6

FINANCIAL STATEMENTS

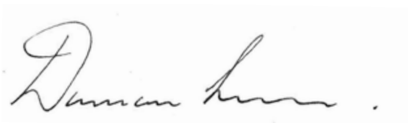
Contents

Due to rounding, figures presented throughout these financial statements may not add precisely to the totals provided.

STATEMENT BY THE DIRECTOR-GENERAL OF SECURITY

In my opinion, the attached financial statements for the year ended 30 June 2018 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In my opinion, at the date of this statement, there are reasonable grounds to believe that ASIO will be able to pay its debts as and when they fall due.



Duncan Lewis
Director-General of Security

15 August 2018

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Home Affairs

Opinion

In my opinion, the financial statements of the Australian Security Intelligence Organisation for the year ended 30 June 2018:

(a) comply with Australian Accounting Standards–Reduced Disclosure Requirements and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and

(b) present fairly the financial position of the Australian Security Intelligence Organisation as at 30 June 2018 and its financial performance and cash flows for the year then ended.

The financial statements of the Australian Security Intelligence Organisation, which I have audited, comprise the following statements as at 30 June 2018 and for the year then ended:

- Statement by the Director-General of Security;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Statement of Cash Flows; and
- Notes to and forming part of the financial statements.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Australian Security Intelligence Organisation in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Accountable Authority's Responsibility for the Financial Statements

As the Accountable Authority of the Australian Security Intelligence Organisation, the Director-General of Security is responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards–Reduced Disclosure Requirements and the rules made under that Act. The Director-General of Security is also responsible for such internal control as the Director-General of Security determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director-General of Security is responsible for assessing the Australian Security Intelligence Organisation's ability to continue as a going concern, taking into account whether the entity's operations will cease as a result of an administrative restructure or for any other reason. The Director-General of Security is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

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Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit I also

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control,
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control,
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Director-General of Security,
- conclude on the appropriateness of the Director-General of Security's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion My conclusions are based on the audit evidence obtained up to the date of my auditor's report However, future events or conditions may cause the entity to cease to continue as a going concern, and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit

Australian National Audit Office

Kristian Gage

Executive Director

Delegate of the Auditor-General

Canberra

15 August 2018

STATEMENT OF COMPREHENSIVE INCOME
for the period ended 30 June 2018

	Notes	2018 $'000	Original Budget 2018 $'000	2017 $'000
EXPENSES				
Employee benefits	1.1.A	248 944	244 075	239 924
Suppliers	1.1.B	199 453	196 294	181 969
Depreciation and amortisation	2.2.A	89 365	84 708	88 335
Other	1.1.C	566	-	1291
TOTAL EXPENSES		**538 328**	**525 077**	**511 519**
OWN-SOURCE INCOME				
Revenue				
Sale of goods and services	1.2.A	16 494	19 218	15 008
Other revenue	1.2.B	11 531	3196	5115
Gains	1.2.C	143	140	2553
TOTAL OWN-SOURCE INCOME		**28 168**	**22 554**	**22 676**
NET COST OF SERVICES		**(510 160)**	**(502 523)**	**(488 843)**
REVENUE FROM GOVERNMENT	3.1	**421 767**	**417 815**	**402 998**
DEFICIT ON CONTINUING OPERATIONS		**(88 393)**	**(84 708)**	**(85 845)**
OTHER COMPREHENSIVE INCOME				
Changes in asset revaluation surplus		36 811	-	-
TOTAL COMPREHENSIVE LOSS		**(51 582)**	**(84 708)**	**(85 845)**

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

STATEMENT OF FINANCIAL POSITION
as at 30 June 2018

	Notes	2018 $'000	Original Budget 2018 $'000	2017 $'000
ASSETS				
Financial assets				
Cash and cash equivalents	2.1.A	23 552	10 809	17 338
Trade and other receivables	2.1.B	70 807	71 402	76 702
Accrued revenue		753	916	1644
Total financial assets		***95 112***	***83 127***	**95 684**
Non-financial assets				
Prepayments		26 919	19 252	25 911
Land and buildings	2.2.A	161 127	144 514	153 938
Property, plant and equipment	2.2.A	146 458	151 615	130 341
Computer software	2.2.A	59 274	51 662	50 616
Total non-financial assets		***393 778***	***367 043***	**360 806**
TOTAL ASSETS		**488 890**	**450 170**	**456 490**
LIABILITIES				
Payables				
Suppliers	2.3.A	8829	18 085	11 865
Other payables	2.3.B	24 704	6680	25 911
Total payables		***33 533***	***24 765***	**37 776**
Provisions				
Employee provisions	2.4.A	78 834	77 198	75 256
Restoration obligations	2.4.B	6072	3700	4938
Total provisions		***84 906***	***80 898***	**80 194**
TOTAL LIABILITIES		**118 439**	**105 663**	**117 970**
NET ASSETS		**370 451**	**344 507**	**338 520**
EQUITY				
Parent equity interest				
Contributed equity		752 158	750 760	668 644
Reserves		69 858	33 046	33 047
Accumulated deficit		(451 565)	(439 299)	(363 171)
TOTAL EQUITY		**370 451**	**344 507**	**338 520**

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

STATEMENT OF CHANGES IN EQUITY for the period ended 30 June 2018

	2018 $'000	Original Budget 2018 $'000	2017 $'000
RETAINED EARNINGS			
Opening balance	(363 172)	(354 591)	(277 326)
Comprehensive income			
Deficit for the period	(88 393)	(84 708)	(85 845)
Closing balance	***(451 565)***	***(439 299)***	**(363 171)**
ASSET REVALUATION RESERVE			
Opening balance	33 047	33 046	33 047
Other comprehensive income			
Changes in asset revaluation surplus	36 811	-	-
Closing balance	***69 858***	***33 046***	**33 047**
CONTRIBUTED EQUITY			
Opening balance	668 644	668 644	626 449
Transactions with owners			
Contributions by owners			
Equity injection—appropriation	14 939	13 541	14 103
Departmental capital budget	68 575	68 575	28 092
Closing balance	***752 158***	***750 760***	**668 644**
CLOSING BALANCE ATTRIBUTABLE TO THE AUSTRALIAN GOVERNMENT	**370 451**	**344 507**	**338 520**

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

Accounting policy

Equity injections

Amounts appropriated which are designated as 'equity injections' for a year (less any formal reductions) and Departmental Capital Budgets (DCBs) are recognised directly in contributed equity in that year.

STATEMENT OF CASH FLOWS
for the period ended 30 June 2018

	Notes	2018 $'000	Original Budget 2018 $'000	2017 $'000
OPERATING ACTIVITIES				
Cash received				
Appropriations		477 892	417 716	421 916
Sales of goods and services		10 498	22 225	13 977
Net GST received		22 083	16 286	19 794
Other		11 381	1556	2808
Total cash received		***521 854***	***457 783***	**458 495**
Cash used				
Employees		245 562	243 574	234 556
Suppliers		220 169	198 324	195 772
Section 74 receipts		30 176	19 191	26 493
Total cash used		***495 907***	***461 089***	**456 821**
NET CASH FROM OPERATING ACTIVITIES		**25 947**	**(3306)**	**1674**
INVESTING ACTIVITIES				
Cash received				
Proceeds from sales of property, plant and equipment		948	-	760
Total cash received		***948***	**-**	**760**
Cash used				
Purchase of property, plant and equipment		55 244	78 852	51 850
Purchase of computer software		32 553	-	24 414
Total cash used		***87 797***	***78 852***	**76 264**
NET CASH USED BY INVESTING ACTIVITIES		**(86 849)**	**(78 852)**	**(75 504)**
FINANCING ACTIVITIES				
Cash received				
Contributed equity		67 116	82 116	68 732
Total cash received		***67 116***	***82 116***	**68 732**
NET CASH FROM FINANCING ACTIVITIES		**67 116**	**82 116**	**68 732**
Net increase (decrease) in cash held		6214	(42)	(5095)
Cash and cash equivalents at the beginning of the reporting period	2.1.A	17 338	10 851	22 433
CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD		**23 551**	**10 809**	**17 338**

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Overview

The basis of preparation

The financial statements are general purpose and are required by section 42 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

The financial statements have been prepared in accordance with:

- *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR) for reporting periods ending on or after 1 July 2015; and
- Australian Accounting Standards and Interpretations—Reduced Disclosure Requirements issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets and liabilities at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position. The financial statements are presented in Australian dollars.

New accounting standards

There were no new or revised accounting standards that were issued prior to the signing of the statement by the Director-General that are applicable to the current reporting period.

Revenue from Government—departmental appropriations

Amounts appropriated for departmental appropriations for the year (adjusted for any formal additions and reductions) are recognised as Revenue from Government when ASIO gains control of the appropriation. Appropriations receivable are recognised at their nominal amounts.

Taxation

ASIO is exempt from all forms of taxation except Fringe Benefits Tax and the Goods and Services Tax (GST).

Events after the reporting period

There was no subsequent event that had the potential to significantly affect the ongoing structure or financial activities of ASIO.

1. Financial Performance

	2018 $'000	2017 $'000
1.1 EXPENSES		
1.1.A Employee benefits		
Wages and salaries	195 219	186 995
Superannuation		
▹ Defined contribution plans	17 915	16 569
▹ Defined benefit plans	15 117	15 330
Leave and other entitlements	20 361	20 263
Separation and redundancies	332	767
Total employee benefits	**248 944**	**239 924**
1.1.B Suppliers		
Goods supplied	8702	6211
Services supplied	146 582	136 925
Operating lease payments	42 239	37 202
Workers' compensation premiums	1930	1631
Total supplier expenses	**199 453**	**181 969**

Accounting policy

Operating lease payments are expensed on a straight line basis which is representative of the pattern of benefits derived from the lease arrangements.

Leasing Commitments

As lessee, ASIO has a number of operating lease commitments. These are effectively non-cancellable and comprise leases for office accommodation and agreements for the provision of motor vehicles to officers. Various arrangements apply to the review of lease payments including review based on the consumer price index and market appraisal. Commitments are GST inclusive where relevant.

Commitments for minimum lease payments are payable:

	2018 $'000	2017 $'000
Within 1 year	53 793	54 853
Between 1 to 5 years	213 380	216 636
More than 5 years	312 641	371 083
Total operating lease commitments	***579 814***	***642 572***
1.1.C Other expenses		
Finance costs: unwinding of discount—restoration obligations	124	238
Impairment of receivables	7	6
Write-down and impairment of property, plant and equipment	419	1039
Losses from asset sales	16	8
Total other expenses	**566**	**1291**

	2018 $'000	2017 $'000

1.2 OWN-SOURCE REVENUE AND GAINS

1.2.A Sale of goods and services

	2018 $'000	2017 $'000
Sale of goods	-	49
Sale of services	16 494	14 959
Total sale of goods and services	**16 494**	**15 008**

Accounting policy

Revenue from the sale of goods is recognised when the risks and rewards have been transferred to the buyer and ASIO retains no managerial involvement or effective control over the goods.

Revenue from the sale of services is recognised by reference to the stage of completion of contracts at reporting date. This is determined by the proportion that costs incurred to date bear to the estimated total costs of the transaction.

1.2.B Other revenue

	2018 $'000	2017 $'000
Sub-lease—rental income	10 297	3910
Resources received free of charge—remuneration of auditors	150	145
Royalties	8	18
Other	1076	1042
Total other revenue	**11 531**	**5115**

Sublease rental income commitments

As lessor, operating lease income commitments are for office accommodation.

Commitments for rental income are receivable:

	2018 $'000	2017 $'000
Within 1 year	2722	5444
Between 1 to 5 years	9318	23 811
More than 5 years	9196	24 282
Total rental income commitments	***21 236***	***53 537***

Accounting policy

Resources 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. Resources received free of charge are recorded as either revenue or gains depending on their nature.

1.2.C Gains

	2018 $'000	2017 $'000
Expiry of lease restoration obligation	-	2320
Other gains	143	233
Total gains	**143**	**2553**

Accounting policy

Gains from disposal of assets are recognised when control of the asset has passed to the buyer.

2. Financial Position

	2018 $'000	2017 $'000
2.1 FINANCIAL ASSETS		
2.1.A Cash and cash equivalents	**23 552**	**17 338**

Accounting policy

Cash is recognised at its nominal amount. Cash and cash equivalents includes:

- cash on hand; and
- demand deposits in bank accounts with an original maturity of 3 months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

2.1.B Trade and other receivables	2018 $'000	2017 $'000
Goods and services	7615	4753
Appropriation receivable	57 449	67 000
GST receivable	5743	4949
Total trade and other receivables	**70 807**	**76 702**

All receivables are expected to be recovered in no more than 12 months.

Credit terms for goods and services were within 30 days (2017: 30 days).

Financial assets were assessed for impairment at 30 June 2018. No indicators of impairment have been identified.

Accounting policy

Trade receivables are classified as 'loans and receivables' and recorded at the nominal amounts less any impairment. Trade receivables are recognised where ASIO becomes party to a contract and has a legal right to receive cash. Trade receivables are derecognised on payment. Collectability of debts is reviewed at the end of the reporting period. Allowances are made when collectability of the debt is no longer probable.

2.2 NON-FINANCIAL ASSETS

2.2.A Reconciliation of property, plant, equipment and computer software

	Buildings	Buildings—leasehold improvement	Property plant & equipment	Computer software	Total
	$'000	$'000	$'000	$'000	$'000
As at 1 July 2017					
Gross book value	4581	168 822	176 421	121 504	471 329
Accumulated depreciation, amortisation and impairment	(218)	(19 248)	(46 080)	(70 889)	(136 434)
Net book value 1 July 2017	***4363***	***149 574***	***130 341***	***50 616***	***334 894***
Additions by purchase	98	3414	48 595	32 784	84 891
Revaluations	2192	20 768	14 861	-	37 821
Depreciation and amortisation expense	(244)	(19 039)	(46 064)	(24 018)	(89 365)
Disposals—other	-	-	(1275)	(108)	(1383)
Net book value 30 June 2018	**6410**	**154 717**	**146 458**	**59 274**	**366 859**
Gross book value	6472	159 194	154 860	152 562	473 088
Accumulated depreciation, amortisation and impairment	(62)	(4477)	(8402)	(93 288)	(106 229)
Net book value 30 June 2018	**6410**	**154 717**	**146 458**	**59 274**	**366 859**

Computer software

The carrying value of computer software included $23.844m (2017 $25.498m) purchased software and $35.430m (2017 $25.118m) internally generated software.

Impairment

Non-financial assets are assessed for impairment at the end of each reporting period. There are no indicators of impairment for property, plant, equipment and computer software. Any reduction in assets' carrying value due to impairment throughout the year have been accounted for in the Statement of Comprehensive Income.

Sale or disposal

Property, plant and equipment of an immaterial value only is expected to be sold or disposed of within the next 12 months. No buildings or computer software are expected to be sold or disposed of within the next 12 months.

Contractual commitments for the acquisition of property, plant, equipment and computer software

Within 1 year	-	-	2895	7816	10 711
Between 1 to 5 years	-	-	-	2734	2734
Total capital commitments	***-***	***-***	***2895***	***10 550***	***13 445***

Accounting policy

Acquisition of assets

The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value.

Purchases of non-financial assets are initially recognised at cost in the statement of financial position, except for purchases costing less than $4000, 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).

Property, Plant and Equipment

Following initial recognition at cost, property, plant and equipment is carried at fair value less subsequent accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not materially differ from the assets' fair values as at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets.

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

Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	2018	**2017**
Buildings on freehold land	**8–60 years**	8–60 years
Leasehold improvements	**lease term**	lease term
Plant and equipment	**2–25 years**	2–25 years

All assets were assessed for impairment at 30 June 2018. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

An asset is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Computer software

ASIO's software comprises internally developed and purchased software for internal use. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Software is amortised on a straight-line basis over its anticipated useful life. The useful life of ASIO's software is 1–10 years (2017: 1–10 years).

Fair value measurement

ASIO's assets are held for operational purposes and not held for the purpose of deriving a profit. The current use of all non-financial assets is considered their highest and best use.

An annual assessment is undertaken to determine whether the carrying amount of the assets is materially different from the fair value. ASIO engaged the services of professional external consultants to conduct a comprehensive valuation of carrying amounts for all non-financial assets (excluding software) at 30 April 2018. Comprehensive valuations are carried out at least once every three years. JLL has provided written assurance to ASIO that the models developed are in compliance with AASB 13.

The methods utilised to determine and substantiate the unobservable inputs are derived and evaluated as follows:

Physical Depreciation and Obsolescence—Assets that do not transact with enough frequency or transparency to develop objective opinions of value from observable market evidence have been measured utilising the Depreciated Replacement Cost approach. Under the Depreciated Replacement Cost approach, the estimated cost to replace the asset is calculated and then adjusted to take into account physical depreciation and obsolescence. Physical depreciation and obsolescence has been determined based on professional judgement regarding physical, economic and external obsolescence factors relevant to the asset under consideration. For all Leasehold Improvement assets, the consumed economic benefit / asset obsolescence deduction is determined based on the term of the associated lease.

The fair values of ASIO's assets at 30 June 2018 are detailed above in Note 2.2.A.

	2018	2017
	$'000	$'000
2.3 PAYABLES		
2.3.A Suppliers		
Trade creditors and accruals	8829	11 865
Total suppliers	**8829**	**11 865**

Settlement is usually made within 30 days.

	2018	2017
2.3.B Other payables		
Salaries	1905	1908
Superannuation	263	252
Unearned income	2092	6719
Amortisation of rent expense	17 769	13 198
Lease incentives	556	1512
Fringe benefits tax	2119	2322
Total other payables	**24 704**	**25 911**
2.4 PROVISIONS		
2.4.A Employee provisions		
Leave	78 834	75 256
Total employee provisions	**78 834**	**75 256**

Accounting judgements and estimates

Leave provisions involve assumptions based on the expected tenure of existing staff, patterns of leave claims and payouts, future salary movements and future discount rates.

Accounting policy

Liabilities for 'short-term employee benefits' (as defined in *AASB 119 Employee Benefits*) and termination benefits expected within twelve months of the end of the reporting period are measured at nominal amounts.

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 ASIO is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will apply at the time the leave is taken, including ASIO'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 liability for leave has been determined by reference to the work of an actuary as at May 2017. An assessment of ASIO's staff profile at balance date was performed; the assessment determined that the data profile used by the actuary is still relevant at balance date. The estimate of present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Staff of ASIO are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS), the PSS accumulation plan (PSSap) or other complying superannuation funds.

The CSS and PSS are defined benefit schemes for the Australian Government. The PSSap and other complying funds are defined contribution schemes.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported in the Department of Finance's administered schedules and notes.

ASIO makes employer contributions to the employees' superannuation scheme at rates determined by an actuary to be sufficient to meet the current cost to the Government. ASIO accounts for the contributions as if they were contributions to defined contribution plans.

Superannuation payable as at 30 June represents outstanding contributions for the final fortnight of the year.

	2018 **$'000**	2017 $'000
2.4.B Restoration obligations	**6072**	**4938**
Carrying amount 1 July 2017	4938	7374
Additional provisions made	-	836
Provision utilised	-	(1000)
Lease expiry	-	(2510)
Unwinding of discount or change in discount rate	124	238
Revaluation as at 30 June	1010	-
Closing balance	***6072***	***4938***

ASIO has a number of agreements for the leasing of premises which contain provisions requiring restoration of the premises to original condition at the conclusion of the lease. ASIO has made a provision to reflect the present value of this obligation.

3. Funding

3.1 APPROPRIATIONS

3.1.A Annual Departmental appropriations

	Ordinary annual services $'000	Capital budget $'000	Equity injections $'000
2018			
Appropriation Act			
Annual appropriation	**421 767**	68 575	14 939
PGPA Act			
Section 74 transfers	**30 176**	-	-
Total appropriation	**451 943**	**68 575**	**14 939**
Appropriation applied (current and prior years)	**(471 678)**	(58 575)	(8541)
Variance	***(19 735)***	***10 000***	***6398***

Operating appropriation variances in 2017–18 are due to prior year appropriations applied in the current year. Capital appropriations remain unspent due to the timing of asset purchases.

The following entities spend money from the Consolidated Revenue Fund on behalf of ASIO:
Department of Foreign Affairs and Trade relating to services overseas: $8.014m (2017: $8.029m).

	Ordinary annual services $'000	Capital budget $'000	Equity injections $'000
2017			
Appropriation Act			
Annual appropriation[1]	402 998	28 092	14 103
PGPA Act			
Section 74	26 493	-	-
Total appropriation	**429 491**	**28 092**	**14 103**
Appropriation applied (current and prior years)	(427 011)	(50 791)	(17 941)
Variance	***2480***	***(22 699)***	***(3838)***

Variances in 2016–17 are due to prior year Capital appropriations applied in the current year.

1. Access to $22,000 withheld under section 51 PGPA Act.

	2018 $'000	2017 $'000
3.1.B Unspent departmental annual appropriations (recoverable GST exclusive)		
Appropriation Act (No. 1) 2016–17	22	84 338
Appropriation Act (No. 1) 2017–18	70 651	-
Appropriation Act (No. 2) 2017–18	5000	-
Appropriation Act (No. 3) 2017–18	3952	-
Appropriation Act (No. 4) 2017–18	1398	-
Total	**81 023**	**84 338**

3.1.C Deficit excluding depreciation and amortisation

Revenue appropriations do not include an amount for depreciation and amortisation expenses. ASIO receives a separate capital budget provided through equity appropriations when capital expenditure is required.

Total surplus (deficit) excluding depreciation and amortisation	**972**	**2490**
Depreciation and amortisation	(89 365)	(88 335)
Deficit as per statement of comprehensive income	(88 393)	(85 845)

4. Managing uncertainties

4.1 CONTINGENT ASSETS AND LIABILITIES

Quantifiable contingencies

ASIO's contingent liabilities relate to claims for damages or costs. The amount represents an estimate of ASIO's liability based on precedent in such cases. ASIO is defending the claims.

Contingent liabilities		
Balance from previous period	-	150
New contingent liabilities recognised	60	-
Obligations expired	-	(150)
Total contingent liabilities	**60**	**-**

Unquantifiable contingencies

At 30 June 2018, ASIO had a number of legal claims against it. ASIO has denied liability and is defending the claims. It is not possible to estimate amounts of any eventual payments that may be required in relation to these claims.

Accounting policy

Contingent liabilities and contingent assets are not recognised in the statement of financial position but are reported in the relevant schedules and notes. They may arise from uncertainty as to the existence of a liability or asset or represent an existing liability or asset in respect of which the amount cannot be reliably measured. Contingent assets are reported when settlement is probable, but not virtually certain, and contingent liabilities are recognised when settlement is greater than remote.

	2018 $'000	2017 $'000
4.2 FINANCIAL INSTRUMENTS		
4.2.A Categories of financial instruments		
Financial assets		
Loans and receivables		
Cash	23 552	17 338
Trade receivables	7615	4753
Accrued revenue	753	1644
Total financial assets	**31 920**	**23 735**
Financial liabilities		
At amortised cost		
Trade creditors and accruals	8829	11 865
Total financial liabilities	**8829**	**11 865**

The net fair value of the financial assets and liabilities are at their carrying amounts. ASIO derived no interest income from financial assets in either the current or prior year.

The only net gain or loss from financial assets or liabilities through profit or loss for the period ending 30 June 2018 was the impairment of Trade Receivables.

Accounting policy

Financial assets

Trade receivables are classified as 'loans and receivables' and recorded at face value less any impairment. Trade receivables are recognised where ASIO becomes party to a contract and has a legal right to receive cash. Trade receivables are derecognised on payment.

Financial assets are assessed for impairment at the end of each reporting period. Allowances are made when collectability of the debt is no longer probable.

Financial Liabilities

Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced). Supplier and other payables are derecognised on payment.

5. Other information

	2018 $'000	2017 $'000
5.1 KEY MANAGEMENT PERSONNEL REMUNERATION		
Short-term employee benefits	**1593**	1606
Long-term employee benefits	**189**	189
Post-employment benefits	**276**	264
Total key management personnel remuneration expenses[1]	**2058**	**2059**

5.1 KEY MANAGEMENT PERSONNEL REMUNERATION

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of ASIO, directly or indirectly. ASIO has determined key management personnel to be the Director-General and members of the Executive Board.

The number of key management positions is 5. (2017: 5)

Several key management positions were occupied by different officers for portions of the year.

1. The above key management personnel remuneration excludes the remuneration and other benefits of the:

- Portfolio Ministers whose remuneration and other benefits are set by the Remuneration Tribunal and are not paid by ASIO; and
- External member of ASIO's Executive Board who is an executive of another Australian Government entity. No remuneration or other benefits are paid by ASIO.

5.2 RELATED PARTY DISCLOSURES

Related party relationships

ASIO is an Australian Government controlled entity. ASIO's related parties are Key Management Personnel including the Portfolio Ministers and Executive Board, and other Australian Government entities.

Transactions with Key Management Personnel

Given the breadth of Government activities, Key Management Personnel and their associates may transact with the government sector in the same capacity as ordinary citizens. Such transactions include the payment or refund of taxes, receipt of a Medicare rebate or higher education loans. These transactions are not disclosed in this note.

All related party transactions with Key Management Personnel during 2017–18 were in the ordinary course of business and do not require separate disclosure.

Transactions with other Australian Government entities

ASIO transacts with Commonwealth Government entities at arm's length for the provision of goods and services in the normal course of business. These transactions are not disclosed in this note.

ASIO has a significant relationship with the Department of Finance as lessor of the Organisation's headquarters in Canberra. Lease payments were $22.09m in 2017–18.

5.3 MAJOR BUDGET VARIANCES

The nature and timing of the Commonwealth's budget process meant the original Budget in the 2017–18 Portfolio Budget Statements was published in May before the closing 2016–17 and opening 2017–18 Statement of Financial Position was known. As a consequence, the opening balances of the Statement of Financial Position were estimated and in some cases variances between the 2017–18 final outcome and original Budget can, in part, be attributed to the flow-on effects of unanticipated movement in prior year figures.

The Budget Statement of Comprehensive Income, net of unfunded depreciation, presumed a balanced operating result in 2017–18 consistent with the requirement under the Commonwealth budgeting framework. Variances between the 2017–18 operating result and original Budget can, in part, be attributed to this assumption.

Departmental expenses

The total variation between departmental expenses and the original Budget estimate is an increase of $13.3m. The overall increase in expenses can be attributed to:

- Average Staffing Level for the year was higher than budgeted due to the late Full Time Equivalent growth in 2016–17, resulting in higher than the budgeted employee expenses. There were also unbudgeted redundancies totalling $0.3m.
- supplier expenses were higher than anticipated in the original Budget due to a review of ASIO's technology state and processes and subsequent business reform planning.
- measures approved through additional estimates also contributed to additional expenditure.
- the depreciation increase of $4.7m resulted from higher than anticipated capital purchases and the increase in asset fair value due to the revaluation.

Departmental revenue

The total increase in departmental revenue from the original Budget estimate is $9.6m and can be attributed to:

- own-source revenue increase of $5.6m relates to rental income for the Australian Cyber Security Centre (ACSC) not being included in the orginal Budget as the timing of their move from the Ben Chifley Building was uncertain. Revenue relating to the ACSC was recognised over a faster period than anticipated in the budget as the sub-lessee indicated they would be terminating the lease.
- revenue from Government increase of $4.0m relates to measures approved through additional estimates.
- revenue from sale of goods and services was $2.7m less than budget, this budget is difficult to predict as it is dependent on requests and activities undertaken by external parties.

Departmental assets

Total departmental assets are $38.7m higher than the original Budget position. The overall increase can be attributed to:

- the variance for financial assets is $12.0m above the Budget estimate mostly as a result of the inter-relationship with departmental expenses and revenue. More funds were also drawn in June than required. These funds will be available in 2018–19.
- non-financial assets are higher by $26.7m. ASIO undertook a revaluation in 2017–18 resulting in an overall increase in fair value, in particular movements in Land and Buildings (increase of $23.0m) and Property, Plant and Equipment (increase of $14.9m). These movements were not included in the budget due to the nature and uncertainty of the activity.
- software purchases were higher than anticipated and Property, Plant and Equipment purchases were lower than anticipated. These purchases were part of an asset replacement program in 2017–18 of which the detailed category split was not known at the time of estimating the budget.
- the timing and increase in the number of prepayments has contributed to the balance being above budget.
- measures approved through additional estimates have also contributed to the increase in asset balances from budget.

Departmental liabilities

Total departmental liabilities are $12.8m more than the original Budget position. Variances within the result include:

- higher employee provisions due to unanticipated growth of the employee base in late 2016–17.
- increase to provisions for rent amortisation due to stage of leases. Potential changes were not factored into the original Budget.
- increase to provision for restoration obligations due to the revaluation conducted in 2017–18.

Statement of Cash Flows and Statement of Changes in Equity

The amounts reported in the Statement of Cash Flows and the Statement of Changes in Equity are inter-related with figures disclosed in the Statement of Comprehensive Income and Statement of Financial Position. Consequently, variances in these Statements will be attributable to the relevant variance explanations provided above and under departmental expenses, departmental revenue, departmental assets and departmental liabilities.