



INDEPENDENT AUDIT REPORT

To the Prime Minister

Matters relating to the Electronic Presentation of the Audited Financial Statements

This audit report relates to the financial statements published in both the annual report and on the website of the Office of the Inspector-General of Intelligence and Security for the year ended 30 June 2005. The Office's Inspector-General is responsible for the integrity of both the annual report and the web site.

The audit report refers only to the financial statements, schedules and notes named below. It does not provide an opinion on any other information which may have been hyperlinked to/from the audited financial statements.

If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial statements in the Office of the Inspector-General of Intelligence and Security's annual report.

Scope

The financial statements and Inspector-General's responsibility

The financial statements comprise:

- Statement by the Inspector-General;
- Statements of Financial Performance, Financial Position and Cash Flows;
- Schedules of Commitments and Contingencies; and
- Notes to and forming part of the Financial Statements

of the Office of the Inspector-General of Intelligence and Security for the year ended 30 June 2005.

The Inspector-General is responsible for preparing financial statements that give a true and fair presentation of the financial position and performance of the Office of the Inspector-General of Intelligence and Security, and that comply with accounting standards, other mandatory financial reporting requirements in Australia, and the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*. The Inspector-General is also responsible for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

Audit approach

I have conducted an independent audit of the financial statements in order to express an opinion on them to you. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial statements are free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive, rather than conclusive, evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

While the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of audit procedures, the audit was not designed to provide assurance on internal controls.

I have performed procedures to assess whether, in all material respects, the financial statements present fairly, in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, accounting standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Office of the Inspector-General of Intelligence and Security's financial position, and of its performance as represented by the statements of financial performance and cash flows.

The audit opinion is formed on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial statements; and
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the Inspector-General.

Independence

In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the ethical requirements of the Australian accounting profession.

Audit Opinion

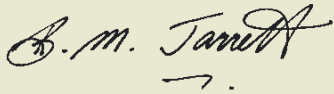
In my opinion, the financial statements of the Office of the Inspector-General of Intelligence and Security:

- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*; and
- (b) give a true and fair view of the Office of the Inspector-General of Intelligence and Security's financial position as at 30 June 2005 and of its performance and cash flows for the year then ended, in accordance with:
 - (i) the matters required by the Finance Minister's Orders; and
 - (ii) applicable accounting standards and other mandatory financial reporting requirements in Australia.

Additional Statutory Disclosure

As detailed in Note 5 of the financial statements, the Office of the Inspector-General of Intelligence and Security has contravened section 83 of the Constitution.

Australian National Audit Office

A handwritten signature in black ink, appearing to read "B. M. Jarrett". The signature is written in a cursive style with a horizontal line underneath.

Brandon Jarrett
Executive Director

Delegate of the Auditor-General
Canberra

29 September 2005

OFFICE OF THE INSPECTOR-GENERAL OF INTELLIGENCE AND SECURITY
STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2005

	Notes	2004-05 \$	2003-04 \$
Revenues from ordinary activities			
Revenues from Government	5	931 000	741 000
Resources received free of charge	1.3	72 735	150 067
Revenue from sale of assets		700	-
<i>Total revenues from ordinary activities</i>		<u>1 004 435</u>	<u>891 067</u>
Expenses from ordinary activities			
Employees	1.4		
Remuneration		599 890	549 903
Superannuation		122 684	114 407
Comcare premium		2 145	1 360
Total employees		<u>724 719</u>	<u>665 670</u>
Suppliers			
Resources received free of charge	1.3	72 735	94 091
Other goods and services		147 076	140 894
Total suppliers		<u>219 811</u>	<u>234 985</u>
Assets written-off		1 587	-
Value of assets sold		68	-
Equipment depreciation		26 733	16 173
<i>Total expenses from ordinary activities</i>		<u>972 918</u>	<u>916 828</u>
Net surplus /(deficit) from ordinary activities		<u>31 517</u>	<u>(25 761)</u>
Net credit to asset revaluation reserve	3	-	9 435
Total changes in equity other than those resulting from transactions with the Australian Government as owner		<u>31 517</u>	<u>(16 326)</u>

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 2005

	Notes	2004-05 \$	2003-04 \$
ASSETS			
Financial Assets			
Cash (notes, coins and deposits at bank)	4	<u>412 460</u>	<u>247 754</u>
Receivables	1.5		
Amounts held in the Official Public Account		308 000	-
Leave liability transfers		-	20 048
Fringe Benefits Tax refund		-	5 799
GST receivable		3 590	3 645
Other debtors		<u>489</u>	<u>-</u>
Total receivables		<u>312 079</u>	<u>29 492</u>
Total financial assets		<u>724 539</u>	<u>277 246</u>
Non-financial assets			
Plant and equipment	1.8		
Equipment (at cost)		140 660	77 229
Less: accumulated depreciation		<u>(36 264)</u>	<u>(16 173)</u>
At 2004 valuation (fair value)	6	7 235	9 435
Less: accumulated depreciation		<u>(2 750)</u>	<u>-</u>
Total plant and equipment		<u>108 881</u>	<u>70 491</u>
Total non-financial assets		<u>108 881</u>	<u>70 491</u>
Total assets		<u>833 420</u>	<u>347 737</u>
LIABILITIES			
Provisions – employees			
Employee current liabilities			
Salaries and wages	1.4	1 966	-
Annual leave		39 608	37 686
Superannuation		<u>33 646</u>	<u>22 106</u>
Total employee current liabilities		<u>75 220</u>	<u>59 792</u>
Employee non current liabilities			
Annual leave	1.4	72 181	61 700
Long service leave		<u>259 983</u>	<u>228 678</u>
Total employee non current liabilities		<u>332 164</u>	<u>290 378</u>
Total provisions – employees		<u>407 384</u>	<u>350 170</u>
Payables			
Payables - trade creditors (current)	1.5	17 454	4 597
Other payables (current)	1.5	-	17 906
Total payables		<u>17 454</u>	<u>22 503</u>
Total liabilities		<u>424 838</u>	<u>372 673</u>
Net Assets		<u>408 582</u>	<u>(24 936)</u>
EQUITY			
Asset revaluation reserve	3	9 435	9 435
Contributed equity		468 000	66 000
Accumulated results		<u>(68 853)</u>	<u>(100 371)</u>
Total equity		<u>408 582</u>	<u>(24 936)</u>

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 2005

	Notes	2004-05 \$	2003-04 \$
OPERATING ACTIVITIES			
Cash received			
Appropriations		931 000	741 000
Net GST refunds		20 222	9 085
Total cash received		<u>951 222</u>	<u>750 085</u>
Cash used			
Employees		(667 506)	(654 055)
Suppliers		(146 931)	(148 454)
Cash transferred to Official Public Account		(308 000)	-
Total cash used		<u>(1 122 437)</u>	<u>(802 509)</u>
Net cash from operating activities	4	<u>(171 216)</u>	<u>(52 424)</u>
INVESTING ACTIVITIES			
Cash received			
Proceeds from sales of equipment		700	-
Total cash received		<u>700</u>	<u>-</u>
Cash used			
Purchase of property, plant and equipment		(66 778)	-
Total cash used		<u>(66 778)</u>	<u>-</u>
Net cash from investing activities		<u>(66 078)</u>	<u>-</u>
FINANCING ACTIVITIES			
Cash received			
Equity injection		402 000	-
Total cash received		<u>402 000</u>	<u>-</u>
Net cash from financing activities		<u>402 000</u>	<u>-</u>
Net increase/(decrease) in cash held		164 706	(52 424)
Cash at beginning of reporting period		247 754	300 178
Cash at the end of the reporting period	4	<u><u>412 460</u></u>	<u><u>247 754</u></u>

STATEMENT OF COMMITMENTS AND CONTINGENCIES
As at 30 June 2005

The office had no contingencies to report in either 2003-04 or in 2004-05.

The office had at the end of year an operating leasing commitment totalling \$8 199 (2003-04: \$8 199) 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 year ended 30 June 2005

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), and
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 2005)*) 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. However, assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an Accounting Standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments and the Schedule of Contingencies.

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.

1.3 Revenue

Revenues from Government

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

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 1 - Summary of Significant Accounting Policies (continued)

1.3 Revenue (continued)

The main resources received free of charge in 2004-05 are office space (from the Department of Prime Minister and Cabinet) and the installation and maintenance of the OIGIS owned internal secure computer networks (from Defence Signals Directorate). In prior years DSD also provided the internal secure computer network free of charge. Other resources received free of charge include auditor remuneration as disclosed in Note 9.

1.4 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 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.

All other employee benefit liabilities are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

Leave

The liability for employee benefits 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.

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.

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 Australian Government and is settled by the Australian Government in due course.

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 1 - Summary of Significant Accounting Policies (continued)

1.5 Other Financial instruments

Receivables

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 (2003–04: 30 days).

Trade Creditors

Trade creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the 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.

1.6 Cash

Cash means notes and coins held and any deposits held at call with a bank or financial institution. Cash is recognised at its nominal amount.

1.7 Acquisition of Assets

Assets are recorded at cost on acquisition.

1.8 Plant and Equipment

The office's fixed assets comprise of office equipment only.

Asset Recognition Threshold

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).

Revaluations

Plant and equipment are carried at valuation. Fair values for the one class of asset have been determined by market selling price.

Assets were recognised at fair value for the first time in 2003-04 (previously the deprival value was used).

Asset Class	Increment/ (decrement) to asset class	Contra Account
Plant and equipment	2004: \$9 435	Asset Revaluation Reserve

The total financial effect of the changed policy in 2003-04 was to increase the carrying amount of plant and equipment by \$9 435 and increase the asset revaluation reserve by \$9 435.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 1 - Summary of Significant Accounting Policies (continued)

1.8 Plant and Equipment (continued)

Frequency and Conduct

2003-04 was the first year equipment has been revalued. The valuation was conducted by an independent qualified valuer.

The Finance Minister's Orders require that all property plant and equipment assets be measured at up-to-date fair values from 30 June 2005 onwards.

Depreciation and Amortisation

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

Depreciation rates (useful lives) and methods are reviewed at each reporting 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 1 to 5 years for each class of depreciable assets.

1.9 Impairment of Non-Current Assets

Non-current assets carried at up to date fair value at the reporting date are not subject to impairment testing.

The non-current assets carried at cost, which are not held to generate net cash inflows, have been assessed for indications of impairment. The office reviewed these assets in relation to the proposed move to new premises in 2007. The result of this review was that it had no financial impact on the carrying value of these assets as they will be depreciated to nil. (If indications of impairment did exist, assets would be written down to the higher of the net selling price and, if the entity would replace the asset's service potential, its depreciated replacement cost).

1.10 Transactions by the Government as Owner

Equity Injections

Amounts appropriated as 'equity injections' for a year (less any savings offered up in Portfolio Additional Estimates Statements) are recognised directly in contributed equity in that year.

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 2004-05 because the full amounts of the equity injections were recognised in the year received.

1.11 Taxation

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

Revenues, expenses and assets are recognised net of GST except for:

- receivables and payables, and
- where the amount of GST incurred is not recoverable from the Australian Taxation Office.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 1 - Summary of Significant Accounting Policies (continued)

1.12 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.

1.13 Comparative Figures

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

1.14 Rounding

Amounts have been rounded to the nearest dollar.

Note 2 - Adoption of AASB Equivalents to International Financial Reporting Standards from 2005-06

The Australian Accounting Standards Board has issued replacement Australian Accounting Standards to apply from 2005-06. The new standards are the Australian Equivalents to International Financial Reporting Standards (AEIFRS). The International Financial Reporting Standards are issued by the International Accounting Standards Board. The new standards cannot be adopted early. The standards being replaced are to be withdrawn with effect from 2005-06, but continue to apply in the meantime, including reporting periods ending on 30 June 2005.

The purpose of issuing AEIFRS is to enable Australian reporting entities reporting under the *Corporations Act 2001* to be able to more readily access overseas capital markets by preparing their financial reports according to accounting standards more widely used overseas.

AEIFRS contain certain additional provisions that will apply to not-for-profit entities, including Australian Government agencies. Some of these provisions are in conflict with IFRS, and therefore the Office of the Inspector-General of Intelligence and Security will only assert that the financial report has been prepared in accordance with Australian Accounting Standards.

AAS 29 *Financial Reporting by Government Departments* will continue to apply under AEIFRS.

Accounting Standard AASB 1047 *Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards* requires that the financial statements for 2004-05 disclose:

- an explanation of how the transition to AEIFRS is being managed
- narrative explanations of the key policy differences arising from the adoption of AEIFRS
- any known or reliably estimable information about the impacts on the financial report had it been prepared using AEIFRS, and
- if the impacts of the above are not known or reliably estimable, a statement to that effect.

The purpose of this Note is to make these disclosures.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 2 - Adoption of AASB Equivalents to International Financial Reporting Standards from 2005-06 (cont)

Management of the transition to AEIFRS

The Office of the Inspector-General of Intelligence and Security has taken the following steps for the preparation towards the implementation of AEIFRS:

- The office's finance personnel are tasked with oversight of the transition to and implementation of AEIFRS.
- All major accounting policy differences between current AASB standards and AEIFRS were identified by 30 June 2004.
- A transitional balance sheet as at 1 July 2004 under AEIFRS was completed.
- An AEIFRS compliant Statement of Financial Position as at 30 June 2005 was also prepared during the preparation of the 2004-05 statutory financial reports.
- The 2004-05 Statement of Financial Position under AEIFRS will be reported to the Department of Finance and Administration in line with reporting deadlines.
- The plan also addresses the risks to successful achievement of the above objectives and includes strategies to keep implementation on track to meet deadlines.
- Consultants were engaged where necessary to assist with each of the above steps.

Major changes in accounting policy

The office believes that the first financial report prepared under AEIFRS ie at 30 June 2006, will be prepared on the basis that the Office of the Inspector-General of Intelligence and Security will be a first time adopter under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. Changes in accounting policies under AEIFRS are applied retrospectively (as if the new policy had always applied except in relation to the exemptions available and prohibitions under AASB 1). To enable the 2005-06 financial statements to report comparatives under AEIFRS an AEIFRS compliant Statement of Financial Position will need to be prepared as at 1 July 2004. When developing the accounting policies applicable to the preparation of the 1 July opening Statement of Financial Position, the office elected not to use the exemptions available to it as a first time adopter of AEIFRS.

Changes to major accounting policies are discussed in the following paragraphs.

Management's review of the quantitative impacts of AEIFRS represents the best estimates of the impacts of the changes at the reporting date. The actual effects of the impacts of AEIFRS may differ from these estimates due to:

- continuing review of the impacts of AEIFRS on the operations of the office
- potential amendments to the AEIFRS and AEIFRS Interpretations, and
- emerging interpretation as to the accepted practice in the application of AEIFRS and AEIFRS Interpretations.

Property, plant and equipment

It is expected that the 2005-06 *Finance Minister's Orders* will continue to require property, plant and equipment assets to be valued at fair value in 2005-06. The quantitative impact of AEIFRS on these assets for the Office of the Inspector-General of Intelligence and Security was assessed to be nil.

Impairment of assets

The offices' policy on impairment of non-current assets is at Note 1.9.

Under AEIFRS assets will be subject to assessment for impairment and, if there are indications of impairment, an assessment of the degree of impairment. (Impairment measurement must also be done, irrespective of any indications of impairment, for intangible assets not yet available for use. The office has no intangible assets). The impairment test is that the carrying amount of an asset must not exceed the greater of (a) its fair value less costs to sell and (b) its value in use. 'Value in use' is the net present value of net cash inflows for cash generating units or depreciated replacement cost for other assets which would be replaced if the office was deprived of them.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 2 Adoption of AASB Equivalents to International Financial Reporting Standards from 2005-06 (cont)

Impairment of assets (continued)

An impairment assessment of the office's assets indicated that no adjustment will be required.

Employee Benefits

The provision for long service leave is measured at the present value of estimated future cash outflows using market yields as at the reporting date on national government bonds. As noted in the 2003-04 Financial Report, the same discount rate will be used under AEIFRS.

AEIFRS also require annual leave that is not expected to be taken within 12 months of balance date be discounted. After assessing the staff leave profile, the office does not expect that any material amounts of the annual leave balance will be taken in the next 12 months. Consequently, there has been an adjustment for non-current annual leave. The adjustment resulted in a decrease to the non current portion of annual leave.

Financial Instruments

AEIFRS include an option for entities not to restate comparative information in respect of financial instruments in the first AEIFRS report. Therefore, the amounts for financial instruments presented in the office's 2004-05 primary financial statements are not expected to change as a result of the adoption of AEIFRS.

The Office of the Inspector-General of Intelligence and Security will be required under AEFIRS to review the carrying amounts of financial instruments at 1 July 2005 to ensure they align with the accounting policies required by AEIFRS. It is expected that the carrying amounts of financial instruments held by the office will not materially change as a result of this process.

The office has assessed there will be no material impact on the financial report had it been prepared using AEIFRS.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 2 - Adoption of AASB Equivalents to International Financial Reporting Standards from 2005-06 (cont)

Reconciliation of Impacts – Australian Generally Accepted Accounting Principles to AEIFRS

	2004-05	2003-04
	\$	\$
Reconciliation of Departmental Equity		
Total Departmental Equity under AGAAP	408 582	(24 936)
Adjustments to accumulated results	4 354	4 535
Adjustments to other reserves	-	-
Total Equity under AEIFRS	<u>412 936</u>	<u>(20 401)</u>
Reconciliation of Departmental Accumulated Results		
Total Departmental Accumulated Results under AGAAP	(68 854)	(100 371)
Adjustments:		
Employee provisions	4 354	4 535
Total Accumulated Results under AEIFRS	<u>(64 500)</u>	<u>(95 836)</u>
Reconciliation of Departmental Reserves		
Total Departmental Reserves under AGAAP	9 435	9 435
Adjustment:		
Asset Revaluation Reserve	-	-
Total Departmental Reserves under AEIFRS	<u>9 435</u>	<u>9 435</u>
Reconciliation of Departmental Contributed Equity		
Total Departmental Contributed Equity under AGAAP	468 000	66 000
Adjustments	-	-
Total Contributed Equity under AEIFRS	<u>468 000</u>	<u>66 000</u>
Reconciliation of Net surplus /(deficit) from ordinary activities for the year ending 30 June 2005¹		
Total Operating surplus / (deficit) under AGAAP	31 517	-
Adjustments:		
Employee Provisions	(181)	-
	<u>31 336</u>	<u>-</u>

1. The 30 June 2005 total represents the accumulated impacts of AEIFRS from the date of transition.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 3 - Equity

Item	Contributed Equity		Asset Revaluation Reserve		Accumulated Results		TOTAL EQUITY	
	2004-05 \$	2003-04 \$	2004-05 \$	2003-04 \$	2004-05 \$	2003-04 \$	2004-05 \$	2003-04 \$
Balance 1 July	66 000	66 000	9 435	-	(100 371)	(74 610)	(24 936)	(8 610)
Net revaluation increment/(decrement)	-	-	-	9 435	-	-	-	9 435
Equity injection	402 000	-	-	-	-	-	402 000	-
Operating result	-	-	-	-	31 517	(25 761)	31 517	(25 761)
Balance 30 June	468 000	66 000	9 435	9 435	(68 854)	(100 371)	408 581	(24 936)
Total equity attributable to the Commonwealth	468 000	66 000	9 435	9 435	(68 854)	(100 371)	408 581	(24 936)

Note 4 - Cash Flow Reconciliation

	2004-05 \$	2003-04 \$
Reconciliation of Cash per Statement of Financial Position to Statement of Cash Flows:		
• Cash at year end per Statement of Cash Flows	412 460	247 754
• Statement of Financial Position items comprising above cash - 'Financial Asset - Cash':		
a) Cash on Hand	87	159
b) Cash at Bank	412 373	247 595
	<u>412 460</u>	<u>247 754</u>
Reconciliation of net surplus to net cash from operating activities:		
Net surplus / (deficit)	31 517	(25 761)
Depreciation	26 733	16 173
(Profit)/Loss on disposal of assets	(632)	-
Write-off of assets	1 587	-
Resources received free of charge capitalised	-	(55 976)
Increase/(Decrease) in provision for employee liabilities	57 214	39 372
Increase/(Decrease) in supplier trade creditors	(5 049)	1 862
(Increase)/Decrease in other assets	25 358	(24 820)
(Increase)/Decrease in GST receivable	56	(3 274)
(Increase)/Decrease in transfers to the Official Public Account	(308 000)	-
Net cash flow from operating activities	<u>(171 216)</u>	<u>(52 424)</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 5 – Appropriations

Note 5A – Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (Appropriations from Acts 1 and 3)

Particulars	Departmental	Total
Year Ended 30 June 2005	\$	\$
Balance carried from previous year	185 399	185 399
Unspent prior year appropriation – invalid s31 ¹	(105 014)	(105 014)
Appropriation Act (No.1) 2004-2005	759 000	759 000
Appropriation Act (No.3) 2004-2005	172 000	172 000
GST credits (FMA s30A)	13 544	13 544
30 June 2005 – variation s31 ²	105 714	105 714
Total Appropriations available for payments	1 130 643	1 130 643
Payments made (GST inclusive)	807 816	807 816
Balance carried to next year	322 827	322 827
Represented by:		
Cash	319 238	319 238
Add: Receivables – Net GST Receivable from the ATO	3 589	3 589
Total	322 827	322 827
Year Ended 30 June 2004		
Balance carried from previous year	234 549	234 549
Appropriation Act 1 – basic appropriation	709 000	709 000
Appropriation Act (No.3)	32 000	32 000
GST credits (FMA s30A)	12 359	12 359
Annotations to ‘net appropriations’ (FMA s31)	-	-
Total Appropriations available for payments	987 908	987 908
Payments made (GST inclusive)	802 509	802 509
Balance carried to next year	185 399	185 399
Represented by:		
Cash	181 754	181 754
Add: Receivables – Net GST Receivable from the ATO	3 645	3 645
Total	185 399	185 399

- 1 The unspent prior year appropriation of (\$105 014) is derived from the year-by-year analysis summarised in the table to follow later in this Note.
- 2 The 30 June 2005 variation of \$105 714 to section 31 receipts is the amount of:
 - . total s31 receipts affected, \$157 946, plus
 - . s31 receipts appropriated in 2004-05, \$700, less
 - . the amount spent prior to 2004-05 of \$52 932.

Under section 31 of the *Financial Management and Accountability Act 1997* (the FMA Act), the Minister for Finance and Administration may enter into a net appropriation agreement with an agency Minister. Appropriation Acts numbers 1 and 3 (for the ordinary annual services of government) authorise the supplementation of an agency’s annual net appropriation by amounts received in accordance with its section 31 agreement (for example, receipts from charging for goods and services).

One of the conditions that must be satisfied under section 31 of the FMA Act in order for annual net appropriation to be increased lawfully is that an agreement is made between the Finance Minister and the agency Minister or by officials expressly delegated (where permitted) or authorised by them. An agency’s Chief Executive is taken to be so authorised.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 5 – Appropriations (continued)

Note 5A – Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (Appropriations from Acts 1 and 3 continued)

The section 31 agreement covering the period 1 July 1999 to 20 February 2005 operated and the section 31 monies were recorded as though a valid agreement existed. However the Department of Finance and Administration signatory did not have an express delegation or authority for signing the agreement, with the result that the agreement was ineffective.

The current section 31 agreement was made on 21 February 2005 between the Inspector-General, OIGIS and the Minister for Finance and Administration. Acknowledging the status of prior agreements, this agreement was varied on 24 June 2005, with effect from 30 June 2005, to capture retrospectively all monies that were subject to the ineffective prior agreement. This variation does not validate past breaches of section 83 of the Constitution.

Accordingly:

- amounts disclosed in previous financial years as available for spending under departmental outputs appropriations up to 30 June 2004 were overstated by \$157 946. Of this amount, \$105 014 was unspent as at 30 June 2004 and was incorrectly reflected in the balance brought forward to 1 July 2004
- the 30 June 2005 variation to the s31 agreement increased the appropriation by the amount of invalid receipts (\$158 646). Of this amount \$52 932 from 1999 to 2005 has already been spent, and
- spending up to and including 30 June 2004 totalling \$52 932 was made without the authority of the Parliament, in contravention of section 83 of the Constitution.

A year-by-year analysis of the overstatement of the departmental output appropriations and overspending is given below.

Particulars	1999-00	2000-01	2001-02	2002-03	2003-04	Sub-total	2004-05	Total 1/7/99 to 30/6/05
Receipts Affected	113 768	19 247	21 917	3 014	-	157 946	700	158 646
Unspent	60 836	19 247	21 917	3 014	-	105 014	700	105 714
Amount spent, without appropriation	52 932	-	-	-	-	52 932	-	52 932

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 5B – Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (Appropriations from Acts 2 and 4)

Particulars	Departmental	Total
Year Ended 30 June 2005	\$	\$
Balance carried from previous year	66 000	66 000
Appropriation Act (No.2) 2004-2005	200 000	200 000
Appropriation Act (No.4) 2004-2005	202 000	202 000
GST credits (FMA Act s30A)	6 678	6 678
Total Appropriations available for payments	474 678	474 678
Payments made (GST inclusive)	73 456	73 456
Balance carried to next year	401 222	401 222
Represented by:		
Cash	93 222	93 222
Add: Receivables – Receivable from the Official Public Account	308 000	308 000
Total	401 222	401 222
Year Ended 30 June 2004		
Balance carried from previous year	66 000	66 000
Appropriation Act (No.2) 2003-04	-	-
Appropriation Act (No.4) 2003-04	-	-
GST credits (FMA Act s30A)	-	-
Total Appropriations available for payments	66 000	66 000
Payments made (GST inclusive)	-	-
Balance carried to next year	66 000	66 000
Represented by:		
Cash	66 000	66 000
Add: Receivables – Receivable from the Official Public Account	-	-
Total	66 000	66 000

Note 5C – Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (Appropriations from Acts 2 and 4)

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 or prior years.

The office received a further \$402 000 as an equity injection in the financial year ended 30 June 2005. The office spent \$73 456 of this appropriation during the current year. The office holds \$308 000 of this amount in the Official Public Account to fund the non-current portion of accrued leave liabilities.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 6 – Analysis of Plant and Equipment

Note 6A – Reconciliation of the Opening and Closing Balances of Plant and Equipment

Item	Plant and Equipment
As at 1 July 2004	
Gross book value	86 664
Accumulated depreciation	(16 173)
Opening Net book value	70 491
Additions	
by purchase	66 778
Depreciation expense	(26 733)
Disposals	
Write-offs	(1 587)
Other disposals	(68)
As at 30 June 2005	
Gross book value	147 895
Accumulated depreciation	(39 014)
Net book value	108 881

Note 6B – Assets at Valuation

Item	Plant and Equipment
As at 30 June 2005	
Gross Value	7 235
Accumulated depreciation	(2 750)
Net book value	4 485
As at 30 June 2004	
Gross Value	9 435
Accumulated depreciation	-
Net book value	9 435

All revaluations are independent and are conducted in accordance with the revaluation policy stated at Note 1. In 2003-04, the revaluations were conducted by an independent valuer A.F. Graham (Certified Practicing Valuer).

Note 7 - Reporting of Outcomes

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

Note 7A – Net Cost of Outcome Delivery

The net cost of this outcome in 2004-05 was \$900 183 (Appropriation: \$931 000).

Note 7B – Agency Revenue and Expenses by Output Group

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 7 - Reporting of Outcomes (continued)

Note 7B – Agency Revenue and Expenses by Output Group (continued)

	Output Group 1		Output Group 2		OUTCOME TOTAL	
	2005	2004	2005	2004	2005	2004
	\$	\$	\$	\$	\$	\$
Operating revenues						
Revenues from government	558 600	444 600	372 400	296 400	931 000	741 000
Other income	44 061	90 040	29 374	60 027	73 435	150 067
Total operating revenues	602 661	534 640	401 774	356 427	1 004 435	891 067
Operating expenses						
Employees	434 831	399 402	289 888	266 268	724 719	665 670
Suppliers	131 887	140 991	87 924	93 994	219 811	234 985
Assets written-off	952	-	635	-	1 587	-
Value of assets sold	41	-	27	-	68	-
Equipment depreciation	16 040	9 704	10 693	6 469	26 733	16 173
Total operating expenses	583 751	550 097	389 167	366 731	972 918	916 828

Note 8 - Executives Remuneration – in excess of \$100 000

	2004-05	2003-04
\$130 000 to \$139 999	-	1
\$200 000 to \$209 999	-	1
\$340 000 to \$349 999	1	-
The aggregate amount of total remuneration of executives shown above	\$349 672	\$338 894
The aggregate amount of separation and redundancy/termination benefit payments during the year to executives shown above.	Nil	Nil

Note 9 – Remuneration of Auditor

Financial statement audit services are provided free of charge to the office. No other services were provided by the Auditor-General.

The fair value of audit services provided was: **\$16 500** \$13 000

Note 10 – Staffing Level

The average staffing level for the office in 2004-05 was 5 (2003-04: 5).

Note 11 - Act of Grace Payments, Waivers, Defective Administration Scheme, and Payments made under s73 of the Public Service Act 1999

No 'Act of Grace' payments were made during the reporting period, (2003-04: nil).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

No waivers of amounts owing to the Commonwealth were made during the reporting period, (2003-04: nil).

No payments were made under the 'Defective Administration Scheme' during the reporting period, (2003-04: nil).

No payments were made under section 73 of the *Public Service Act 1999*, (2003-04: nil).

Note 12 – Financial Instruments

Note 12A – Interest Rate Risk

Financial Instruments (Recognised)	Floating interest rate		Non-Interest Bearing		Total		Weighted Average Effective Interest Rate	
	04-05 \$	03-04 \$	04-05 \$	03-04 \$	04-05 \$	03-04 \$	04-05 \$	03-04 \$
Financial Assets								
Cash on hand	-	-	87	159	87	159	n/a	n/a
Cash at Bank	-	-	412 373	247 595	412 373	247 595	n/a	n/a
Receivables for goods or services (gross)	-	-	312 079	29 492	312 079	29 492	n/a	n/a
Total			724 539	277 246	724 539	277 246		
Total Assets					833 420	347 737		
Financial Liabilities								
Trade Creditors	-	-	17 454	4 597	17 454	4 597	n/a	n/a
Other Payables	-	-	-	17 906	-	17 906	n/a	n/a
Total	-	-	17 454	22 503	17 454	22 503		
Total Liabilities					424 838	372 673		

No funds were invested at a fixed interest rate.

Note 12B – 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.

Note 12C – 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 Performance.

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 13 – Special Accounts

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