

The Auditor-General

**Australian National  
Audit Office**

Annual Report  
1996  
**1997**

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Executive Director  
Information Management Branch  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

Telephone: (06) 203 7640  
Facsimile: (06) 203 7722

## **Internet Address**

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Canberra ACT  
16 September 1997



Dear Madam President  
Dear Mr Speaker

In accordance with the authority contained in the *Audit Act 1901*, I present to the Parliament my report on the operations of the Australian National Audit Office for the year ended 30 June 1997.

Yours sincerely

A handwritten signature in black ink, which appears to read 'P.J. Barrett', is positioned below the text 'Yours sincerely'.

P.J. Barrett  
Auditor-General

The Honourable the President of the Senate  
The Honourable the Speaker of the House of  
Representatives  
Parliament House  
Canberra ACT

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# Auditor-General's Foreword

## **The changing nature of the audit function**

A review of 1996-97 will clearly indicate that it has been a year of accelerating reform and change in the Australian Public Sector (APS). A major issue is the capacity and ability of the public service both to contribute to, and implement, what is required by the Government, the Parliament and other stakeholders. It is also an important issue for this Office.

In last year's Annual Report I reported on how the Australian National Audit Office (ANAO) was meeting the challenge of adding value in a changing public sector environment. The increasing rate of change in the APS means that this challenge is in no way diminished. This year I want to focus more on the changing demands on the public auditor due to the rapidly changing nature of the public sector.

To meet this challenge, the ANAO has concentrated on four essential elements:

- improving our relationships with stakeholders;
- concentrating on our core business and the timeliness, cost and quality of our products;
- understanding our environment and our business; and
- improving our own performance.

I am disappointed that the three Bills to replace the Audit Act were not passed before 30 June 1997. They, along with the new Workplace Relations Act, the proposed new Public Service Act and the Government's Charter of Budget Honesty form a different framework for accountable operations in a revitalised and significantly changed public sector. It is important for

effective public administration and confidence of all stakeholders - including the Government, the Parliament, the Australian community and the public service itself - that an agreed new framework is implemented as early as possible to facilitate the transition to a different management culture and a better demonstration of overall accountability for performance. Credibility is essential for commitment by all involved.

This Report outlines our achievements in 1996-97 against the performance measures and targets we set ourselves and which were discussed with the Parliamentary Joint Committee of Public Accounts (JCPA). It also indicates our thinking on the directions we have set for the future. In short, we have successfully delivered our full program of financial statement and performance audits for the year at reduced cost. In addition, the increased delivery of Better Practice Guides was well received by public sector managers.

The success we have achieved must of course be balanced against the need for improvement, for example, where the JCPA required more evidence to support some of our audit findings. In the latter respect, I note the importance of entity cooperation and contributions and stress the need for recognition of a common purpose in improving entity performance as well as recognition of better practice which can contribute to better public administration. Common purpose is commonsense.

## Understanding our environment and our business

### ***The changing APS environment***

The Government's public sector reform agenda provides for a significantly increased emphasis on contestability of services, outsourcing those functions where the private sector can provide better value for money, and ensuring commitment to the processes of performance benchmarking and continuous improvement. The APS will be required to meet the challenges of market testing and competition to ensure its quality standards and performance at least match those of the private

sector. It must do this while not losing sight of the inherent differences between the two sectors, and in particular, the accountability of the APS to the Government and in turn to the Parliament and its wide-ranging obligations to the general public, as citizens.

We will continue to play a key role in enhancing both accountability and performance

Private sector involvement in the provision of public services focuses attention on issues such as accountability for performance, both in terms of where that accountability lies and the provision of information for performance assessment and review. The ANAO will continue to play a key role in enhancing both accountability and performance in this environment. In these respects we will need to contribute more to the development of the accountability framework and reinforce it through our audit activities and reports. We have a significant comparative advantage from our across-the-sector perspective as well as from the knowledge and understanding gained from our close association and involvement with all Commonwealth agencies and entities. These relationships greatly enhance the public audit function and its value to stakeholders.

## Creating better relationships with stakeholders

### ***Working with the Parliament***

A survey of Parliamentarians, their Senior Advisers and Parliamentary Committee Secretariats during the year sought feedback on whether our products are meeting their needs and expectations. Overall, the results were positive, with strong indications that our reports provide an important source of independent information to Parliamentarians and their advisers.

In anticipation of the passage of the package of legislation to replace the *Audit Act 1901*, the ANAO is examining ways of establishing and maintaining an effective dialogue with the proposed Joint Committee of Public Accounts

and Audit (JCPAA) as the audit committee of Parliament. A Statement Of Understanding is being discussed as an appropriate mechanism to promote that new role.

I look forward to a productive working relationship with the Audit Committee. In response to feedback received, we will also continue to seek opportunities to provide information and briefings to Members and Senators on our role under the new legislative framework, on our audit activities and on our reports following their tabling.

### ***Understanding and contributing to the business of public sector entities***

The changing APS environment will, potentially at least, result in significant changes to the way many entities administer government programs. This in turn will require the ANAO to give added attention to understanding the environment within which our client organisations operate, the nature of their business and operations, and their expectations. We are doing this by establishing close contact and appropriate working

We are contributing to a more contestable and accountable public sector

relationships with senior entity management, internal audit and evaluation units. We are also assisting entities to ensure appropriate arrangements are in place to make the transition to a more contestable and accountable public sector environment. Another area where further opportunities exist for the ANAO to make a positive contribution is in providing, within our resource capability, a positive response to requests for advice and assistance on accountability issues including, for example, on matters relevant to accrual accounting and budgeting and whole of government financial reporting.

An important aspect of our operations is the conduct of targeted surveys of entity heads and senior program managers. Further initiatives in this area were undertaken during 1996-97. Such surveys are designed to measure and provide important feedback to the ANAO on the impact and value of our various products as a basis for improving our performance. This is an integral part of our information framework.

### ***Communicating with the public***

Through the publication of our audit reports, better practice guides and other products, the ANAO represents a source of information on government programs and administration to the community at large. We encourage the balanced reporting of the results of our audits by the media and also value feedback received from members of the public as a useful source of input to the development of our audit programs.

The ANAO Communications Strategy has been developed in recognition that effective communication, both internal and external, is critical to achieving our vision of adding value to public administration. The Strategy identifies the principles which guide all our communications, both within the ANAO and with external parties. The Strategy also recognises that the ANAO currently has in place a range of initiatives which go a long way to achieving our aim of being an open and transparent organisation.

## **Concentrating on our core business and its products**

### ***Focusing on our core business***

The ANAO remains focused on how it can best contribute to the APS change process. We have established our strategic directions on the basis of clearly identifying our core and non-core business. In addition we have, for many years, undertaken audits against differing regulatory environments, and have built a detailed corporate knowledge that goes with such activities.

Our comparative advantage lies in our core public sector expertise

We will continue to focus our resources on core public sector entities while maintaining appropriate arrangements for the management and delivery of audit and related services to all entities within our mandate. Recognising our comparative advantage, products for core public sector entities are delivered using our own staff, complemented where necessary by contracted-in specialist assistance. Products for non-core public

sector organisations may be internally resourced, or project managed depending on the skills required and the cost and benefits involved.

Consistent with the need to conduct our business in the most cost-effective manner, we have been confronting directly the issue of private sector involvement in the conduct of our audits for some years. About 25 per cent of our running costs are now applied to contractors, much of which relates to the use of private sector firms that undertake financial statement audits as our agents. These audits remain our responsibility and we retain a strong project management and oversight role in relation to their conduct. We are also increasing the use of specialist external assistance in the conduct of our performance audits. Greater use has also been made of such assistance in the preparation of our Better Practice Guides to reflect private sector experience that can be adopted by, or adapted to, the public service. This was evident in our recent discussion paper on corporate governance and its application to the public sector.

Apart from professional and statutory requirements for the ANAO, there are important accountability obligations to the Parliament that demand our direct involvement in any audit activity conducted within the Commonwealth public sector. There are quite significant differences in the business, particular responsibilities and in the exercise of independence between the public and private sectors. In addition, the functions, operations and performance assessments are quite different, particularly in the core public sector.

### ***Developing our audit products***

The cornerstones of our products are the assurance provided and improvements in public performance in accountability as reflected in our four key products:

- financial statement audits;
- performance audits;
- audits of financial control and administration; and
- assurance and control assessment audits.

These activities are the source of all other products such as better practice guides and client service seminars and workshops.

During the year, we reviewed our product range and the level of resources applied to each product. This review resulted in the following initiatives:

- the introduction of assurance and control assessment audits. These audits focus on key controls within ‘common service’ or core activities of a corporate nature of entities;
- increased emphasis on the development of better practice guides, either as an outcome of individual audits or separately on matters of general relevance to public administration;
- the conduct of ‘real time’ probity audits intended to provide assurance on particular processes as they are undertaken, rather than after the event as is the case for most audit reviews; and
- increased emphasis on the provision of advice and assistance, particularly in areas involving APS reforms, and including the introduction of accrual based whole of government reporting. The ANAO has worked closely with the Department of Finance in preparing trial whole of government financial statements, and completing a review of processes in the preparation of whole of government financial statements.

We will continue to act as a catalyst for change and improvement by adopting a proactive approach, anticipating the needs of our clients and by developing products that have broad application across the public sector. Care will be taken to ensure any new products meet the perceived needs and demands of our clients, can be provided efficiently within our resource capability and, most importantly, preserve our independence.

## Managing for performance

The ANAO is committed to developing a credible and effective corporate governance framework which provides the means to focus the attention of the whole office on our internal management systems and practices to ensure they are geared towards the achievement of our vision, role, values and priorities.

As part of this commitment, we have developed a Corporate Governance Statement which outlines the key elements of corporate governance in the ANAO, and recently released an ANAO Code of Conduct which will provide guidance to all staff in their behavioural and decision-making approaches.

We are  
working to  
improve our  
quality

In the context of delivering cost-effective products and services, we have also kept our audit support processes and activities under review. We are treating all audit and support activity as contestable, and have focused on maximising our product capacity while minimising our operational costs. This must be achieved without any diminution in the quality of our products and services. In essence, we are working to improve our quality assurance.

Particular strategies we have adopted include benchmarking our audit and support performance against appropriate public and private sector organisations, reviewing our performance targets and measures with an emphasis on outcomes, maintaining rigorous quality assurance processes for our audit products using advances in technology to best advantage and fostering a culture of continuous improvement. We will be guided in our future benchmarking activities by the outcome of the review of benchmarking currently being undertaken by our Independent Auditor. The market testing of IT services announced last year resulted in a decision to outsource those services from 1 July. Initial indications of effectiveness are favourable.

### ***Leading Our People***

The ability of the ANAO to deliver high quality products and services is underpinned by the quality, professionalism and dedication of all staff.

During the year we continued our commitment to the conduct of periodic staff surveys and continuous improvement arrangements. These initiatives provide valuable opportunities for staff to comment on, and contribute to, the way the ANAO is managed and the issues that directly affect them. An outcome of these processes is the commitment we have made to give added emphasis to leadership and management skills in future professional development activities.

Leadership and management skills are receiving added emphasis

We have also enhanced our commitment to providing targeted professional development opportunities to staff, encouraged and facilitated secondments with the public and private sectors and supported staff in the attainment of relevant tertiary and professional qualifications.

The ANAO will take advantage of the ongoing reforms of the public sector and the new directions in workplace relations to put in place structures and working arrangements that better meet our changing business needs.

## Setting our future directions

The focus of attention in the coming year will be bringing to fruition practical implementation of changes required by the new legislative framework. Inherent in this is the changing working relationship with the Parliament through the JCPA as the audit committee of Parliament. I will be reporting on the impact of such a significant change in next year's Report.

Moving to accrual budgeting and management is a major challenge for the coming year

A challenge ahead for this year is the selection and implementation of a suitable suite of computing packages to support our financial management and management information systems. These will be the foundation for completing the move to managing the ANAO on an accrual basis, as well as meeting the announced change to accrual budgeting. We will also be contributing to the implementation of these

approaches across the public sector through our client service workshops and services and through our audit processes.

The APS environment of which the ANAO is a key player, will continue to undergo ongoing fundamental change for the foreseeable future. A key element will be the development of an effective accountability framework which encompasses service delivery by the private sector under competitive tendering and contracting. The over-arching objective of the ANAO in this changing environment is to deliver audit reports and services to meet the current and future needs of the Parliament, the Executive and public sector entities. To achieve this, the ANAO must deliver audit products that are recognised as being timely, cost-effective, add value and reflect international best practice, while at the same time being balanced and objective. This is the ongoing challenge for the ANAO.

*Section . . . . .*  
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# Overview

## Roles and responsibilities

The Auditor-General plays a fundamental role in the Australian democratic system of government through his protection of the public interest. He is appointed to audit and report to the Parliament of the Commonwealth of Australia on the activities of Commonwealth entities, authorities, companies and their subsidiaries.

The Auditor-General is the head of the Australian National Audit Office (ANAO) which provides professional and independent audit advice and assurance to the Parliament, Ministers as well as the boards and management of Commonwealth entities, through the conduct of performance and financial statement audits, and provision of audit related services

## Legislation

The *Audit Act 1901* and other Commonwealth legislation provide that the ANAO is responsible for:

- auditing the financial statements of Commonwealth-owned or controlled entities whether they be departments, statutory authorities or companies;<sup>1</sup> and
- conducting efficiency and project performance audits<sup>2</sup> of public sector entities.

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<sup>1</sup> With few exceptions, the financial statements audit mandate of the Auditor-General currently applies to all Commonwealth-owned or -controlled entities, whatever their legal form.

<sup>2</sup> The ANAO has adopted the term 'performance audits' to describe these audits.

The *Audit Act 1901* is to be repealed and replaced with a package of legislation comprising:

- the Auditor-General Bill;
- the Financial Management and Accountability Bill;
- the Commonwealth Authorities and Companies Bill.

The decision to replace the Audit Act flowed from the then Government's response to Report 296 of the JCPA: *The Auditor-General - Ally of the People and Parliament* (March 1989). This followed a comprehensive review of the Office of the Auditor-General and the ANAO in light of the changes in Commonwealth financial administration since Federation.

The Bills were initially introduced in the Parliament in June 1994 and revised Bills

were reintroduced in December 1996. The ANAO contributed to the JCPA through participating in its review of the proposed legislation. The ANAO also gave evidence to the Senate Finance and Public Administration Legislation Committee when the Bills were referred to that Committee.

Overall, the ANAO considers the package of legislation represents a significant advance in public sector administration. Parliamentary endorsement of the legislation, which is expected to take later this year, will be a major milestone in the overall public sector reform agenda.

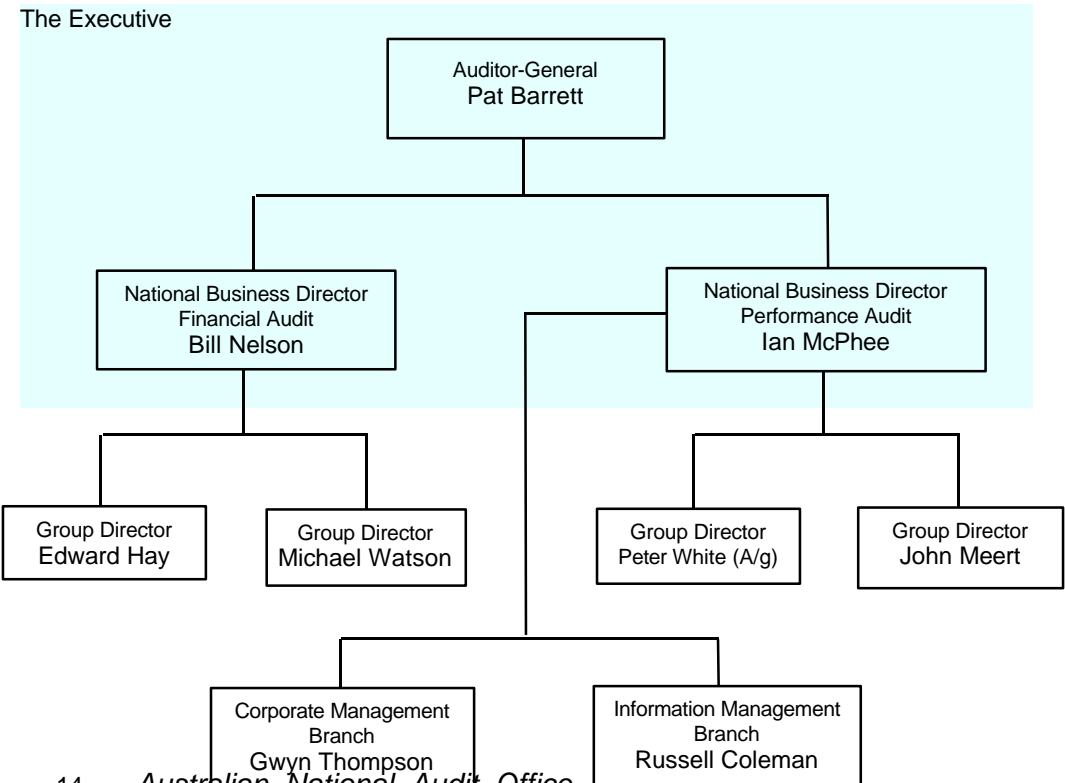
### Our Vision

To be valued by the Parliament, Commonwealth entities and the community as a major contributor to achieving excellence in public sector administration and accountability.

In 1995 the ANAO released its Corporate Plan for 1995-1998 outlining the vision, role and strategic approach of the ANAO. This was followed in 1996 and 1997 with publications entitled *Our Strategic Directions*, which articulate the key strategies the ANAO will adopt in meeting its responsibilities.

Chart 1

### Senior Management Organisation Structure



## ***Our Challenge and Approach***

To give effect to its vision the ANAO has recognised in its Corporate Plan the following challenges to achieving progress in five key areas:

- Be attuned to the needs, expectations and priorities of the Parliament, adding value through our auditing services.
- Add value to Commonwealth entities through our auditing services.
- Provide an environment which enables our people to enhance their skills and achieve their full potential.
- Achieve audit excellence as demonstrated in our products.
- Manage our operations efficiently and effectively.

The approaches to be adopted to meet these challenges is at Appendix 2.

## ***Management structure***

The Executive (the Auditor-General and the heads of each Business unit) is assisted in its management of the Office by an Executive Board of Management (EBOM), which is the ANAO's highest strategic decision-making body. The Executive Board comprises the Executive, the Group Directors of each Business unit, an Executive director from either Sydney or Melbourne and the two Corporate Executive Directors. The EBOM meets monthly to consider issues of strategic importance to the ANAO.

## **The organisation**

To fulfil its role and vision and meet its various challenges, the ANAO has been organised into two Business units which concentrate on the delivery of its core products, that is: financial statement audits and performance audits. A corporate area comprising two Branches supports the delivery of these core products through the provision of advice and internal services.

The Financial Statement Business Unit has staff located in three main geographic locations - Canberra, Sydney and Melbourne. The Performance Audit Business Unit, the Executive and audit support functions are located in Canberra.

## ***Program structure***

For budgetary purposes the ANAO was classified as Program 8 in the Finance Portfolio. There are three sub-programs which focus on the business imperatives of the ANAO. They are:

- sub-program 8.1 - Financial Statement Audit;
- sub-program 8.2 - Performance Audit; and
- sub-program 8.3 - Audit Support.

The Financial Audit Business Unit provides independent assurance on the financial statements of Commonwealth public sector entities to the Parliament, the Executive, Boards, Chief Executive Officers and the public. The Unit aims to deliver timely, cost effective and value added audit services for improvements in financial administration and management and public accountability matters. The

Performance Audit Business Unit aims to improve public sector administration and accountability by adding value through an effective program of performance audits and related products.

Sub-program	Organisation	Product
8.1 Financial Statement Audit	Financial Audit Business Unit	Financial Statement Audits; Financial Control and Administration Audits; Assurance and Control Assessment Audits; Better Practice Guides; Audit Related Services
8.2 Performance Audit	Performance Audit Business Unit	Efficiency and Project Performance Audits; Better Practice Guides; Audit Related Services
8.3 Audit Support	Information Management Branch; Corporate Management Branch	Strategic and operational support to the Executive and Business units

Section 2 of this report explains the roles of the business units and details the performance measures, outcomes and major initiatives for 1996-97. That section also describes the objectives and performance of the Audit Support sub-program

The products of each business unit reflect the relationship between organisational unit and the sub-program

## Corporate Governance - a balanced scorecard

The ANAO has a variety of systems and procedures in place to support the management of the organisation. These include a Corporate Plan and vision statement, an Executive Board of Management, organisation strategy, individual business unit plans including our audit strategy, business unit committees, continuous improvement groups and a range of performance indicators and supporting management information systems.

Corporate governance is about effective management. The corporate governance framework in the ANAO encompasses those mechanisms designed to ensure

the ANAO meets its management obligations - both financial and performance - in an efficient and responsible manner.

Our corporate governance framework is designed to ensure the ANAO meets its management obligations.

The key elements of this framework are:

- the Executive Board of Management;
- an Audit Committee;
- an Information Technology Committee;
- an integrated corporate planning framework;
- a structured risk management framework which involves the formal identification of risks across all activities of the ANAO and the development of strategies to manage the risks identified;
- various committees and working groups which have responsibility for

addressing ANAO-wide or Business unit specific issues either on an ongoing basis or on a project-by-project basis; and

- performance monitoring arrangements which ensure the periodic measurement of activities.

### ***Executive Board of Management***

The Executive Board of Management (EBOM) meets monthly to:

- consider and make decisions on the management issues of strategic or major importance to the activities, performance and well-being of the ANAO as a whole;
- review the strategic activities and directions of the Business units and the Corporate Branches;
- review the performance of the ANAO against the Corporate Plan;
- monitor the ANAO's general resource position; and
- respond to and monitor the ANAO's most important external relationships, most notably with the Parliament and its Committees, key public sector bodies and other audit institutions in Australia and overseas.

### ***Audit Committee***

The Audit Committee's responsibilities are to promote internal accountability, support measures to improve management performance and internal controls, to oversee the internal audit function, ensure effective liaison between senior management, internal audit and external audit and to enhance the reliability and objectivity of management reports.

The Audit Committee comprised the Auditor-General (Chair) and the two National Business Directors and complements the Executive Board of Management. The Committee met on four occasions in 1996-97. The internal auditor and the external auditor are invited to attend meetings when considered appropriate.

For the new financial year, a revised Audit Committee charter has been approved which reflects better practice principles developed and promulgated as a result of an audit by the ANAO of public sector audit committees. The major change to previous arrangements has been the appointment of a National Business Director as Chair and the inclusion of an appropriately qualified independent external person.

### ***Information Technology Committee***

The Information Technology Committee, which comprises representatives from the Financial Statement and Performance Audit Business Units, Corporate Branches and the Community and Public Sector Union, oversees the preparation and implementation of the ANAO's IT Strategic Plan and provides advice to the Executive on strategic directions for information management and information technology in the ANAO, and the development of major new applications and systems across the Office.

Table 2: Summary Financial and Resources Data on page 32 summarises the program's financial and staffing resources. Appendix 4 shows the reconciliation of programs and appropriation elements.

## Putting our own house in order

We, like other public sector entities, also need to ensure that our own house is in order through the use of a risk management approach, appropriate performance assessment and by adhering to public sector codes of conduct and our own professional standards.

Recognising that the ANAO is integral to the changing APS environment, we have produced a corporate governance statement covering the operations of the ANAO. Also as part of the development of the corporate governance approach, we reviewed our risk management strategy, performance indicators and performance measures, code of conduct and professional standards as well as the nature and scope of audit products.

### Risk Management in the ANAO

Risk management is not just something we recommend to other organisations: it is at the heart of our own operations. We have in place a number of safeguards to avoid unnecessary risks which would adversely impact the credibility of our audit products.

With limited resources at its disposal and a huge number of public sector programs within its mandate, the ANAO undertakes a rigorous strategic planning process and risk assessment for the purposes of identifying areas which will be subject to performance audit. Over recent years the ANAO has made a concerted effort to be more open

and consultative in the development of its performance audit programs. This involves extensive consultation with all key stakeholders. These include Parliamentary Committees, individual Parliamentarians, Ministers, Ministers' Offices, industry groups and representatives, the community and of course public sector entities themselves.

The ANAO assesses the benefits of conducting a performance audit against a number of criteria and weighs the results of this analysis against the resources it has available. It then undertakes a preliminary analysis or study before finally deciding whether or not to commit resources, and of course those of an entity, to a full performance audit. We are conscious of the cost and potential disruption our audit activities can create for entities.

We have in place a number of safeguards to avoid unnecessary risks

As well as risk ranking our financial and performance audits against a number of criteria, we have put in place safeguards to avoid unnecessary risks including continuous assurance processes, peer review and an insistence on the maintenance of quality operating standards. This last item is emphasised by the ANAO Auditing Standards, most recently reissued in June 1996, which incorporate the Australian Auditing Standards.

### Performance Assessment

The ANAO devotes considerable attention to performance measurement as part of performance management. We are currently working on the development of better performance information for ourselves. In this way the ANAO has a realistic understanding of the problems that entities are facing in this area. However difficult, such activities are important both for improved management and accountability and are not discretionary.

Some of the recent initiatives being pursued by the ANAO in an effort to improve its performance information include:

- reviewing our indicators to ensure that they are linked to our revised corporate plan; and
- surveys to measure the impact and value of ANAO products.

Performance information is continuously improved

These surveys are conducted at three levels to capture the views of our major client groups, as follows:

- a parliamentary survey in late 1996;
- a regular survey program of managers in entities across the Service; and
- benchmarking of performance against other audit agencies as well as arrangements for peer reviews involving other public sector entities and private sector accounting firms.

The parliamentary survey sought the views of Ministers, members, their senior advisers and Parliamentary

Committee Secretaries on whether the ANAO was meeting their needs. The results of the survey were grouped into three main areas - awareness, use and value of ANAO reports; consultation and information services; and audit report structure and presentation.

### **Awareness, use and value of ANAO reports**

Awareness of ANAO reports within the Parliament is high and has increased since the last survey in 1992. The reports provide an important information service for parliamentarians and parliamentary staff suggesting that the ANAO continues to be a credible source of accurate information.

ANAO reports were recognised by some as producing desirable change in public sector administration.

Feedback from entities audited has shown that the recommendations in ANAO reports were expected to improve the management of the entity. A lesson for the ANAO is that we need to improve promotion of outcomes of audits so that the impact of our reports is better understood by the Parliament and its Committees.

Respondents thought that reports were valuable in providing information on organisational performance, weaknesses in the organisation and whether accountability requirements were being met. This is consistent with the role of the ANAO and suggested that the ANAO was meeting its responsibilities.

Responses also indicated that the value of reports would be improved if we placed a greater emphasis on presentation of argument and analysis, the time scales for implementation of recommendations and follow-up action. This is consistent with feedback we have received from the JCPA. We are taking steps to improve these aspects of our reports.

### **Consultation and ANAO information services**

The survey showed that, although Parliamentary Committees find audit reports valuable, there is a need for increased communication with committees either through formal processes (for example presentations) and informal processes (such as personal contact with members of committees). To help Parliamentarians understand the major issues in our reports, we will make audit staff available at Parliament House on the day of tabling to provide a short briefing session on the results of the audit.

### **Report structure and presentation**

Feedback on report structure and presentation was generally positive. Some concern was expressed that the reports were not always relevant, timely, balanced or fair. We have attempted over the last few years to improve these aspects of our audit reports and will continue to do so.

## **Code of Conduct and Professional Standards**

The ANAO is bound by professional auditing standards, but we also see the value in having a Code of Conduct for

the Office that would recognise both our professional and public sector involvement. It is a part of our management framework based on values that underpin legal and professional imperatives. The ANAO is committed to fostering a culture which promotes the importance and value of high ethical standards in all the ANAO does.

During the year, an ANAO Code of Conduct was developed.

The Code outlines the ANAO's commitments and expectations in respect of the conduct of ANAO staff.

The Code has been prepared in consultation with staff and complements the *Guidelines on Official Conduct of Commonwealth Public Servants* issued by the Public Service and Merit Protection Commission, and the various professional codes which also are applicable to ANAO staff who are members of professional bodies. The ongoing consideration of ethical standards in the Australian Public sector by the Management Advisory Board (MAB) provided a firm foundation for developing the code. As their report notes:

*To inculcate an ethical culture and understanding fully, agencies need to provide complimentary guidance to their staff, which is in line with APS standards but which relates directly to*

*the work undertaken by the agency and the ethical issues which arise from it*<sup>3</sup>

Another way of monitoring and controlling our risks is to be very aware of relevant professional standards and being involved in the process of setting those standards. The ANAO maintains an involvement in the setting of both auditing and accounting standards through comment to relevant standards Boards on exposure drafts for new or revised standards. On occasion, we also comment on areas in standards that we consider particularly need to change.

The ANAO maintains an involvement in the setting of both auditing and accounting standards

The ANAO is also willing to participate more directly in the standard setting process. For example, Bill Nelson, the National Business Director of the Financial Audit Business Unit, was appointed to the Public Sector Accounting Standards Board of the Australian Accounting Research Foundation. That Board issues Accounting Standards that relate peculiarly to the public sector and, in conjunction with the Australian Accounting Standards Board, issues joint Standards that apply to both the public and private sectors.

In the field of Commonwealth activity, the ANAO's past activity has been strongly supportive of Accounting

<sup>3</sup> MAB/MIAC 1996. 'Ethical Standards and Values in the Australian Public Service'. Report No.19, AGPS, Canberra.

Standards and underlying Statements of Accounting Concepts as the appropriate framework for public sector reporting. The ANAO supports, for example, the policy of reporting separately against compliance with Accounting Standards and compliance with legislation on the exceptional occasions where there is a clash between the two sets of requirements. The Commonwealth Department of Finance has also, in the past, been consistently supportive of the application of Accounting Standards.

Internationally, the ANAO chaired the Auditing Standards Committee of the International Organisation of Supreme Audit Institutions (INTOSAI) for almost a decade until mid 1995 and still retains its membership. Such involvement reflects the level of the Office's commitment to high professional standards in audit and accounting and the need to have the capability necessary to ensure our professional obligations can be met in all our audits.

## Significant Achievements

The ANAO completed its 1996-97 program of Financial Statement and Performance audits within agreed time frames at reduced cost to the Commonwealth.

Within the overall reduction in costs achieved, additional products were also delivered by way of Better Practice Guides and Financial Control and Administration audits resulting in our

audit services being more relevant to the needs of both the Parliament and public sector entities.

### *Meeting the needs of our clients*

As part of its continuous improvement program the ANAO recognises that it must continually strive to understand and meet its clients' needs and expectations.

The ANAO assisted the JCPA in implementing its new review procedures, which began with public hearings on selected audit reports in July 1996. In March 1997 the JCPA tabled Report 349 *Review of Auditor-General's Reports 1995-96* and Report 350 *Review of Auditor-General's Reports 1996-97 First Quarter*. In these reports the JCPA expressed support for issues raised in the audit reports and in several cases made recommendations supporting those of the ANAO.

Indicative of the contact that the ANAO maintains with parliamentary committees generally, the ANAO gave assistance to committees in a number of inquiries, many of which were still in progress at the time of preparing this report.

An important innovation during the year was the survey of entities' responses to tabled reports.

After a performance audit report is tabled the ANAO seeks feedback on the performance audit process. The ANAO engaged a consultant to conduct the survey by means of a questionnaire and

interviews with managers responsible for the program or activity that was subject to audit.

In April 1997 the Financial Audit Business Unit conducted a survey of a number of Departmental Secretaries to obtain feedback on ways to improve its audit service performance. The focus of the survey was directed specifically at the level of service and assistance that has been provided and the nature and extent of the relationship which exists between the ANAO and its clients. Very favourable high level responses were received from the majority of clients on the professional services provided.

During April and May 1997 a series of seminars was held in Canberra, Sydney and Melbourne to discuss topical financial reporting issues. The conduct of seminars is a continuing commitment by FABU to provide relevant and timely information to assist client staff involved in the preparation of their entity's financial statements.

Assurance Control Assessment (ACA) audits were introduced in 1996 to examine basic administrative processes across a range of entities and to provide a positive assurance that entities are meeting their obligations under the financial legislative framework. The scope and focus of ACA audits is on the level of control and compliance with those key controls and procedures put in place by management that underpin the delivery of products and services. It is intended that reporting on these audits will be included in the report of *Results of Financial Statement Audits of Commonwealth Entities*.

The Financial Reporting Bulletin is a technical publication produced by the

ANAO for Chief Finance Officers and accounting staff of Commonwealth entities. The Bulletin provides a quarterly update on current accounting and auditing developments and is supplemented with client seminars which assist in meeting changing financial accountability and reporting requirements on financial statement clients. The first Financial Reporting Bulletin was issued in January 1997 and it and subsequent editions have received very favourable comments from entities.

### ***Improvements in financial statement auditing***

A suite of integrated computer-based audit software products has been fully implemented at the ANAO for the 1996-97 audit cycle following a successful pilot program undertaken during 1995-96. The integration of information technology into all phases of the audit process has significantly enhanced the planning and execution of financial statement audits.

Audit staff achieved an audit activity rate for the year which was above the target and is consistent with good practice in private sector auditing organisations.

### ***Whole of Government reporting***

In August 1996 the Government published the first in a three year trial set of Whole of Government accrual based financial statements. This set of statements covered the year ended 30 June 1995 and was prepared by the

Department of Finance in collaboration with the ANAO.

Prior to commencing the preparation of the 1995-96 trial statements, the Government announced that the Whole of Government financial statement for the year ended 30 June 1997 would be fully audited. This was a year earlier than originally envisaged and meant the ANAO had to move away from assisting in the preparation of the financial statements and focus on examination of the processes supporting their preparation.

The ANAO involvement in the Whole of Government trial process has confirmed our view that Whole of Government reporting on a full accrual basis represents a significant improvement in the quality of information available to the Commonwealth and the public on the operations of the Commonwealth and its balance sheet position.

### ***Performance audits***

Performance audit reports tabled during the year addressed aspects of the operations of most portfolios, with most attention again directed to portfolios with significant Government outlays.

As a result of our audit work, entities agreed to implement recommendations directed towards improvements in administration, accountability and better service delivery. Significant financial and other benefits will result from the adoption of many of the ANAO's recommendations. In many instances these benefits clearly outweigh the costs involved. In others, the entities concerned will need to undertake the necessary assessments unless they can satisfy the Parliament that the effort is not justified.

Three audits provide examples of how our reports provide the decision makers with solid information on which to base their strategic decisions:

- *Commonwealth Natural Resource Management and Environment Programs* Audit Report No.36 documented the lessons learned in relation to performance and financial accountability aspects of key Commonwealth programs;
- *Risk Management - Australian Taxation Office*, Audit Report No.37, reviewed the ATO's formal process for managing all sources of risk for the organisation in a time frame which assisted the development of their strategy; and
- *Evaluation Process for the Shared Systems Suite*, Audit Report No.14, conducted at the request of the Office of Government Information Technology (OGIT), examined the probity of procedures for evaluating tenders for acceptance to the Shared Systems Suite, which is a government initiative to reduce the number of administrative systems used by Commonwealth entities.

### **Better Practice Guides**

The ANAO continued producing publications on better practice during 1996-97.

These better practice guides reinforce the importance of corporate governance in the public sector and assist in the improvement in public administration by ensuring that better practices employed in some entities can be used as a benchmark for the whole of the APS. As part of the Financial Controls and Administration audits, better practice guides were issued on Paying

Accounts and Audit Committees. Another sought after guide was that covering Telephone Call Centres.

**Better Practice Guides**  
reinforce corporate  
governance and assist  
improvement in public  
administration

A guide on Performance Information Principles was developed jointly by the ANAO and the Department of Finance. The Guide aims to facilitate a common understanding of the concept of performance information and the key role it plays in management and accountability.

### **Corporate review**

The implementation of the recommendations of the Corporate Review (1995-96) has continued through this year and a Business Plan developed to provide the focus of operations for an eighteen month period. One of the main activities this year was the restructure of Corporate Management Branch to focus on the delivery of strategic advice and policy development and on the delivery of customer focused management services which reflect better practice.

### **Market testing of IT services**

The market testing of the provision of IT services to the Office, commenced in 1995-96, was completed this year. Based on the results of market testing, the ANAO decided to outsource the delivery of its IT services from 1 July 1997.

The ANAO has specified quantitative and qualitative service standards in the contract and will ensure that an

adequate level of monitoring of performance is undertaken as part of contract administration.

The core staff element responsible for our IT strategy development includes the necessary expertise to monitor contract performance. Early experience indicates the partnership with the private sector suppliers is working well.

## Internal and External Scrutiny

### Internal audit

Internal reviews are conducted by the Internal Audit Section which is an independent unit responsible to the Auditor-General through the ANAO Audit Committee. The objective of the Internal Audit Section is to provide the Auditor-General with an assurance concerning ANAO systems and processes, directed at attaining the goals specified in the ANAO Corporate Plan.

The Internal Audit Section is also responsible for implementation of the Fraud Control Policy of the Commonwealth in the ANAO; preparation of the Fraud Control Plan; and the investigation and reporting of prima facie cases of fraud against the ANAO.

### Audit Plans

The ANAO Audit Committee approves a three-year Strategic Audit Plan and an Annual Work Plan for Internal Audit which identifies specific audits and their

broad objectives. The results of audits are reported to the Audit Committee.

### Reviews

During 1996-97 internal audit activity continued to focus on the system of internal controls. Audits conducted during the year included follow-up of the Independent Auditor's 1995-96 audit findings and recommendations, Regional Office operations, contracting-out, travel expenditure and financial reporting systems.

Overview

### External audit

The Independent Auditor, appointed under sub-section 48K(2) of the *Audit Act 1901*, carries out an annual financial statement audit and efficiency audits of the ANAO. Subject to the provisions of the Act, the manner in which efficiency audits are conducted, including frequency and scope, is at the discretion of the Independent Auditor. The Minister for Finance extended the appointment of Mr David Boymal as Independent Auditor for a further two years following expiry of his initial three-year appointment on 21 October 1995. Mr Boymal is a partner in the chartered accounting firm of Ernst & Young.

### Financial statement audit

The Independent Auditor conducted the audit of the ANAO 1996-97 accrual financial statement. The audit report on the financial statement was unqualified.

### Performance audit

The Independent Auditor completed an audit of Human Resource Management

in the ANAO. It was tabled in the Parliament in November 1996. The Report noted that the 1995-96 year was one of consolidation of the changes within the ANAO, particularly in terms of the two business units, and this increased stability had encouraged the development and implementation of a range of human resource management strategies.

The Report concluded that while it was too early to be able to determine the extent to which these measures would be successful in meeting the objectives of the ANAO, steps were in place to re-establish and redress key areas of human resource management which were critical to the successful operation of the ANAO.

The Report also noted that, while significant gains had been made for audit staff in Canberra, there were unresolved issues in the regional offices and in the broad corporate services area. To complete the refocussing of the ANAO, and to enable it to move forward with a cohesive, holistic approach to human resource management, the Report indicated it was important that these issues be resolved as early as possible.

The ANAO indicated that it considered the Report would be useful in focussing the ANAO's attention on the strategies that needed to be pursued in this key area for the ongoing well-being of the Office, and has taken action, where necessary, to implement the 15 recommendations made in the Report.

A performance audit of ANAO Benchmarking was commenced in 1996-97 and is currently being finalised.

## Quality assurance

The ongoing program of quality assurance reviews of audits was continued in both business units as an integral element of the ANAO's quality control regime. The result of the reviews contribute to both the training and development curriculum and the methodology review mechanism in the ANAO. A Quality Control Manual is in the first stages of development.

## Fraud control

To comply with the Fraud Control Policy of the Commonwealth, a fraud risk assessment of the ANAO was undertaken in 1996-97 in accordance with the *Best Practice Guide for Fraud Control* issued by the Minister for Justice. The assessment indicated that a moderate risk of fraud exists to the ANAO's policies and objectives, and a Fraud Control Plan has been prepared and implemented to minimise the risks. Fraud awareness training sessions were also introduced for all staff and will be provided to new staff at induction courses. An ANAO Fraud Prevention and Awareness Guide has also been issued to all staff.

## Social Justice and Equity

### Access and Equity

Most Access and Equity (A&E) strategies which relate to the provision of services to the public are not applicable to the ANAO because the

ANAO does not provide a direct service to the public. The Parliament is the ANAO's principal client.

## Equal Employment Opportunity (EEO)

The objectives of EEO policy specify the actions needed to achieve the desired outcomes for the four EEO target groups: women, Aboriginal and Torres Strait Islanders, people from a non-English speaking background and people with disabilities.

ANAO's EEO Program is consistent with its Corporate Plan, and aims to uphold and strengthen EEO principles, through appropriate structures, processes and work environments. The Program focuses on issues which affect all workers: recruitment and selection practices, the actual working environment, staff development and training, and the organisation of the ANAO. The specific needs of EEO group members are addressed within the broad context of those issues.

The Program seeks to:

- maintain a senior management commitment to EEO policies and practices;
- ensure that EEO principles are incorporated into the development and application of personnel management practices;
- ensure that all staff have an awareness of the Program and access to EEO information;
- ensure that the ANAO's communications are free of

stereotyping, sexism or culturally biased language; and

- introduce specific measures to encourage the participation of women and members of the other designated groups in occupations or work areas where they are currently under-represented.

### **EEO Resources**

Responsibility for the EEO Program rests with the Senior Executive Responsible for EEO - the Executive Director, Corporate Management. The Program is coordinated by a Senior Officer who reports to the Executive Director on all aspects of the Program.

### **EEO Statistics**

EEO data is provided voluntarily at the time of recruitment into the ANAO and is used as the basis for Table 1 on page 28.

Representation of staff in EEO groups is similar to last year. The changes were generally slight, but there were some seemingly significant differences between last year's figures and those for 1996-97. For example, the employment of temporary staff may count for the decrease in the NESB1 ASO 2-3 range in Column 3b; and the Performance Audit Business Unit has employed an Aboriginal Cadet (refer to Column 1, Staff Total) which accounts for the 7 per cent increase in Column 5b.

### **EEO Achievements**

Overall ANAO representation of NESB staff is greater than the APS average and still ahead of the Year 2000 target.

### **Priorities for 1997-98**

The priority for 1997-98 will be the review and updating of the ANAO's

EEO Program. ANAO has permission from the PSMPC to use the 1994-96 Program until the end of August 1997, and to implement our new Program on 1 September 1997. In May 1997, the ANAO became a member of the Council for Equal Opportunity in Employment.

***EEO in Appointments***

The ANAO does not make any appointments to statutory or non-statutory bodies.

**Table 1**

**- Representation of EEO Groups Within Salary Levels, 1995-96 to 1996-97**

Salary Range	Total Staff		Women		NESB1		NESB2		ATSI		PWD	
	95-96	96-97	95-96	96-97	95-96	96-97	95-96	96-97	95-96	96-97	95-96	96-97
<b>\$26,457 and below</b>	5 (1%)	6 (2%)	2 (40%)	4 (67%)	0	0	1 (20%)	1 (17%)	3 (60%)	4 (67%)	0	0
<b>\$27,091 to \$33,304 (includes ASO 2 and ASO 3)</b>	42 (11%)	36 (11%)	35 (83%)	31 (86%)	10 (24%)	6 (17%)	4 (10%)	4 (11%)	0	0	1 (2%)	0
<b>\$34,391 to \$40,675 (includes ASO 4 and ASO 5)</b>	84 (22%)	76 (23%)	36 (43%)	34 (45%)	13 (15%)	11 (14.5%)	9 (11%)	7 (9%)	0	0	1 (1%)	3 (4%)
<b>\$41,430 to \$55,170 (includes ASO 6 and SOG C)</b>	129 (34%)	102 (31%)	39 (30%)	36 (35%)	23 (18%)	16 (16%)	7 (5%)	3 (3%)	0	0	4 (3%)	3 (3%)
<b>Above \$57,983</b>	125 (32%)	110 (33%)	22 (18%)	19 (17%)	11 (9%)	6 (5%)	6 (5%)	7 (6%)	0	0	3 (2%)	3 (3%)
<b>TOTAL</b>	385	330	134 (35%)	124 (38%)	57 (16%)	39 (12%)	27 (7%)	22 (7%)	3 (0.8%)	4 (1%)	9 (2%)	9 (3%)

Key: NESB1 Non-English speaking background, first generation  
 NESB2 Non-English speaking background, second generation  
 ATSI Aboriginal or Torres Strait Islander  
 PWD People with Disability

Note: Includes inoperative staff. Percentages may not add due to rounding

### **Aboriginal and Torres Strait Islander Recruitment and Career Development Plan**

The ANAO's Aboriginal and Torres Strait Islander Recruitment and Career Development Plan provides for the recruitment of one graduate or trainee each year until the year 2000. In 1996-97, we were unable to recruit any graduates, but instead appointed four Aboriginal cadets.

Cadets are appointed and receive a reduced wage while undertaking full-time study and undertake full-time work in the ANAO in Canberra during major study breaks.

On successful completion of their tertiary study, the cadets will be promoted into the relevant administrative officer stream and will receive twelve months of formal structured and on-the-job training, they will then be promoted into the audit stream. One cadet commenced full time employment in the ANAO in early 1997.

The ANAO recruitment and career development strategy provides Aboriginal and Torres Strait Islander graduates and cadets and trainees with sound professional training and a career structure on a par with other audit professionals.

It is expected that recruitment of Aboriginal and Torres Strait Islander graduates or cadets, at least to the level

outlined in the Plan, will continue subject to interest from suitable applicants.

## **Other Corporate Issues**

### **Industrial Democracy**

In December 1996 the National Consultative Council (NCC) met and agreed to ongoing consultative mechanisms for the ANAO. The ANAO has maintained regular consultation with staff and the CPSU. This is highlighted in the preparation and production of the Corporate Plan; and currently, with the preparation of discussion papers and the formation of focus groups dealing with the impact of the *Workplace Relations Act 1996*.

Consultation also took place on the following matters:

- IT Outsourcing - Joint ANAO /CPSU/People Management Issues Working Party;
- review of Regional Offices;
- review of Time Accounting Policy - Joint ANAO/CPSU Committee; and
- accommodation review.

### **Occupational Health and Safety**

The ANAO Occupational Health and Safety (OH&S) Policy and Agreement are being redrafted to incorporate references to the *Workplace Relations Act 1996*.

As a result of this restructure, previously disparate OH&S Committees located in Canberra, Sydney and Melbourne, were brought together to form a National OH&S Committee.

The ANAO, in consultation with the Community and Public Sector Union, restructured its health and safety consultative mechanisms in December 1996.

The implementation of a National Committee to oversee OH&S issues within the ANAO, has allowed for a more unified and coordinated approach to health and safety within the ANAO. In addition, the restructure has ensured that OH&S in the Sydney and Melbourne Offices of the ANAO is being adequately addressed.

The benefits of this approach have been recognised by managers and staff, with health and safety issues within the ANAO gaining a higher profile and greater credibility.

### **OH&S Achievements for 1996-97**

Specific achievements in OH&S include:

- the development of an OH&S Strategic Plan for 1997-98. A major component of this plan is the review of the ANAO's various OH&S policies to ensure that the Codes of Practice declared under Section 70 of the Act are being adequately addressed;
- the development and implementation of formal procedures relating to First Aid;
- the revision of internal reporting procedures to ensure that the ANAO continues to meet the requirements of Section 68 of the Act;
- the provision of an OH&S information package to all staff. This package forms the basis of what will be developed into a comprehensive health and safety resource as the review of OH&S policies continues;
- the inclusion of an OH&S brief in the ANAO's induction package;
- the development of a Critical Incident (Trauma Debriefing) Policy; and
- a complete ergonomic assessment of the Sydney State Office.

### **Incidents During 1996-97**

There were fourteen incidents during 1996-97 which required the bestowing of a notice under Section 68 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991*. There were no tests, directions or notices given under Sections 30, 45, 46 or 47 of the Act.

### **Employee Assistance Program (EAP)**

The ANAO has renewed its contract with IPS Employee Assistance for the provision of Employee Assistance Program (EAP) services to all staff of the ANAO and their families to October 1998.

### **Advertising and Market Research**

During 1996-97, the ANAO did not undertake any market research activity. Approximately \$24 000 was expended on advertising for permanent and contract staff.

### Freedom of information

The Auditor-General is an exempt entity under the Freedom of Information Act 1982 but to the extent appropriate provides information on request in the spirit of the Act. The results of audits, once tabled, are available to the public. An innovation this year saw the full text of reports made available on our Internet home page. The ANAO received no requests for information under this Act in the past year.

### Inquiries by parliamentary committees

Involvement by the ANAO in **Overview** by Parliamentary Committees is discussed on pages 57 to 59.

### Decisions by courts and tribunals

There were no matters relating to the ANAO decided by a court or tribunal during the year

### Commonwealth Ombudsman

The Commonwealth Ombudsman made no reports to the ANAO under section 15, 16 or 19 of the *Ombudsman Act 1976* during the year.

**Table 2****Financial and Staffing Resources Summary  
PROGRAM 8.0 - AUDIT**

	\$'000 and actual staff years		
	Actual 1995-96	Budget & AEs <sup>a</sup> 1996-97	Actual 1996-97
<b>BUDGETARY(CASH) BASIS</b>			
Components of Appropriations			
Running costs (RC)	49 506	53 956	47 134
Other program costs (excluding RC)	nil	220	207
Total	49 506	54 176	47 341
Less: Adjustments <sup>b</sup>	17 496	15 513	15 471
 Total Outlays	 32 010	 38 663	 31 870
<b>ACCRUAL BASIS</b>			
Net cost of service delivery	48 538	n/a	44 592
Other program costs (excluding service delivery)	nil	n/a	nil
 Total Costs	 48 538	 n/a	 44 592
 Program revenues	 17 075	 n/a	 13 780
 Total (allocated) assets	 6 741	 n/a	 11 889
Total (allocated) liabilities	11 528	n/a	9 039
<b>STAFFING</b>			
Staff years (actual)	347.8		325

(a) Budget figure amended to include Additional Estimates.

(b) Represented by Audit Fees and other minor receipts.

All amounts have been rounded to the nearest \$1000. Totals are the rounded sums of unrounded figures.

Table 3

**Financial and Staffing Resources Summary**  
**SUB-PROGRAM 8.1 - FINANCIAL STATEMENT AUDIT**

	\$'000 and actual staff years		
	Actual 1995-96	Budget & AEs <sup>a</sup> 1995-96	Actual 1996-97
<b>BUDGETARY(CASH) BASIS</b>			
Components of Appropriations			
Running Costs (RC)	25 368	24 326	25 557
Other program costs (excluding RC)			
Total Appropriations	25 368	24 326	25 557
Less: Adjustments <sup>b</sup>	17 327	15 200	15 159
 Total Outlays	 8 041	 9 126	 10 398
 <b>STAFFING</b>			
 Staff years (actual)	 175.35		 159

(a) Budget figure amended to include Additional Estimates.

(b) Represented by Audit Fees and other minor receipts.

All amounts have been rounded to the nearest \$1000. Totals are the rounded sums of unrounded figures.

**Table 4****Financial and Staffing Resources Summary  
SUB-PROGRAM 8.2 - PERFORMANCE AUDIT**

	\$'000 and actual staff years		
	Actual 1995-96	Budget & AEs <sup>a</sup> 1996-97	Actual 1996-97
<b>BUDGETARY(CASH) BASIS</b>			
Components of Appropriations			
Running Costs	8 777	11 486	10 712
Total Appropriations	8 777	11 486	10 712
Less: Adjustments <sup>b</sup>	nil	150	196
Total Outlays	8 777	11 336	10 516
 <b>STAFFING</b>			
Staff years (actual)	103.2		106

(a) Budget figure amended to include Additional Estimates.

(b) See Budget Paper No.1 for a description of items included in revenue (e.g. 1995-96 BP1, page 7.11)

All amounts have been rounded to the nearest \$1000. Totals are the rounded sums of unrounded figures.

**Table 5**  
**Financial and Staffing Resources Summary**  
**SUB-PROGRAM 8.3 - AUDIT SUPPORT**

	\$'000 and actual staff years		
	Actual 1995-96	Budget & AEs <sup>a</sup> 1996-97	Actual 1996-97
<b>BUDGETARY(CASH) BASIS</b>			
Components of Appropriations			
Running Costs	15 361	18 144	10 865
Other program costs (excl. running costs)		220	207
Total Appropriations	15 361	18 364	11 072
Less: Adjustments <sup>(b)</sup>	169	163	116
 Total Outlays	 15 192	 18 201	 10 956
 <b>STAFFING</b>			
 Staff years (actual)	 69.42		 60

(a) Budget figure amended to include Additional Estimates.

(b) Represented by minor receipts

All amounts have been rounded to the nearest \$1000. Totals are the rounded sums of unrounded figures.



*Section . . . . .*  
*. . . . . Two*

# Reporting on Performance

Financial Statement Audit	- Sub-program 8.1	39 .
Performance Audit	- Sub-program 8.2	49 .
Audit support	- Sub-program 8.3	62 .



# Sub-program 8.1

## Financial Statement Audit

### Objective

The primary objective of this sub-program is to provide an independent assurance to the Parliament, and to other key stakeholders, in relation to the information presented in the financial statements of Commonwealth public sector entities. The other stakeholders include responsible Ministers, boards and executive management, and the general public.

An inter-related objective is to provide independent assurance to the above parties in relation to financial management, administration and control in Commonwealth entities.

### Description

The Auditor-General has a statutory responsibility, under the *Audit Act 1901*, to audit the financial statements of Commonwealth entities, except for government companies, and to provide an audit report on those financial statements. While it is necessary for the Auditor-General to be appointed by the relevant Minister to undertake audits of companies, it is current Government policy that the Auditor-General be the auditor of these entities.

The Auditor-General undertakes examinations of the underlying financial and other systems and records from which the information used in the preparation of the financial statements is generated.

The Financial Audit Business Unit (FABU) is the organisational unit within the ANAO which undertakes this work on behalf of the Auditor-General. The primary activities undertaken by the unit in fulfilment of its objectives include:

- individual Financial Statement audits (FSA);
- Assurance Control Assessment (ACA) audits in relation to each entity; and

- a number of 'across-the-board' Financial Control and Administration (FCA) audits in selected entities.

The outputs from each of these audits are summarised in Table 6.

Professional advice and assistance is also provided to Commonwealth entities in relation to auditing and accounting matters generally with an emphasis on practical guidance to improve financial management and administration.

Outputs in relation to these activities include the provision of client seminars, publication of a quarterly Financial

Reporting Bulletin for external use, the production of better practice guides and representation, as observers, on public sector audit committees.

## Resources

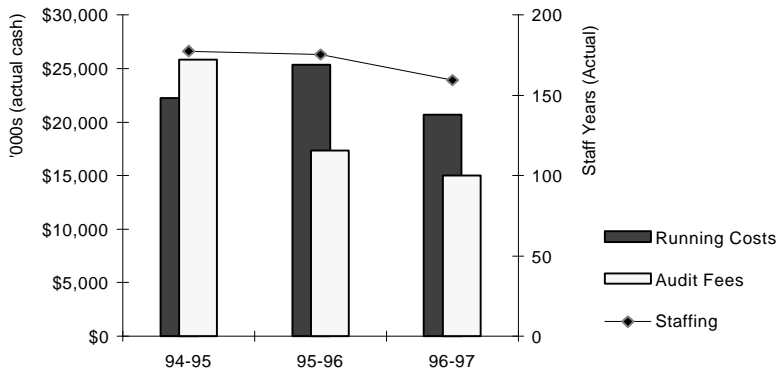
Chart 2 on the following page summarises the financial and staffing resources for the sub-program. Detailed figures supporting the chart are contained in Table 3 on page 33.

**Table 6**  
**Sub-program outputs**

Activity/Output Provided to:	Parliament	Minister	Entity
<b>Financial Statement Audit</b>			
<i>Report on Results of Financial Statement Audits</i>	•		
<i>Audit Report on Financial Statements</i>		•	•
<i>Internal Control Memorandum</i>			•
<i>Results of Financial Audit Memorandum</i>		•	•
<b>Financial Control and Administration Audit</b>			
<i>Audit Report</i>	•		
<i>Portfolio Report on Results of Audit</i>		•	
<i>Better Practice Guide</i>			•
<i>Results of Audit Memorandum</i>			•
<b>Assurance Control Assessment Audit</b>			
<i>Audit Report</i>	•		
<i>Results of Audit Memorandum</i>			•

*Additional information on the audit and audit-related services provided by the Business unit may be found in a separate ANAO brochure titled 'Delivering an Integrated Audit Service'*

**Chart 2**  
**- Resources Applied to Financial Audit Sub-program**



*The decline in actual audit fees from 1995-96 reflects a change in Government policy whereby on-budget entities are no longer required to pay fees and show this as a notional expense in their financial statements.*

**Performance measures**

While the general corporate approach to performance measures has been stated in Section 1, it is recognised that the strategic significance of the financial audit program to the Commonwealth extends beyond the assurance which comes from the audit opinion to the Parliament and other users of Commonwealth public sector financial statements.

While such independent assurance is a key feature in enhancing the reliability and usefulness of the financial statements, the activities undertaken in the sub-program also serve to improve the standard of financial management and administration within entities.

This is achieved in part through the direct reporting of system and other control weakness to the management of

entities, and to the relevant Ministers and the Parliament where these matters are of sufficient importance to do so. It is also achieved by the production and promulgation of general advice and assistance to entities in various forms.

Given the above, the performance measures adopted for the sub-program relate primarily to the nature and content of audit reports and findings.

The principal performance measure for financial statement audit activity relates to the number of **unqualified** audit reports issued each year.

The absence of a qualified audit report is a key outcome for the sub-program. It indicates that the management of the entity and the ANAO have worked cooperatively to ensure that the information contained in the financial statements meets applicable accounting standards and public sector disclosure requirements. While the ideal 'benchmark for this measure is to have no qualifications, this may not be achievable in practice. The financial statements are the responsibility of the preparing entity, and the entity has the final say on what is included in those statements. To some extent therefore, whether or not an audit qualification exists can be beyond the control of the ANAO.

A performance measure related to the number of unqualified audit reports issued is the timeliness with which such reports are issued.

The usefulness of information generally lessens over time, particularly in relation to the historical data presented in financial statements. It is therefore important that this information is presented as soon as possible after the end of the reporting period. As financial statements cannot be presented without an audit report thereon, the onus is on the ANAO to provide the opinion without undue delay.

Indeed the issue of timeliness permeates all audit reporting activity. Measurement of the delay in reporting is

therefore used generally as an indicator of the quality of ANAO reporting.

When considering the detailed reports on the results of the financial statement audit and the internal control framework within an entity, a performance measure adopted by the ANAO relates to the number and significance of audit findings and recommendations. The expectation over time is that the number and significance of findings will decline, which in turn should reflect a general improvement in entities' systems of control and financial statements.

The extent to which the ANAO can directly influence this indicator, however, can be affected by system changes undertaken within entities and the effectiveness of their own internal monitoring and enforcement of compliance. Recognising this, indicators to be introduced in subsequent reports will relate to the extent to which recommendations arising from audit findings are accepted by management and acted upon.

As audit recommendations are generally directed toward effecting improvement, this latter measure is taken as an indicator of the extent to which the financial audit activity has had a positive impact on financial management, administration and control in the Commonwealth.

The ANAO also has as an obligation to its fee paying clients, including the Parliament, to deliver a cost-effective, high quality audit. An operational imperative is that audit fees (including notional fees) are set so that the full cost of delivery of the sub-program is recovered.

The audit fee charged is a function of the charge out rates adopted by the ANAO for each auditor classification. These rates in turn depend on the overall cost of program delivery and the number of available hours per employee applied to audit tasks.

Performance measures in relation to these outcomes are encapsulated in the weighted average charge-out rate achieved by the business unit.

Table 7 summarises the outcome performance measures used by the sub-program for its audit activity:

**Table 7**  
**- Performance Outcome Measures**

Measure Used for:	used for		
	FSA	ACA	FCA
Number of <i>unqualified</i> audit reports issued	•		
Timeliness of Reporting	•	•	•
Weighted Average Charge-Out Rate/Hour	•	•	•

As discussed above, in addition to audit reports, the business unit also delivers a number of other products and services to its clients. It is difficult to develop a direct measure of the impact of these activities in terms of the overall outcomes described above relating to improvement in financial management, administration and control. Output and

activity measures are therefore utilised as a proxy for measurement of outcomes.

The business unit also uses qualitative performance measures internally, to gauge the success or otherwise of activities. These relate to the degree of acceptance and reaction to the various reports, publications and seminars. As much of the information obtained in this regard is anecdotal these measures have not been formally included in this report.

Table 8 summarises the output and activity measures used by the sub-program for its audit activity:

**Table 8**  
**- Output/Activity Measures**

Measure Used for	FSA	ACA	FCA
Number and nature of audit findings	•	•	•
Number of recommendations made and accepted	•	•	•
Number of Seminars Held/Attendance	•	•	•
Number of External Bulletins Published	•		

The outcomes discussed below generally relate to activities undertaken in the 1996-97 financial year. The timing of the financial audit program however dictates that the performance information in respect of financial statement audits relates to audits

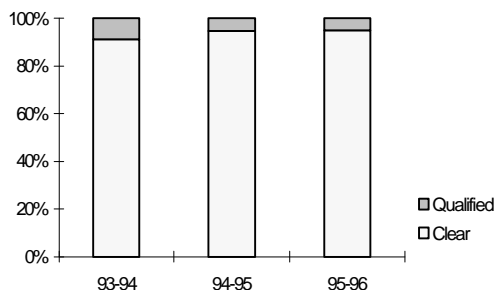
completed on the financial statements of entities for the year ended 30 June 1996.

## Sub-program Outcomes

### Financial Statement Audit Reports

Audit reports are issued in relation to each set of financial statements produced by Commonwealth entities. Chart 3 summarises the outcomes from the financial statement audit reports issued over the past three years.

**Chart 3**  
- Percentage of Unqualified Opinions



*In 1995-96 a new category 'emphasis of matter' was introduced to the Audit Report on the Financial Statements. The inclusion of this in a Report is treated as an unqualified opinion. Twenty-four (7%) of unqualified reports in 1995-96 included an emphasis of matter, primarily relating to future uncertainty.*

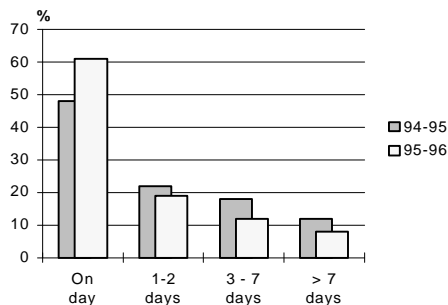
### Timely completion of Financial Statement Audits

The timeliness of issue of audit reports on financial statements is measured in terms of the delay between the receipt of a duly signed set of financial statements

and the date of the audit opinion expressed thereon.

Chart 4 summarises the trend for this measure over the past two years.

**Chart 4**  
- Timeliness of Audit Reports Issued



Performance in relation to this measure has steadily improved.

Performance in relation to this measure has steadily improved. The benchmark target is to issue all opinions within 7 days of receipt of the financial statements and to continue to improve the percentage of audit reports issued on the day of receipt of the statements.

### Cost-effectiveness of audit activity

The business unit focuses on resource management and cost analysis to provide a stable platform to support the delivery of cost-effective audit services. Key strategies in place to facilitate this include:

- a Business Plan supported by detailed Operational Plans and budgets;
- the use of information technology to automate the audit process;
- using private sector resources where specialist skills are required; and
- undertaking internal quality assurance reviews and external bench-marking exercises.

Table 9 summarises the key performance measures used in assessing the cost-effectiveness of our audit activity.

**Table 9**  
- Cost-Effectiveness Measures

Measure	Plan	Actual
Total Audit Hours Delivered (000's)	190.1	199.3
Audit Hours to Available Hours (%)	78.6	82.7
Weighted Average Cost (\$/Hour)	111	106

*Figures relate to the financial year ended 30 June 1997.*

The data show that the resources delivered by the sub-program exceeded plan. This occurred in part due to the increased productivity of the sub-program audit staff. This increased productivity is directly measured by the percentage of hours applied by audit staff to audit activity. The outcome of this was the ability of the Business unit to produce more (for example the introduction of the FCA audits and

Better Practice Guidance series) from a declining resource base and to produce it at a lower unit cost to the Commonwealth.

## Audit findings arising from Financial Statement Audits

Table 10 summarises the audit findings relating to underlying systems and records were presented to the management of entities during the year. These findings arise as a direct result of work undertaken for the financial statement audit report. For 1995-96 the findings have been further sub-classified between Information Technology and Other system issues.

**Table 10**  
- Summary of Audit Findings

Category	94-95	95-96
<b>Significant Findings</b>	No.	No.
<i>Information Technology</i>		22
<i>Other System Issues</i>		83
<b>Total</b>	<b>34</b>	<b>105</b>
<b>Important Findings</b>		
<i>Information Technology</i>		66
<i>Other System Issues</i>		361
<b>Total</b>	<b>392</b>	<b>427</b>

*A large number of additional findings of a procedural nature are presented annually to heads of entities. These are not considered sufficiently important to monitor separately as a performance measure.*

## Financial Control and Administration Audits

FCA audits were introduced in the last financial year. The first report in this series was on Asset Management

(Report No.27 of 1995-96) tabled in Parliament on 14 June 1996. Audits completed this financial year were:

**Table 11**  
**Performance Measures for the FCA Product**

	Cost (\$000's)		Tabling Date		Recommendations	
	Plan	Actual	Plan	Actual	General	Specific
					No.	No.
Asset Management	690	737	31 May 96	14 Jun 96	9	124
Payment of Accounts	413	455	27 Jun 96	26 Nov 96	8	48
Audit Committees	367	230	14 Feb 97	25 Jun 97	12	155

*The benchmark used for the product is to report within six months of commencement of the audit fieldwork in order to produce timely information which can be acted upon by those entities not directly involved in the audit. The number of 'General' recommendations listed above refer to those included in the public report. The number of 'Specific' recommendations relate to those represented directly to the entities included in each audit.*

- **Payment of Accounts** (No.16 of 1996-97) tabled 20 November 1996; and
- **Audit Committees** (No.39 of 1996-97) tabled 25 June 1997.

Better Practice Guides were issued in relation to each audit. In combination the audit report and better practice guide enable entities to compare themselves with other Commonwealth entities and against private sector and international best practice benchmarks.

Table 11 summarises the key performance measures for this program of audits.

The data show that, in the first year of activity, the program has experienced delays in finalisation of the public audit reports. The across-the-board nature of these audits makes the reporting process

more complicated and difficult to manage than for financial audits. Notwithstanding this, the six month benchmark will continue to be used. The Business unit is refining its approach to establishing the scope and boundaries of each audit to ensure where possible they are able to be completed within a reasonable time frame.

FCA audits in progress on Internet Security, Protective Security, Management of Accounts Receivable and APS Travel Arrangements are expected to be completed and reported on before the end of the calendar year. Protective security and Accounts Receivable audits were planned for completion by 30 June 1997.

## Assurance Control Assessment Audits

During 1996 the ACA audit program was introduced to examine basic administrative processes and to provide positive assurance that entities are meeting their obligations under the financial legislative framework.

These audits focus on key controls within common services' or core activities of a corporate nature. While often not material in many entities, these activities collectively represent a significant component of administrative activity and account for a significant level of expenditure each year.

By these audits public accountability should be enhanced

By undertaking a range of audit activity focussed on compliance across a large number of entities and at various locations, public accountability should be enhanced.

The results of the first round of ACA audits will be reported in 1997-98. There are therefore no performance measures or outcomes to report on at this time.

## Other activities

### **Accounting and Auditing Advice and Assistance**

As an enhancement to our client service the *'Financial Reporting Bulletin'* was launched during the year. The Bulletin provides Chief Finance Officers and

accounting staff of Commonwealth entities with a quarterly update on current accounting and auditing developments.

The bulletins are supplemented with client seminars which provide a forum to assist entity staff in the preparation of financial statements and to exchange ideas and discuss problems with staff of other entities. Approximately 270 staff from a variety of Commonwealth entities participated in these seminars.

The ANAO also reissued the AMODEL Financial Statements—a guide for preparing public sector financial statements. The preparation of financial statements is becoming increasingly complex as accounting standards and legal requirements change constantly. Shorter reporting deadlines and increased disclosure requirements create significant challenges. The development of 'AMODEL' was designed to make this task easier for entity staff. A companion better practice guide has previously been issued to complement the model accounts.

Representatives from the business unit continue to act as observers on audit committees established by entities, providing advice on accounting and auditing and other emerging issues directly to committee members.

### **Whole of Government Reporting**

Whole of Government accrual-based financial statements were published in 1996 as part of a three year trial. The statements, for the year ended 30 June 1995, were prepared by the Department of Finance in collaboration with the ANAO.

The ANAO did not assist in the preparation of the 30 June 1996 statements due to the decision that the 1997 statements will be audited. Instead the ANAO focused on an examination of the processes supporting the preparation of the financial statements and subsequently issued an information

paper to assist understanding of their preparation. This initiative is designed to assist in the early identification of issues that will require resolution prior to the preparation of the audited statements for the year ended 30 June 1997.

**Table 12**  
**Performance Information**  
**Financial Statement Audit Sub-program**

Description	1995-96	1996-97
<b>Inputs</b>		
- Expenditure for the financial year		
Staff costs	\$10 659 260	\$9 987 926
Contract costs	\$12 873 685	\$10 133 323
Audit travel costs	\$463 380	\$481 086

# Sub-program 8.2

## Performance Audit

### Objective

The objective of this sub-program is to improve public sector administration and accountability by adding value through an effective program of performance audits reported to Parliament.

### Description

Under the *Audit Act 1901* the Auditor-General may carry out performance audits of Commonwealth entities, except for government companies, and provide a report on those audits. Performance audits are an independent, objective and systematic examination of the functions and operations of a Commonwealth organisation for the purposes of forming an opinion on whether:

- the operations have been managed in an economical, efficient and effective manner;
- internal procedures for promoting and monitoring economy, efficiency and effectiveness are adequate; and
- improvements might be made to management practices (including procedures for promoting and monitoring performance).

Reports of performance audits are tabled in the Parliament and provide assurance to the Parliament and the public about the management of public sector entities. The reports are supported, on request, by briefings to members of the Parliament, Ministers and parliamentary committees, which allows the ANAO to assist in evaluating and clarifying the areas identified for change and improvement, as well as

recognising those that are achieving intended outcomes.

The ANAO's performance audits examine public sector entities' operations, resources, information systems, performance measures, monitoring systems and legal compliance. Performance audits include efficiency audits and project performance audits conducted under Division 2 and section 54 respectively of the *Audit Act 1901*.

In seeking to improve administration, performance audits often identify exemplary practices, which are incorporated into better practice guides for dissemination throughout the Australian Public Service.

### Performance audits often identify exemplary practices

A performance audit does not extend to a review of Government policy decisions. It may, however, review issues relating to the development of policy, review whether policy objectives have been met and assess the results of policy implementation both within the administering body and externally.

Because of the size, complexity and diversity of most Commonwealth entities, a performance audit usually examines only selected segments of their operations. However, 'across-entity' performance audits may address the same issue in a number of entities and have widespread impact across the public sector.

Results of financial statement audits or previous performance audits, reports and other publications produced by government entities, parliamentary interest and information collected by the ANAO, can suggest areas suitable for a performance audit. The ANAO seeks the views of various parliamentary committees when planning audits. The views and suggestions of individual members are also sought and welcomed.

Audit topics are selected on two grounds: firstly, to focus on those audits

which have maximum value-added in terms of improved accountability, economy, efficiency and effectiveness; and secondly, to ensure appropriate coverage of entity operations within the limitations of audit resources available. Risks of inadequate economy, efficiency and effectiveness will lead to a list of potential audit topics. Topics are ranked against the following criteria:

- audit impact;
- financial materiality;
- scope for improving management;
- significance of the program; visibility of the program;
- extent of recent audit coverage and other reviews/evaluations;
- complexity; and
- Parliamentary interest.

### Resources

The level of resources applied to the performance audit sub-program in 1996-97 was greater than that in the previous year. Table 4 on page 34 summarises the financial resources for the sub-program on a budgetary (cash) basis. (On a full cost basis, however, and taking account of audit support, resources applied to the sub-program in 1996-97 amounted to \$16.2million.)

### Strategies

To achieve the Performance Audit sub-program objective in 1996-97 the ANAO continued with key strategies similar to those in the previous year. The strategies adopted were to:

- undertake a program of audits that promote sound public

administration and improvements in performance;

- work closely with the Parliament to keep it well informed about the audit work program and audit outcomes; and
- maintain productive relationships with public sector entities.

The Business Plan for 1996-97 elaborated on the key strategies and reflected the following major themes:

- a strong relationship with Parliament and its committees is paramount;
- the quality of our products is the foundation of our relationships with Parliament and entities;
- a professional supportive environment for staff is critical for success;
- our changing business environment calls for continuous improvement; and
- research on audit products and methods is essential.

In accordance with the ANAO's 'one office' approach the Financial Audit and Performance Audit Business Units worked together on the performance audit of medifraud and inappropriate practice mentioned below. In the course of the audit two financial statement auditors completed fieldwork on the Health Insurance Commission's receivable system. This cost-effective approach assisted both the performance audit and the financial statement audit.

The Performance Audit Business Plan emphasises the need to deliver value for money in terms of both the audit outputs and outcomes (that is, in terms

*Performance Audit* of audit processes and management) and the benefits we deliver to Parliament and entities. Consistent with the Plan, auditors were conscious of the returns available from the investment of our resources and were strongly focused on adding value in the current public sector environment.

Audit themes ensure the performance audit program is appropriately targeted

To ensure the performance audit program was appropriately targeted to add value to public administration, thus contributing to more effective performance outcomes, the broad audit themes used in selecting audit topics were reviewed and changed. The themes in the previous year were: public sector efficiency, human resource management, the environment and Australian competitiveness. These were changed at the start of 1996-97 to: competitive tendering and contracting, client service quality, information technology, human resource management and significant new Government programs. Because of the change and lead-times in auditing, reports tabled in 1996-97 came under the themes of both years.

### Performance measures

The Sub-program's performance in 1996-97 was measured as follows<sup>4</sup>:

- 36 audit products were published (objective was 30-35);

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<sup>4</sup> See also Table 13 on page 60.

- 83 per cent of audit products were tabled on time (objective was 80 per cent);
- potential financial benefit to the Commonwealth estimated at \$149 million, 9 times the cost of the performance audit sub-program; and
- 259 recommendations were made, of which 92 per cent were accepted by the respective audited entities (objective was 85 per cent).
- a survey of audited entities indicated a positive response to audits and audit reports .

Significant financial and other benefits will result from many of the ANAO's recommendations

As a result of our audit work, entities agreed to implement recommendations directed towards improvements in administration, accountability and better service delivery. Significant financial and other benefits will result from many of the ANAO's recommendations. Tabled audit reports are grouped below according to the broad audit themes that guided planning.

## Performance audit outcomes

Performance audit reports tabled during the year addressed aspects of the operations of most portfolios, with most concentration again directed to portfolios with significant Government outlays. A full list of audit reports tabled in 1996-97 is at Appendix 5.

Particular highlights were as follows:

- public sector efficiency and human resource management received close attention in reports tabled during the year, as did the emerging issues of client service quality and competitive tendering and contracting;
- the Joint Committee of Public Accounts began new procedures for reviewing audit reports with a view to enhancing accountability;
- there was strong parliamentary committee support for two reports in particular - one on Commonwealth guarantees, indemnities and letters of comfort and the other on environmental management of Commonwealth land; and

## Public sector efficiency

*Commonwealth Guarantees, Indemnities and Letters of Comfort*, Audit Report No.6 focused on the Commonwealth's exposure to explicit guarantees, indemnities and letters of comfort provided by the Commonwealth under legislation, deeds, contracts and correspondence as at 30 June 1995. The ANAO estimates that the Commonwealth's gross exposure to these instruments amounts to at least \$222 billion; comprising contingent loan guarantees of \$13 billion, non-loan guarantees of \$206.8 billion, indemnities of \$1.7 billion, and letters of comfort of \$180 million. In most entities there needs to be a marked improvement in management and administrative practices associated with off-balance sheet risk.

*Tax Debt Collection - Australian Taxation Office*, Audit Report No.13 brought to notice opportunities for the ATO to improve its program for collecting overdue tax debts. ANAO analysis found that a combination of just minor improvements in the above areas would provide a net benefit to the Commonwealth of \$142 million a year. When giving evidence to the JCPA on the report the Second Commissioner of Taxation said that: the audit was conducted professionally; the ATO had responded positively to the recommendations; and progression of the recommendations should appreciably improve the debt collection program.

*Community Development Employment Projects Scheme - Phase Two of Audit*, Audit Report No.26 reviewed progress made with the implementation of the Phase One recommendations. It further examined the operations of ATSIC Central, State and Regional Offices in the administration of the CDEP Scheme. ATSIC had made significant progress in addressing the recommendations of Phase One. The ANAO also identified a number of good practices in areas such as monitoring of CDEP projects and quality assurance processes. The results of Phase Two indicated that ATSIC's administration of the Scheme could be further improved particularly in the areas of planning and performance information. ATSIC welcomed the positive report from the ANAO and agreed to all seventeen recommendations.

*Australian National University Administration*, Audit Report No.30 concluded that administrative effectiveness could be improved by

revising guidelines for strategic planning, ensuring strategic plans are consistent with the guidelines, developing administrative performance information, clarifying value-for-money guidance on travel, and implementing effective asset management practices. The ANAO estimated that the ANU could save about \$400 000 a year if all travel were arranged primarily through the ANU's preferred travel agent, and that it could save at least \$440 000 a year if there were a better planned approach to vehicle fleet management. The ANU welcomed the audit report and considered it timely.

*Risk Management - Australian Taxation Office*, Audit Report No.37, reviewed the ATO's formal process for managing all sources of risk for the organisation. The ANAO found a more structured and systematic approach would have assisted the ATO to attain the most effective outcomes. The ANAO recommended particular actions that the ATO could take to enhance its risk management. The ANAO encouraged the ATO to continue to develop an organisational culture where identifying, analysing, ranking and treating risk are integral elements of management at all levels.

During the year the ANAO published *Better Practice Guide - Performance Information Principles*. Performance information is evidence about performance that is collected and used systematically for management, accountability and reporting. The APS is facing significant challenges in providing effective and efficient services and public accountability for performance. Performance information can assist in such an environment. It can

help to improve and account for performance and meet the challenges of new methods of program provision and service delivery. Developed jointly by the ANAO and the Department of Finance, the Guide aims to facilitate a common understanding of the concept of performance information and the key role it plays in management and accountability.

## Human resource management

In recognition of its size and complexity, the Department of Defence received close attention in performance audits. During the year four performance audit reports were tabled dealing with human resource management. They are summarised below.

*Management of Food Provisioning in the Australian Defence Force*, Audit Report No.15 pointed out the scope for management efficiencies and the potential for savings in food provisioning, including savings in Army of \$4 million a year. The report also commented on aspects of contracting. The Chief of the Defence Force, when giving evidence to the JCPA on 3 February, said that the report was welcome and timely and that Defence had begun action to address the findings.

*Workforce Planning in the Australian Defence Force*, Audit Report No.17 commented on the scope for improving effectiveness and efficiency in workforce planning and for making savings. The main savings relate to the structural overlay (additional staff in junior ranks to ensure sufficient future numbers of senior ranks), which costs some \$40million a year in Navy alone. There

were also potential savings related to Navy's retention of staff some years ahead of need at a cost of \$120million. Defence agreed in principle to implement ANAO recommendations designed to reduce these costs.

*Army Presence in the North*, Audit Report No.27 concluded that there had been some shortcomings in giving effect to the Government initiative to move Army's 1<sup>st</sup> Brigade to Darwin. Army agreed that the report recommendations would help in implementing the Restructuring of the Army initiative announced by the Minister in October 1996.

*Australian Defence Force Health Services*, Audit Report No.34 commented on the high cost of ADF health services provided to members of the ADF. The estimated total cost of the services is about \$400million a year. The cost per member is almost three times the Australian average. There is considerable scope for Defence to improve the efficiency and effectiveness of service delivery. The audit identified the need for development of common ADF policy and to attend to under-utilisation of health facilities, inadequacies in financial and health information systems, the high cost of ADF workplace injuries and illnesses and the high cost of ADF dental services. Defence supported the overall thrust of the report and agreed to implement all but one of the recommendations.

## The environment

*Commonwealth Natural Resource Management and Environment Programs* Audit Report No.36 documented the lessons learned in relation to

performance and financial accountability aspects of key Commonwealth programs in the Departments of Primary Industries and Energy and the Environment, Sport and Territories. The audit examined aspects of the \$1.25 billion Natural Heritage Trust and emphasised the need for a stronger outcomes focus for programs and greater attention to measuring and reporting performance. The audit found that savings of \$9.9 million could be achieved from better cash management over the six-year life of the Natural Heritage Trust.

### Client service quality

Customer service has become an increasingly significant issue for government entities in Australia during the 1990s. The community has heightened expectations that public entities will provide good services that are more responsive, relevant and accessible. The next two audit reports summarised below found that both entities had made some progress in improving their level of customer service. Common themes from the audits that have relevance across the APS are the value of a strategic direction for customer service and the importance of research into customer needs. The ANAO has been working with the Management Advisory Board and issued a draft customer-focused better practice guide for the public sector.

*Client Service - Australian Taxation Office*, Audit Report No.22 reported that, through its client focus strategy to improve taxpayer compliance, the ATO has made progress over the past decade in becoming a more client-oriented

*Performance Audit* organisation. The audit concluded that the ATO could further improve the quality of service provided to clients by increasing its understanding of taxpayer needs and expectations through further client-focused research; articulating a client service strategy to improve taxpayer compliance and deliver quality service to clients; and implementing an effective complaints handling system.

*Customer Service - Department of Social Security*, Audit Report No.25 assessed DSS's organisational characteristics that affect customer service outcomes. DSS and the ANAO worked in partnership on this audit. During the audit the Government announced the formation of a new services delivery agency that will deliver services on behalf of DSS and other Commonwealth departments. Development of this agency with a high customer focus increases its potential to achieve its stated aim of providing excellent customer service. DSS considered that the report's recommendations provided helpful direction, while allowing for the degree of flexibility required during the transition to the new arrangements.

*Drug Evaluation by the Therapeutic Goods Administration*, Audit Report No.8 assessed TGA's evaluation and approval of prescription drugs for public use. The audit found that the drug evaluation process was efficient. The average time taken to evaluate and approve a new chemical entity was reduced from 702 to 106 working days between 1990 and 1995 and could be reduced further with the assistance of pharmaceutical companies. The TGA could increase the effectiveness of its drug evaluation by giving more attention to monitoring adverse drug

reactions. It could strengthen its external accountability through provision of clearer information on its activity to Parliament and consumers of prescription drugs. The TGA responded positively to the audit and accepted all the recommendations.

*Medifraud and Inappropriate Practice*, Audit Report No.31 reported on the Health Insurance Commission's procedures to estimate and minimise medifraud and inappropriate practice and its reporting of performance on these matters. The ANAO concluded that the HIC had adopted a sound risk management approach to managing leakage through fraud and inappropriate practice. In the absence of reliable estimates of leakage through fraud, ANAO made order of magnitude estimates of the extent of medifraud and inappropriate practice, and reported how these continue to be a significant problem. The HIC said that the audit had been particularly useful and accepted all the recommendations.

*Administration of the Family Court*, Audit Report No.33 made a number of recommendations relating to administrative practices in the Court, including strategic planning, management information, resource allocation and organisational structures designed to improve service to the Court's clients. The ANAO estimated that savings of up to \$600 000 a year would accrue by abolishing the regional management structure. The Court accepted the recommendations and agreed to review the need for the regional management structure.

## Significant new Government programs

*Building Better Cities*, Audit Report No.9 examined Commonwealth management of the Building Better Cities Program to identify areas where improvement was needed and where lessons learned could be useful in other programs. The audit concluded that the program had been well managed, but that there had been little measurement of its performance or assessment of its outcomes. The Department of Transport and Regional Development responded positively to the audit and accepted all recommendations. Shortly after the report was tabled, the Victorian Auditor-General completed a parallel audit report on the program in his State (Special Report No.45 *Building Better Cities*) which indicated that State agencies also had difficulty in outcome and performance measures for the Program.

## Competitive tendering and contracting

The ANAO now has a good deal of experience in auditing contract arrangements entered into by Commonwealth entities and contributed to the guide prepared by the Management Advisory Board and the Management Advisory Committee *Before you sign the dotted line...Ensuring contracts can be managed* (MAB/MIAC Report No.23 May 1997). During the year several audit reports summarised below were tabled dealing with a wide range of contracting issues.

*Passenger Movement Charge - Australian Customs Service*, Report No.1 The

ANAO found that the Australian Customs Service was generally administering the Passenger Movement Charge collection regime efficiently and effectively and did well to negotiate and implement interim collection arrangements with airlines. The ANAO highlighted a number of aspects of the interim arrangements deserving specific attention in formulating longer-term arrangements. Customs responded positively to the audit and its recommendations.

*Evaluation Process for the Shared Systems Suite*, Audit Report No.14. Conducted at the request of the Office of Government Information Technology (OGIT), the audit examined the probity of procedures for evaluating tenders for acceptance to the Shared Systems Suite, which is a government initiative to reduce the number of administrative systems used by Commonwealth entities. The ANAO formed the opinion that: OGIT's evaluation procedures properly reflected Commonwealth Purchasing Guidelines for open and effective competition; the selected solutions accorded with government policies on Australian and New Zealand industry development; and the evaluation process was ethical and fair and gave confidence that appropriate systems were selected.

*Selected Commonwealth Property Sales*, Audit Report No.20 examined eleven selected sales involving gross proceeds of \$201 million in the portfolios owning the majority of Commonwealth property, namely, Veterans' Affairs, Defence and Administrative Services. Prices achieved in these asset sales appeared to be reasonable, given the objectives of the sales. The sales were

made effectively given their differing nature and conditions. The risks were generally managed effectively, although those associated with *Performance Audit* settlement arrangements require on-going management to protect the Commonwealth's interests. In the absence of public sector guidelines on disposal of real property, the audit identified better practice principles applied by the entities in the conduct of the property sales.

*Management of IT Outsourcing Department of Veterans' Affairs*, Audit Report No.21 commented on DVA's management of arrangements for contracting out its data centre in Sydney. The audit found that actual outsourcing costs were in line with projected costs and that the benefits from outsourcing included improved communication through structured meetings, a generally more professional attitude by data centre staff with a greater focus on service delivery and a 24-hour operation with an uninterrupted power supply. The ANAO concluded that the outsourcing had been successful but that DVA, in its next IT outsourcing, should make a formal evaluation of the arrangement.

## Contact with the Parliament

The Joint Committee of Public Accounts (JCPA) has a duty under the *Public Accounts Committee Act* to examine all reports of the Auditor-General tabled in Parliament. With the committee's concurrence, the ANAO has dealt with the JCPA as the audit committee of Parliament, an arrangement that will be formalised on passage of the audit legislation presently before the Parliament.

## Revised procedures will enhance accountability

At the start of the year the JCPA changed its procedures for examining ANAO reports. In place of previous procedures for obtaining written submissions from entities and comments from the ANAO, the new review procedures focus on examining selected audit reports, the relevant entities and the ANAO at public hearings. The JCPA expects that this will do more to enhance accountability than the previous procedures.

The ANAO assisted the JCPA in implementing the new procedures, which began with public hearings on selected audit reports in July 1996. In March 1997 the JCPA tabled Report 349 *Review of Auditor-General's Reports 1995-96* and Report 350 *Review of Auditor-General's Reports 1996-97 First Quarter*. In these reports the JCPA expressed support for issues raised in the audit reports and in several cases made recommendations supporting the ANAO's.

The ANAO's draft Audit Strategy for 1997-98 was provided to the JCPA for comment and revised in the light of comments received. The ANAO regards the JCPA as representing its primary client - the Parliament - and takes close account of the JCPA's views on proposed audit work.

In Report 350 the JCPA strongly supported Audit Report No.6 *Commonwealth Guarantees, Indemnities and Letters of Comfort*. The JCPA commented that the recommendations

designed to improve awareness and management of the Commonwealth's exposure were important and warranted serious and urgent attention from the Department of Finance and all entity heads. Largely as a result of these comments, the Department, assisted by the ANAO, issued a guide to agencies (Finance Circular 1997/06 *Potential Liabilities and Losses*).

## ANAO assistance to Parliamentary Committees resulted in stronger guidance for better performance

The ANAO assisted the House of Representatives Standing Committee on Environment, Recreation and the Arts in its inquiry following the tabling of Audit Report No.31 1995-96 *Environmental Management of Commonwealth Land: Site Contamination and Pollution Prevention*. The Committee endorsed the ANAO's key findings and strongly supported the ANAO's recommendations in relation to a Commonwealth policy on its contaminated land and the management of unexploded ordnance on former military sites by the Department of Defence.

The House of Representatives Standing Committee on Primary Industries, Resources and Rural and Regional Affairs completed its inquiry into Audit Report No.21 1995-96 *Commonwealth Fisheries Management - Australian Fisheries Management Authority*. The committee's report *Managing Commonwealth Fisheries: The Last Frontier*, tabled in June 1997, made three recommendations addressed to the ANAO that provide a

constructive basis on how we can improve our work in supporting Parliament and its committees. These related to the brochures that summarise audit reports, the ANAO's level of consultation with stakeholders and the costs and benefits of audit recommendations.

Indicative of the contact that the ANAO maintains with parliamentary committees generally, the ANAO gave assistance to committees in the following inquiries, which were still in progress at the time of preparing this report:

- the JCPA in its inquiry into Audit Report No.28 1995-96 *Jindalee Operational Radar Network Project*;
- the House of Representatives Standing Committee on Financial Institutions and Public Administration in its inquiry into Audit Report No.6 1996-97 *Commonwealth Guarantees, Indemnities and Letters of Comfort*;
- the House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs in its inquiry into Audit Report No.26 1996-97 *Community Development Employment Projects Scheme - Phase Two of Audit*;
- the House of Representatives Standing Committee on Environment, Recreation and the Arts in its inquiry into funding of sport and recreational facilities; and
- the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform in its inquiry into road funding.

Consistent with past practice the ANAO continued to offer briefings for Ministers, Shadow Ministers, committees and their staff on audit reports tabled in Parliament.

## Innovations

Audit Report No.9 on *the Building Better Cities Program* broke new ground for the ANAO in establishing cooperative arrangements with the Victorian Auditor-General for a parallel review of the Program in that State. His Special Report No.45 *Building Better Cities*, tabled in the Victorian Parliament in November 1996, showed that parallel review can add value by providing an insight into State management and delivery of a Commonwealth-State program.

Audit Report No.25 *Customer Service - Department of Social Security* mentioned above was innovative in that DSS worked in partnership with the ANAO on the audit. Joint recognition of opportunities to improve administration can speed their implementation. In line with requests from DSS, aspects of the audit were changed to assist in implementing improvements. DSS contributed to the cost of engaging a customer service consultant on the audit.

Strategic partnerships  
resulted in  
improved products

The ANAO's Better Practice Guides for Corporate Sponsorship and Administration of Grants were

developed in cooperation with practitioners. In particular conferences were held to discuss issues facing entities and exchange ideas and experiences which were incorporated into the guides.

Arising from Audit Report No.6 *Commonwealth Guarantees, Indemnities and Letters of Comfort* and the strong comments by the JCPA on the need for heightened awareness and improved management of Commonwealth exposure to these instruments, a guide on issuing them was prepared jointly by the Department of Finance, Attorney-Generals Department and the ANAO. The ANAO was invited to be a member of a DoF steering committee overseeing a review of the Commonwealth's non-insurance policy.

Partnership agreements under development between the Commonwealth and States for the Natural Heritage Trust (\$1.25b over 6 years) will expect program managers and project proponents to address the monitoring and evaluation principles detailed in the ANAO/ DoF Better Practice Guides *Performance Information Principles* and *Administration of Grants*.

### **Survey of entities**

An important innovation during the year was the survey of entities' responses to tabled reports. After a performance audit report is tabled the ANAO seeks feedback on the performance audit process. The ANAO engaged a consultant to conduct the survey by means of a questionnaire and interviews with managers responsible for the program or activity that was subject to audit.

The consultant conducted 23 interviews. Overall the entities responded positively. They indicated that the audit teams had communicated and consulted well with the audited area and were professional, disciplined, ethical and focused, although they would benefit from looking to the broader context in which programs operate. Audit recommendations were said to be constructive and reports were contributing to change and improved administration.

### **Risk management**

Consistent with the MAB/MIAC guidelines for managing risk in the APS<sup>5</sup>, the Business unit conducted a formal risk assessment in order to develop a Business Unit Risk Management Plan. The assessment sought to identify, analyse and rank the risks to the Business unit and to propose ways of treating them. Proposed action will be linked to the Business Plan for 1997-98.

### **Quality assurance**

In 1995-96 guidelines for conducting peer reviews were developed with the NSW and Victorian Audit Offices.

In 1996-97 three performance audits were reviewed by staff from the NSW Auditor-General's Office. The process was useful in that it provided an independent review of our processes and the opportunity for benchmarking. The results of the review indicated that all three audits had been conducted in accordance with Auditing Standards but

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<sup>5</sup> *Guidelines for Managing Risk in the Australian Public Service* -Joint publication of the Management Advisory Board and its Management Improvement Advisory Committee, MAB/MIAC Report No.22, October 1996.

that not all the requirements of the Performance Audit Guide had been met.

The peer review process will continue in 1997-98.

## Professional Development

The Business unit's principal asset is its skilled and motivated staff. The ANAO is committed to the ongoing development of its people and provides an extensive range of learning opportunities to ensure they have the necessary capabilities to meet their professional requirements and the emerging needs and expectations of the Parliament, Executive Government and public sector entities.

The People Development Committee comprising staff at different levels, in consultation with the Business unit's executives and the ANAO professional development section, oversaw training and development activities for the Business unit. These activities included providing a comprehensive training program, encouraging staff to seek secondments with entities to broaden their skills and increase their understanding of the public sector and assisting staff to undertake further

tertiary qualifications relevant to public administration. These activities were aimed at ensuring the continued professional development of our staff and the production of high-quality audit products.

*Performance Audit*

### Departmental Chief Executives gave insights into emerging APS issues

In 1996-97 some 36 hours on average were provided to PABU staff for leadership, managerial and technical training. This included a highly successful program of seminars on emerging issues in the APS presented by departmental chief executives and senior managers. The seminars help to broaden our knowledge of current developments and our understanding of programs and functions subject to audit. Staff also participated in workshops on effective team-building and defining roles and responsibilities in a changing APS environment. In addition, the Business unit expended \$79 608 on external professional development activities for its staff.

**Table 13 -  
Performance Audit Sub-program Statistics**

Description	1995-96	1996-97
Number of audit products (audit reports and better practice guides)	31	36
Number of recommendations made in performance audit reports	446	259
Proportion of recommendations made in performance audit reports accepted by the entity	92%	99%
Estimated potential financial benefit	\$98m	\$149m
Ratio of estimated potential financial benefit to full cost of the sub-program	7:1	9:1
Proportion of audit products issued on time (a)	n.a.	83%

**Inputs**

Number of performance audit staff as at 30 June	92	93
Proportion of audit resources applied to performance audits	32.1%	35.6%

(a) issued in accordance with the ANAO program provided to Parliament twice a year

# Sub-program 8.3

## Audit Support

### Objective

To work in partnership with the Auditor-General and ANAO Business units to deliver sound corporate strategies and superior services within the ANAO to its businesses and people.

### Description

These services are delivered by two branches - Corporate Management and Information Management.

The Corporate Management Branch provides people management and development, industrial relations management, financial management, property management and administrative services to the ANAO. The Branch coordinates social justice and equity issues, internal and external scrutiny of the ANAO and the professional development of audit staff. Corporate Management Branch also coordinates and provides strategic advice to the Executive to support the decision-making process.

The Information Management Branch provides IT and information services to the ANAO. The Branch is also responsible for the administration of the Audit Act 1901 and the proposed replacement legislation, legal matters, reports and publications, relations with other public sector audit institutions in Australia and internationally, and other external bodies. To achieve these objectives, the corporate branches have identified five strategies

### Strategies

- To provide a supportive and integrated people management and development environment within the ANAO.
- To provide a strategic and operational framework for effective financial resource management, providing high level of financial information and analysis to meet both ANAO and business needs.
- To facilitate the provision of quality information in a timely manner to meet the audit needs of our clients.
- To deliver effective, efficient, economic, responsive and agreed services to the ANAO.
- To maintain professional and productive relationships with major stakeholders and meet the ANAO's international and national

responsibilities to other audit offices and agencies.

## Performance outcomes

### People management and development

#### **Industrial Relations**

The *Workplace Relations Act 1996* places emphasis on direct consultation between management and staff at the workplace. The ANAO is encouraging its staff to participate fully in the determination of their own employment outcomes.

Entity wide information sessions were held for all staff, followed by focus group meetings in Canberra, covering all employment groupings (SES, SOGs and ASOs). These meetings discussed and considered various employment matters that could be included in an ANAO Certified Agreement. Work has commenced on the development of an employment framework that will form the basis for an ANAO Certified Agreement. Action has been taken to ensure that staff are adequately represented in the agreement making process.

#### **Staff Survey**

As part of an important commitment to

Plan, the ANAO undertook a further comprehensive survey of staff to ascertain the satisfaction of staff with the organisation's performance against the indicator 'Our People.'

Comparisons were drawn against the 1996 Survey and overall the results remain positive. In the case of Occupational Health and Safety, a

marked improvement was shown.<sup>Audit Support</sup> There remains, however, room for improvement, particularly in the consultative processes within the ANAO.

#### **People Development**

The People Development Prospectus, a comprehensive non-audit training curriculum based on the People Development Strategic Plan of June 1995-98 and built on a quality management framework, was implemented in July 1996. The Prospectus offers a broad, flexible menu of professional development activities under umbrella of the 'One Office' concept and emphasises the key areas of leadership, people management, client focus and team building and the corresponding skills, knowledge and attributes needed by staff. This management training complements the technical curricula provided by the two audit Business units.

Significant professional development achievements include the following:

- Assessment against the Team Management Index for a number of staff combined with training which focused on the communication, empowerment and skills development toward client-responsive and results-oriented teams.
- An SES Conference was conducted with the theme of *Corporate Governance and the ANAO* which highlighted aspects of our corporate governance approach which could be improved.

#### **Graduate Administrative Assistants**

Nineteen Graduate Administrative Assistants recruited for the 1996 calendar year successfully completed a year long competency based training program resulting in the Graduate Certificate Level III in Public Administration.

### ***Upward Appraisal Scheme***

Upward appraisal is being trialed as a methodology for improving the performance of managers. In December a successful upward appraisal trial was conducted which involved a number of key management staff from across the ANAO. The wider trialing of upward appraisal will continue in 1997-98.

### ***Review of Regional Offices***

Since the decision to rationalise the non-Canberra operations of the ANAO was made in February 1996, staff numbers in the Sydney and Melbourne Offices have reduced. The staff remaining in those Offices are under the control of the Financial Audit Business Unit.

The ANAO has been active in supporting excess staff members in those Offices in transition to other jobs either within or outside the public sector.

### ***Voluntary Retirements***

Of the 40 voluntary redundancies accepted by staff members, 18 were a result of the reduction in staff numbers in the States, five were a result of the outsourcing selected IT services, five from reductions arising from the corporate review and a further 12 were a direct result of the ANAO's strategy for budget and staffing reductions in accordance with the Government's directions. The cost of voluntary redundancies in 1996-97 was \$2 839 147.

## **Effective financial resource management**

### ***Corporate Review***

The results of the 1995-96 Corporate Review are shown in the objectives and strategies of the audit support sub-program stated above.

A client survey further identified areas for improvement and assisted in defining performance benchmarks for later comparison.

### ***Resources***

The review of the support areas carried out last year resulted in a reduction in the number of Branches from three to two (Corporate Management and Information Management) to meet the emerging needs of the ANAO. This provided better working arrangements and improvements in service delivery.

Table 5 on page 35 summarises the staffing and financial resources for the sub-program.

### ***Restructure***

One of the main activities this year was the restructure of Corporate Management Branch to focus on the delivery of strategic advice and policy development and on the delivery of customer-focused management services which reflect better practice.

The strategic area has been successful in moving the organisation toward the implementation of accrual accounting and incorporated the development of the ground work for the introduction of new administrative systems following

the Office of Government Information Technology (OGIT) panel announcement. The Services area has undertaken a number of continuous improvement initiatives and has developed strong relationships with its customers in order to better position itself in the future contestable environment.

In considering the thrust towards competitive tendering, the services area has examined its comparative advantage in service delivery and has outsourced annual stocktakes, archiving, and security vetting services.

Similarly, the Branch has made use of consultants to breach gaps in expertise in the areas of industrial relations advice, financial statement preparation and HR policy development. A specific achievement this year is the full outsourcing of training delivery.

## Quality information and effective, efficient services

### **Administrative Systems**

Considerable attention has been paid to the need to replace the existing accounting system with a Financial Management Information System (FMIS) and to introduce a Human Resource Management System (HRMS) into the ANAO. An integrated FMIS/HRMS is preferred and independent assessments are being made of the systems on the panel of acceptable systems established by OGIT. It is expected that at least a new FMIS system will be selected, installed and ready for use by 1 July 1998.

### **Bevis Report Implementation**

In line with the recommendation of the Bevis Report, the Branch reviewed the ANAO's procurement services. A consultant was engaged to assist with determining best practices. Staff are receiving relevant competency training in preparation for establishing an Accredited Purchasing Unit.

### **Accommodation**

Following the reduction in staff numbers in our state offices, a rationalisation of accommodation was undertaken to achieve more cost effective space utilisation. In Canberra, a study has been conducted to identify better value for money arrangements.

### **Energy Management**

The ANAO continues to implement the recommendations of the Energy Survey through monitoring of energy use and installation of energy saving systems such as a power factor correction system on the mains power supply to the Centenary House building services.

### **Risk management**

The risk assessment pilot study of the ANAO continued during the year in conjunction with the internal audit review of the internal control environment. Risk management training has been introduced for staff at all levels. New staff will be inducted in the importance of risk management. This ongoing training will reinforce risk management as an integral part of ANAO culture.

### **Market Testing of IT Services**

The market testing of the provision of IT services to the Office, commenced in 1995-96, was completed this year. Following the evaluation of market responses, the ANAO decided to

outsource the delivery of its IT services. This decision was made on value for money grounds taking into account a range of factors including cost, technical capability and risks and benefits. Unisys Australia Limited was selected as the preferred supplier and following a due diligence process, a contract with that firm was signed in April 1997. Unisys assumed full responsibility for provision of specified IT services from 1 July 1997.

## Relationships with international and national stakeholders

The ANAO contributes to the development of international auditing standards, professional practices and exchanges of experience through participation in:

- the International Organisation of Supreme Audit Institutions (INTOSAI);
- the Asian Organisation of Supreme Audit Institutions (ASOSAI); and
- the International Consortium on Governmental Financial Management (ICGFM).

As a member of the Governing Board and Director of these organisations, staff of the ANAO attend international conferences, prepare research papers, assist with training secondments and host short term familiarisation visits.

During 1996-97 the ANAO attended the following major international meetings:

- ASOSAI Governing Board Meeting in Indonesia - the Auditor-General was accompanied by Mr Russell Coleman, Executive Director and Ms Sharon Winks, Director;

- INTOSAI Governing Board Meeting in Vienna - attended by the Auditor-General;
- ASOSAI International Forum hosted by the Board of Audit in Japan - Ms Malisa Golightly, Executive Director, prepared and presented a number of papers to an International Forum organised by the Board of Audit in Japan to focus on issues facing SAIs world wide;
- INTOSAI Privatisation Working Group Meeting in Buenos Aires - Mr Colin Cronin, Executive Director, participated in discussions on the role of SAIs in Privatisation;
- ASOSAI Privatisation Workshop in Indonesia - Ms Fran Holbert, Director, prepared and presented a paper to the Workshop on the ANAO's experiences with the audit of privatisation;
- XVI Conference of Commonwealth Auditors-General in Pakistan - the Auditor-General was accompanied by Mr David McKean, Executive Director;
- ASOSAI Strategic Planning Meeting in Indonesia - Mr Mark Moloney, Senior Director, represented the ANAO in discussions of the strategic direction of training in ASOSAI; and
- ASOSAI 2<sup>nd</sup> International Forum hosted by the Board of Audit in Japan - Mr John Meert, Group Director, provided both papers and a presentation to this Forum.

The ANAO contributes to the development of other audit offices by hosting delegations. The ANAO hosted short term visits from Auditors-General and delegations from Japan, Canada,

Brazil, the United States of America and China.

During 1996-97 the ANAO also hosted two secondments from international SAIs. The Office hosted two officers from the Audit Office of India for two months to study performance audit techniques and methodologies, particularly in relation to privatisation, and the Deputy-Auditor-General of Tonga for 4 months to study the performance audit methodologies of the ANAO.

At the national level, the ANAO is a member of the Australasian Council of

Auditors-General (ACAG). The objective of the Council, comprising Auditors-General of each State and Territory of Australia, Fiji, New Zealand, Hong Kong and Papua New Guinea, is to promote and foster Public Sector Auditing in the Australian region through an exchange of experiences, ideas, training and development and cooperation. The ANAO contributes to the work of the Council through hosting of business meetings, preparation of papers, joint initiatives on information exchange, peer reviews and training.

**Table 14**  
**Performance Information**  
**Audit Support Sub-program Statistics**

Description	1995-96	1996-97
Professional Development		
<ul style="list-style-type: none"> <li>percentage of audit staff receiving at least 20 hours of professional development</li> </ul>	93.7%	75.4%
Average number of hours of professional development received per staff member		
<ul style="list-style-type: none"> <li>audit staff</li> <li>administrative staff</li> </ul>	75.3 55.4	41.7 43.9
<b>Average time to fill vacant positions</b>		
<ul style="list-style-type: none"> <li><b>in weeks</b></li> </ul>	9.7	14.3
<b>Cost of:</b>		
<ul style="list-style-type: none"> <li>financial statement auditing</li> <li>performance auditing</li> <li>audit support</li> <li>property operating expenses</li> <li>capital</li> </ul>	51.3% 17.7% 21.4% 9.1% 0.5%	49.8% 19.9% 20.0% 9.5% 0.7%
as a percentage of total costs		



Canberra ACT  
16 September 1997

P.J. Barrett  
Auditor General

# Section..... .....Three

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Appendix 1

# Staffing Overview

**TABLE 1  
CLASSIFICATION PROFILE AS AT 30 JUNE 1997**

Category	ACT	NSW	VIC	TOTAL	
				1996-97	1995-96
SES Band 3	2			2	2
SES Band 2	4			4	4
SES Band 1	17	1	1	19	21
SOG A		1	1	2	3
SOG B	66	3	3	72	77
SOG C	44	2	1	47	55
ASO Class 6	25	7	5	37	41
ASO Class 5	28	3	3	34	20
ASO Class 4	24	3	5	32	35
ASO Class 3	9		1	10	15
ASO Class 2	13	1	1	15	17
ASO Class 1	2			2	1
Cadet	4			4	3
SITO A	4			4	3
SITO B	8			8	11
SITO C	9	1		10	15
ITO 2	2			2	3
ITO 1					
GRADUATES					20
SENIOR PO	1			1	1
PROF. OFF.	2			2	2
<b>TOTAL</b>	<b>264</b>	<b>22</b>	<b>21</b>	<b>307</b>	<b>349</b>

**TABLE 2  
PAID FULL-TIME/PART-TIME/TEMPORARY STAFF AS AT 30 JUNE 1997**

	FULL-TIME		PART-TIME		TEMPORARY		TOTAL	
	M	F	M	F	M	F	M	F
<b>SES Band 3</b>	2						2	
<b>SES Band 2</b>	3	1					3	1
<b>SES Band 1</b>	17	2					17	2
<b>SOG A</b>	2						2	
<b>SOG B</b>	55	13		3	1		56	16
<b>SOG C</b>	34	12			1		35	12
<b>ASO Class 6</b>	24	12				1	24	13
<b>ASO Class 5</b>	19	14		1			19	15
<b>ASO Class 4</b>	16	16					16	16
<b>ASO Class 3</b>	1	9					1	9
<b>ASO Class 2</b>	1	8		1	1	4	2	13
<b>ASO Class 1</b>	1					1	1	1
<b>Cadet</b>			1	3			1	3
<b>SITO A</b>	4						4	
<b>SITO B</b>	7			1			7	1
<b>SITO C</b>	7	3					7	3
<b>ITO 2</b>	2							
<b>ITO 1</b>							2	
<b>GRADUATES</b>								
<b>SENIOR PO</b>	1						1	
<b>PROF. OFF.</b>		2						2
<b>TOTAL</b>	196	92	1	9	3	6	200	107
<b>GRAND TOTAL</b>	288		10		9		307	

**TABLE 3**  
**LIST OF STAFF NUMBERS BY STATE AND CATEGORY OF**  
**EMPLOYMENT AS AT 30 JUNE 1997**

STATE	FABU AUDIT		PABU AUDIT		NON-AUDIT		TOTAL
	M	F	M	F	M	F	
ACT	70	28	58	33	37	39	265
NSW	19	1				2	22
VIC	13	4	1			3	21
<b>TOTAL</b>	102	33	59	33	37	44	308
<b>GRAND TOTAL</b>	135		92		81		308

Note: One SES Officer is outposted at another public sector agency

**TABLE 4**  
**ANAO PAID OPERATIVE STAFF, 30 JUNE 1993 TO 30 JUNE 1997**  
**(EMPLOYED UNDER THE *PUBLIC SERVICE ACT 1922*)**

Location	June 1993		June 1994		June 1995		June 1996		June 1997	
	Audit	Mgt.	Audit	Mgt.	Audit	Mgt.	Audit	Mgt.	Audit	Mgt.
ACT	171	133	128	85	183	73	220	67	189	76
NSW	80	11	39	5	26	2	30		20	2
VIC	75	10	40	7	29	3	28	3	18	3
QLD	13	2	1		1					
SA	9	2	4		2		1			
WA	6	2	3	1	2	1		1		
TAS	3	1								
LONDON	2		2		2					
<b>TOTAL</b>	359	161	217	98	245	79	279	71	227	81
<b>GRAND TOTAL</b>	520		315		324		350		308	

**TABLE 5      DETAILS OF STAFF GAINS AND LOSSES, 1996-1997**

Location	Movement to other Departments	Resignations	Retirement	Deceased	Total Losses	Gains
ACT	15	28	26		69	39
NSW		3	8	1	12	
VIC	4		8		12	1
SA			1		1	
WA			1		1	
<b>TOTAL</b>	19	31	44	1	95	40

**TABLE 6  
OUTCOMES OF STAFF REDUCTIONS - VOLUNTARY REDUNDANCIES, 1996-97**

LEVEL	ACT	NSW	VIC	SA	WA	TOTAL LEVEL
SES BAND 1	1					1
SOG A	1					1
SOG B	3	2	2			7
SOG C	4	2	4			10
ASO 6	3	2		1		6
ASO 5	1	1	1			3
ASO 4	1					1
ASO 3	1				1	2
ASO 2	2					2
SITO B	3		1			4
SITO C	1	1				2
ITO 2	1					1
<b>TOTAL</b>	22	8	8	1	1	40

The cost of voluntary redundancies in 1996-97 was \$2,839,147.00.

## Staff Secondments During the Year

### From the ANAO

The ANAO encourages the involvement of its officers in secondments to enhance their skills and allow other entities to receive the benefits of the ANAO's diverse range of experience. A number of officers were seconded to private sector accounting firms for short periods. This allows the officers to gain audit, accounting and taxation experience in the private sector and promotes skills transfer between the ANAO and its private sector colleagues. As part of its commitment to the public sector and the wider audit community, the ANAO also receives secondments from other organisations. The following is a list of officers seconded during 1996-97.

### To the ANAO

### From

Leon Allen	Department of Finance
Sangita Choure	Auditor-General India
Len Crossfield	Department of Finance
Adam Detoth	Department of Veterans' Affairs
C Gopinathan	Auditor-General State of Kevala (India)
Christine Gorman	Department of Defence
Penne Humphries	Senate
Phillip Kentwell	Department of Foreign Affairs
Sue Morton	House of Representatives
Alistair Sands	Senate
Miriam Santoso	Department of Prime Minister & Cabinet
Mark Smith	ATO
Sefita Tanga	Auditor-General Tonga
Margot Wade	University of Canberra

### From the ANAO

### To

Rodney Carrett	Arthur Andersen
Warren Cochrane	Department of Health and Family Services
Ian Gaze	Environment Australia
Sharon Harris	Arthur Andersen
Kaye Keine	National Crime Authority
Peter White	Department of Health and Family Services
John Yanitsas	Office of Asset Sales
Tom Zeller	Artbank
Lynette Znaminko	Employment Services Regulatory Authority

**TABLE 7**  
**SENIOR EXECUTIVE SERVICE**  
**- AS AT 30 JUNE 1997**

LEVEL	ACT		NSW		VIC	
	M	F	M	F	M	F
SES BAND 1	14	3	1		1	
SES BAND 2	4					
SES BAND 3	2					
<b>TOTAL</b>	20	3	1	0	1	0

SES changes during the year:

Mr A. Wood retired as SES Band 1 on 2 January 1997  
 Mr D. Doyle resigned as SES Band 1 on 18 January 1997

## **Performance Pay**

### Senior Executive Service

Payment of performance bonuses to SES Officers was made in October 1996 based on appraisal assessment for the period 1 July 1995 - 30 June 1996. Of 27 eligible SES Officers a number received a total of \$38 106.

## **Consulting Services**

In 1996-97 a total of 85 consulting firms were engaged to assist the Auditor-General in the conduct of financial statement and performance audits or to assist in management tasks. The total amount paid to consultants during the year was \$12,229,075. Details of these consultancies are available on request in the supplementary information to this Annual Report.

## Appendix 2

# Our Vision, Challenges and Approaches

*To be valued by the Parliament, the Community and Commonwealth Entities as a major contributor to achieving excellence in public sector administration and accountability.*

The ANAO has adopted the following challenges and approaches to give effect to its Vision.

Challenge	Approach
<p><b>The Parliament</b></p> <p>Be attuned to the needs, expectations and priorities of the Parliament, adding value through our auditing services</p>	<ul style="list-style-type: none"><li>• Provide independent audit advice and assurance to the Parliament;</li><li>• liaise closely with the Parliament;</li><li>• advise the Parliament through its committees of our annual audit strategy;</li><li>• provide support and assistance to the Parliament and parliamentary committees on audit and related matters;</li><li>• deliver objective, balanced and relevant reports that lead to improved public sector performance and accountability; and</li><li>• follow up reports and other initiatives to assess and encourage necessary action.</li></ul>

Challenge	Approach
<p><b>Public Sector Entities</b></p> <p>Add value to Commonwealth entities through our auditing services</p>	<ul style="list-style-type: none"> <li>• Be open, responsive and attuned to the needs and expectations of public sector management;</li> <li>• provide practical and realistic recommendations for improvement and identify best practice in public administration;</li> <li>• understand fully public sector entities' operating environment, objectives, strategies and performance requirements;</li> <li>• contribute to public sector reforms and initiatives;</li> <li>• participate in the deliberations of audit committees and interact with internal audit and evaluation activities; and</li> <li>• provide appropriate assistance in the development of new systems and other major initiatives.</li> </ul>
<p><b>Our People</b></p> <p>Provide an environment which enables our people to enhance their skills and achieve their full potential</p>	<ul style="list-style-type: none"> <li>• Provide leadership to our people and empower them in the workplace;</li> <li>• foster a consultative, participative and accountable environment;</li> <li>• encourage our people to adopt a culture of continuous improvement;</li> <li>• institute a credible system of rewards and recognition;</li> <li>• promote an environment of equity, fairness and ethical conduct;</li> <li>• make available a range of opportunities to assist our people in their personal and professional development;</li> <li>• maintain a safe working environment; and</li> </ul> <p>encourage a suitable balance between the work and home environment.</p>

Challenge	Approach
<p><b>Our Audit Products</b></p> <p>Achieve audit excellence</p>	<ul style="list-style-type: none"> <li>• Conduct strategic planning based on risk management strategies;</li> <li>• develop and apply innovative audit methodologies and technology to our work;</li> <li>• contribute to the development of audit and accounting standards;</li> <li>• conform with ANAO and professional auditing standards;</li> <li>• undertake tasks in an objective manner that produces reports based on structured, well-founded analysis; and</li> <li>• benchmark our audits against best practice.</li> </ul>
<p><b>Management</b></p> <p>Manage our operations efficiently and effectively</p>	<ul style="list-style-type: none"> <li>• Ensure resource allocations are efficient and effective;</li> <li>• use external resources, where cost-effective, to complement our resources and skills;</li> <li>• provide information systems which satisfy our management and reporting requirements;</li> <li>• ensure we apply high ethical standards at all times;</li> <li>• critically analyse work structures and practices and promote a culture of continuous improvement;</li> <li>• promote good staff relations through quality people management practices; and</li> <li>• be outcome-focused.</li> </ul>

## Appendix 3

# FINANCIAL STATEMENTS OF THE AUSTRALIAN NATIONAL AUDIT OFFICE

This appendix contains the financial statements of the Australian National Audit Office (ANAO) for the year ended 30 June 1997. The ANAO has been using accrual accounting principles to prepare the financial statements for the last six years.

These statements have been prepared in accordance with the guidelines for *Financial Statements of Commonwealth Departments* issued by the Minister for Finance for reporting periods ending on or after 30 June 1997.

## INDEPENDENT AUDITOR'S REPORT THE AUSTRALIAN NATIONAL AUDIT OFFICE

**Mr President**  
**Mr Speaker**

### **Scope**

I have audited the financial statements of the Australian National Audit Office for the year ended 30 June 1997

The statements comprise:

- Departmental Revenues and Expenses;
- Administered Revenues and Expenses;
- Departmental Assets and Liabilities;
- Administered Assets and Liabilities;
- Departmental Revenues and Expenses by Program;
- Administered Revenues and Expenses by Program;
- Departmental Assets and Liabilities by Program;
- Administered Assets and Liabilities by Program;
- Departmental Cash Flows;
- Administered Cash Flows;
- Schedules of Commitments and Contingencies;
- Transactions by Funds; and
- Notes to and Forming Part of the Financial Statements.

The Auditor-General is responsible under Section 50 of the *Audit Act 1901* for the preparation and presentation of the financial statements and the information contained therein. I have conducted an independent audit of the financial statements in order to express an opinion on them.


The audit has been conducted in accordance with the Australian Auditing Standards and Australian National Audit Office Auditing Standards to provide reasonable assurance as to whether the financial statements are free of material misstatement. Audit procedures include examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial statements are presented fairly in accordance with Australian Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and statutory requirements so as to present a view of the Australian National Audit Office which is consistent with my understanding of its financial position, its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

### **Audit Opinion**

In accordance with sub-section 48N(1) of the *Audit Act 1901*, I now report that in my opinion, the financial statements:

- i. are in agreement with the accounts and records kept in accordance with Section 40 of the Act;
- ii. are in accordance with the *Financial Statements of Commonwealth Departments* issued by the Minister for Finance; and
- iii. present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements, the information required by the Guidelines including the results of departmental and administered financial operations and cash flows for the year ended 30 June 1997 and departmental and administered assets and liabilities as at that date.



David G Boymal  
Independent Auditor

Appointed under Section 48K of the  
*Audit Act 1901*  
Canberra

Date opinion formed: 4 September 1997

**STATEMENT BY THE AUDITOR-GENERAL  
AND PRINCIPAL ACCOUNTING OFFICER**

In our opinion, the attached financial statements present fairly the information required by the Minister for Finance Guidelines for Financial Statements of Commonwealth Departments dated June 1997.

Signed:  
P J Barrett  
Auditor-General



4 September 1997

Signed:  
G N Mackney  
Chief Finance Officer



4 September 1997

AUSTRALIAN NATIONAL AUDIT OFFICE  
**DEPARTMENTAL REVENUES AND EXPENSES**  
for the year ended 30 June 1997

	Notes	<b>1996-97</b> \$'000	1995-96 \$'000
<b>NET COST OF SERVICES</b>			
<b>Expenses</b>			
Employees	3	<b>23 147</b>	24 346
Suppliers	4	<b>20 106</b>	22 765
Depreciation and amortisation	5	<b>1 827</b>	1 429
Interest on finance leases		-	1
Write down of assets		<b>139</b>	72
Net losses from sales of assets		<b>45</b>	42
<b>Total expenses</b>		<b>45 264</b>	48 655
<b>Revenues from independent sources</b>			
Sales of goods and services		<b>672</b>	117
<b>Total revenues from independent sources</b>		<b>672</b>	117
<b>Net cost of services</b>		<b>44 592</b>	48 538
<b>REVENUES FROM GOVERNMENT</b>			
Appropriations used for :			
Ordinary annual services (net appropriations)	7	<b>52 217</b>	49 389
Resources received free of charge	7	<b>12</b>	10
<b>Total revenues from government</b>		<b>52 229</b>	49 399
<b>Operating surplus</b>	6	<b>7 637</b>	861
Accumulated results at 1 July		<b>(4 787)</b>	(5 708)
Transferred from General Reserve		-	60
<b>Accumulated results at 30 June</b>		<b>2 850</b>	(4 787)

The Statement of Departmental Revenues and Expenses should be read in conjunction with the accompanying notes.

AUSTRALIAN NATIONAL AUDIT OFFICE  
**ADMINISTERED REVENUES AND EXPENSES**  
for the year ended 30 June 1997

	Notes	<b>1996-97</b> <b>\$'000</b>	1995-96 \$'000
<b>REVENUES</b>			
Sale of goods and services (Audit fees)	7	<b>13 747</b>	17 023
Other		<b>33</b>	52
<b>Total revenues</b>		<b>13 780</b>	17 075
<b>Net contribution to Government</b>		<b>13 780</b>	17 075
<b>TRANSFERS</b>			
Cash to Commonwealth Public Account		<b>(14 977)</b>	n/a
<b>Net change in administered assets</b>		<b>(1 197)</b>	n/a
Accumulated results at 1 July		<b>5 138</b>	n/a
<b>Accumulated results at 30 June</b>		<b>3 941</b>	n/a

n/a = not applicable

The Statement of Administered Revenues and Expenses should be read in conjunction with the accompanying notes.

AUSTRALIAN NATIONAL AUDIT OFFICE  
**DEPARTMENTAL ASSETS AND LIABILITIES**  
as at 30 June 1997

	Notes	<b>1996-97</b> <b>\$'000</b>	1995-96 \$'000
<b>DEBT</b>			
Other	11	<b>155</b>	473
<b>Total debt</b>		<b>155</b>	473
<b>PROVISIONS AND PAYABLES</b>			
Employees	12	<b>7 613</b>	8 943
Suppliers	13	<b>842</b>	1 892
Other	14	<b>429</b>	220
<b>Total provisions and payables</b>		<b>8 884</b>	11 055
<b>EQUITY</b>			
Accumulated results	15	<b>2 850</b>	(4 787)
<b>Total liabilities and equity</b>		<b>11 889</b>	6 741
<b>FINANCIAL ASSETS</b>			
Cash		<b>47</b>	51
Receivables	8, 2.18	<b>5 808</b>	29
Other	10	<b>800</b>	595
<b>Total financial assets</b>		<b>6 655</b>	675
<b>NON- FINANCIAL ASSETS</b>			
Infrastructure, plant and equipment	9	<b>5 234</b>	6 066
<b>Total non-financial assets</b>		<b>5 234</b>	6 066
<b>Total assets</b>		<b>11 889</b>	6 741
<b>Current liabilities</b>		<b>3 689</b>	4 685
<b>Non-current liabilities</b>		<b>5 350</b>	6 843
<b>Current assets</b>		<b>6655</b>	675
<b>Non-current assets</b>		<b>5 234</b>	6 066

The Statement of Departmental Assets and Liabilities should be read in conjunction with the accompanying notes.

AUSTRALIAN NATIONAL AUDIT OFFICE  
**ADMINISTERED ASSETS AND LIABILITIES**  
as at 30 June 1997

	Notes	1997 \$'000	1996 \$'000
<b>PROVISIONS AND PAYABLES</b>			
Other		165	137
<b>Total Provisions and Payables</b>		<b>165</b>	<b>137</b>
<b>EQUITY</b>			
Accumulated results		3 941	5 138
<b>Total liabilities and equity</b>		<b>4 106</b>	<b>5 275</b>
<b>FINANCIAL ASSETS</b>			
Receivables	8	694	2 580
Other - work in progress		3 412	2 695
<b>Total financial assets</b>		<b>4 106</b>	<b>5 275</b>
<b>Total assets</b>		<b>4 106</b>	<b>5 275</b>
<b>Current liabilities</b>		<b>165</b>	<b>137</b>
<b>Non-current liabilities</b>		-	-
<b>Current assets</b>		<b>4 106</b>	<b>5 275</b>
<b>Non-current assets</b>		-	-

The Statement of Administered Assets and Liabilities should be read in conjunction with the accompanying notes.

AUSTRALIAN NATIONAL AUDIT OFFICE

**DEPARTMENTAL REVENUES AND EXPENSES BY PROGRAM**

for the year ended 30 June 1997

		Financial Statement Audit Sub-program	
		<b>1996-97</b> <b>\$'000</b>	1995-96 \$'000
<b>NET COST OF SERVICES</b>			
<b>Expenses</b>			
Employees	3	<b>10 954</b>	11 537
Suppliers	4	<b>11 931</b>	13 765
Depreciation and amortisation	5	<b>774</b>	-
Interest on finance leases		-	-
Write down of assets		-	-
Net losses from sales of assets		-	-
<b>Total expenses</b>		<b>23 659</b>	25 302
<b>Revenues from independent sources</b>			
Sales of goods and services		<b>438</b>	-
<b>Total revenues from independent sources</b>		<b>438</b>	-
<b>Net cost of services</b>		<b>23 221</b>	25 302
<b>REVENUES FROM GOVERNMENT</b>			
Appropriations treated as revenues:			
Ordinary annual services (net appropriations)	7	<b>28 149</b>	25 370
Resources received free of charge	7	-	-
<b>Total revenues from Government</b>		<b>28 149</b>	25 370
<b>Operating result</b>		<b>4 928</b>	68

This Statement of Departmental Revenues and Expenses by Program should be read in conjunction with the accompanying notes.

AUSTRALIAN NATIONAL AUDIT OFFICE  
**DEPARTMENTAL REVENUES AND EXPENSES BY PROGRAM**  
for the year ended 30 June 1997

Performance Audit Sub-program		Audit Support Sub-program		Total	
<b>1996-97</b> <b>\$'000</b>	1995-96 \$'000	<b>1996-97</b> <b>\$'000</b>	1995-96 \$'000	<b>1996-97</b> <b>\$'000</b>	1995-96 \$'000
<b>7 442</b>	7 348	<b>4 751</b>	5 461	<b>23 147</b>	24 346
<b>2 892</b>	1 462	<b>5 283</b>	7 538	<b>20 106</b>	22 765
<b>421</b>	-	<b>632</b>	1 429	<b>1 827</b>	1 429
-	-	-	1	-	1
-	-	<b>139</b>	72	<b>139</b>	72
-	-	<b>45</b>	42	<b>45</b>	42
<b>10 755</b>	8 810	<b>10 850</b>	14 543	<b>45 264</b>	48 655
<b>214</b>	-	<b>20</b>	117	<b>672</b>	117
<b>214</b>	-	<b>20</b>	117	<b>672</b>	117
<b>10 541</b>	8 810	<b>10 830</b>	14 426	<b>44 592</b>	48 538
<b>11 791</b>	8 777	<b>12 277</b>	15 242	<b>52 217</b>	49 389
-	-	<b>12</b>	10	<b>12</b>	10
<b>11 791</b>	8 777	<b>12 289</b>	15 252	<b>52 229</b>	49 399
<b>1 250</b>	(33)	<b>1 459</b>	826	<b>7 637</b>	861

AUSTRALIAN NATIONAL AUDIT OFFICE

**ADMINISTERED REVENUES AND EXPENSES BY PROGRAM**

for the year ended 30 June 1997

		Financial Statement Audit Sub-program	
		<b>1996-97</b>	1995-96
		<b>\$'000</b>	\$'000
<b>REVENUES</b>			
Sale of goods and services (Audit fees)	7	<b>13 747</b>	17 023
Other		-	-
<b>Total revenues</b>		<b>13 747</b>	17 023
<b>Net contribution to Government</b>		<b>13 747</b>	17 023
<b>TRANSFERS</b>			
Cash to Commonwealth Public Account		<b>14 944</b>	n/a
<b>Net change in administered assets</b>		<b>(1 197)</b>	n/a
Accumulated results at 1 July		<b>5138</b>	n/a
<b>Accumulated results at 30 June</b>		<b>3941</b>	n/a

n/a = not applicable

This Statement of Administered Revenues and Expenses by Program should be read in conjunction with the accompanying notes.

Performance Audit Sub-program		Audit Support Sub-program		Total	
<b>1996-97</b>	1995-96	<b>1996-97</b>	1995-96	<b>1996-97</b>	1995-96
<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
-	-	-	-	<b>13 747</b>	17 023
-	-	<b>33</b>	52	<b>33</b>	52
-	-	<b>33</b>	52	<b>13 780</b>	17 075
-	-	<b>33</b>	52	<b>13 780</b>	17 075
-	-	-	n/a	-	n/a
-	-	<b>33</b>	n/a	<b>14 977</b>	n/a
-	-	-	n/a	<b>(1 197)</b>	n/a
-	-	-	n/a	<b>5 138</b>	n/a
-	-	-	n/a	<b>3 941</b>	n/a

AUSTRALIAN NATIONAL AUDIT OFFICE

**DEPARTMENTAL ASSETS AND LIABILITIES BY PROGRAM**

as at 30 June 1997

		Financial Statement Audit Sub-program	
		1996-97 \$'000	1995-96 \$'000
<b>DEBT</b>			
Other	11	155	473
<b>Total debt</b>		<b>155</b>	473
<b>PROVISIONS AND PAYABLES</b>			
Employees	12	3 702	4 339
Suppliers	13	495	1 483
Other	14	429	-
<b>Total provisions and payables</b>		<b>4 626</b>	5 822
<b>EQUITY</b>			
Accumulated results	15	881	(4 047)
<b>Total liabilities and equity</b>		<b>5 662</b>	2 248
<b>FINANCIAL ASSETS</b>			
Cash		-	-
Receivables	8	3 177	-
Other	10	384	-
<b>Total financial assets</b>		<b>3 561</b>	-
<b>NON- FINANCIAL ASSETS</b>			
Infrastructure, plant and equipment	9	2 101	2 248
<b>Total non-financial assets</b>		<b>2 101</b>	2 248
<b>Total assets</b>		<b>5 662</b>	2 248

This statement of Departmental Assets and Liabilities by Program should be read in conjunction with the accompanying notes

Performance Audit Sub-program		Audit Support Sub-program		Total	
<b>1996-97 \$'000</b>	1995-96 \$'000	<b>1996-97 \$'000</b>	1995-96 \$'000	<b>1996-97 \$'000</b>	1995-96 \$'000
-	-	-	-	<b>155</b>	473
-	-	-	-	<b>155</b>	473
<b>2 468</b>	2 614	<b>1 443</b>	1 990	<b>7 613</b>	8 943
<b>94</b>	45	<b>253</b>	364	<b>842</b>	1 892
-	-	-	220	<b>429</b>	220
<b>2 562</b>	2 659	<b>1 696</b>	2 574	<b>8 884</b>	11 055
<b>75</b>	(1 175)	<b>1 894</b>	435	<b>2 850</b>	(4 787)
<b>2 637</b>	1 484	<b>3 590</b>	3 009	<b>11 889</b>	6 741
-	-	<b>47</b>	51	<b>47</b>	51
<b>1 298</b>	-	<b>1 333</b>	29	<b>5 808</b>	29
<b>179</b>	-	<b>237</b>	595	<b>800</b>	595
<b>1 477</b>	-	<b>1 617</b>	675	<b>6 655</b>	675
<b>1 1160</b>	1 484	<b>1 973</b>	2 334	<b>5 234</b>	6 066
<b>1 160</b>	1 484	<b>1 973</b>	2 334	<b>5 234</b>	6 066
<b>2 637</b>	1 484	<b>3 590</b>	2 334	<b>11 889</b>	6 741

AUSTRALIAN NATIONAL AUDIT OFFICE  
**ADMINISTERED ASSETS AND LIABILITIES BY PROGRAM**  
as at 30 June 1997

	Financial Statement Audit Sub-program	
	1996-97 \$'000	1995-96 \$'000
PROVISIONS AND PAYABLES		
Other - revenue in advance	165	137
<b>Total provisions and payables</b>	<b>165</b>	<b>137</b>
EQUITY		
Accumulated results	3 941	5 138
<b>Total liabilities and equity</b>	<b>4 106</b>	<b>5 275</b>
FINANCIAL ASSETS		
Receivables	8 694	2 580
Other - work in progress	3 412	2 695
<b>Total financial assets</b>	<b>4 106</b>	<b>5 275</b>
<b>Total assets</b>	<b>4 106</b>	<b>5 275</b>

This statement of Administered Assets and Liabilities by Program should be read in conjunction with the accompanying notes

Performance Audit Sub-program		Audit Support Sub-program		Total	
<b>1996-97</b>	1995-96	<b>1996-97</b>	1995-96	<b>1996-97</b>	1995-96
<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
-	-	-	-	<b>165</b>	137
-	-	-	-	<b>165</b>	137
-	-	-	-	<b>3 941</b>	5 138
-	-	-	-	<b>4 106</b>	5 275
-	-	-	-	<b>694</b>	2 580
-	-	-	-	<b>3 412</b>	2 695
-	-	-	-	<b>4 106</b>	5 275
-	-	-	-	<b>4 106</b>	5 275

AUSTRALIAN NATIONAL AUDIT OFFICE  
**DEPARTMENTAL CASH FLOWS**  
for the year ended 30 June 1997

	Notes	<b>1996-97</b> <b>\$'000</b>	1995-96 \$'000
<b>OPERATING ACTIVITIES</b>			
<b>Cash received</b>			
Appropriations		<b>46 847</b>	49 389
Sales of goods and services		<b>432</b>	117
<b>Total cash received</b>		<b>47 279</b>	49 506
<b>Cash used</b>			
Employee expenses		<b>24 619</b>	23 142
Suppliers		<b>21 497</b>	23 398
Interest - Finance leases		-	1
<b>Total cash used</b>		<b>46 116</b>	46 541
<b>Net cash from operating activities</b>	17	<b>1 163</b>	2 965
<b>INVESTING ACTIVITIES</b>			
<b>Cash received</b>			
Proceeds from sales of assets		<b>62</b>	45
<b>Total cash received</b>		<b>62</b>	45
<b>Cash used</b>			
Purchase of assets		<b>1 229</b>	2 985
Other		-	11
<b>Total cash used</b>		<b>1 229</b>	2 996
<b>Net cash from investing activities</b>		<b>(1 167)</b>	(2 951)
<b>Net increase in cash held</b>		<b>(4)</b>	14
add cash at 1 July		<b>51</b>	37
<b>Cash at 30 June</b>		<b>47</b>	51

The above Statement of Departmental Cash Flows should be read in conjunction with the accompanying notes.

AUSTRALIAN NATIONAL AUDIT OFFICE

**ADMINISTERED CASH FLOWS**

for the year ended 30 June 1997

	Notes	<b>1996-97</b> <b>\$'000</b>	1995-96 \$'000
<b>OPERATING ACTIVITIES</b>			
<b>Cash received</b>			
Sale of goods and services (Audit fees)		<b>14 944</b>	17 327
Other		<b>33</b>	52
<b>Total cash received</b>		<b>14 977</b>	17 379
<b>Cash used</b>			
Cash to Commonwealth Public Account		<b>14 977</b>	17 379
<b>Total cash used</b>		<b>14 977</b>	17 379
<b>Net cash from operating activities</b>	17	-	-

The above Statement of Administered Cash Flows should be read in conjunction with the accompanying notes.

AUSTRALIAN NATIONAL AUDIT OFFICE

**SCHEDULES OF COMMITMENTS AND CONTINGENCIES**

for the year ended 30 June 1997

	Departmental		Administered	
	1996-97 \$'000	1995-96 \$'000	1996-97 \$'000	1995-96 \$'000
<b>SCHEDULE OF COMMITMENTS BY TYPE</b>				
<b>CAPITAL COMMITMENTS</b>				
Infrastructure, plant and equipment	-	-	-	-
Other capital commitments	-	-	-	-
<b>Total capital commitments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>OTHER COMMITMENTS</b>				
Operating leases	<b>73 401</b>	69 127	-	-
Other commitments	<b>15 936</b>	11 568	-	-
<b>Total other commitments</b>	<b>89 337</b>	80 695	-	-
<b>Net commitments</b>	<b>89 337</b>	80 695	-	-
<b>BY MATURITY</b>				
One year or less	<b>14 586</b>	8 234	-	-
From one to two years	<b>10 083</b>	11 061	-	-
From two to five years	<b>18 565</b>	14 965	-	-
Over five years	<b>46 103</b>	46 435	-	-
<b>Total other commitments</b>	<b>89 337</b>	80 695	-	-
<b>SCHEDULE OF CONTINGENCIES</b>				
The ANAO is not aware of any contingent liabilities or gains as at 30 June 1997.	-	-	-	-
<b>Total Contingencies</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

AUSTRALIAN NATIONAL AUDIT OFFICE

**TRANSACTIONS BY FUND**

for the year ended 30 June 1997

	1997 Budget \$	1997 Actual \$	1996 Actual \$
<b>Consolidated Revenue Fund</b>			
RECEIPTS			
Audit Fees	15 000 000	14 943 821	17 327 153
Section 35 of the Audit Act 1901	737 000	494 256	117 187
Miscellaneous Revenue	32 000	33 310	51 986
<b>Total Receipts</b>	<u>15 769 000</u>	<u>15 471 387</u>	<u>17 496 326</u>
EXPENDITURE			
Expenditure from special appropriations	338 000	321 276	253 820
Expenditure from annual appropriations :			
Appropriation Act (No. 1)	53 422 000		
Appropriation Act (No. 3)	n/a	47 019 835	49 252 139
Audit Act 1901 (section 35)	737 000		
<b>Total Expenditure</b>	<u>54 497 000</u>	<u>47 341 111</u>	<u>49 505 959</u>
<b>Loan Fund</b>	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>
<b>Trust Fund</b>			
Heads of trust (private moneys)			
<b>Receipts</b>	183 000	304 148	167 877
<b>Expenditure</b>	183 000	308 166	205 967
<b>Total Receipts</b>	<u>183 000</u>	<u>304 148</u>	<u>167 877</u>
<b>Total Expenditure</b>	<u>183 000</u>	<u>308 166</u>	<u>205 967</u>

The above Statement of Transactions by Fund should be read in conjunction with the accompanying notes.

<b>Note</b>	<b>Description</b>
1	Departmental Objectives
2	Summary of significant accounting policies
3	Employee expenses
4	Suppliers
5	Depreciation and amortisation
6	Abnormal items
7	Revenue from Government
8	Receivables
9	Infrastructure, plant and equipment
10	Other current assets
11	Debt - other
12	Provision and payables - employee entitlements
13	Provision and payables - suppliers
14	Provisions and payables - other
15	Equity
16	Leases
17	Cash flow reconciliation
18	Executive remuneration
19	Act of Grace payments and waivers
20	Auditor's remuneration
21	Expenditure from special appropriations
22	Expenditure from annual appropriations
23	Receipt and expenditure of the Trust Fund
24	Average staffing levels

## NOTE 1. DEPARTMENTAL OBJECTIVES

### Objective

The Australian National Audit Office (ANAO) assists the Auditor-General to carry out his duties and responsibilities under the *Audit Act 1901* and other relevant legislation. This involves undertaking sub-programs of financial statement and performance audits in Commonwealth public sector organisations in a cost effective manner and providing independent reports and advice on the results thereof to the Parliament and the Australian community, the Executive Government and the Boards and management of those organisations. The ANAO seeks to improve the accountability, economy, efficiency and effectiveness of the Commonwealth Public Sector.

For administrative purposes the ANAO fits within the Finance portfolio program structure as Program No. 8 and is structured into three sub-programs:

Sub-program 8.1:

Financial Statement Audit

Sub-program 8.2:

Performance Audit

Sub-program 8.3:

Audit Support

The objectives of the three sub-programs are as follows:

### Financial Statement Audit Sub-program

To provide independent assurance to the Parliament, the Executive, Boards,

management and to the public on the financial statements of Commonwealth public sector entities through the delivery of cost-effective and value-added audit services which enable audit opinions on financial statements to be provided on time and within budget.

### Performance Audit Sub-program

To improve public sector administration and accountability by adding value through an effective program of performance audits and related products.

### Audit Support Sub-program

To work in partnership with customers (internal and external), to deliver sound corporate strategies and superior services to the ANAO, its businesses and people.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of accounting

The financial statements are required by Section 50 of the *Audit Act 1901* and are a general purpose financial report.

The financial statements have been prepared in accordance with :

- the *Financial Statements of Commonwealth Departments* guidelines issued by the Minister for Finance for reporting periods ending on or after 30

# AUSTRALIAN NATIONAL AUDIT OFFICE

**Notes to and forming part of the Financial Statements** for the year ended 30 June 1997

June 1997 (hereinafter referred to as 'the Guidelines'). The Guidelines require :

- compliance with the Statements of the Australian Accounting Standards (including AAS 29 : *Financial Reporting by Departments*), and Accounting Guidance Releases issued by the Australian Accounting Research Foundation, and
- regard to the Australian Statements of Accounting Concepts, and
- the Consensus Views of the Urgent Issues Group.

The financial statements have been prepared on an accrual basis, are in accordance with the historical cost convention except for certain assets which, as noted, are at valuation. The Financial Statements do not take account of changing money values, except where stated.

The continued existence of the ANAO in its present form, and with its present sub-programs, is dependent on Government policy and on continuing appropriations by the Parliament for its administration and sub-programs.

## 2.2 Change in accounting policies

A number of the changes made in the 1997 Guidelines involve changes to accounting policies. These and other changes made are identified in the relevant areas of this Note.

## 2.3 Rounding

Amounts have been rounded to the nearest \$1,000 except in relation to the following items:

- Statement of Transactions by Fund and associated notes;
- act-of-grace payments and waivers; and
- remuneration of executives.

Totals are the rounded sums of unrounded figures.

## 2.4 Comparative figures

Comparative figures for the year ended 30 June 1996 have been included for all financial statements.

Except for the sub program allocations referred to in note 2.13, where practicable, the comparative figures have been reclassified to facilitate comparison and conform with changes required by the *Financial Statements of Commonwealth Departments issued in June 1997*.

## 2.5 Departmental and administered items

Departmental assets, liabilities, revenues and expenses are those items that are controlled by the ANAO including:

- computers, plant and equipment used in providing goods and services;
- liabilities for employee entitlements;
- revenues from running costs appropriations and from user charging etc where the proceeds are deemed appropriated under section 35 of the *Audit Act 1901*; and
- employee expenses and other administrative expenses incurred in providing goods and services.

Administered items are those items which are controlled by the Government and managed on behalf the Government by

the ANAO. These items include audit fees.

The basis of accounting described in Note 2.1 applies to both departmental and administered items.

The 1997 Guidelines require that, from 1 July 1996, administered transactions to be accounted for on a double entry basis. The effect of this requirement is that transfers of cash to and from the Commonwealth Public Account (CPA) will be reported on the face of the Statement of Administered Revenues and Expenses.

Liabilities totalling \$5 138 000 being 'Amounts payable to the CPA,' were recognised on 1 July 1996 to give effect to this policy change. The adjusting entry was made against administered accumulated results.

Administered items are distinguished from departmental items in the financial statements by shading.

## 2.6 Infrastructure plant and equipment

### *Asset recognition threshold*

As of 1 July 1996 the threshold for infrastructure, plant and equipment was revised so as all non-current depreciable assets in excess of \$2,000 are capitalised in the year of acquisition. This includes items while individually less than \$2,000 are collectively, material.

Assets below the new threshold currently recorded on the asset register will be written off at the expiration of their useful lives.

Previously assets in excess of \$1,000 were capitalised in the year of acquisition

except for:

- computer assets under \$1,000 which were separately identified and capitalised; and
- items of plant and equipment acquired as part of leasehold fit-out, while individually less than \$1,000 were collectively material.

### *Depreciation and Amortisation*

Depreciable property plant and equipment is written-off to estimated residual value over its estimated useful life. Estimated useful lives are reviewed annually.

Depreciation is calculated using the straight line method which reflects the pattern of usage. The following useful lives now apply for the major classes of assets:

<i>Asset Category</i>	<i>Useful Life</i>
Computer equipment	3 years
Computer software	3 years
Office Equipment	7 years
Furniture and Fittings	15 years
Plant and machinery	10 years

Leasehold improvements are amortised on a straight line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

## 2.7 Inventories

The ANAO has no inventory. Consumable stores and supplies are considered to be immaterial and are not recognised as assets.

## 2.8 Employee entitlements

## AUSTRALIAN NATIONAL AUDIT OFFICE

**Notes to and forming part of the Financial Statements** for the year ended 30 June 1997

encompasses accrued salaries, performance pay, senior officer allowances, redundancy payments, annual leave and long service leave owing as at 30 June 1997.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of the ANAO is estimated to be less than the annual entitlement for sick leave.

The liability for annual leave reflects the value of total annual leave entitlements of all employees at 30 June 1997 and is recognised at the nominal amount.

The non current portion of the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at 30 June 1997. In determining the present value of the liability, the ANAO has taken into account attrition rates and pay increases through promotion and inflation.

### 2.9 Superannuation

Superannuation expense in relation to employer contributions for ANAO employees who are members of the Commonwealth Superannuation Scheme (CSS) and Public Sector Superannuation Scheme (PSS) amounted to \$2,725,928 (1995-96 \$3,034,222).

No liability is shown for superannuation in the Statement of Assets and Liabilities as the employer contributions fully extinguish the accruing liability which is assumed by the Commonwealth.

### 2.10 Taxation

forms of taxation except fringe benefits tax.

### 2.11 Foreign currency

Transactions denominated in a foreign currency are converted at the exchange rate at the date of transaction. Foreign currency receivables and payables are translated at the exchange rates current as at balance date. Associated currency gains and losses are not material.

### 2.12 Leases

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets and operating leases under which the lessor effectively retains substantially all such risks and benefits.

The ANAO has no finance leases as at 30 June 1997.

Operating lease payments are charged to the Statement of Departmental Revenues and Expenses on a basis which is representative of the pattern of benefits derived from the leased assets.

### 2.13 Allocation of costs and revenues and assets and liabilities to departmental sub-programs

For the 1996-97 year the cost of goods and services provided by sub-programs to other sub-programs within the ANAO, and the amounts of related assets and liabilities, have been attributed to those other sub programs where this can be

done reliably, in accordance with the

## AUSTRALIAN NATIONAL AUDIT OFFICE

**Notes to and forming part of the Financial Statements** for the year ended 30 June

was not undertaken for assets or all expenses including depreciation, amortisation, computing and communication costs.

### 2.14 Insurance

In accordance with Commonwealth Government policy, assets are not insured and losses are expensed as they are incurred.

### 2.15 Bad and doubtful debts

A provision is raised for any doubtful debts based on a review of all outstanding accounts as at year end.

Bad debts are written off during the year in which they are identified.

### 2.16 Work in progress

Work in progress includes all unbilled audit work at year-end for which an audit fee is chargeable and is valued at the lower of cost or billable value. Cost includes direct audit costs and a proportion of general ANAO overheads has also been attributed to the audits.

### 2.17 Resources supplied free of charge

Resources supplied free of charge, where a value can be ascertained, are recognised in the Statement of Departmental Revenues and Expenses as revenue in the period in which they are received.

### 2.18 Appropriations

Appropriations for departmental operations other than running costs are

recognised as revenue to the extent that

that amounts received as appropriations for departmental running costs operations be recognised according to their nature under the Running Costs Arrangements. Under these arrangements, the department receives a base amount of funding by way of appropriation for running costs each year. The base amount may be supplemented in any year by a carryover from the previous year of unspent appropriations up to allowable limits.

The department now recognises:

- as revenue an amount equal to the base funding spent in the year or carried over to the next year; and
- as a receivable, an amount equal to the amount of unspent appropriation carried over to the next financial year.

Previously, an amount equal to the running costs appropriations received was credited as revenue. This change in policy means that the carryover from 1995-96 of \$3,719,050 is recognised as revenue in 1996-97 in addition to the carryover for 1996-97 of \$5,370,000.

### 2.19 Surplus lease space

In accordance with the consensus view of the Urgent Issues Group an expense and a corresponding liability have been brought to account to recognise the cost of surplus space (net of sub lease recoveries) from 1 July 1997 to 30 June 2002 on the basis that it will be of no substantive future benefit to the ANAO. The liability will be reduced as outlays are made over the period to 30 June 2002.

## AUSTRALIAN NATIONAL AUDIT OFFICE

**Notes to and forming part of the Financial Statements** for the year ended 30 June

	1996-97	1995-96
	\$'000	\$'000

### NOTE 3 EMPLOYEE EXPENSES

Remuneration	21 585	23 458
Workers compensation	255	248
Separation and redundancy payments	1 307	640
	<u>23 147</u>	<u>24 346</u>

### NOTE 4. SUPPLIERS

Contractors and consultants	11 350	13 727
Property operating expenses	4 475	4 521
Computer costs	664	796
Travel expenses	1 030	1 051
Training costs	307	480
Legal expenses	96	373
Independent Auditor's remuneration	146	75
Postage and telephone charges	384	438
Other costs of providing goods and services	1 654	1 304
	<u>20 106</u>	<u>22 765</u>

### NOTE 5. DEPRECIATION AND AMORTISATION

Depreciation - property, plant and equipment	1 543	1 194
Amortisation - leasehold improvements	284	235
	<u>1 827</u>	<u>1 429</u>

### NOTE 6. ABNORMAL ITEMS IN REVENUE AND EXPENDITURE

Appropriation amount carried over from 1995-96 and included as revenue (refer note 2.18)	3 719	-
Depreciation relating to re-assessment of useful life and write down of non financial assets	(539)	-
Net cost of surplus space (refer note 2.19)	(190)	-
Separation and redundancy payments	(1 307)	(640)

Net revenue from abnormal items	1 683	(640)
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**AUSTRALIAN NATIONAL AUDIT OFFICE**

**Notes to and forming part of the Financial Statements** for the year ended 30 June

1997

**NOTE 7. REVENUE FROM GOVERNMENT**

	1996-97 \$'000	1996-96 \$'000
Expenditure from special appropriation	321	254
Expenditure from annual appropriation (including, for 1996-97 only, the carryover from 1995-96 of \$3,719,050)	47 020	49 252
Appropriation carried over from 1996-97 less deemed appropriation for section 35 receipts	5 370 (494)	- (117)
	52 217	49 389
Resources received free of charge		
Department of Finance - provision of accounting, budgeting and salary services	12	10

**ADMINISTERED**

Sale of goods and services (Audit fees)	13 747	17 023
---	--------	--------

The reduction in audit fees from 1995-96 is the result of:

- the Government's decision to sell a number of government business entities including:
  - Commonwealth Bank group;
  - Aerospace Technologies of Australia
- the exclusion of fees from audit related services such as due diligence reviews which for 1996-97 have been accounted for as section 35 receipts in Departmental revenues.

**NOTE 8.  
RECEIVABLES**

	1996-97 \$'000	1995-95 \$'000
<b>Current</b>		
Appropriation amount carried over from 1996-97	5 370	-
Sundry debtors	442	29
<u>Less: Provision for doubtful debts</u>	<u>(4)</u>	<u>-</u>
<b>Total Current Receivables</b>	<b><u>5 808</u></b>	<b><u>29</u></b>

Receivables are aged as follows:

Not overdue (less than 30 days)	5597	28
Overdue:		
- less than 30 days	211	-
- 30- 60 days	-	-
- more than 60 days	4	1
	<u>5 812</u>	<u>29</u>

**ADMINISTERED**

Financial statement audit debtors	694	2 580
<u>Less: Provision for waiving of debts</u>	<u>-</u>	<u>-</u>
<b>Total Receivables</b>	<b><u>694</u></b>	<b><u>2 580</u></b>

Receivables are aged as follows:

Not overdue	69	2 501
Overdue:		
- less than 30 days	625	38
- 30-60 days	-	9
- more than 60 days	-	32
	<u>694</u>	<u>2 580</u>

## NOTE 9. INFRASTRUCTURE PLANT AND EQUIPMENT

	Computer hardware and software \$'000	Other infrastructure plant and equipment \$'000	Total infrastructure plant and equipment \$'000
<b>Gross Value</b>			
As at 1 July 1996	5 385	5 020	10 405
Additions:			
at cost	799	429	1 228
at Officer's valuation	16	11	27
Disposal and write-offs	(897)	(409)	(1 306)
As at 30 June 1997	<u>5 303</u>	<u>5 051</u>	<u>10 354</u>
<b>Accumulated Depreciation/Amortisation</b>			
As at 1 July 1996	2 570	1 769	4 339
Disposals and write offs	(749)	(297)	(1 046)
Charge for the reporting period	1 839	(12)	1 827
As at 30 June 1997	<u>3 660</u>	<u>1 460</u>	<u>5 120</u>
<b>Net book value as at 30 June 1997</b>	<u>1 643</u>	<u>3 591</u>	<u>5 234</u>
Represented by : at cost	1 628	3 580	5 208
at Officer's valuation	15	11	26
	<u>1 643</u>	<u>3 591</u>	<u>5 234</u>
<b>Net book value as at 30 June 1996</b>	<u>2 815</u>	<u>3 251</u>	<u>6 066</u>

**NOTE 10.**

**OTHER ASSETS**

	1996-97	1995-96
	\$'000	\$'000
<b>Prepayments</b>		
Property operating and telephone service	367	333
Computing and other expenses	359	262
<b>Other</b> receivable - Comcare Trust Account	74	-
	<u>800</u>	<u>595</u>

**NOTE 11.**

**DEBT- OTHER**

<b>Current</b>		
Lease incentive	31	79
<b>Non-current</b>		
Lease incentive	124	394
	<u>155</u>	<u>473</u>

**NOTE 12.**

**PROVISIONS AND  
PAYABLES EMPLOYEE  
ENTITLEMENTS**

Annual leave	2 491	2 889
Long service leave	4 331	5 056
Redundancy	432	640
Accrued salaries and wages	359	358
	<u>7 613</u>	<u>8 943</u>
<b>Current</b>	2 643	2 494
<b>Non current</b>	4 970	6 449
	<u>7 613</u>	<u>8 943</u>

**NOTE 13.**  
**PROVISIONS AND PAYABLES**  
**- SUPPLIERS**

	1996-97	1995-96
	\$'000	\$'000
Creditors	780	1 771
Other	62	121
	<u>842</u>	<u>1 892</u>

**NOTE 14.**  
**PROVISIONS AND PAYABLES - OTHER**

legal and compensation expenses	-	220
Surplus lease space	429	-
	<u>429</u>	<u>220</u>

**NOTE 15.**  
**EQUITY**

**Departmental Equity**

Accumulated operating results	2 850	(4 787)
	<u>2 850</u>	<u>(4 787)</u>
Movement in equity		
General Reserve		
Balance 1 July	-	60
Less: Transfer to accumulated operating result	-	(60)
Balance 30 June	<u>-</u>	<u>-</u>
Accumulated operating result		
Balance 1 July	(4 787)	(5 708)
Add: Operating result	7 637	861
Add: Transfer from General Reserve	-	60
Balance 30 June	<u>2 850</u>	<u>(4 787)</u>

AUSTRALIAN NATIONAL AUDIT OFFICE

Notes to and forming part of the Financial Statements for the year ended 30 June 1997

<i>NOTE 15 (cont)</i>	1996-97 \$'000	1995-96 \$'000
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<b>Administered Equity</b>		
Accumulated operating result		
Balance 1 July	5 138	n/a
Net change in administered assets	(1 197)	n/a
Balance 30 June	3 941	n/a
n/a = not applicable		

## NOTE 16. LEASES

### Operating Lease Commitments

Commitments in relation to operating leases are payable as follows:

- not later than one year	4 664	4 015
- later than one year but not later than two years	5 063	4 201
- later than two years but not later than five years	17 571	14 476
- later than five years	46 103	46 435
	73 401	69 127

**NOTE 17. CASH FLOW RECONCILIATIONS**

1996-97  
\$'000

1995-96  
\$'000

**Departmental Cash flow reconciliation**

Reconciliation of net cost of services to net cash provided by operating activities

Net cost of services	44 592	48 538
Revenues from government	52 229	49 399
	<hr/>	<hr/>
Excess of revenues over net cost of services	7 637	861
Depreciation/amortisation	1 827	1 430
(Profit)/loss on sale on disposal or write-off of non-current assets	184	114
Revenue from government	(12)	(10)
Changes in assets and liabilities		
(Increase)/decrease in other financial assets	(205)	(75)
(Decrease)/increase in employee provisions	(1 330)	1 590
(Decrease)/increase in other liabilities	(1 159)	(1 015)
Decrease /(increase) in receivables	(5779)	70
	<hr/>	<hr/>
Net cash provided by operating activities	1 163	2 965
	<hr/> <hr/>	<hr/> <hr/>

**Administered Cash Flow Reconciliation**

Reconciliation of net change in administered assets to net cash provided by operating activities

Net change in administered assets	(1197)	n/a
Changes in assets and liabilities		
decrease in financial assets	1169	n/a
increase in provisions and payables	28	n/a
	<hr/>	<hr/>
Net cash provided by operating activities	-	n/a
	<hr/> <hr/>	<hr/> <hr/>

n/a = not applicable

**NOTE 18.**  
**EXECUTIVE REMUNERATION**

1996-97  
\$'000

1995-96  
\$'000

The number of executive officers who received or were due to receive fixed remuneration of \$100,000 or more:

Number

Number

Fixed remuneration

\$100 000 to \$110 000	4	5
\$110 001 to \$120 000	14	15
\$120 001 to \$130 000	2	-
\$130 001 to \$140 000	3	5
\$150 001 to \$160 000	1	-
\$160 001 to \$170 000	1	1
\$170 001 to \$180 000	-	1
\$210 001 to \$220 000	-	1
\$250 001 to \$260 000	1	-

For 1996-97 the calculation of remuneration includes an accrual adjustment representing the movement in annual leave and long service leave entitlements for the year. This adjustment was not included in previous years.

The calculation of remuneration also includes a payment made to the Auditor-General; following his resignation from the Australian Public Service and his appointment as a statutory officer of the Parliament

The aggregate amount of fixed remuneration of executive officers shown above.

\$3 226 427

\$3 352 892

The aggregate amount of performance pay paid during the year to executive officers shown above.

\$38 106

\$150 887

**NOTE 19.**

**ACT OF GRACE PAYMENTS  
AND WAIVERS**

1996-97	1995-96
\$	\$

No Act of Grace payments were made during the reporting period

-	-
<u>          </u>	<u>          </u>

No waivers of amounts owing to the Commonwealth were made pursuant to subsection 70C (2) of the *Audit Act 1901*

-	-
<u>          </u>	<u>          </u>

**NOTE 20.**

**AUDITOR'S REMUNERATION**

Amounts received, or due and receivable by the Independent Auditor for:

Financial Statement audit,

62 000	74 896
--------	--------

Performance Audit

<u>84 000</u>	<u>          </u>
<u>146 000</u>	<u>74 896</u>

Mr David Boymal's appointment as Independent Auditor of the ANAO was extended for a period of two years from 21 October 1995. Mr Boymal's appointment is a personal one. Mr Boymal is a partner in the chartered accounting firm Ernst & Young. Ernst & Young provide the following services to the ANAO in the 1996-97 financial year:

- Contract audit and consultancy fees

<u>1 271 367</u>	<u>4 547 466</u>
------------------	------------------

**NOTE 21.**  
**EXPENDITURE FROM SPECIAL**  
**APPROPRIATIONS**

	1996-97 Budget \$	1996-97 Actual \$	1995-96 Actual \$
Auditor-General: Salary and Allowances ( <i>Audit Act 1901</i> section 4 and <i>Remuneration Tribunals Act 1973</i> )	180 000	176 360	171 695
Acting Auditor-General: Salary and Allowances ( <i>Audit Act 1901</i> section 9A and <i>Remuneration Tribunals Act 1973</i> )	18 000	6 147	19 729
Independent Auditor of the Australian National Audit Office ( <i>Audit Act 1901</i> section 48K, Fees and Allowances)	140 000	138 769	62 396
	<u>338 000</u>	<u>321 276</u>	<u>253 820</u>

**NOTE 22.**  
**EXPENDITURE FROM**  
**ANNUAL**  
**APPROPRIATIONS**

	1996-97 Approp- riation \$	1996-97 Actual \$	1995-96 Actual \$
ORDINARY ANNUAL SERVICES OF GOVERNMENT			
Appropriation Acts Nos.1 and 3			
Division 281 Administrative			
1. Running Costs	48 771 256	46 812 480	49 252 139
2. Other Services			
01 Compensation and Legal	220 000	207 355	Nil
Total - Appropriation Acts Nos.1 and 3	48 991 256	47 019 835	49 252 139
Represented by:			
Annual Appropriation			
- Act No. 1	53 432 000		
- Act No. 3	(4 925 000)	47 019 835	49 252 139
- Transferred to Special Appropriations	(10 000)		
- Section 35	494 256		
	48 991 256	47 019 835	49 252 139

**NOTE 23.  
RECEIPT AND  
EXPENDITURE  
OF THE TRUST FUND**

	1996-97 Budget \$	1996-97 Actual \$	1995-96 Actual \$
Head of Trust - Group 1			
Services for other governments and non-departmental bodies Legal Authority s60 Audit Act			
Advances paid to the ANAO by COMCARE from which payments could be made in accordance with the Commonwealth Employees Rehabilitation and Compensation Act 1988			
Cash balance at 1 July	90 536	90 536	128 626
Receipts	183 000	304 148	167 877
	<u>273 536</u>	<u>394 684</u>	<u>296 503</u>
Expenditure	(183 000)	(308 166)	(205 967)
Cash balance at 30 June	<u>90 536</u>	<u>86 518</u>	<u>90 536</u>

**NOTE 24.  
AVERAGE STAFFING  
LEVELS**

Average staffing levels by sub-program and in total were as follows:

	1996-97 Number	1995-96 Number
Sub-program 8.1 Financial Statement Audit	159	175
Sub-program 8.2 Performance Audit	106	103
Sub-program 8.3 Audit Support Services	60	69
	<u>325</u>	<u>347</u>

## Appendix 4

### Reconciliation of Program and Appropriation Elements \$'000

	A +	B +	C +	D =	E -	F =	G
Program Number	Approp Bills No's 1 and 3	Approp Bills No's 2 and 4	Special Approps	Annotated Approps *	Program Approps	Adjustments (1)	Program Outlays
<b>8.1</b>							
<b>Actual</b>	25 223	-	115	215	25 557	15 159	10 398
<b>Budget</b>	24 001	-	125	206	24 326	15 200	9 126
<b>8.2</b>							
<b>Actual</b>	10 448	-	68	196	10 712	196	10 516
<b>Budget</b>	11 263	-	73	150	11 486	200	11 336
<b>8.3</b>							
<b>Actual</b>	10 850	-	139	83	11 072	116	10 956
<b>Budget</b>	18 061	-	140	131	18 364	163	18 201
<b>Total</b>							
<b>Actual</b>	46 525	-	322	494	47 341	15 471	31 870
<b>Budget</b>	53 357	-	338	481	54 176	15 513	38 663

\* Annotated Appropriations are a form of Special Appropriations to allow a Department access to the money it earns.

(1) Adjustments to derive outlays, including receipt items classified as outlays, net movements in trust account balances, etc.

Note; Totals are the rounded sums of unrounded figures

## Appendix 5

# Addresses by Senior Officers

Mr. P.J. Barrett AM

'Better Performance Information for Greater Accountability, Challenges & Opportunities'

Seminar conducted by the Department of Finance

3 September 1996 (Canberra, ACT)

Ms. M. Golightly

'Best Audit Implementation Processes: Analysing common audit issues under different

INTOSAI International Audit Forum

4 - 11 September 1996 (Tokyo)

Mr. P.J. Barrett AM

'Managing Risk as Part of Good Management - an ANAO Perspective'

Launch of MAB/MIAC Report No.22 *Guidelines for Managing Risk in the Australian Public*

*Service* 10 October 1996 (Canberra, ACT)

Dr. P.J. Nicoll

'The ANAO's audit of the federal health portfolio'

Tribunal de Contas da Uniao, Brasilia

15 October 1996 (Brazil)

Dr. P.J. Nicoll

'The Role of the Australian National Audit Office'

Tribunal de Contas da Uniao, Brasilia

October 1996 (Brazil)

Dr. P.J. Nicoll

'Performance Auditing'

Tribunal de Contas da Uniao, Brasilia

October 1996 (Brazil)

Mr. P.J. Barrett AM

'Evolution in the Public Sector

- Auditing Corporate Governance Whole of Government Reporting'

CPA Congress 96 *Profit from our Experience*

22 October 1996 (Melbourne)

Mr. P.J. Barrett AM

'Some Thoughts about the Roles, Responsibilities and Future Scope of Auditors-General'

ASCPA Annual Research Lecture

14 November 1996 (Canberra, ACT)

Mr. P.J. Barrett AM  
'Performance Standards and Evaluation'  
IPA 120 Australian National Audit Office  
International Conference on Managing the Future: Charting the New - Public Management in the  
1990s 20 - 22 November 1996 (Melbourne)

Mr. P.J. Barrett AM  
'The Challenge Facing Auditors in the Changing Public Sector Environment'  
Information Systems Audit and Control Association in conjunction with the  
Institute of Internal Auditors  
26 November 1996 (Canberra, ACT)

Mr. P.J. Barrett AM  
'Managing Risk: Perspectives from the ANAO'  
Address to COMNET  
27 November 1996 (Canberra, ACT) and  
Article in Canberra Bulletin of Public Administration No.84 May 1997 (pages 75-83)

Mr. P.J. Barrett AM  
'Some Thoughts About the Roles, Responsibilities and Future Scope of Auditors-General'  
Article for the Australian Journal of Public Administration December 1996

Mr. P.J. Barrett AM  
'Whither Accountability in a Changing Public Sector Environment'  
Central Agency Broker Seminar *Towards a Better Practice Australian Public Service*  
13 February 1997 (Hobart)

Ms. F.E. Holbert  
'Mandate, methodologies, audit reporting and problems' ASOSAI Seminar on Privatisation  
15 - 22 April 1997 (Indonesia)

Mr. P.J. Barrett AM  
'The Role of the Australian National Audit Office'  
Presentation to a visiting group of officials from the National Assembly of Vietnam.  
21 May 1997 (Parliament House, Canberra)

Mr. P.J. Barrett AM  
'Internal Audit - Looking Ahead'  
Australian Taxation Office Staff Conference  
3 June 1997 (Canberra, ACT)

Mr D. McKean  
'Planning, budgeting, monitoring and control of audits'  
ACAG Conference of Senior Audit Executives  
18 - 20 June 1997 (Healesville, Vic)

Mr. P.J. Barrett AM  
'Whole of Government Financial Reporting (or Putting on a Happy Face)'  
ASCPA Presentation, CPA Week 97 - Focusing on the Future  
26 June 1997 (Canberra, ACT)



## Appendix 6

# Audit and other Publications

- including Date Tabled in the Parliament and Cost

	<b>Tabled</b>	<b>Cost</b>
Audit Report No. 1 Performance Audit Passenger Movement Charge: Australian Customs Service	1 Aug 1996	\$233,900
Audit Report No. 2 Performance Audit The Administration of the Australian National Training Authority	7 Aug 1996	\$233,900
Audit Report No. 3 Follow-up Audit Compensation Pensions to Veterans and War Widows Department of Veterans' Affairs	21 Aug 1996	\$42,000
Audit Report No. 4 Performance Audit Use of Justice Statement Funds and Financial Position Family Court of Australia	21 Aug 1996	\$66,000
Audit Report No. 5 Performance Audit Accounting for Aid: The Management of Funding to Non- government Organisations Australian Agency for International Development	28 Aug 1996	\$167,000
Audit Report No. 6 Performance Audit Commonwealth Guarantees, Indemnities and Letters of Comfort	11 Sep 1996	\$320,000
Audit Report No. 7 Performance Audit IT Acquisition Councils	16 Sep 1996	\$199,000
Audit Report No. 8 Performance Audit Drug Evaluation by the Therapeutic Goods Administration Department of Health and Family Services	4 Oct 1996	\$321,018
Audit Report No. 9 Performance Audit Building Better Cities Department of Transport and Regional Development	8 Oct 1996	\$350,000
Audit Report No. 10 Follow-up Audit Energy Management of Commonwealth Buildings Department of Primary Industries and Energy Department of Administrative Services	15 Oct 1996	\$92,000

Audit Report No. 11 Follow-up Audit The Export Market Development Grants Scheme Australian Trade Commission	16 Oct 1996	\$90,000
Audit Report No. 12 Performance Audit Follow-up Audit - Data-matching Department of Social Security	17 Oct 1996	\$94,000
Audit Report No. 13 Performance Audit Tax Debt Collection: Australian Taxation Office	15 Nov 1996	\$355,000
Audit Report No. 14 Performance Audit Evaluation Process for the Shared Systems Suite Office of Government Information Technology	20 Nov 1996	\$87,000
Audit Report No. 15 Performance Audit Management of Food Provisioning in the Australian Defence Force	22 Nov 1996	\$24,8000
Audit Report No. 16 Financial Control and Administration audit Payment of Accounts	25 Nov 1996	\$430,000
Audit Report No. 17 Performance Audit Workforce Planning in the Australian Defence Force Department of Defence	27 Nov 1996	\$289,000
Audit Report No. 18 Performance Audit Maralinga Rehabilitation Project Tendering and Commercial Arrangements Department of Primary Industries and Energy	9 Dec 1996	\$140,000
Audit Report No. 19 Financial Statements Audit Results of the 1995-96 Financial Statements Audits of Commonwealth Entities	10 Dec 1996	\$27,164,046
Audit Report No. 20 Performance Audit Selected Commonwealth Property Sales Portfolio Departments of Veterans' Affairs, Defence and Administrative Services	10 Dec 1996	\$125,000
Audit Report No. 21 Performance Audit Managing of IT Outsourcing Department of Veterans' Affairs	11 Dec 1996	\$185,000
Audit Report No. 22 Performance Audit Client Service: Australian Taxation Office	11 Dec 1996	\$452,000
Audit Report No. 23 Performance Audit Recovery of the Proceeds of Crime	12 Dec 1996	\$401,500

Audit Report No. 24 Aggregate Financial Statement prepared by the Minister for Finance year ended 30 June 1996	20 Dec 1996	\$209,594
Audit Report No. 25 Performance Audit Customer Service Department of Social Security	19 Dec 1996	\$465,000
Audit Report No. 26 Performance Audit Community Development Employment Projects Scheme - Phase Two of Audit Aboriginal and Torres Strait Islander Commission	10 Feb 1997	\$239,000
Audit Report No. 27 Performance Audit Army Presence in the North: Department of Defence	5 Mar 1997	\$95,000
Audit Report No. 28 Performance Audit Use of Private Hospitals: Department of Veterans' Affairs Follow-up Audit	5 Mar 1997	\$62,000
Audit Report No. 29 Preliminary Study Management of Corporate Sponsorship	26 Mar 1997	\$90,000
Audit Report No. 30 Performance Audit Australian National University Administration	30 Apr 1997	\$129,037
Audit Report No. 31 Performance Audit Medifraud and Inappropriate Practice Health Insurance Commission	14 May 1997	\$210,000
Audit Report No. 32 Performance Audit Administration of Grants in the Australian Public Service	15 May 1997	\$148,000
Audit Report No. 33 Performance Audit Administration of the Family Court of Australia	15 May 1997	\$261,000
Audit Report No. 34 Performance Audit Australian Defence Force Health Services Department of Defence	26 May 1997	\$395,000
Audit Report No. 35 Performance Audit 1996 Census of Population and Housing Australian Bureau of Statistics	2 Jun 1997	\$109,000
Audit Report No. 36 Performance Audit Commonwealth Natural Resource Management and Environment Programs Australia's Land, Water and Vegetation Resources	4 Jun 1997	\$413,600

Audit Report No. 37 Risk Management: Australian Taxation Office	18 Jun 1997	\$327,000
Audit Report No. 38 - Follow up Audit External Funds Generation Australian Institute of Marine Science	24 June 1997	\$102,000
Audit Report No. 39 Financial Control and Administration Audit Audit Committees	25 June 1997	\$230,000
Audit Report No. 40 Performance Audit Human Resource Management Department of Foreign Affairs and Trade	26 June 1997	\$415,000

***Other Titles***

Australian National Audit Office  
Annual Report 1995-96

Better Practice Guide:  
Return to Work: A Guide to Workers'  
Compensation Case Management

Better Practice Guide:  
Performance Information Principles

Better Practice Guide:  
Telephone Call Centres

Applying Principles and Practice of  
Corporate Governance in Public Sector  
Agencies

Better Practice Guide:  
Managing APS Staff Reductions

Better Practice Guide:  
Asset Management

Better Practice Guide:  
Paying Accounts

Better Practice Guide:  
Management of Corporate Sponsorship

Better Practice Guide:  
Administration of Grants in the Australian  
Public Service

## Appendix 7

# Contact Directory

as at 23 September

### **Function:**

The Australian National Audit Office provides independent audit advice and assurance to the Parliament, Ministers and public sector entities. This is achieved by:

- undertaking performance and financial statement audits of Commonwealth entities;
- providing independent and objective, focused and balanced reports; and
- contributing to public sector reforms and initiatives.

### **Central Office**

Centenary House, 19 National Circuit, Barton ACT: GPO Box 707, Canberra ACT 2601  
Tel. (06) 203 7300; Fax (06) 203 7777

### **Auditor-General**

Mr Pat Barrett AM  
Tel. (06) 203 7500  
Executive FAX (06) 273 5355

### **Corporate Management Branch**

Ms Gwyn Thompson  
Executive Director  
Tel. (06) 203 7551

### **Information Management Branch**

Mr Russell Coleman  
Executive Director  
Tel. (06) 203 7640

---

### **Financial Audit Business Unit**

Mr Bill Nelson  
National Business Director  
Tel. (06) 203 7367

#### *Group Directors*

Mr Edward Hay  
Tel. (06) 203 7636

Mr Michael Watson  
Tel. (06) 203 7356

#### *Executive Directors*

Mr Trevor Burgess  
Tel. (06) 203 7790

Mr Douglas Lennie  
Tel. (06) 203 7342

Mr David McKean  
Tel. (06) 203 7364

Mr Colin McPherson  
Tel. (06) 203 7761

Mr Allan Thompson  
Tel. (06) 203 7714

*Executive Adviser, Technical Support*  
Ms Lynne O'Brien

Tel. (06) 203 7572

*State Offices*

Mr Russell Chantler (NSW)  
Tel. (02) 9367 7120

Mr Brett Kaufmann (Vic)  
Tel. (03) 9607 4444

---

## **Performance Audit Business Unit**

*National Business Director*

Mr Ian McPhee  
Tel. (06) 203 7800

*Group Directors*

Mr John Meert  
Tel. (06) 203 7360

Mr Peter White (A/g)  
Tel. 203 7594

*Executive Directors*

Mr John Bowden  
Tel. (06) 203 7397

Mr Colin Cronin  
Tel. (06) 203 7507

Mr Alan Greenslade  
Tel. (06) 203 7738

Mr Michael Lewis  
Tel. (06) 203 7683  
Mr Tony Minchin  
Tel. (06) 203 7456

Dr Paul Nicoll  
Tel. (06) 203 7759

Mr David Spedding (A/g)  
Tel. (06) 203 7685

Ms Malisa Golightly  
Tel. (06) 203 7577

---

## **State Offices**

New South Wales Regional Office  
Level 6, 130 Elizabeth Street  
Sydney NSW 2000

PO Box A456  
Sydney South NSW 1235  
Tel. (02) 9367 7100; Fax (02) 9367 7104

Victorian Regional Office  
12<sup>th</sup> Floor, 624 Bourke Street  
Melbourne VIC 3000

GPO Box 1715P  
Melbourne VIC 3001  
Tel. (03) 9607 4444; Fax (03) 9600 1516

# Glossary

ACT	Australian Capital Territory
AMODEL	A set of illustrative financial statements
ANAO	Australian National Audit Office
ASL	Average staffing levels
APS	Australian Public service
ATSI	Aboriginal and Torres Strait Islanders
CPSU	Community and Public Sector Union
EEO	Equal Employment Opportunity
FABU	Financial Audit Business Unit
FCA	Financial Control and Administration
FOI	Freedom of Information
GAA	Graduate Administrative Assistant
ID	Industrial Democracy
IT	Information Technology
JCPA	Joint Committee of Public Accounts
NESB1	Non-English speaking background - first generation
NESB2	Non-English speaking background - second generation
OH&S	Occupational Health and Safety
PABU	Performance Audit Business Unit
PC	Personal computer
PWD	People with a Disability
QA	Quality assurance
RPL	Recognition of Prior Learning
RFT	Request for Tender
SES	Senior Executive Service
SOGA	Senior Officer Grade A
SOGB	Senior Office Grade B
SOGC	Senior Officer Grade C

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