

# Appendix 4

## Main issues raised in performance audit reports tabled in 2006–07

The ANAO's Outcomes are *improvement in public administration and assurance*. These mean a more efficient Commonwealth public sector implementing better practices in public administration, and independent assurance of Commonwealth public sector financial reporting, administration, control and accountability.

The main ANAO outputs are performance audit services and assurance audit services. The ANAO aims to achieve these by focusing on four key result areas: *our clients; our products and services; our people; and our business performance*. Strategies for achieving results are set out in the ANAO's *Business Plan 2006–07*.

This appendix summarises the main issues raised in performance audit, BSP audit and protective security audit reports tabled during the year. The summaries are grouped according to audit themes, as outlined in Chapter 3.

### Audits examining governance

**Audit Report No.4 2006–07 *Tax Agent and Business Portals***. The audit examined the operation of the Australian Taxation Office's (ATO's) Tax Agent and Business Portals. The report commented that introduction of the Tax Agent and Business Portals has been a significant achievement for the ATO. The Tax Agent and Business Portals have facilitated easier access to information for both tax agents and businesses. In relation to information technology (IT) security and user access controls, a key component of the audit, the report identified several areas where the ATO needed to strengthen controls around the Portals. The report made a number of recommendations focused on improving aspects of the ATO's IT security around its Portals.

**Audit Report No.5 2006–07 *The Senate Order for Departmental and Agency Contracts (Calendar Year 2005 Compliance)***. This report was the eighth audit under the Senate Order, which requires all *Financial Management and Accountability Act 1997* agencies to place on the Internet, lists of contracts valued at \$100 000 or more, that summarises the use of confidentiality provisions in each contract. The purpose of the audit was to examine in seven agencies, compliance with the Senate Order and to report on the appropriateness of the use of confidentiality provisions in contracts. The results of this audit, and other similar audits over the last four years, have indicated a progressive reduction in the number of contracts reported as including confidentiality provisions. This situation is consistent with the Government's policy position that contracting information should not be treated as confidential, unless there is a sound reason for doing so. However, it was found that agencies could improve processes and controls that enhance the completeness and accuracy of the contract listings, and improve guidance to staff, including those with contract negotiation responsibilities.

*Audit Report No.6 2006–07 Recordkeeping Including the Management of Electronic Records.*

Each of the entities subject to audit were at different stages in addressing their recordkeeping responsibilities. Over recent years, each entity had made improvements, to varying degrees, to their recordkeeping regimes. In one entity this involved a focus on managing their records electronically. The audit concluded that each of the three audited entities had aspects that required improvement.

The main areas where entities could improve related to:

- the development and implementation of a recordkeeping strategy;
- the improvement of recordkeeping policies and guidance;
- the identification of vital records and the establishment of contingency arrangements for those records;
- the consideration of recordkeeping needs when developing or upgrading electronic systems; and
- the development of a formal preservation strategy for electronic records.

To assist entities in meeting their recordkeeping responsibilities, the audit also recommended that the National Archives of Australia should set minimum recordkeeping standards and requirements, and develop further practical guidance.

*Audit Report No.13 2006–07 Management of an IT Outsourcing Contract Follow-up.*

The main issues raised related to the Department of Veterans' Affairs (DVA's) planning to: meet its strategic IT needs through its IT outsourcing contract; the provisions of the contract; contract administration; management of the impacts of the outsourced services on DVA's business; and the outcomes of DVA's approach to the contract. The follow-up audit found that DVA had addressed the strategic and operational issues raised in the previous audit and this had resulted in improvements in the department's management of its current IT outsourcing contract and in preparing for the IT outsourcing contract which is scheduled to come into effect in April 2007.

*Audit Report No.14 2006–07 Regulation of Pesticides and Veterinary Medicines.*

Pesticides and veterinary medicines are used widely in Australia to protect crops, livestock, and plants from pests and diseases, and to treat animals, including household pets, for illnesses. The Australian Pesticides and Veterinary Medicines Authority (APVMA) registers such products for use in Australia and monitors their quality up to the point of retail sale. The audit assessed whether the APVMA has performed these key regulatory functions effectively. It concluded that greater emphasis needs to be given to compliance and review programs, to provide stronger assurance on the safety and efficacy of pesticides and veterinary medicines; and that the timeliness of the registration process could be improved, to reduce regulatory costs, as well as to provide users with better access to products.

*Audit Report No.16 2006–07 Administration of Capital Gains Tax Compliance in the Individuals Market Segment.* The audit assessed the ATO’s administration of Capital Gains Tax (CGT) compliance in the individuals market segment. The audit reviewed governance arrangements, the mechanisms and strategies used to identify and assess compliance risks, and the products and processes used to manage compliance. The focus of the audit was the two most common CGT events: share and real property disposals. The audit found that since receiving additional funding in 2004–05, the ATO has significantly increased its focus on CGT in the individuals market segment, through active compliance, and marketing and education activities. However, there are opportunities to improve planning and reporting arrangements, and data matching activities.

*Audit Report No.17 2006–07 Treasury’s Management of International Financial Commitments – Follow-up.* This follow-up audit found that Treasury’s response to the findings and recommendations of the previous audit had been effective. The main issue arising from it is compliance with agencies’ reporting obligations under the Government’s Foreign Exchange Risk Management policy. This policy, the Guidelines for which were issued in 2002 and revised in 2006, is designed to better assist the Government in the management of its foreign exchange risks. The audit found that, although the Treasury had drawn Finance’s attention to potential payments or receipts arising from exchange rate movements, it had not reported its foreign exchange gains or losses as required by the Guidelines.

*Audit Report No.18 2006–07 ASIC’s Processes for Receiving and Referring for Investigation Statutory Reports.* The audit was undertaken at the request of the Parliamentary Joint Committee on Corporations and Financial Services (JCCFS), flowing from its 2004 inquiry into corporate insolvency laws. In its report, the Committee expressed a number of concerns about the Australian Securities and Investment Commission’s (ASIC’s) investigation of suspected breaches of the *Corporations Act 2001* (as reported to it by external administrators), including that ASIC may not be according the reports sufficient priority. The audit concluded that over a period of some years, there had been a marked decrease in the number of reports that ASIC investigated, even though the number of reports lodged with the regulator had significantly increased. The main issue was therefore, whether ASIC devoted sufficient resources to what the JCCFS referred to as ‘among the most important mechanisms in the law for bringing to light possible breaches of the Corporations Act.’ Given the large number of reports received each year that allege offences, and the JCCFS’ concerns that sufficient regulatory effort is not being given to such recommendations, the key recommendation was that ASIC identify opportunities for increasing the number of statutory reports that it currently investigates.

*Audit Report No.21 2006–07 Implementation of the Revised Commonwealth Procurement Guidelines.* The audit assessed how well the seven audited entities implemented the revised Commonwealth Procurement Guidelines (CPGs), which took effect in January 2005. The audit found that the entities generally took reasonable steps to update their policies, procedures and systems. A review of sample procurements found that most steps in procurement were compliant with the revised CPGs. However, the audit found that improvements were required in: the consideration and approval of the use of direct sourcing; the consideration and approval of contract variations; and in the reporting of completed procurements. The audit also reported on better practices in procurement that were identified during the audit.

*Audit Report No.22 2006–07 Management of Intellectual Property in the Australian Government Sector.* The audit examined the progress of four agencies (the Attorney-General’s Department, the Department of Communications, Information Technology and the Arts, the Department of Finance and Administration and IP Australia) in developing a whole-of-government approach and guidance for the management of intellectual property (IP) in the Australian Government. The audit found that although there had been some progress in developing the whole-of-government approach, this had been slow. Several factors had contributed to the delays, notably:

- the failure of the agencies involved to resolve key questions that would lead to a shared understanding of the approach;
- a lack of clarity of purpose and inconsistencies within the documents comprising the approach;
- insufficient attention having been paid to questions of implementation of the approach; and
- inadequate structures for dealing with disputes and for recording decisions of the agencies involved in developing the approach.

The audit noted that the often complex nature of whole-of-government challenges means that early attention to establishing structures and processes to identify, discuss and resolve different views in reaching a shared understanding and formal agreement amongst the various agencies is necessary. In addition, earlier attention to questions of implementation may have enabled more timely identification (and resolution) of some of the issues that eventually arose and that have delayed development of the overarching approach.

*Audit Report No.23 2006–07 Application of the Outcomes and Outputs Framework.* The Outcomes and Outputs framework provides the basis of the Government’s approach to budgeting and reporting for public sector agencies and the means by which the Parliament appropriates funds in the annual budget context. The objective of the audit was to assess the application of the outcomes and outputs framework in Australian Government agencies. The audit involved detailed fieldwork in three agencies and a survey of 44 agencies. The audit concluded that although the application of the outcomes and outputs framework in each of the audited agencies’ incorporated some better practice characteristics, each of the three audited agencies had aspects that required improvement.

The main areas where agencies could improve related to:

- the specification of outcomes and outputs;
- the integration of the framework into agency operations;
- performance indicators;
- business processes for capturing and monitoring performance information and management reporting arrangements; and
- performance reporting arrangements.

The ANAO also identified a number of enhancements to the framework which, if adopted, have the potential to improve consistency in agency reporting and to further assist in meeting the needs of stakeholders.

**Audit Report No.25 2006–07 *Management of Federal Airport Leases: Follow-up.*** This audit assessed the extent to which the Department of Transport and Regional Services (DOTARS) has implemented the nine audit recommendations contained in Audit Report No.50 2003–04, *Management of Federal Airport Leases*. The audit found that, since the report on the original audit tabled in June 2004, DOTARS has significantly improved its practices and procedures across the full range of its lease administration responsibilities. Specifically, a comprehensive framework for lease administration has been developed and is being progressively implemented. Of particular note, DOTARS is now conducting lease reviews in a timely and effective manner, and has procedures in place to effectively manage insurance risks. Although there are some areas requiring improvement, DOTARS's administration of leased Federal Airports now more fully reflects the extent and significance of the Commonwealth's rights and obligations under the sale documentation.

**Audit Report No.27 2006–07 *Management of Air Combat Fleet In-Service Support.*** This audit examined the Department of Defence and Defence Materiel Organisation's (DMO) management of the in-service support aspects of Air Force's F-111, F/A-18 and Hawk fleets. The report identified the key factors that have contributed to the success of the in-service support program. These related to:

- appropriately trained and experienced SPO logistics, engineering and acquisition project teams, located adjacent to Air Force's operational squadrons;
- the application of well-developed and applied technical regulations covering engineering and maintenance of Australian Defence Force (ADF) aircraft, and the organisations that support them; and
- the development of effective commercial support programs, which are coupled with DMO and Air Force management practices that focus on teamwork, performance monitoring, continuous improvement, and openness to external reviews and regulatory oversight.

Risks to the continued success of the fleet's in-service support relate to reductions in the numbers of qualified and experienced Air Force technical workforce personnel and to ageing aircraft that require increased inspections, structural refurbishment and general maintenance. Furthermore, the Defence Support Group's back-log of facilities maintenance at RAAF Amberley also present risks to Air Combat fleet in-service support.

**Audit Report No.29 2006–07 *Implementation of the Sydney Airport Demand Management Act 1997.*** The *Sydney Airport Demand Management Act 1997* (SADM Act) provides the framework for the long-term management of demand at Sydney Airport. It is intended to meet the commitment made by the Government prior to the March 1996 Federal election that aircraft movements at Sydney Airport would be capped at 80 per hour. The report examined the arrangements put in place by DOTARS and Airservices Australia to implement the terms of the Act, including the appointment of a Slot Manager and the establishment of statutory

Slot Management and Compliance Schemes under the SADM Act. The report also examined the monitoring of aircraft movements in respect of the movement cap, the monitoring of aircraft operators' compliance with their slot allocations and DOTARS' reporting to Parliament on the performance of the demand management arrangements. Sixty one breaches of the cap were reported to the Parliament up to March 2006. However, reliable and accurate records do not exist to evidence the monitoring and support the reports made to the Parliament. The available data indicates that some of the reported breaches may not, in fact, have occurred and that there may have been many other, unreported, breaches of the cap.

Slot allocation is a complex process that, for international airports, has to fit within a world-wide structure. Slots at Sydney Airport are currently allocated and managed in a manner that aligns closely with international industry guidelines. The industry guidelines acknowledge that, where sovereign nations have in place legislation to govern the management of demand, this legislation takes precedence over the industry guidelines. However, the allocation and management of slots at Sydney Airport does not accord with the Act and its subordinate legislative instruments.

The Compliance Committee chaired by DOTARS had not effectively applied the Compliance Scheme's provisions for identifying unauthorised aircraft movements. Some operators that had not been exempted by the legislation were, nevertheless, not required to submit data on their aircraft movements thereby enabling them to operate outside the jurisdiction of the scheme. In this context, the Act established a system of penalties for unauthorised aircraft movements to protect the integrity of the movement limit, and establish clear guides for airport users as to the range of sanctions that may be levied in the form of an infringement notices or civil prosecution. However, the audit found evidence of a high number of possible unauthorised aircraft movements - at least 600 'no-slot' and 8 000 'off-slot' movements. Nevertheless, since the scheme commenced in 1998, no infringement notices had been issued to operators or other penalties applied.

*Audit Report No.31 2006–07 The Conservation and Protection of National Threatened Species and Ecological Communities.* The objective of the audit was to assess and report on the administration of the *Environment Protection and Biodiversity Conservation Act 1999* by the Department of the Environment and Water Resources in terms of protecting and conserving threatened species and threatened ecological communities in Australia. The audit examined compliance with aspects of the *Environment Protection and Biodiversity Conservation Act 1999* and Commonwealth investment in biodiversity conservation actions.

Since the introduction of the *Environment Protection and Biodiversity Conservation Act 1999*, 152 additional species have been listed and protected under the Act and over 200 new recovery plans have been written to assist in the protection and conservation of species. The department has recently introduced a number of processes to improve the efficiency and effectiveness of the administration of the *Environment Protection and Biodiversity Conservation Act 1999*. However, protecting and conserving threatened species and ecological communities still remains a challenge for the department. Three key factors that have constrained progress

and limited the achievement of the objectives of the *Environment Protection and Biodiversity Conservation Act 1999* were the:

- scale of the prescribed tasks required by the legislation;
- technical requirements for assessing, protecting and conserving over a thousand individual species and hundreds of ecological communities; and
- limited resources allocated to the task.

The audit identified a number of key areas of non-compliance with the *Environment Protection and Biodiversity Conservation Act 1999* (prior to amendments in December 2006). These were:

- keeping an up to date list of threatened species and ecological communities;
- surveying species on Commonwealth land;
- completing recovery plans in the required timeframes; and
- reviewing State and Territory listed ecological communities.

The audit also identified a range of shortcomings in the department's administration of the legislation.

*Audit Report No.35 2006–07 Preparations for the Re-tendering of DIAC's Detention and Health Services Contracts.* The audit, which was undertaken at the request of the Secretary of the Department of Immigration and Citizenship (DIAC), assessed whether the early stages of DIAC's preparations for the re-tendering of the detention and health services contracts were consistent with sound practice. The audit focused on governance arrangements, in particular the recordkeeping arrangements, roles and responsibilities of personnel, expert advisors and the probity auditor—matters raised in a previous audit report. The audit did not examine the Request for Tender, which was not due to be issued until April 2007.

The audit concluded that the early stages of DIAC's preparations for the re-tendering project were sound, demonstrating a significant improvement in the practices identified by the earlier audit. In developing governance and project management arrangements for the re-tendering of detention and health services contracts, DIAC paid attention to the experiences gained and lessons learned from the previous tender process. Arrangements for key personnel, expert advisors and the probity auditor were appropriate. Detailed recordkeeping policies and systems had been established for the re-tendering project, but implementation of policies in respect of recording and timely reporting of some decisions and security classification of documents was not consistent.

*Audit Report No.42 2006–07 ATO Administration of Debt Collection – Micro-business.* The audit assessed the effectiveness of the ATO's administration of the collection of micro-business debt. The ATO has improved the administration of tax debt collection in recent years, with innovation in its strategy, infrastructure and governance frameworks. However the ATO has only recently been able to slow the rate of growth of collectable tax debt which is still rising, albeit at a slower rate.

Debt collection, particularly in relation to micro-business debt, requires continued attention by the ATO. To reduce the level of collectable debt tax debt over the long term, it may be necessary for the ATO to expand its debtor research and analysis and if necessary, to use its findings to provide further advice to government for targeted changes in the administrative design of the tax system. While the ATO continues to improve its strategies and processes and it has enjoyed some success, micro-business tax debt is still a significant financial drain on the community that distorts business competitiveness and tax debt can undermine community confidence in the tax system. As at 30 June 2006 micro-business collectable debt totalled \$6.8 billion.

*Audit Report No.43 2006–07 Managing Security Issues in Procurement and Contracting.* The audit reviewed a selection of agencies' compliance with their security responsibilities as specified in the *Protective Security Manual*. These responsibilities include managing security issues and risks when contracting-out security functions or functions that may require contractors to access sensitive information. Overall, the report concluded that the audited agencies were effectively managing these responsibilities.

The main areas where scope for improvement was identified were in relation to:

- enhancing the level of policy and guidance material to staff about addressing security risks in procurement and contracting;
- tightening processes and practices used to ensure that appointed contractors attend security training; and
- adopting a risk-based approach to monitoring contractors' adherence to security requirements in contracts and the re-assessment of security risks in contracts when circumstances changed substantially, or when contracts were extended significantly beyond their original life.

*Audit Report No.44 2006–07 Management of Tribunal Operations-Migration Review Tribunal and Refugee Review Tribunal.* This audit assessed the effectiveness of the management of Tribunal operations by the Migration Review Tribunal and the Refugee Review Tribunal. The report concluded that the Tribunals were effectively managing their operations. The Tribunals successfully implemented a series of proposals since 2001 to achieve operational efficiencies from the introduction of common facilities, services and resourcing. The Tribunals also established sound governance arrangements for their operations, through the establishment of joint management structures, the development of risk management and fraud control plans, and an improved funding arrangement with Finance. The report identified scope for the Tribunals to improve management performance by strengthening operational planning and the design and reporting of performance information.

*Audit Report No.47 2006–07 Coordination of Australian Government Assistance to Solomon Islands.* The audit assessed the coordination of Australian Government assistance to Solomon Islands through the Regional Assistance Mission to Solomon Islands (RAMSI), including the establishment of objectives and an outcomes monitoring framework. In particular, the audit examined arrangements for: coordination between Australian Government agencies; strategic planning and risk management; measuring the effectiveness of RAMSI; and reporting to RAMSI's Australian stakeholders.

RAMSI is a complex, multiyear initiative, involving input from a range of Australian Government agencies and regional partners. Significant progress has been achieved over the first two to three years of RAMSI's deployment. However, the task has become more difficult as the focus has shifted from restoring law and order and stabilising government finances, to capacity building. Notwithstanding the challenges and complexities, the ANAO concluded that DFAT and the Australian Agency for International Development (AusAID) have put in place arrangements that enable the effective coordination of Australian Government assistance to Solomon Islands.

The report also identified a number of areas to strengthen. These included the need to: shift the focus from measuring outputs to outcomes to better assess the impact that outputs are having on the Solomon Islands community; strengthen some elements of risk management, such as ensuring that treatments are clear and identify indicative timing; and strengthen regular reporting to the Australian Government by including a limited number of key performance indicators and targets, and consistently reporting against them.

*Audit Report No.48 2006–07 Superannuation Payments for Contractors Working for the Australian Government: Follow-up Audit.* The follow-up audit selected eight agencies to assess their implementation of the two recommendations from Audit Report No.13 2004–05, *Superannuation Payments for Independent Contractors working for the Australian Government*. The report found that the recommendations had been substantially or fully implemented. The Department of Finance and Administration and the Australian Taxation Office have clarified the legislative framework and appropriate procedures for promoting and monitoring compliance were implemented. The incidence of unmet superannuation obligations to contractors declined substantially. Agencies have controlled the risks mainly through minimising contracting with individuals, and implementing processes to assess contractors' entitlement to superannuation benefits. Nevertheless, agencies could make more use of standard contract clauses that reduce the risk of unintentionally creating an employment relationship to control the risk of not meeting superannuation obligations to contractors. Agencies should also record the basis on which staff have assessed contracts with individuals for superannuation entitlements.

Despite simplification of legislative arrangements, the legal framework for superannuation can impose high costs on employers contracting with individuals. To minimise costs, many agencies have reduced the incidence of contracting with individuals. This may not always result in the best outcome as contracting with individuals may represent the best value for money in some circumstances. The audit also found there was some scope for improving promotion and targeting of ATO advice and support services to agencies.

*Audit Report No.49 2006–07 Non-APS Workers.* The objective of the audit was to assess the management practices undertaken by Australian Public Service (APS) agencies to achieve value for money and transparency in dealing with contracts for non-APS workers. The report concluded that there is significant scope for agencies to integrate their use of non-APS workers into their workforce planning processes, especially where they have a significant reliance on the non-APS workforce. There were also opportunities for agencies to review, and amend where appropriate, their arrangements to better align their engagement of non-APS workers with the Commonwealth Procurement Guidelines.

*Audit Report No.50 2006–07 The Higher Education Loan Programme.* The audit reviewed the procedures and processes used by the Department of Education Science and Training (DEST) and the ATO to record HECS-HELP student loans. Overall, DEST was effectively monitoring student contributions set by higher education providers for consistency with Australian Government policy. DEST has also established effective procedures and processes to pay HECS-HELP advance payments to higher education providers based on sound estimates, and to record, reconcile and report these payments.

There were two main areas in the administration of HECS-HELP where the report considered DEST could improve administrative practices. The first concerned strengthening its monitoring of student contribution amounts charged by higher education providers, confirming that they were acting in a manner consistent with the legislation. The second concerned the need for a more timely reconciliation of HECS-HELP payments to enable DEST to report HECS-HELP payments in the financial year that they were made.

DEST had implemented controls to provide assurance on the integrity, completeness and accuracy of HECS-HELP data transferred from the higher education providers to DEST, and also from DEST to the ATO to record student HECS-HELP loans. The ATO has established effective procedures and processes to record HECS-HELP loans against student tax records.

*Audit Report No.52 2006–07 The Australian Taxation Office's Approach to Regulating and Registering Self Managed Superannuation Funds.* The audit examined the efficiency and effectiveness of the ATO's approach to regulations and registering self managed superannuation fund (SMSFs). The audit concluded that the Tax Office's initial approach to regulating and registering SMSFs could have been more efficient and effective if the Tax Office had taken steps to clarify its role and responsibilities earlier, managed its funding, costs and revenue (levy) collections more effectively, and, improved the collection and assessment of registration and return data, prior to issuing SMSFs with complying fund status.

Since 2003–04, the Tax Office has initiated significant steps to resolve deficiencies with the administrative and costing systems that support its regulation and registration of SMSFs which will be complemented by further changes to its SMSF management practices, as part of the introduction of the *Simplification Superannuation* reforms from 1 July 2007.

*Audit Report No.53 2006–07 Australian Federal Police Overseas Operations.* The nature of the Australian Federal Police (AFP), and what is required of this organisation, has changed significantly in recent years. A rapidly changing security environment has required a closer focus on national and international operational activities. The report concluded that the AFP has demonstrated a sound capability in responding quickly to international crises and made a positive contribution to the international efforts in the two case studies, Thailand and Solomon Islands.

The audit examined the efficiency and effectiveness of the AFP's administration and management of its overseas deployments. The audit specifically examined two deployments and focused on strategic and operational planning and logistics. The deployment to the Regional Assistance Mission to Solomon Islands was a planned and long term commitment, and the deployment to Thailand in the aftermath of the December 2004 Asian Tsunami was a crisis-driven response to a specific event.

The unprecedented nature of the two deployments created a number of challenges for the AFP with regard to aspects of strategic planning. The AFP as an organisation has demonstrated a willingness to meet changing priorities and resolve emerging issues during the course of these deployments, and has sought to actively capture the lessons learned from new situations.

We considered that the AFP could fine tune some aspects of its planning and arrangements for capacity building missions, and that some of the agreements with other jurisdictions and professional associations would benefit from elaboration. The AFP would also benefit from having a panel of providers able to supply identified logistical capabilities in either crisis or ongoing situations, and a renewed focus on reintegrating personnel returning from overseas deployments.

### Audits examining border security

**Audit Report No.24 2006–07 Customs' Cargo Management Re-engineering Project.** The Australian Customs Service (Customs) is responsible for regulating the movement of goods and people across Australia's borders and collecting customs duty and other revenue. Customs plays a vital role in preventing the illegal and harmful goods from entering Australia. The Cargo Management Re-engineering (CMR) project was to deliver new import and export processes, increased cargo management efficiency for industry and improved targeting of high-risk cargo.

The audit of Customs' CMR project found that the management framework Customs had in place to support the project lacked many of the fundamentals necessary for the successful implementation of a large information communication technology project. Customs underestimated the complexity and the risks associated with the project and failed to properly respond to emerging issues and changes in risks. Customs did not have an adequate implementation strategy or business continuity plan. Insufficient time was allowed for system testing, particularly end-to-end testing. Problems with the Cargo Risk Assessment system also impacted on Customs' ability to clear cargo and to target and assess high-risk cargo, increasing the risks to Australia's border security and Customs' revenue collection responsibilities. Customs has initiated a number of reviews to improve its processes, revised its organisational structure and is modifying the Integrated Cargo System to more closely align with user and business requirements. It is also taking steps to engage industry more actively.

**Audit Report No.7 2006–07 Visa Management Working Holiday Makers Report.** DIAC is responsible for managing the entry of people into Australia. This audit examined the department's decision-making in granting visas to working holiday-makers, a category of visitor that has been growing rapidly in recent years. The department has been managing this rising workload using innovative techniques including Internet-based lodgement of visa applications. The audit examined departmental records for over 300 000 visa applications using computer-aided auditing software. It assessed the soundness of the department's decision-making by testing for accuracy, completeness and reliability against migration legislation and business rules. It concluded that that decision-making is robust with a very high level of adherence to both legal and administrative requirements. The audit also identified some deficiencies in overseas posts' adherence to migration law and a need to ensure that proper legal authority under the *Migration Act 1958* has been provided for computer-based decision-making.

*Audit Report No.37 2006–07 Administration of the Health Requirement of the Migration Act 1958.* The audit examined compliance of DIAC with its legislative responsibilities under the health requirement of the *Migration Act 1958*. It also assessed governance and cross agency coordination in the implementation of health screening, which is intended to protect Australia's borders from disease threats, and contain health costs and access to health services. DIAC had implemented a system for assessing the health of entrants into Australia. The audit identified several areas of administration to assist DIAC in improving the effectiveness of health screening of visa applicants. To set and implement the health requirement, DIAC requires technical advice. The audit concluded that more formal collaborative arrangements (such as a Memorandum of Understanding) between DIAC and DoHA would assist in defining agency roles and responsibilities, to ensure sound health screening policies and guidelines.

### **Audits examining project management**

*Report No.3 2006–07 Management of Army Minor Capital Equipment Procurement Projects.* The Army Minors Program is an important means of delivering enhanced, replacement, and new capability to Army. The allocation to the Program for 2005–06 was \$64 million and the total cost of projects included in the Program as at 1 July 2005 was \$505 million. Projects included in the Program range from low value procurement to complex developmental projects. The audit examined the effectiveness of the management of Army Minor capital equipment procurement projects by Defence and the DMO and observed variability in the management of projects included in the Program. Delays in progressing projects and in delivering projects to schedule have occurred in the top 20 projects by value in the Program. DMO and Army have put in place a number of initiatives to improve the management and governance of the Program.

*Report No.9 2006–07 Management of the Acquisition of the Australian Light Armoured Vehicle Capability.* The audit examined the management of the acquisition of the Australian Light Armoured Vehicle (ASLAV) capability for the Australian Defence Force. The main focus of the audit was on the project and contract management of Phase 3 of the project which included the delivery of 144 ASLAVs, associated supplies and 113 retrofit kits for the Phase 2 ASLAVs. The report found that while a number of problems existed in the management of both the project and the contract, the ASLAV vehicles have generally been delivered in accordance with the contracted schedule. It was considered that initial planning time horizons for the delivery of the vehicles were overly optimistic. This meant that additional capabilities to be acquired for the vehicles (including commander's weapon stations, surveillance suites and simulators) which were to be delivered under Phase 2 of the Project, have not been provided to schedule.

*Report No.10 2006–07 Performance Audit: Management of the Standard Defence Supply System Remediation Programme.* The audit reviewed the outcomes of the Get Well Programme, and assessed how effectively a segment of the Defence supply chain (of which SDSS is one key component) was meeting selected maritime end user capability and reporting requirements. In order to achieve this, the audit reviewed three key maritime combatant forces: COLLINS Class submarines; Adelaide Class Guided Missile Frigates; and ANZAC Class Frigates. The report noted that this sample comprises some 50 per cent of the Navy's forecast budget.

The audit concluded that notwithstanding increased operational deployments and subsequent increased equipment use rates, there were material deficiencies in the ability of the Defence supply chain to provide consumable and replacement parts to end users in Navy. We also noted, amongst other things, that for the key roles associated with purchasing; inventory management; asset management; and information and security; there was a high degree of non compliance with required controls.

*Audit Report No.20 2006–07 Purchase, Chartering and Modification of the New Fleet Oiler.* The audit examined the purchase of a commercial off-the-shelf oil product tanker, the chartering of the tanker and its subsequent modification to fulfil the role as the Navy's new fleet oiler. The audit found that the modified vessel was delivered by the prime contractor and contractually accepted by DMO five weeks ahead of schedule on 7 August 2006, following which the vessel was commissioned as HMAS SIRIUS on 16 September 2006. At the time of delivery of the vessel, contractual deficiencies identified by the prime contractor included incomplete and untested modification work. The audit identified weaknesses in the administrative processes associated with the financial arrangements implemented by Defence and DMO, which included requirements under both the financial management framework and the Good and Services Tax (GST) legislation. Administrative weaknesses included adherence to the provisions for: public funds to be deposited into and held in Official Bank accounts; the prompt banking of public funds; and the requirement for authority to be given for the receipt and custody of public funds by non-public servants. Also, improvements were required in the processes to ensure there is a valid authorisation to approve payments from public funds and to debit amounts against an appropriation.

*Audit Report No.28 2006–07 Project Management in Centrelink.* This audit considered aspects of governance and procurement and contract management in Centrelink's management of Budget and internally-funded projects. During the 2005–06 financial year Centrelink managed 134 projects at a cost of \$144.7 million, about six per cent of Centrelink's departmental funding. Centrelink implemented a project management approach, the Centrelink Project Management Framework (CPMF) in 2000, which provides project management policies, procedures and tools to support project management. The agency also introduced the Centrelink Projects Office (CPO), an organisational unit with responsibility for supporting the proper control and governance of projects. Many aspects of the CPMF and CPO arrangements are structured in accordance with good governance principles for projects and Centrelink is continually improving its approach to project management. There are aspects which Centrelink may improve, and these are broadly around developing a 'portfolio of projects' perspective, that is, focussing on the benefits sought by the Government as well as on the achievement of individual projects in terms of producing the required results within budget and on time.

*Audit Report No.34 2006–07 High Frequency Communication System Modernisation Project.* This audit examined the procurement of the modernised High Frequency communication capability for the Australian Defence Force. The objective of the audit was to assess the effectiveness of Defence and the Defence Materiel Organisation's management of this procurement. The report found that at the execution of the prime contract, the requirements of the communication system were not clearly identified and that risks associated with software development and system engineering were acknowledged as being significant to the project. Risk mitigation

measures at the formation or the prime contract were less successful in addressing these risks than the contractor and Defence had expected. As a consequence of these issues, and the overall project complexity, the schedule has been extended three times. The report noted that significant risk remains in the delivery of ongoing aspects of the project including: the final fixed communication system by late 2007; and the upgrade of communications equipment fitted in selected Australian Defence Mobile Platforms such as ships and aircraft. Key areas where the report identified that project outcomes may have been improved include: the identification and resolution of risk in the pre-contract phase; the transition of risk into the contract; and the management of risks in the post contract phase.

### **Audits examining service delivery**

#### ***Audit Report No.2 2006–07 Export Certification, Australian Quarantine and Inspection Service.***

The audit assessed the systems, procedures, processes and resources used to: register premises and license exporters; monitor compliance with arrangements; and manage non-compliance. The report concluded that many aspects of the Australian Quarantine and Inspection Service's (AQIS's) administrative procedures support sound management of export certification. It has procedures in place to verify that establishments seeking registration to prepare products for export, and exporters seeking an export licence, meet legislative requirements. Its programmes of audits and inspections check compliance with the food safety and quarantine requirements of importing countries, and require establishments and exporters to take action to address identified non-compliance. Its services provide Australian exporters with the certification they require to access foreign markets. However, the report identified opportunities for AQIS to improve its administration of export certification by: improving guidance to industry on the requirements for registration and licensing; assuring audit quality and reliability; and better management reporting and performance information.

***Audit Report No.12 2006–07 Management of Family Tax Benefit Overpayments.*** Through a series of debt prevention strategies and measures, the Family Assistance Office (FAO) has significantly reduced the incidence and extent of customer debt arising from the reconciliation of Family Tax Benefit (FTB) entitlements. In the first two years of the FTB Programme, (2000 and 2001) approximately 33 per cent of the FTB population incurred a reconciliation debt, whereas in the most recent two years, (2004 and 2005) the incidence of reconciliation debt has fallen to under 10 per cent of customers. FAO's strategies have significantly improved the quality of service delivery for these FTB customers. In contrast with the range of activities targeting reconciliation debt, the report noted that less attention had been paid to reducing the incidence of debt arising when FTB customers fail to lodge a tax return in support of their FTB claim. The amount of non-lodger debt incurred each year since 2000 has remained relatively stable. However, due to the reduced incidence of reconciliation debt, non-lodger debt now accounts for a greater proportion of the outstanding FTB debt stock than reconciliation debt.

***Audit Report No.26 2006–07 Administration of Complex Age Pension Assessments.*** This audit considered aspects of service delivery within the Age Pension programme, specifically in relation to customers possessing income generating assets or income from business holdings. These assessments are referred to by Centrelink as complex assessments and are required to be processed by specialist Centrelink Officers known as Complex Assessment Officers (CAOs).

During 2005–06 Centrelink’s 166 CAOs processed approximately 50 000 complex Age Pension assessments involving annual payments of approximately \$400 million. Centrelink does have in place business processes that identify customers that require complex assessments when they first lodge a claim, and ensure that these are appropriately referred to CAOs, thus lowering the risk of an incorrect assessment. However, these processes are not always followed by Centrelink staff. Centrelink was unable to measure the activities and performance of CAOs, and did not have in place succession planning strategies to ensure that there are adequate numbers of CAOs in the future.

*Audit Report No.30 2006–07 The Australian Taxation Office’s Management of its Relationship with Tax Practitioners.* This audit examined the ATO’s implementation of the recommendations in Audit Report No.19, 2002–03, *The Australian Taxation Office’s Management of its Relationship with Tax Practitioners*, having regard to any changed circumstances, or new administrative issues, affecting implementation of those recommendations. The audit found that the relationship between the ATO and tax agents, which had been strained and tense at the time of the previous audit, had improved significantly. The ATO had fully implemented four, substantially implemented four, and had partially implemented one other of the report’s ten recommendations. Action on one recommendation hinged on the Government’s new legislative initiative. The report identified a number of areas where there was scope for improvement in the ATO’s management of its relationship with tax practitioners including: clarification of the role and functions of the Tax Agents Boards and the ATO; and improvements in the ATO’s approach to various tax agent compliance matters.

*Audit Report No.32 2006–07 Administration of the Job Seeker Account.* The audit assessed the effectiveness of the Department of Employment and Workplace Relations administration of the Job Seeker Account (JSKA) in ensuring its optimal usage in achieving job seeker outcomes. The report found that while DEWR’s overall approach to managing the JSKA was appropriate, DEWR could strengthen its administration by: improving the management of risks presented by particular Job Network member organisations and sites; placing greater reliance on controls operating within Job Network Member organisations that take effect prior to reimbursement of Job Seeker Account claims; and implementing and reporting on DEWR’s evaluation strategy.

*Audit Report No.33 2006–07 Centrelink’s Customer Charter Follow-up Audit.* This audit considered aspects of service delivery within Centrelink specifically, the Customer Charter, which is Centrelink’s primary means for advising customers of their rights (including access to feedback mechanisms), their obligations, and the type of services they can expect to receive. The Customer Charter also satisfies the Australian Government’s requirement, as set out in the Australian Government’s *Client Service Charter Principles* that all Commonwealth agencies, having an impact on the public, have a public charter. Centrelink has closely followed the guidance set out in the Client Service Charter Principles in conducting its latest Customer Charter review. Centrelink’s latest Customer Charter meets all the components of the Government’s *Client Service Charter Principles*, albeit that there are some areas which could be further improved. In the 2004–05 audit of Centrelink’s Customer Charter, the report concluded that while Centrelink had invested significantly in the development of its Charter, Centrelink’s Customer Charter only partially followed the mandatory elements of the Australian

Government's *Client Service Charter Principles* and either partially, or fully, met some of the recommended elements. In particular, there were no measurable service standards included in the Customer Charter. Since the last audit, Centrelink has closely followed the guidance set out in the Client Service Charter Principles in conducting its latest Customer Charter review, as well as addressing many of the findings and suggestions from the previous audit report. The revised Customer Charter includes both timeliness and quality service standards, a number of which include a specific timeframe for the provision of Centrelink's services.

*Audit Report No.40 2006–07 Centrelink Review and Appeals System Follow-up audit.* This audit considered aspects of service delivery within Centrelink specifically, the Centrelink's Review and Appeals system, which is a means for meeting customers legislative right to have a decision reviewed. The follow-up audit assessed the extent to which Centrelink had implemented the 10 recommendations from Audit Report No.35 2004–05, *Centrelink's Review and Appeals System*. The report found that three of the recommendations have been fully implemented, two substantially, two partially and there was limited progress on those remaining. Centrelink advised that the introduction of Centrelink's proposed new internal review model is subject to the availability of additional funding that would be required to operate this model. Accordingly, the impact that the proposed changes would have and whether they would result in the implementation of the outstanding recommendations from the previous audit report were not tested. We acknowledge that there is a need to contain the costs of the review process, however, it is equally important that the legislated rights of Centrelink's customers do not become secondary to negotiations on purchaser provider agreements.

*Audit Report No.41 2006–07 Administration of the Work for the Dole Programme.* Work for the Dole (WfD) is a work experience programme that has been operating since 1997 and is now well established within the wider community. DEWR's administration of the WfD programme was supported by sound business planning including risk assessment; appropriate contracts with Community Work Coordinators – the WfD service providers; and oral monitoring activities. In addition, DEWR's processing of Community Work Coordinator invoices for contract payments was found to be consistent with the terms and conditions of the contracts. Systematic analysis of computer records using auditing software to interrogate payments data demonstrated a high level of adherence to both conditions of the contract and to the department's business rules. WfD is a mature programme that been operating for approximately a decade. Overall, DEWR has adopted an appropriate approach to the ongoing administration of WfD and during the course of the audit implemented a number of refinements to its contractual arrangements with Community Work Coordinators. Consequently, the report did not make any recommendations in this audit. The report nevertheless mentions some area where enhancements might be considered.

### **Audits examining grants management**

*Report No.1 2006–07 Administration of the Native Title Respondents Scheme.* The audit assessed the effectiveness of the Attorney-General's Department administration of grants provided under the Respondents Scheme. The audit found that, while the Attorney-General's Department effectively managed the overall administration of the grants programme, its

administration could be strengthened through clearer specification of performance measures; closer monitoring of grant commitment (individually and in total); and improvements to AGD's Data and Workflow Grants System.

*Audit Report No.11 2006–07 National Food Industry Strategy, Department of Agriculture, Fisheries and Forestry.* The audit assessed the Department of Agriculture, Fisheries and Forestry (DAFF's) management of the contractual arrangements in place to deliver the National Food Industry Strategy. The Strategy involves distribution of grants to industry aimed at increasing investment in research and development. The audit found that, overall, DAFF's management of the contractual arrangements was effective. DAFF has developed and implemented sound financial management arrangements for managing the funds provided to National Food Industry Strategy Limited (NFIS Ltd). DAFF's governance arrangements for oversight of NFIS Ltd were adequate; and there was an effective process for assessing, selecting and managing grants. The report also identified a number of areas where improvements could be made. These include: improving programme planning processes; putting in place adequate processes to assist staff in managing contracts; documenting all contract variations; and developing an information plan for collecting and analysing performance information in order to assess programme success.

*Audit Report No.19 2006–07 Administration of State and Territory Compliance with the Australian Health Care Agreement.* The objective of this audit was to determine whether Health adequately assessed the State and Territory Governments' compliance with their obligations under the terms of the Australian Health Care Agreements (AHCA). The main issues raised related to Health's responsibility to assess whether states and territories were complying with their obligations under the AHCAs and to advise the Minister for Health. These obligations included adhering to the principles that all eligible persons had equitable access to free public health and emergency services on the basis of clinical need within an appropriate period; contributing substantial funding of their own and increasing this funding at a rate which at least matches the estimated cumulative rate of growth of Australian Government funding under the AHCAs; and meeting certain performance reporting requirements. The report found that Health has developed and implemented a suitable framework to administer the AHCAs. While there is scope for some improvement in the approach adopted, Health has taken into account the obligations of the States and Territories under the AHCAs in providing advice to the Health Minister.

*Audit Report No.36 2006–07 Management of the Higher Bandwidth Incentive Scheme and Broadband Connect Stage 1.* The audit found that the management of the Higher Bandwidth Incentive Scheme and Broadband Connect Stage 1 programs had achieved their objectives. The Department of Communications, Information Technology and the Arts (DCITA) established an appropriate management framework to administer the programs that included comprehensive guidelines and regular data speed testing of providers. However, a lack of administrative resources led to inadequate controls over the assessment and payment of provider claims. The report estimates that between \$10.6 and \$12.4 million has been paid to providers for invalid or inaccurate claims as a result of inadequate controls over the assessment and payment of provider claims.

**Audit Report No.38 2006–07 Administration of the Community Aged Care Packages Program.** The audit assessed the effectiveness of the Department of Health and Ageing's (DoHA) management of the Community Aged Care Packages (CACPs) program in fulfilling its legislated objectives under the *Aged Care Act 1997*. We considered that, overall, DoHA has performed effectively in enhancing the number of new CACP places in ways that balance complex resource constraints. Interfaces of CACPs would be strengthened by a number of improvements outlined in recommendations resulting from the audit, such as the use and administration of Community Care Grants to stimulate the extension of CACP services to areas where there is unmet or poorly served need; improved monitoring of service provider performance, including the extent to which providers adhere to conditions of grants of places relating to special needs groups year-upon-year; and improved reporting to Parliament about the extent of unmet need and provider fulfilment of responsibilities, as required by the legislation.

**Audit Report No.39 2006–07 Distribution of Funding for Community Grant Programmes.** This audit considered aspects of governance and procurement in the Department of Families, Community Services and Indigenous Affairs' (FaCSIA's) administration of the distribution of funding for certain community grants programmes. In 2005–06, FaCSIA administered approximately 20 000 funding agreements, and administered \$1.029 billion in direct funding to a range of non-government service delivery outlets. FaCSIA had established generally sound governance arrangements to administer the Local Answers, Volunteer Small Equipment Grants (VSEG), Reconnect and Minor Capital Upgrade programmes. However, FaCSIA's administration of the approval processes for eight one-off grants to community organisations and the VSEG Round One 2004 was below the standard expected of Australian Government agencies. FaCSIA needed to clarify aspects of its interaction with the portfolio Minister and his or her office, in the processes to determine organisations eligible for grant funding. Given the fundamental importance of the approval process in relation to the expenditure of public funds, and for accountability purposes, it is critical that agencies have a clear understanding, and record, of ministerial decisions.

**Audit Report No.45 2006–07 National Black Spot Programme.** The National Black Spot Programme (now referred to as the AusLink Black Spot Programme) targets sites or sections of the road network that experience a high incidence of vehicle crashes and fatalities (referred to as 'black spots'). It is a key element of the Australian Government's aim to reduce the national road fatality rate by 40 per cent over the decade to 2010. In April 2007, the Federal Government announced that funding for the Programme would continue to 2013–14 and that, as of 2009–10, annual funding would increase from \$45 million to \$60 million. The report examined the administration of the Programme by DOTARS. As State road transport authorities play a key role in the administration of the Programme, the audit also examined the agency role performed, particularly in relation to the assessment and ranking of projects against the Programme criteria, and as the conduit through which funds are paid for the delivery of road works either by the state or local government. It also examined the delivery of road works by the states and local government. The evidence-based approach to nominating, ranking and approving National Black Spot Programme projects is consistent with better practice principles for road safety programmes. However, the current administration arrangements have not

consistently resulted in the highest priority road safety Black Spot projects being selected and funded. Further, project delivery arrangements do not provide DOTARS with sufficient assurance that approved road works are delivered as approved, in a timely manner, to address the road safety issue that underpinned the nomination and approval of the project for funding. A number of the audit recommendations were focused on addressing shortcomings under the current governance arrangements that have resulted in lower priority road safety projects being selected and funded. In addition, the report drew attention to the benefits of different programme delivery methods being kept under review by the Department, recognising that decisions on programme delivery are ultimately a matter for the Government.

*Report No.46 2006–07 Management of the Pharmaceuticals Partnerships Program.* The Program is small but complex and overall the audit found that it was effectively managed by the Department of Industry, Tourism and Resources. The communication strategy was effective in promoting the Program and processes for assessing and ranking applicants were developed and implemented. An effective strategy was also developed to monitor recipients' compliance with funding agreements. The Program is supported by a sound governance framework. However, there was no ongoing assessment of whether the Program is meeting its overall objective or sub-objectives. A proposed Program evaluation is designed to measure some important aspects of the Program but will not give a complete assessment on whether the Program's overall objective is being met because the industry-wide data being collected does not address the quality of the research and development activity being undertaken.

