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FINANCIAL STATEMENTS

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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 2019 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

8 August 2019

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 ('the Entity') for the year ended 30 June 2019:

(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 Entity as at 30 June 2019 and its financial performance and cash flows for the year then ended.

The financial statements of the Entity, which I have audited, comprise the following statements as at 30 June 2019 and for the year then ended:

- Statement by the Accountable Authority;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement;
- Notes to the financial statements, comprising a Summary of Significant Accounting Policies and other explanatory information.

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 Entity 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 Entity, the Director-General of Security is responsible under the *Public Governance, Performance and Accountability Act 2013* (the Act) for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards – Reduced Disclosure Requirements and the rules made under the 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 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 ability of the Entity 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 the Director-General of Security 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

Rebecca Reilly
Executive Director

Delegate of the Auditor-General

Canberra
8 August 2019

STATEMENT OF COMPREHENSIVE INCOME
for the period ended 30 June 2019

	Notes	2019 $'000	Original budget 2019 $'000	2018 $'000
EXPENSES				
Employee benefits	1.1.A	272 077	284 310	248 944
Suppliers	1.1.B	198 646	174 910	199 453
Depreciation and amortisation	2.2.A	104 066	90 937	89 365
Other	1.1.C	1395	-	559
Impairment loss allowance on financial instruments	1.1.D	-	-	7
TOTAL EXPENSES		**576 184**	**550 157**	**538 321**
OWN-SOURCE INCOME				
Revenue				
Sale of services	1.2.A	15 147	21 491	16 494
Other revenue	1.2.B	7300	1739	11 531
Gains	1.2.C	25	145	143
TOTAL OWN-SOURCE INCOME		**22 473**	**23 375**	**28 168**
Net cost of services		***(553 711)***	***(526 782)***	***(510 152)***
REVENUE FROM GOVERNMENT	3.1	**435 196**	**435 845**	**421 767**
DEFICIT ON CONTINUING OPERATIONS		**(118 515)**	**(90 937)**	**(88 385)**
OTHER COMPREHENSIVE INCOME				
Changes in asset revaluation surplus		-	-	36 811
TOTAL COMPREHENSIVE LOSS		**(118 515)**	**(90 937)**	**(51 574)**

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

STATEMENT OF FINANCIAL POSITION
as at 30 June 2019

	Notes	2019 $'000	Original budget 2019 $'000	2018 $'000
ASSETS				
Financial assets				
Cash and cash equivalents	2.1.A	23 517	16 213	23 552
Trade and other receivables	2.1.B	85 894	77 971	70 807
Accrued revenue		575	1734	753
Total financial assets		***109 986***	***95 918***	***95 112***
Non-financial assets				
Prepayments		26 969	21 986	26 919
Land and buildings	2.2.A	145 865	132 775	161 127
Property, plant and equipment	2.2.A	136 412	125 682	146 458
Computer software	2.2.A	57 783	75 974	59 274
Total non-financial assets		***367 029***	***356 417***	***393 778***
TOTAL ASSETS		***477 015***	***452 335***	***488 890***
LIABILITIES				
Payables				
Suppliers	2.3.A	9373	24 033	8829
Other payables	2.3.B	26 637	2665	24 704
Total payables		***36 010***	***26 698***	***33 533***
Provisions				
Employee provisions	2.4.A	91 336	83 796	78 834
Restoration obligations	2.4.B	6794	3786	6072
Total provisions		***98 130***	***87 582***	***84 906***
TOTAL LIABILITIES		**134 140**	**114 280**	**118 439**
NET ASSETS		**342 875**	**338 055**	**370 451**
EQUITY				
Parent equity interest				
Contributed equity		843 097	843 097	752 158
Reserves		69 858	33 046	69 858
Accumulated deficit		(570 080)	(538 087)	(451 565)
TOTAL EQUITY		**342 875**	**338 055**	**370 451**

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

STATEMENT OF CHANGES IN EQUITY
for the period ended 30 June 2019

	2019 $'000	Original budget 2019 $'000	2018 $'000
RETAINED EARNINGS			
Opening balance	(451 565)	(447 150)	(363 172)
Comprehensive income			
Deficit for the period	(118 515)	(90 937)	(88 393)
Closing balance	***(570 080)***	***(538 087)***	**(451 565)**
ASSET REVALUATION RESERVE			
Opening balance	69 858	33 046	33 047
Other comprehensive income			
Changes in asset revaluation surplus	-	-	36 811
Closing balance	***69 858***	***33 046***	**69 858**
CONTRIBUTED EQUITY			
Opening balance	752 158	752 158	668 644
Transactions with owners			
Contributions by owners			
Equity injection—appropriation	5367	5367	14 939
Departmental capital budget	85 572	85 572	68 575
Closing balance	***843 097***	***843 097***	**752 158**
CLOSING BALANCE ATTRIBUTABLE TO THE AUSTRALIAN GOVERNMENT	**342 875**	**338 055**	**370 451**

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 2019

	Notes	2019 $'000	Original budget 2019 $'000	2018 $'000
OPERATING ACTIVITIES				
Cash received				
Appropriations		461 812	435 762	477 892
Sales of services		18 063	18 611	10 498
Net GST received		25 404	20 766	22 083
Other		7155	1693	11 381
Total cash received		***512 434***	***476 832***	**521 854**
Cash used				
Employees		260 102	282 467	245 562
Suppliers		217 985	174 893	220 169
Section 74 receipts		43 188	19 979	30 176
Total cash used		***521 275***	***477 339***	**495 907**
NET CASH USED BY OPERATING ACTIVITIES		**(8841)**	**(507)**	**25 947**
INVESTING ACTIVITIES				
Cash received				
Proceeds from sales of property, plant and equipment		709	-	948
Total cash received		***709***	-	**948**
Cash used				
Purchase of property, plant and equipment		41 183	50 928	55 244
Purchase of computer software		38 057	40 587	32 553
Total cash used		***79 240***	***91 515***	**87 797**
NET CASH USED BY INVESTING ACTIVITIES		**(78 531)**	**(91 515)**	**(86 849)**
FINANCING ACTIVITIES				
Cash received				
Contributed equity		87 337	90 939	67 116
Total cash received		***87 337***	***90 939***	**67 116**
NET CASH FROM FINANCING ACTIVITIES		**87 337**	**90 939**	**67 116**
Net increase (decrease) in cash held		(35)	(1083)	6214
Cash and cash equivalents at the beginning of the reporting period	2.1.A	23 552	17 296	17 338
CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD		**23 517**	**16 213**	**23 552**

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); and
- Australian Accounting Standards and Interpretations 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

ASIO adopted AASB 9 Financial Instruments which became effective during 2018–19. The application did not materially impact the financial statements of ASIO. Refer to note 4.2 for further information.

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

	2019 $'000	2018 $'000
1.1 EXPENSES		
1.1.A Employee benefits		
Wages and salaries	205 231	195 219
Superannuation		
Defined contribution plans	20 631	17 915
Defined benefit plans	15 606	15 117
Leave and other entitlements	30 423	20 361
Separation and redundancies	186	332
Total employee benefits	**272 077**	**248 944**
1.1.B Suppliers		
Goods supplied	7704	8702
Services supplied	147 421	146 582
Operating lease payments	42 674	42 239
Workers' compensation premiums	847	1930
Total supplier expenses	**198 646**	**199 453**

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 a review based on the consumer price index and market appraisal.

Commitments are GST-inclusive where relevant.

Commitments for minimum lease payments are payable:		
Within 1 year	54 587	53 793
Between 1 to 5 years	215 101	213 380
More than 5 years	254 031	312 641
Total operating lease commitments	***523 719***	***579 813***
1.1.C Other expenses		
Finance costs: unwinding of discount—restoration obligations	739	124
Write-down and impairment of property, plant and equipment	539	419
Losses from asset sales	117	16
Total other expenses	**1395**	**559**
1.1.D Impairment loss allowance on financial instruments		
Impairment of receivables	-	7
Total impairment on financial instruments	**-**	**7**

	2019 $'000	2018 $'000
1.2 OWN-SOURCE REVENUE AND GAINS		
1.2.A Sale of services	**15 147**	**16 494**

Accounting policy

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		
Sub-lease—rental income	6015	10 297
Resources received free of charge—remuneration of auditors	145	150
Royalties	1	8
Other	1139	1076
Total other revenue	**7300**	**11 531**

Sub-lease rental income commitments

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

Commitments for rental income are receivable:		
Within 1 year	3797	2722
Between 1 to 5 years	16 607	9318
More than 5 years	15 606	9196
Total rental income commitments	***36 010***	***21 236***

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		
Other gains	25	143
Total gains	**25**	**143**

Accounting policy

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

2. Financial position

	2019 $'000	2018 $'000
2.1 FINANCIAL ASSETS		
2.1.A Cash and cash equivalents	**23 517**	**23 552**

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		
Goods and services	**4543**	7615
Appropriation receivable	**77 623**	57 449
GST receivable	**3728**	5743
Total trade and other receivables	**85 894**	**70 807**

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

Credit terms for goods and services were within 30 days (2018: 30 days).

Financial assets were assessed for impairment at 30 June 2019. No indicators of impairment have been identified.

Accounting policy

Trade receivables are:

- held for the purpose of collecting contractual cash flows where the cash flows are solely payments of principal and interest and not provided at below-market interest rates;
- adjusted on initial measurement for expected credit losses; and
- subsequently measured at amortised cost using the effective interest method adjusted for any loss allowance.

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 2018					
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 1 July 2018	***6410***	***154 717***	***146 458***	***59 274***	***366 859***
Additions by purchase	219	830	39 306	30 882	71 237
Additions—internally developed	-	-	-	7395	7395
Depreciation and amortisation expense	(374)	(15 937)	(48 020)	(39 735)	(104 066)
Disposals—other	-	-	(1332)	(33)	(1365)
Net book value 30 June 2019	**6255**	**139 610**	**136 412**	**57 783**	**340 060**
Gross book value	6692	160 024	192 148	179 628	538 492
Accumulated depreciation, amortisation and impairment	(437)	(20 414)	(55 736)	(121 845)	(198 432)
Net book value 30 June 2019	**6255**	**139 610**	**136 412**	**57 783**	**340 060**

Computer software

The carrying value of computer software included $29.131 million (2018: $23.844 million) purchased software and $28.652 million (2018: $35.430 million) 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	-	-	4295	4861	9156
Between 1 to 5 years	-	-	974	715	1689
Total capital commitments	***-***	***-***	***5269***	***5576***	***10 845***

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-off 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:

	2019	2018
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 2019. 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 (2018: 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.

ASIO engaged the services of Jones Lang Lasalle (JLL) 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. An annual assessment as at reporting date determined the carrying amount of the assets is not materially different from the fair value.

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 Current Replacement Cost approach. Under the Current 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 2019 are detailed above in Note 2.2.A.

	2019	2018
	$'000	$'000
2.3 PAYABLES		
2.3.A Suppliers		
Trade creditors and accruals	9373	8829
Total suppliers	**9373**	**8829**
Settlement is usually made within 30 days.		
2.3.B Other payables		
Salaries	1854	1905
Superannuation	275	263
Unearned income	1119	2092
Amortisation of rent expense	21 269	17 769
Lease incentives	490	556
Fringe benefits tax	1630	2119
Total other payables	**26 637**	**24 704**
2.4 PROVISIONS		
2.4.A Employee provisions		
Leave	91 336	78 834
Total employee provisions	**91 336**	**78 834**

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 12 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 employees' superannuation schemes 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.

	2019	2018
	$'000	$'000
2.4.B Restoration obligations	**6794**	**6072**
Carrying amount 1 July 2018	6072	4938
Reduction in value	(17)	-
Unwinding of discount or change in discount rate	739	124
Revaluation as at 30 June	-	1010
Closing balance	***6794***	***6072***

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	Capital budget	Equity injections
	$'000	$'000	$'000
2019			
Appropriation Act			
Annual appropriation[1]	**435 196**	85 572	5367
PGPA Act			
Section 74 transfers	**43 188**	-	-
Total appropriation	**478 384**	**85 572**	**5367**
Appropriation applied (current and prior years)	**(450 183)**	(80 572)	(6765)
Variance	***28 201***	***5000***	***(1398)***

[1] $0.649 million (net) was returned to Government due to new government measures after original budget and in accordance with section 51 of the PGPA Act.

Operating appropriation remains unspent in 2019 due to the timing of supplier purchases.

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: $8.014 million (2018: $8.029 million).

2018			
Appropriation Act			
Annual appropriation	421 767	68 575	14 939
PGPA Act			
Section 74	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***

The 2018 operating appropriation variances were due to prior year appropriations applied in 2018. Capital appropriations were unspent due to the timing of asset purchases.

	2019	2018
	$'000	$'000
3.1.B Unspent departmental annual appropriations (recoverable GST exclusive)		
Appropriation Act (No. 1) 2016–17	-	22
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
Appropriation Act (No. 1) 2018–19	**96 140**	**-**
Appropriation Act (No. 2) 2018–19	**5000**	**-**
Total	**101 140**	**81 023**

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	**(14 449)**	**972**
Depreciation and amortisation	(104 066)	(89 365)
Deficit as per statement of comprehensive income	(118 515)	(88 393)

4. Managing uncertainties

	2019 $'000	2018 $'000

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	60	-
New contingent liabilities recognised	-	60
Liabilities realised	(60)	-
Total contingent liabilities	**-**	**60**

Unquantifiable contingencies

At 30 June 2019, 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.

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4.2 FINANCIAL INSTRUMENTS

4.2.A Categories of financial instruments

Financial assets under AASB 139		
Loans and receivables		
Cash	-	23 552
Trade receivables	-	7615
Accrued revenue	-	753
Financial assets under AASB 9		
At amortised cost		
Cash	23 517	-
Trade receivables	4543	-
Accrued revenue	575	-
Total financial assets	**28 635**	**31 920**

Financial liabilities		
At amortised cost		
Trade creditors and accruals	9373	8829
Total financial liabilities	**9373**	**8829**

Classification of financial assets on the date of initial application of AASB 9

	Note	AASB 139 original classification	AASB 9 new classification	AASB 139 carrying amount at 1 July 2018 $'000	AASB 9 carrying amount at 1 July 2018 $'000
Cash	2.1.A	Loans & receivables	Amortised cost	23 552	23 552
Trade receivables	2.1.B	Loans & receivables	Amortised cost	7615	7615
Accrued revenue		Loans & receivables	Amortised cost	753	753
Total financial assets				**31 920**	**31 920**

The net fair values 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 2019 was the impairment of trade receivables.

Accounting policy

Financial assets

With the implementation of AASB 9 Financial Instruments for the first time in 2019, ASIO classifies its financial assets as 'measured at amortised cost'. Financial assets included in this category must meet two criteria:

- the financial asset is held in order to collect the contractual cash flows; and
- the cash flows are solely payments of principal and interest on the principal outstanding amount.

Amortised cost is determined using the effective interest method, with income recognised on an effective interest rate basis.

Financial assets are recognised when ASIO becomes party to a contract and, as a consequence, has a legal right to receive or obligation to pay cash and derecognised when the contractual rights to the cash flows from the financial asset expire or are transferred upon trade date.

Comparatives have not been restated on initial application.

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 assets are assessed for impairment at the end of each reporting period based on an amount equal to the lifetime expected credit losses. A write-off directly reduces the gross carrying amount of the financial asset.

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

	2019 $'000	2018 $'000

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.

	2019 $'000	2018 $'000
Short-term employee benefits	1975	1737
Long-term employee benefits	265	120
Post-employment benefits	334	276
Total key management personnel remuneration expenses[1]	**2574**	**2133**

The number of key management positions is 5 (2018: 4).

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

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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 2018–19 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 expenses were $22.75 million in 2018–19.

5.3 MAJOR BUDGET VARIANCES

The following provides an explanation of variances between the original budget as presented in the 2018–19 Portfolio Budget Statements (PBS) and the 2018–19 final actual result. The budget is not audited. Explanations are provided for major budget variances only. Variances are treated as major when it is considered important for the reader's understanding or is relevant to an assessment of the discharge of accountability and to an analysis of ASIO's performance.

The nature and timing of the Commonwealth's budget process can also contribute to the variances. ASIO's major budget impacts include:

- Estimated actual outcomes were published in the 2018–19 PBS before the closing 2017–18 and opening 2018–19 statement of financial position was known. Therefore, the opening balances of the statement of financial position were estimates.
- The original budget as presented in the 2018–19 PBS is amended by Government throughout the year. ASIO's budget for 2018–19 was updated as part of the 2018–19 Mid-Year Economic Fiscal Outlook (MYEFO) and again as part of the 2019–20 PBS process where estimated actuals for 2018–19 are presented as comparatives for the 2019–20 budget figures.

Expenses

The total variance between expenses and the original budget is an increase of $26.027 million (5%). The overall increase is due to:

- employee benefits which were $12.233 million lower than original budget due to the growth in the number of employees being less than anticipated and the timing of recruitment being towards the end of the financial year;
- supplier expenses which were $23.736 million higher than the original budget as a result of the engagement of expert consultants/contractors to progress the review of ASIO's technology state and business reform planning; and
- depreciation and amortisation expenses which were $13.129 million higher than original budget due to the 2017–18 revaluation of fixed assets post budget development which increased the carrying value of property, plant and equipment and buildings.

Income

Income is $1.552 million (0.3%) lower than original budget. The decrease is due to:

- a reduction of $0.649 million in appropriation funding as a result of new Government decisions;
- an increase in other revenue of $5.561 million relating to rental income. The vacation of a sub-tenant was uncertain at the time of the budget development and was ultimately delayed until September 2018. Income relating to the sub-leasing of office premises was unknown at the time of budget preparation; and
- revenue from the sale of services was $6.344 million less than budget. This budget is dependent on requests and activities undertaken by external parties which was less than anticipated. The introduction of a flexible cost recovery model for protective security activities has resulted in a fluctuation in revenue generation which was not reflected in the budget.

Assets

Total assets are $24.680 million higher (5%) than original budget. Financial assets are $14.068 million higher than budget, largely due to the difference between the actual and budgeted opening balances. These funds form part of the receivables balance and will be available in 2019–20.

Non-financial assets are $10.611 million higher than original budget as a result of:

- the difference in the opening actuals balance in July 2018 compared to the original budget set in May 2018 of $32.430 million. This is offset by higher depreciation expense, in part as a result of the 2017–18 revaluation exercise; and
- an increase in prepayments of $4.983 million due to a number of multi-year prepayments for IT software contracts which were not anticipated in the original budget.

Liabilities

Total liabilities are $19.860 million higher (17%) than original budget. The increase is attributed to:

- an increase to provisions for rent amortisation due to the stage of leases. Potential changes were not factored into the original budget;
- an increase of $7.540 million in employee provisions due to a decrease in the discount rate used to calculate the provision; and
- an increase to the provision for restoration obligations due to the 2017–18 revaluation which was finalised post budget development.

Statement of changes in equity

Total equity is over budget by $4.820 million due to differences between the actual and budgeted opening balances.

Statement of cash flows

The amounts reported in the statement of cash flows are interrelated with figures disclosed in the statement of comprehensive income and statement of financial position. Consequently, cash flow variances are attributable to the relevant variance explanations provided above.