The continued existence of the office in its present form and with its present programs, is dependent on continuing appropriations by Parliament for the office's administration and programs.

1.3 Changes in Accounting Policy

The accounting policies used in the preparation of these financial statements are consistent with those used in 2001-02, except in respect of measurement of certain employee benefits at nominal amounts (refer to Note 1.5).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period ended 30 June 2003

Note 1 - Summary of Significant Accounting Policies (cont.)

1.4 Revenues

(a) Revenues from Government

The full amount of the appropriation for agency outputs for the year is recognised as revenue.

(b) Reimbursements for Defence inquiry

In 2001-02 the office received reimbursement of direct administration costs from the Department of Defence for the Balibo inquiry

(c) Resources Received Free of Charge

Services received free of charge are recognised as revenue when and only when a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

The main resources received free of charge are the internal secure computer network (from Defence Signals Directorate) and office space (from the Department of Prime Minister and Cabinet). Other resources received free of charge include auditor remuneration as disclosed in note 7.

(d) Interest

Interest is recognised on a proportional basis taking into account the interest rate applicable to the financial assets up to a threshold of \$3,000 in accordance with the Agency Banking Incentive Scheme.

(e) Receivables

All receivables are not overdue and are therefore classified as current assets.

1.5 Employee Benefits

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for wages and salaries (including non-monetary benefits), annual leave, sick leave and long service leave are measured at their nominal amounts. Other employee benefits expected to be settled within 12 months of the reporting date are also measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability. This is a change in accounting policy from last year required by an initial application of a new Accounting Standard AASB 1028 from 1 July 2002.

(a) Leave

The liability for employee entitlements includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of the office is estimated to be less than the annual entitlement for sick leave.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period ended 30 June 2003

Note 1 - Summary of Significant Accounting Policies (cont.)

The leave liabilities are calculated on the basis of employees' remuneration, including the office's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liabilities for annual leave and long service leave reflect the value of the total leave entitlements of all employees at 30 June 2003 and is recognised at the nominal amount.

(b) Superannuation

Staff of the Office of the Inspector General of Intelligence and Security are members of the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. The liability for their superannuation benefits is recognised in the financial statements of the Commonwealth and is settled by the Commonwealth in due course.

The Office of the Inspector General of Intelligence and Security makes employer contributions to the Commonwealth at rates determined by an actuary to be sufficient to meet the cost to the Commonwealth of the superannuation entitlements of the office's employees.

The liability for superannuation recognised as at 30 June represents outstanding contributions for the final fortnight of the year.

1.6 Financial instruments

Accounting policies for financial instruments are stated at note 10.

1.7 Acquisition of Assets

Assets are recorded at cost on acquisition. No assets have been exchanged or liabilities undertaken.

1.8 Plant and Equipment

The office's fixed assets comprise office equipment only.

Asset recognition

Purchases of equipment are recognised at cost in the Statement of Financial Position, except for purchases costing less than \$2 000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

Depreciation and Amortisation

Depreciable equipment assets are written-off to their estimated residual values over their estimated useful lives to the office using the straight-line method of depreciation.

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

Depreciation and amortisation rates are for 3 to 13 years for each class of depreciable assets.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period ended 30 June 2003

Note 1 - Summary of Significant Accounting Policies (cont.)

1.9 Transactions by the Government as Owner

From 1 July 2002, the FMOs require that amounts of appropriations designated as 'Capital - equity injections' (less any savings offered up in Portfolio Additional Estimates Statements) are recognised directly in Contributed Equity as at 1 July or later date of effect of the appropriation.

This is a change of accounting policy from 2002-03 to the extent any part of an equity injection that was dependent on specific future events occurring was not recognised until the appropriation was drawn down.

The change in policy has no financial effect in 2002-03 because the full amounts of the equity injections were recognised in the year it was received.

1.10 Taxation

The office is exempt from taxation except fringe benefits tax and the goods and services tax (GST).

Revenues, expenses and assets are recognised net of GST except for receivables and payables.

1.11 Insurance

The Office of the Inspector-General of Intelligence and Security has insured for risks through the Government's insurable risk managed fund, called 'Comcover'. Workers compensation is insured through the Government's Comcare Australia.

1.12 Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required.

1.13 Rounding

Amounts have been rounded to the nearest dollar.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period ended 30 June 2003

Note 2 Equity

Item	Contributed equity		Accumulated results		TOTAL EQUITY	
	2002-03 \$	2001-02 \$	2002-03 \$	2001-02 \$	2002-03 \$	2001-02 \$
Balance 1 July	66 000	66 000	(59 330)	(81 284)	6 670	(15 284)
Operating result	-	-	(15 280)	21 954	(15 280)	21 954
Balance 30 June	66 000	66 000	(74 610)	(59 330)	(8 610)	6 670
Total equity attributable to the Commonwealth	66 000	66 000	(74 610)	(59 330)	(8 610)	6 670

Note 3 - Cash Flow Reconciliation

	2002-03 \$	2001-02 \$
Reconciliation of Cash per Statement of Financial Position to Statement of Cash Flows:		
• Cash at year end per Statement of Cash Flows	300 178	264 035
• Statement of Financial Position items comprising above cash - Financial Asset - Cash:		
a) Cash on Hand	73	76
b) Cash at Bank	300 105	263 959
	<u>300 178</u>	<u>264 035</u>
Reconciliation of net surplus to net cash from operating activities:		
Net surplus /(deficit)	(15 280)	21 955
Depreciation	2 379	4 125
Increase/(Decrease) in provision for employee liabilities	45 396	27 501
Increase/(Decrease) in creditors	1 708	(3 103)
(Increase)/Decrease in other assets	595	(981)
(Increase)/Decrease in GST receivable	(41)	2 067
(Increase)/Decrease in accrued income	1 386	(749)
Net cash flow from operating activities	<u>36 143</u>	<u>50 815</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period ended 30 June 2003

Note 4 – Appropriations

Note 4 (A) – Agency Appropriations Acts (1/3) 2002-03

Particulars	2002-2003	
	Agency Outputs \$	Total \$
Year Ended 30 June 2003		
Balance carried forward from previous year	198 365	198 365
Appropriation for reporting period (Act 1)	657 000	657 000
GST credits (FMAs 30A)	5 598	5 598
Annotations to 'net appropriations' (FMAs 31)	3 014	3 014
Available for payments	863 977	863 977
Payments made	629 428	629 428
Balance carried to next year	234 549	234 549
Represented by:		
Cash	234 178	234 178
Add: Receivables – Net GST Receivable from the ATO	371	371
Total	234 549	234 549

Year Ended 30 June 2002		
Balanced carried forward from previous year	147 220	147 220
Appropriation for reporting period (Act 1)	634 000	634 000
GST credits (FMAs 30A)	3 918	3 918
Annotations to 'net appropriations' (FMAs 31)	21 917	21 917
Available for payments	807 055	807 055
Payments made	608 690	608 690
Balance carried to next year	198 365	198 365
Represented by:		
Cash	198 035	198 035
Add: Receivables – Net GST Receivable from the ATO	330	330
Total	198 365	198 365

Note 4 (B) Agency Appropriations Acts (2/4) 2002-03

The office received \$66 000 as an equity injection in the financial year ended 30 June 2001. The office did not spend any of this appropriation during the current and prior year.

Note 5 - Reporting of Outcomes

There is only one outcome for this office as detailed in the objectives in note 1.1.

Note 5 (A) Net Cost of Outcome Delivery

The net cost of that outcome to the budget outcome in 2002-03 was \$672 280 (Budget: \$657 000).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period ended 30 June 2003

Note 5 Reporting of Outcomes (cont.)

Note 5 (B) Agency Revenue and Expenses by Output Group

The decision to attribute resources on a 60:40 basis, (60% inspection activities and 40% conducting inquiries and providing a complaint resolution service), originated from the Samuels Inquiry (1995) and has been reinforced by more recent legislative changes.

	Output Group 1		Output Group 2		OUTCOME TOTAL	
	2003	2002	2003	2002	2003	2002
	\$	\$	\$	\$	\$	\$
Operating revenues						
Revenues from government	394 200	380 400	262 800	253 600	657 000	634 000
Other income	42 302	60 172	28 201	40 115	70 503	100 287
Total operating revenues	436 502	440 572	291 001	293 715	727 503	734 287
Operating expenses						
Employees	335 972	319 626	223 982	213 084	559 954	532 710
Suppliers	108 533	105 299	72 355	70 199	180 888	175 498
Total operating expenses	444 505	424 925	296 337	283 283	740 842	708 208

Note 6 - Executive Remuneration – in excess of \$100 000

	2002-03	2001-02
	\$	\$
Inspector-General:	306 897	255 836

Note 7 – Remuneration of Auditor

Financial statement audit services are provided free of charge to the office

The fair value of audit services provided was:	13 000	12 000
No other services were provided by the Auditor-General.		

Note 8 – Staffing Level

The average staffing level for the office in 2002-03 was 4.6 (2001-02: 4.6)

Note 9 - Act of Grace Payments, Waivers and Defective Administration Scheme

No 'Act of Grace' payments were made during the reporting period (2001-02 nil).

No waivers of amounts owing to the Commonwealth were made during the reporting period (2001-02 nil).

No payments were made under the 'Defective Administration Scheme' during the reporting period (2001-02 nil).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period ended 30 June 2003

Note 10 – Financial Instruments

(a) Terms, conditions and accounting policies

Financial Instruments	Accounting policies and methods (including recognition criteria and measurement basis)	Nature of the underlying instrument (including significant terms & conditions affecting the amount, timing and certainty of cash flows)
<i>Financial Assets</i>	Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Cash	Deposits are recognised at their nominal amounts. Interest is credited to revenue as it accrues.	The agency invests funds at a commercial bank at call. Monies in the office's bank accounts are swept into the Official Public Account nightly and interest is earned on the daily balance on rates based on money market call rates. Rates have averaged 1.07% for the year (2001-02 2.5%). Interest is paid at month end.
Receivables for goods and services	Receivables are recognised at their nominal amounts due less any provisions for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely.	All receivables are with Commonwealth entities. Credit terms are net 30 days (2001–02 30 days)
Interest Receivable	Interest is accrued as it is earned.	The average interest rate for the year was 1.07% and the frequency of payments are quarterly.
<i>Financial Liabilities</i>	Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	
Trade Creditors	Creditors and accruals are recognised at their nominal amounts which are the amounts at which the liabilities will be settled. They are recognised to the extent that the related goods or services have been received (and irrespective of having been invoiced).	All creditors are entities that are not part of the Commonwealth legal entity. Settlement is usually made net 30 days.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period ended 30 June 2003

Note 10 – Financial Instruments (cont.)

(b) Interest Rate Risk

Financial Instruments (Recognised)	Floating interest rate		Non-Interest Bearing		Total		Weighted Average Effective Interest Rate	
	02-03 \$	01-02 \$	02-03 \$	01-02 \$	02-03 \$	01-02 \$	02-03	01-02
Financial Assets								
Cash on hand	-	-	73	76	73	76	n/a	n/a
Cash at Bank	299 105	262 959	1 000	1 000	300 105	263 959	1.07%	2.50%
Receivables for goods or services	-	-		1 716	-	1 716	n/a	n/a
Total	299 105	262 959	1 073	2 792	300 178	265 751		
Total Assets					304 923	273 099		
Financial Liabilities								
Trade Creditors	-	-	2 735	1 027	2 735	1 027	n/a	n/a
Total	-	-	2 735	1 027	2 735	1 027		
Total Liabilities					313 533	266 429		

No funds were invested at a fixed interest rate.

(c) Net Fair Value of Financial Assets and Liabilities

The office's aggregate net fair values of (identified) financial instruments are the same as their carrying amounts.

1. Credit Risk Exposure

The office's maximum exposure to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

The office has no significant exposure to any concentrations of credit risk.

All figures for credit risk referred to do not take into account the value of any collateral or other security.

Note 11 – Special Accounts

The office has 2 special accounts established under section 20 of the FMA Act 1997. The accounts established are "Other trust Moneys and Services for the Government" and "Non Agency Bodies Account". These accounts have never been active.