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FOREWORD



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The ANAO — Providing assurance to Parliament and a stimulus for better public administration

The Australian Parliament is the ANAO's primary client and our main role is to provide the Parliament with an independent assessment of the performance of selected areas of public administration as well as assurance about public sector financial reporting. The Government and public sector entities are also important clients.

In 2006–07 the ANAO undertook financial statement audits of all Australian Government controlled entities as well as providing an objective assessment of areas where improvements could be made in public administration. Our audit work is governed by our auditing standards, which adopt the standards applied by the auditing profession in Australia.

In line with our complementary role of stimulating better public administration, the ANAO continued to promulgate, for the benefit of the public sector generally, our Better Practice Guides and newsletters which highlight sound approaches to specific aspects of administration.

An overview of our work in 2006–07

This was another demanding year for the ANAO with an increased workload but one in which the ANAO has delivered on our goals and met our mandatory responsibilities. During 2006–07 the ANAO issued:

- 242 financial statement audit opinions;
- 2 financial statement related reports;
- 51 performance audits;
- 4 Better Practice Guides; and
- 3 *AUDITFocus* newsletters
- 3 *Opinions* newsletters

Financial statement audits — the results of our recent report on the key financial systems and controls in Australian Public Service (APS) agencies for 2006–07² indicated that, in general, agencies have in place appropriate governance, financial management and control regimes in relation to their financial statement responsibilities. These regimes include regular executive management monitoring and review of agencies' budgetary and financial performance, an Audit Committee with well-defined responsibilities, and up-to-date fraud and risk management plans.

Improvements were evident in agencies' business continuity arrangements, although more work needed to be done in a number of cases to ensure these arrangements are comprehensive and are subject to periodic testing. Although all agencies had in place a fraud control plan, our audits also found that some agencies did need to give additional attention to meeting their fraud control responsibilities.

² ANAO Audit Report No 51, 2006–07, *Interim Phase of the Audit of Financial Statements of Government Sector Agencies for the Year Ending 30 June 2007*, 27 June 2007.

Our review of agencies' financial control regimes found that they were generally sound although, in some cases, increased attention was warranted in the areas of the management of information system user access, accounting for assets and the reconciliation of key financial accounts. These findings are broadly consistent with the results of our financial statement audit coverage over the last several years.

Performance audits — the ANAO continues to undertake its performance audit work in a consultative manner, including working co-operatively with those having key governance responsibilities in entities, including Audit Committees. It was pleasing to note that in 2006–07 agencies agreed with 92 per cent of our audit recommendations, with a further seven per cent of recommendations agreed with qualification.

In developing our 2006–07 performance audit programme the ANAO took account of the priorities of the Parliament (as advised by the Joint Committee of Public Accounts and Audit) as well as the views of entities and other stakeholders. The programme provided a broad coverage of areas of public administration and was underpinned by a risk-based methodology.

During 2006–07 the ANAO provided performance audit coverage across the following five key themes:

- governance (including financial management, information system integrity, administration of management systems, whole of government initiatives and compliance);
- administration of border security;
- project management
- service delivery; and
- grants administration

The results of this audit coverage highlighted the need for continued improvement in public sector administration in areas such as: reporting against performance indicators; record-keeping; managing intellectual property; managing large Information Technology (IT) projects; managing large equipment and acquisition projects; and the administration of grants. The results of audits conducted in 2006–07 are summarised by theme in Appendix 4 of this report.

Our contribution to the Parliament

The ANAO is committed to supporting the Parliament in its work through the tabling of our audit reports on Australian Government programmes and providing specialist assistance to Parliamentary inquiries. The ANAO prepared submissions and gave evidence to the following major inquiries undertaken by the Joint Committee of Public Accounts and Audit (JCPAA) in 2006–07:

- *Inquiry reviewing Certain Taxation Matters within Australia*; and
- *Inquiry into financial reporting and equipment acquisition at the Department of Defence and Defence Materiel Organisation.*

During the course of the above mentioned Defence inquiry, the JCPAA recommended that the ANAO undertake an annual audit of the 'Top 30' Defence capital equipment projects. The Prime Minister supported this recommendation and indicated that a submission, agreed between the ANAO and the Department of Defence, should be brought forward in the context of the 2008–09 Budget.

The ANAO also provided submissions and evidence to the following inquiries conducted by the Senate Standing Committee on Finance and Public Administration:

- *Inquiry into Transparency and Accountability of Commonwealth Public Funding and Expenditure*; and
- *Inquiry into Departmental and Agency Contracts*.

These reports were tabled in February and March 2007 respectively.

The JCPAA reviews all our audit reports and conducts public inquiries each quarter where evidence is taken from agencies which have been the subject of significant audit findings in the preceding three months. The ANAO gives evidence at these inquiries and assists the JCPAA in its review work which, over many years, has contributed to better public administration through its recommendations on policy and administrative matters.

The JCPAA tabled *Report 407 Review of Auditor-General's Reports tabled between 18 January 2005 and 18 April 2005* in September 2006. The report reviewed audit reports on a number of Government agencies and included subjects such as customer service, regulatory functions, and contract management.

The House of Representatives Standing Committee on Health and Ageing reviewed Audit Report No. 19, 2006–2007: *Administration of State and Territory Compliance with the Australian Health Care Agreements*. The Committee's report had not been tabled as at 30 June 2007.

ANAO audits undertaken at the request of the Parliament, Ministers, Senators and Members

While under the *Auditor-General Act 1997* I have the sole discretion over the audit coverage provided by the ANAO, I do on occasions receive requests to undertake particular audits from Parliamentary Committees, Ministers, Senators and Members. During 2006–07, I undertook the following three audits which had been requested:

- Audit Report No. 5, 2006–2007, *The Senate Order for Departmental and Agency Contracts (Financial Year 2005 Compliance)* was again conducted at the request of the Senate. The audit examined Financial Management and Accountability (FMA) Act agencies' compliance with the Senate Order for Departmental and Agency Contracts;
- Audit Report No. 8, 2006–2007, *Airservices Australia: upper Airspace Management Contracts with the Solomon Islands Government* was requested by Mr Warren Truss MP,

the former Minister for Transport and Regional Services following a review of civil aviation by the Solomon Islands Auditor-General; and

- The scope of Audit Report No. 39, 2006–2007, *Distribution of Funding for Community Grant Programs* took into account concerns raised by Mr Chris Bowen MP, the Federal member for Prospect, regarding the administration of two rounds of funding for the Local Answers and Volunteer Small Equipment Grant (VSEG) programmes.

In addition to the above requests, which resulted in audit reports, I have responded to a number of matters raised by Senators and Members through correspondence. With the co-operation of relevant agencies, responses have been provided on such matters within one month of receipt of the correspondence.

Providing a stimulus for better public administration

Over and above the recommendations that resulted from our audit coverage in 2006–07, the ANAO pursued activities on a number of fronts to help with the improvement in public administration — some these are highlighted below.

The ANAO's strong support for public sector audit committees

For some time now the ANAO has been championing the role that audit committees can play in the public sector. Audit committees can be a forum for communication between management and internal and external auditors as well as bringing a degree of independence and expertise to an entity's corporate governance arrangements. This includes reviewing the entity's risk management framework; reviewing the entity's financial statements and recommending their signature by the chief executive; approving the internal audit programme; and reviewing fraud control plans.

Also, many audit committees have embraced, as part of their responsibilities, providing advice to chief executives in relation to the Certificate of Compliance preparedness, particularly on the appropriateness of an agency's control environment. The requirement, from the 2006–07 financial year, for chief executives of FMA Act agencies and directors of Commonwealth Authorities and Companies (CAC) Act authorities to provide an annual certification of compliance with legislative and policy elements of their financial management frameworks is a key government initiative that reinforces the importance of legislative and policy compliance.

The ANAO has noted that agency audit committee arrangements have progressively improved, and agencies have used the ANAO's 2005 Better Practice Guide on *Public Sector Audit Committees* in carrying out reviews of their committees' composition, structure and responsibilities. This has resulted in an increase in the number of independent members, including independent chairs, and the introduction, or formalisation, of a self assessment of audit committee performance.

Providing advice on better practice in public administration

During 2006–07 the ANAO produced four Better Practice Guides (BPGs) on the following topics:

- *Legal Services Arrangements in Australian Government Agencies* — issued August 2006.
- *Implementation of Programme and Policy Initiatives: Making implementation matter* (developed in partnership with the Department of Prime Minister and Cabinet) — issued October 2006.
- *Developing and Managing Contracts: Getting the Right Outcome, Paying the Right Price* (developed in partnership with the Department of Finance and Administration) — issued February 2007.
- *Administering Regulation* — issued March 2007

These Guides are being seen as useful pointers to better practice in public administration — the contract management BPG, in particular, has been in constant demand since it was published in February this year.

Given the success of these guides the ANAO will progressively revise and refresh previously issued BPGs where necessary.

In addition to the BPGs, the ANAO publishes ‘*AUDITFocus*’ newsletters — these are designed to succinctly capture some of our experiences that are likely to be of general interest to public sector managers. We continue to receive positive feedback on the newsletter both here in Australia and internationally.

Strengthening legal compliance

In last year’s report I foreshadowed the ANAO’s intention to increase its emphasis on legislative compliance. This was achieved as part of our audit coverage in 2006–07 by assessing key aspects of legislative compliance in relation to annual appropriations, special appropriations, annotated appropriations, special accounts and the investment of public monies. This focus has been complemented by the Government’s introduction of the annual Certificate of Compliance mentioned previously in the context of public sector audit committees.

The results of our audit coverage in this area to date suggest that agencies are paying increasing attention to their key legislative compliance responsibilities.

Monitoring our performance

The ANAO continues to enjoy the confidence of clients and stakeholders in the way we discharge our statutory responsibilities. As in previous years, independent surveys were completed during the year to obtain feedback from our clients about the quality of our audit processes and outcomes in relation to both the performance and financial statement audits. The surveys are an important business tool to identify areas for improvement that enhance the quality and effectiveness of our audit processes.

In the latest surveys, agencies rated the ANAO's conduct of both performance and financial statement audits very positively. Common key findings from the surveys were:

For performance audits:

- the audit teams demonstrated the professional knowledge and audit skills required to conduct the audit;
- the audit teams' conduct was characterised by integrity, and an ethical approach to their task; and
- respondents valued the independent opinion expressed by the ANAO.

For financial statement audits:

- respondents considered that the auditors demonstrated sufficient understanding of the financial reporting requirements of the entity;
- respondents agreed that the auditor's interaction with agency staff was conducted in a professional manner; and
- entities agreed that the ANAO's financial statement audit services make a valuable contribution to the organisation.

We appreciate the positive feedback received from agencies and we will continue to work on improving the services we provide to assist their performance.

Resourcing the ANAO

The ANAO's budget allocation in 2006–07 was \$64.002 million — no further funding was sought or received during the year.

I advised the JCPAA in May 2007 that I had sought additional funding in the context of 2007–08 budget across two priority areas:

- \$19.6 million over four years to meet the requirements of new auditing standards.
- \$3.7 million over four years, to increase assistance provided to audit institutions in the Asia Pacific region.

The ANAO received half of the new funding we sought for meeting the requirements of the new auditing standards — that is, \$9.8 million over four years. However, with my resignation as the auditor of the Telstra Group following the sell-down of the Government's holding, agreement was given for the ANAO to retain some of the resources devoted to this audit as a contribution to these additional costs. The remaining shortfall of \$2.2 million over four years will be made up from efficiencies generated by the ANAO in its operational activities.

The ANAO did not receive approval in the 2007–08 Budget for additional funds for increased assistance to audit institutions in the Asia Pacific region. However, we will review possibilities of obtaining funding from other sources on a government-wide basis. The ANAO continues

to host representatives from overseas government bodies and we will examine ways to provide assistance to developing nations in the region. Our Australian Agency for International Development (AusAID) funded support activities for Indonesia and PNG have continued.

In addition, the JCPAA recommended that the ANAO receive additional funding of \$1.5 million in the 2007–08 budget to produce an annual audit on progress in major ‘Top 30’ Defence capital equipment projects. The Prime Minister indicated that a submission, agreed between the Audit Office and Defence, should be brought forward in the context of the 2008–09 Budget to give effect to the Committee’s recommendation. In the meantime I have allocated resources to undertake preliminary work in anticipation of subsequent Budget decisions.

Overall, I advised the JCPAA that the ANAO’s budget for 2007–08 is sufficient to enable us to meet our auditing responsibilities. I appreciate the support of the JCPAA, the Government and the Parliament for the additional resources made available. However, the challenge of achieving ongoing productivity gains to offset wage growth, in a small agency context, plus the market driven cost pressures in the auditing market (particularly for audit contractors), continues to put pressure on our budget.

I advised the JCPAA that I will monitor our budget position and market conditions throughout the course of 2007–08, and inform the Committee of my assessment ahead of next year’s budget.

Challenges on the staffing front

The recruitment and retention of professional staff continued to be a key focus for ANAO during 2006–07. The ANAO is constantly reviewing its human resource practices in recognition of operating in a very competitive professional environment. Our environment is one of increasing work complexities in a situation where overall experience levels of staff are decreasing. There is a shortage of experienced staff in the auditing and accounting field, not only in the public sector but also in the private sector. While we have managed to increase our staff levels overall, recruiting at the senior manager level for financial statement audit continues to be particularly challenging.

As a longer term strategy I am seeking to increase the number of ANAO staff undertaking financial statement audits in the general government sector by increasing our presence in some areas currently serviced by contractors on my behalf. This will allow the ANAO to retain higher levels of corporate knowledge and provide more greater of service to audit clients.

The ANAO continues to look for opportunities to promote the employment advantages of working in the Office including the wide range of work experiences offered both in the performance and assurance audit roles.

Our long term accommodation now settled

In November 2006 the ANAO signed a ten year lease for office accommodation at 19 National Circuit, Barton with Cromwell Diversified Property Trust. The lease will commence on 23 September 2008.

The signing of the lease represented the culmination of an open tender process supported by legal, property, commercial and probity advisers. The new lease is on substantially better terms than the current lease and is within commercial ranges achieved in the Parliamentary triangle. This is a very pleasing outcome given the history of our earlier lease agreement.

Our contribution to the profession and standards

The ANAO continues to support the accounting and auditing professions by speaking at conferences and seminars, commenting on draft standards, and serving on committees and the professional bodies themselves. The ANAO is also a supporter of the activities and initiatives of the International Organisation of Supreme Audit Institutions (INTOSAI) and the Asian Organisation of Supreme Audit Institutions (ASOSAI).

My staff continues to support the professions. The Deputy Auditor-General, Steve Chapman, has just completed his term as CPA Australia's ACT Divisional President, and he continues to serve on the divisional council. Group Executive Director, Michael Watson is the vice chairman of the ACT Regional Council of the Institute of Chartered Accountants Australia. In addition, ANAO staff serve on various committees of the two professional bodies.


I continue to be a member of the Australian Auditing & Assurance Standards Board and the International Auditing & Assurance Standards Board. This work contributes to the development of quality auditing standards for application in both the public and private sectors in Australia. Importantly, it also allows the ANAO to be acquainted with the leading issues affecting auditing standards so as to ensure our audit coverage is well informed and provides a high standard of service and assurance to all our clients.

International accounting standards

In the last few years in particular, Australian Government public sector entities have dealt with a period of significant change in financial reporting requirements, primarily as a result of the adoption in Australia of international financial reporting requirements. The ANAO has worked closely with the Department of Finance and Administration to highlight, at an early stage, issues that need close examination to ease the introduction of the new requirements. In the main, entities have managed the introduction of these new requirements well.

As a result of a decision made by the International Accounting Standards Board in mid-2006 that it would not require the application of new international financial reporting standards under development, or major amendments to existing standards, before 1 January 2009, higher priority has been given by the Australian Accounting Standards Board (AASB) to a range of public sector specific issues. These include a review of public sector not-for-profit entity issues arising from the implementation of Australian equivalents to International Financial Reporting Standards.

Significant progress has been made in relation to the harmonisation of Australian Accounting Standards with the requirements of Government Finance Statistics. The AASB intends to complement the recently released standard for harmonised reporting of the General Government Sector (GGS) with an equivalent standard for whole-of-government, with both standards to be first applied for the 2008–09 financial year.



The ANAO contributes actively on proposals for new auditing standards that affect the public sector in Australia.

To conclude

The standing of the ANAO is due to the professionalism and commitment of my staff in delivering on our goals and completing the work associated with our ambitious audit programme. They understand the importance of our role, and the contribution the ANAO is able to make to better public administration.

The commitment to achievement by ANAO staff gives me confidence and optimism about our performance going forward. While staffing recruitment and retention pressures will continue, the ANAO is well placed to have another successful year in 2007–08.