



2001-2002

Annual Report

THE AUDITOR-GENERAL



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THE AUDITOR–GENERAL



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A copy of this report and other ANAO publications, as well as information on the ANAO, is available at the following internet address:

<http://www.anao.gov.au>



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

26 September 2002

Dear Mr President
Dear Mr Speaker

In accordance with section 28 of the *Auditor-General Act 1997*, I present to the Parliament my report on the operations of the Australian National Audit Office for the year ended 30 June 2002.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P.J. Barrett', written over a large, light-colored oval shape.

P.J. Barrett
Auditor-General

Highlights

We tabled a record 67 audit reports for the year and met all our financial statement obligations within agreed timeframes.

Parliamentary committees and audited entities continue to indicate high levels of acceptance of audit recommendations.

Our centenary history entitled *From Accounting to Accountability* was successfully launched in November 2001.

Consistent performance

Our relationship with the Parliament, and in particular the JCPAA, remains very supportive. We continue to provide briefings to key Parliamentary committees and individual Parliamentarians.

Our feedback from agencies demonstrates we maintain constructive relationships at senior levels, including participation in audit committee meetings.

We continue to effectively manage our operating costs while meeting or exceeding our performance targets.

We continue to receive positive feedback and high demand for our better practice guides.

We had extensive involvement with the major professional bodies. Our contribution to the accounting and auditing profession and to the international audit community was again significant. We implemented a secondment program with two international audit offices: Audit New Zealand and the Office of the Auditor-General of Canada as well as successfully running a performance audit course for auditors from Asia-Pacific nations.

Areas of focus for the coming year

While our staff turnover is trending down, recruitment and retention remains a challenge. We will continue to address this in the context of the implementation of our workforce planning initiatives.

Ongoing attention will be given to improving the quality of our products and services, taking particular note of the evolving needs and expectations of our stakeholders.

We will give additional priority to a range of technical skills including report writing, general information technology skills and knowledge of government.

We will strive for a more even distribution of tabling dates for reports throughout the year.

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Comment by the Auditor-General

Audit independence
and effectiveness

Introduction

The legislative framework laid down in the *Auditor-General Act 1997* (the Act) underpins my independence and unique relationship with the Parliament. My mandate extends to all Commonwealth agencies, authorities, companies and subsidiaries with the exception of performance audits of Government Business Enterprises which may be undertaken at the request of the responsible Minister, the Finance Minister or the Joint Committee of Public Accounts and Audit (JCPAA).

Notwithstanding the strong legislative support provided by the Act, if we are to improve public administration in a way that involves our audit clients and earns their respect, we need to approach the audit task in a constructive and cooperative fashion. In this first section I shall outline some of the measures we employ to progress this inclusive approach to audit which, in my view, greatly assist our effectiveness without impairing our independence.

The ANAO's Corporate Plan sets out our mission—to *add value to public sector performance and accountability*. There are two major components in this mission and they are: providing *assurance*, which entails the independent assurance of Commonwealth public sector financial reporting, administration, control and accountability; and *improvement in public administration* which encourages a more efficient Commonwealth Public Sector by implementing better practices in public administration.

The ANAO provides independent assurance about the use of public resources to the Parliament, the Executive, boards, chief executive officers and the public which is our more traditional audit role. The ANAO also promotes improvements to public administration and accountability through an effective program of performance audits and related products. This second role has become the most prominent of our services in recent years. As well, there has been greater acceptance of this role in public administration even if sometimes controversial.

A growing element of this value adding role is communicating the ANAO's activities and their outcomes through representation at a range of Parliamentary Committees, agency audit committees and boards of government authorities and companies. The Office also seeks opportunities to contribute to the development of the accountability framework, including better practice and standards in public sector accounting and auditing, through professional and other audit bodies in Australia and overseas.

Relationships with Parliament and committees

The Parliament is my primary 'client'. The ANAO's interaction with both individual parliamentarians and committees provides the opportunity to ensure that, as far as possible, our financial and performance audit products and services are tailored to Parliament's needs. A responsive relationship with the Parliament is integral to our ability to get the mix right in providing adequate assurance and promoting improvements in public administration. The success of the relationship depends on our ability to maintain frank and open dialogue with those parties.

While the ANAO seeks to build strong relationships with all members of Parliament through a variety of forums, it is the JCPAA that has a key role in relation to the ongoing activities of the ANAO by advising on the planning of the ANAO's audit activity and in recommending the budget for the ANAO to the Parliament and the Government each year. This special relationship sets us apart from other independent agencies charged with the regulation, or review, of public sector activities. The ANAO has a unique position within the democratic framework, which is reinforced by robust legislation. It is not dependent on any individual Minister for authority, which means that the Auditor-General has the ultimate responsibility for setting the scope of the Office's activities.

Relationships with Australian Public Service (APS) agencies

Adopting a constructive approach to auditing requires considerable cooperation between my Office and the agencies with which we deal. This means that links are regularly being formed and strengthened with our major clients. Our relationships are managed responsively, stressing shared responsibilities and accountabilities. The ANAO emphasises the importance of building strong relationships with agencies and other stakeholders to foster a culture of accountability in preference to a more prescriptive approach that seeks to impose specific conduct. The ANAO aims to focus mainly on outcomes and results to provide products and services that suit the needs of both the audited agencies and the Parliament.

The audit planning approach

The requirements of providing assurance and assessing performance and the need to address any expectation gaps in the audit process are met at two levels with a focussed and integrated approach to audit selection—reflecting both the emerging environment and the circumstances of individual agencies and organisations.

At the broader public sector level, the ANAO ensures that its product mix and coverage are tailored to the environment in which it operates and to the accountability needs of our principal client, the Parliament. As the environment changes, so do the associated accountability arrangements. We have to regularly ask ourselves 'have we got the balance right?' We also need to ensure the expectation of an audit presence across the public sector within a reasonable timeframe.

The second level of the ANAO's integrated approach applies to individual agencies or entities where we aim to ensure that our audit services assist public sector organisations to improve their performance and accountability and better manage their functions and/or business. In developing a strategy in relation to a particular agency the ANAO looks at the perceived relative strengths and weaknesses of the organisation in terms of its performance and accountability, and takes into account any complementary internal or external reviews, investigations and evaluations. The objective here is to minimise any unnecessary overlap and duplication of such activity and its impact on the organisations concerned.

The continuing drive to enhance our audit products

The ANAO is committed to delivering high quality audit products that maintain and improve the high standards and professionalism of our audit and related services. In order to meet our clients' changing needs, the ANAO has moved towards a more strategic, risk-based audit approach aimed at adding value through audit products that are state of the art. I encourage innovation but this alone is not sufficient.

Importantly, the ANAO works closely with our national and international audit colleagues to ensure that the Office remains at the leading edge of our profession. Our aim is to achieve the 'right mix' of assurance, compliance, accountability, and performance products. This process allows the Office to 'fine tune' its products as well as assisting us to compare our own performance with that of our colleagues both in Australia and overseas. My present areas of emphasis are outlined below.

To maximise our efforts and the value added to public sector administration, the ANAO is conducting a greater number of *cross portfolio* audits, involving more than one agency. These audits provide an analysis of performance across the Commonwealth public sector. This is important as agencies increasingly find new methods to deal with common issues, and form alliances and partnerships, including with the private sector, to deliver government services. There is a renewed focus on whole-of-government approaches.

In getting the 'right mix,' my Office has focused on products that add value by bringing together lessons learnt across the public sector. The ability to leverage off these multi-agency audits is providing a significant return for the audit effort involved.

A recently developed subset of general performance audits, which we call business support process audits (BSPAs), examine business processes that support the delivery of outputs provided by public sector agencies. The focus of BSPA reports is essentially the efficiency and effectiveness of the accountability, control and compliance mechanisms operating within public sector entities. These audits replace the previous financial control and administration audits and the assurance and assessment control audits and are normally conducted in a number of organisations. While the audit findings are usually reported to Parliament in generic terms, the individual organisations involved in the audit are identified. In addition, individual reports are provided to each organisation. Importantly the outputs of these audits frequently lead to the development of better practice guides (BPGs).

The BPGs and our benchmarking studies have been well received by program managers interested in learning from the experiences of others. BPGs serve a dual purpose: they provide a unique analysis of trends affecting the public service as a whole; and they provide a valuable source of audit criteria for future work in related fields. BPGs aim to improve public administration by ensuring that better practices employed in individual organisations in Australia and overseas are promulgated to the whole of the public sector. They often borrow from both private and public sector better practice.

Real-time auditing

The ANAO seeks to assist agencies in a timely manner. This means that, in many ways, the ANAO has had to mirror its client agencies' timetables in terms of responding to, for example, the new time pressures on the production of financial statements. A shift to real time auditing can be more valuable to our clients as issues are able to be identified and brought to the attention of management early in the process. However, we also need to remain conscious of the need to manage potential conflicts of interest. Hence, while the early identification of issues for the attention of management is actively encouraged, care needs to be taken to ensure that auditors remain apart from the decision-making framework to protect their independence.

Client surveys

As well as the regular contact that we have with the JCPAA and other Parliamentary Committees, the ANAO also conducts surveys of parliamentarians based on personal interviews. These surveys are conducted periodically to ensure that we are meeting our clients needs in terms of our product coverage, mix and quality.

An important performance management and assessment mechanism is the feedback from agencies on the audit process by means of a questionnaire and interview. An independent consultant performs this evaluation. The results of the most recent survey were positive on the whole, with agency managers continuing to support the ANAO's efforts. One of the most discernible trends has been a widely held perception that the ANAO has moved from an approach that places emphasis on finding errors to one of 'adding value'. They also referred to the value of ANAO reports in providing assurance and in providing leverage to facilitate change.

Making audit recommendations effective

It is important that agencies see the ANAO as engaging in a partnership that will help them achieve better practice in the area of public administration for which they are responsible. My staff work hard to ensure that agencies are fully informed about, and understand each stage of, a performance audit, that is from the first contact to the final report. In essence there should not be any surprises. This approach helps ensure the audit recommendations are practical and therefore capable of implementation and also have a degree of acceptance from the agency concerned. The process also helps our audit clients understand the reasoning behind any adverse recommendations.

One way to judge whether performance audits add value to public administration and accountability is the level of acceptance of the audit recommendations. A performance audit is regarded as a success when the majority of recommendations are accepted and implemented by the agency. A useful benchmark is that 90 per cent of the ANAO's recommendations are accepted; a goal we have been able to achieve since the mid-1990s.

The ANAO works closely with the various audit committees of public sector organisations to monitor the implementation of its recommendations. However, the most effective action is the JCPAA's quarterly public hearings on selected audit reports and any JCPAA inquiry conducted as a result of these reports. Agencies are closely questioned about both their intent and action taken in relation to audit recommendations. In a letter to all Ministers of 28 June 1999, the then Minister for Finance and Administration requested that all Ministers continue to scrutinise the actions taken within portfolio agencies in response to ANAO recommendations and that regular information be provided to the ANAO and the JCPAA on follow-up action taken. The Department of Finance and Administration subsequently provided an outline of suggested arrangements that agencies might follow in continuing effective follow-up of matters raised by the Auditor-General and relevant Parliamentary Committees.¹ The ANAO also conducts its own follow-up audits to monitor the implementation of recommendations, as well as to report on any other emerging issues that may be of interest to the Parliament.

Audit independence and effective audit committees

The independent assurance that the ANAO provides on the overall performance and accountability of the public sector in delivering the Government's programs and services is vital to good administration. This is particularly relevant now as the public and private sectors converge, as the management environment becomes inherently riskier, and as concerns for public accountability heighten in the general community. In this environment, it is vital that my Office has the professional and functional freedom required to fulfil independently and objectively, the role demanded by the Parliament. Importantly, the Auditor-General is appointed with the direct involvement of the JCPAA, rather than solely by the Executive or a particular Minister, thus reinforcing the independence of the position. Similar involvement by the Committee occurs in the appointment of the ANAO's own external auditor.

The need for audit independence is not restricted to the public sector. There are many institutions in the private sector that have a significant impact on the level of public accountability and where under-performance has the potential to impact adversely on public policy making. For example the collapse of HIH has had a disastrous effect on many individuals and parts of the economy, resulting in pressure on governments to mount expensive rescue operations. This in turn has raised public uncertainty about the effectiveness of public regulators, including questions about the way in which the company's auditors have performed their role. The issue of audit independence will come under further scrutiny with the JCPAA's inquiry into this topic and is also likely to be considered as part of the Royal Commission into the collapse of HIH.

The debate over audit independence is not new, although it has attained an increased popular profile in the wake of the collapse of Enron and WorldCom in the United States.

¹ Department of Finance and Administration 1999, *Follow up of Auditor-General Matters*, Finance Circular No. 1999-02, 30 June, p. 2.

As a result, higher level expectations are being generated from audit bodies and the accounting profession worldwide. While the ANAO takes a professional interest in this ongoing debate, it is also set apart from it by virtue of its statutory and functional independence. Nevertheless, there is also an operational imperative with the ANAO outsourcing a significant proportion of its audit work to private sector accounting firms. As well, with the increasing use of such firms by the public sector for internal audit, we are often dependent on their work in coming to an audit opinion on organisations' control environments and financial statements.

The United States (US) Securities and Exchange Commission has highlighted the need for more stringent restrictions on the scope of non-audit relationships that accounting firms have with their clients. Additionally, the Comptroller General and head of the General Accounting Office (US) recently announced significant changes to the auditor independence requirements under Government Accounting Standards.² The fundamental principle supported by public sector auditors is that auditors must be, and should be seen to be, free of any interest or relationship that might be regarded, whatever its actual effect, as being incompatible with integrity and objectivity.

It is worth noting that the US Securities and Exchange Commission will require the top 1000 US companies to file a formal certificate of accuracy of their last annual reports in their next quarterly profit reports³. Similarly, the Australian Securities and Investments Commission will scrutinise key risk areas of the accounting practices used by sharemarket-listed companies in their 30 June accounts following the corporate scandals in the US⁴.

The Institute of Chartered Accountants in Australia and CPA Australia recently released a professional statement on professional independence.⁵ This statement provides a framework for identifying, evaluating and responding to threats of independence. The framework establishes principles that members of the profession should use to identify threats to independence, evaluate the significance of those threats, and, if the threats are other than clearly insignificant, identify and apply safeguards to eliminate the threats or reduce them to an acceptable level.

There is growing pressure for the exclusion of private sector audit firms from other activities within the same organisations. For example, there is increasing general acceptance of the desirability of firms not being engaged both as internal and external auditor. The ANAO supports the Ramsay Report⁶ recommendation that the auditor should make an annual declaration, addressed to the board of directors, that the auditor has maintained his/her independence in accordance with the *Corporations Act 2001* and the rules of the professional accounting bodies.

The Treasurer recently announced a process that will review audit regulation and wider corporate disclosure frameworks as part of the Government's Corporate Law Economic Reform Program⁷. The first stage of this process will be the release of an issues paper addressing the Ramsay Report as well as a number of other issues relevant to financial

2 The new audit standard is available on the GAO's website at <<http://www.gao.gov/govaud/ybk01.htm>>.

3 Durie, J 2002, *Time for a Different Corporate Culture*, Australian Financial Review, 28 June, p. 84.

4 Pheasant, B 2002, *ASIC to target corporate accounts*, Australian Financial Review, 8 July, p. 1.

5 The Institute of Chartered Accountants in Australia and CPA Australia, 2002, *Professional Statement F1 Professional Independence*.

6 Ramsay, Ian 2001. *Independence of Australian Company Auditors, Review of Current Australian Requirements and Proposals for Reform*, Commonwealth of Australia, October.

7 Treasurer and Parliamentary Secretary to the Treasurer 2002, *Review of audit regulation and corporate disclosure*, Press release no. 34, 27 June.

disclosure. The issues paper will consider a range of audit quality issues including a review of oversight structures for the profession as well as auditing standards. The issues paper will be the first phase in a public consultation process leading to the introduction of new legislation in the Parliament in 2003.⁸

In our submission to the JCPAA inquiry on audit independence⁹, the ANAO set out a range of measures to strengthen the independence of auditors and provide greater public confidence in their performance and the role that they have in adding credibility to financial reports prepared by companies. These measures included:

- underlining the independence of auditors in statute;
- enhancing the role of audit committees in corporate governance;
- improving the disclosure of ‘other services’ provided by auditors;
- encouraging the profession to tighten current guidelines on ‘other services’ work that auditors are able to undertake; and
- encouraging the wider involvement within the profession of users and preparers of financial statements and reports, particularly in the setting of auditing standards and guidelines.

These options for enhancing the independence of auditors may be pursued under the current co-regulatory model or through other forms of statutory, or non-statutory regulation. These are matters for decision by the Government and the profession co-operatively, given the level of interdependence between both parties in current arrangements. Other regulatory bodies, such as the Australian Securities and Investments Commission, will also have views and a role to play.

Audit committees

In my view, the topical questions about possible conflicts of interest, rotation of audit firms (or rotation of audit partners) and selection of auditors are central to the roles and responsibilities of audit committees which in turn are part of a sound corporate governance framework. One challenge is, therefore, how to strengthen those roles to enhance their effectiveness and credibility in the eyes of both internal and external stakeholders. This requires strong and effective leadership from the top whether it be from a board or a chief executive officer. The emphasis has to be on maintaining the independence of the audit committee.

The recent debate about the responsibilities of external auditors and audit committees has raised the audit profile in both the private and public sectors. The ANAO sees its relationship with an audit committee (and internal audit) as one of partnership. It is interesting to note that Federal Government legislation requires all Commonwealth organisations to have an audit committee, yet it is only recently that a recommendation was made for corporations to have audit committees as a condition of Australian Stock Exchange listing.

⁸ Ibid.

⁹ The JCPAA intends to report in October 2002.

The upgrading of the role of audit committees in the public sector and the contribution that auditors can make in this context need to be reinforced. The value-added comes from two main areas: first, the latter's 'independent' perspective of the control environment and performance of the organisation and its programs; and second, their knowledge of better practice gained from the oversight of a wide range and variety of public sector bodies. These perspectives can provide a positive stimulus to audit committee deliberations and organisational performance.

Driving the audit agenda forward

As the public sector faces a rapidly changing business environment the ANAO needs to be adaptive and alert to the risks involved to ensure that we target those areas of most interest and value to the Parliament, public sector managers and the public. In line with this changing business environment, corporate governance needs to keep pace. For example, managers need access to better practice, leadership and guidance to ensure that their own business strategies are effectively framed.

The ANAO's statutory independence, combined with our public sector involvement and knowledge, places us in a unique position. It is imperative that the Office builds on these strengths in setting our agenda for the future. While that agenda will continue the assurance and advisory roles, the ANAO will also need to ensure that we remain responsive to the emerging requirements of the Parliament and the Government, as well as of our client agencies. The ANAO continues to monitor trends in the public sector and we set our responses accordingly to ensure that our approach and coverage remains relevant and value adding.

The Office also recognises the importance of being an active participant in the change process so that we develop audit products that, on one hand, provide assurance (for which we are traditionally known and on which Parliament relies) and, on the other, are aimed at adding value to agencies' operations through our BPGs and benchmarking studies. The ANAO has pursued a focus on quality products as an essential element of our corporate planning to assist us in meeting the objective of enhancing public administration. Clearly, the ANAO's approach needs to be monitored and reviewed for effectiveness over time to allow us to capitalise on our traditional strengths and to move into new value-adding areas in the future.

Maintaining and growing our capability

A critical issue for the Office is attracting and retaining staff many of whom have experience in the public sector accrual budgeting and accounting environment as well as the private sector and in commercial operations. As a result, our staff are in demand in both the public and private sectors. To address this issue, the Office is looking to a suitable mix of: internal training; the use of universities and other educational institutions; interchanges between the private and public sectors; the judicious use of private contractors and suitable rewards and recognition. Importantly, we continue to offer our staff a wide range of

interesting, demanding and professionally satisfying audit experiences and the opportunity to make a difference in nationally important issues and programs.

Networked service delivery

The ANAO has sought to add value through its audit activity in the area of networked service delivery. The trend toward 'networked' or cross agency approaches is one that is likely to continue as agencies take advantage of the opportunities offered by more responsive service delivery mechanisms. The ANAO has an important role to play in helping to promote appropriate governance frameworks and highlighting that governance issues need to be given greater prominence and consideration. It may, for example, be appropriate for governance arrangements to be set out in Cabinet submissions and subsequently approved by the executive where cross agency issues arise. This applies particularly to the vexed issue of accountability in the delivery of public services in an environment that is relying more on coordinated, integrated and partnership arrangements within the public sector and between it and the private sector.

Contract management

It is crucial that the process of awarding contracts is adequately documented, ensures open and effective competition, and achieves value for money outcomes. The process must be transparent and able to withstand parliamentary and other scrutiny. The ANAO has produced a number of audits and two BPGs on the issue of contract management in an attempt to assist agencies and their private sector partners in this very complex and fast-growing area. The JCPAA has also reviewed this issue¹⁰ and its implications for public sector accountability.

It is noteworthy that the JCPAA considered that clauses should be included in all Commonwealth contracts to provide ANAO access to relevant private sector firms for the purposes of auditing the contract. The ANAO and the Department of Finance and Administration were instrumental in producing standard model clauses to meet this requirement as part of the Government's Procurement Guidelines. Commercial-in-confidence issues have also attracted Parliamentary attention and review, involving the ANAO in periodic audit of agency contracts as well as public listing of such contracts for scrutiny purposes.

Acting globally

In the coming years, the ANAO will continue to play an active role in the accounting and auditing profession as well as supporting international colleagues and institutions. We have some way to go, but the challenge is to strategically position ourselves to respond to emerging circumstances by tailoring our products to continue to be relevant and to take advantage of opportunities for improvement and value adding as they arise. All public sector agencies, as well as the ANAO, will need to continue to engage globally in identifying national approaches and solutions for greater effectiveness.

10 See JCPAA Report 379 *Contract Management in the Australian Public Service*, 2 November 2000.

The Office has been active in using the collective international experiences of audit offices to: benchmark our performance; to compare the performance of Australian agencies against that of overseas bodies; and actively participate in the International Organisation of Supreme Audit Institutions in the exchange of information on better practice and latest developments. The ANAO works with both the United Kingdom and the New Zealand Audit Offices on peer reviews, and exchanges staff with other national audit bodies to build expertise and knowledge of better auditing practices globally.

The year in perspective

It has been a year of consolidation for the ANAO with a focus on the substance and mix of audit products. We have improved both the quality and quantity of audit reports. However, we continue to have difficulties with attracting and retaining staff. We have implemented important initiatives to improve our strategic approach to people management that encompass those difficulties and promote personal development in a range of skills.

Our legislation has been the subject of scrutiny by the JCPAA and their current inquiry into audit independence is of critical relevance to our *modus operandi*. The ANAO was also proud to celebrate its first 100 years as a Commonwealth public sector organisation.

In closing I wish to thank my staff for another year of excellent service. Once again they have collectively performed their duties with professional dedication and goodwill which is greatly appreciated. The high regard the Office enjoys at present is due largely to their efforts. In particular, the office was very pleased to see the contribution to public sector accounting and auditing, and development of Industry Accounting Standards made by the Deputy Auditor-General, Ian McPhee, recognised in the award of the Public Service Medal in the Queen's Birthday Honours List on 10 June 2002.

Report overview

Report overview

The Auditor-General's role and responsibilities

The Auditor-General, through the ANAO, provides an independent review of the performance and accountability of Commonwealth public sector agencies and entities. Through the delivery of an integrated range of high quality audit products that are timely, cost effective and consistent with public sector values, the ANAO aims to meet the needs and expectations of the Parliament, the Executive and audit clients and to add value to public sector performance and accountability.

The *Auditor-General Act 1997* (the Act) provides a legislative framework for the Office of the Auditor-General and the ANAO. The Act establishes the Auditor-General as an *independent officer of the Parliament*—a title that symbolises the Auditor-General's independence and unique relationship with the Parliament. The Act also outlines the mandate and powers of the Auditor-General, as the external auditor of Commonwealth public sector entities.

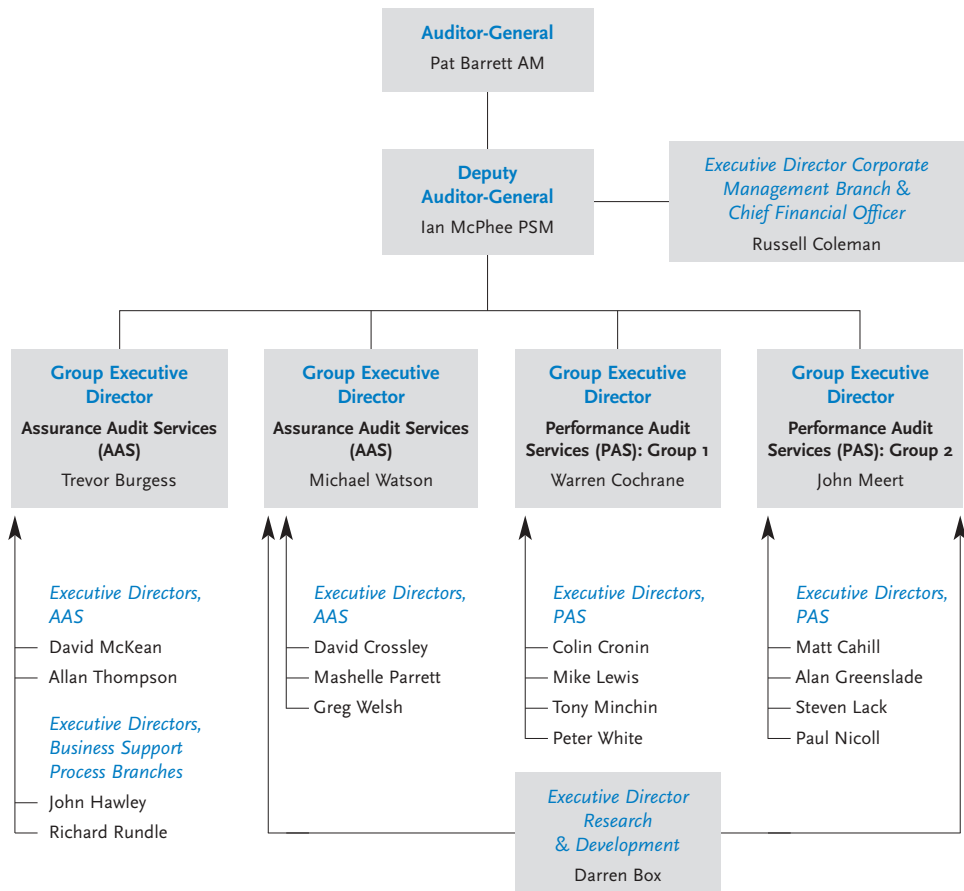
The Auditor-General's mandate extends to all Commonwealth agencies, authorities, companies and subsidiaries with the exception of performance audits of government business enterprises (GBEs) and of persons employed or engaged under the *Members of Parliament Act (Staff) 1984*. Performance audits of wholly owned GBEs may only be undertaken at the request of the responsible Minister, the Finance Minister or the JCPAA.

Organisation

The ANAO is organised internally into two services groups supported by a Corporate Management Branch (CMB) and a Research and Development (R&D) Branch. The Assurance Audit Services Group (AASG) provides independent assurance on the financial statements and financial administration of Commonwealth public sector entities to the Parliament, the Executive, boards, chief executive officers and the public. The Group aims to improve financial administration and management and public accountability matters by adding value through the timely delivery of cost-effective audit services. The Performance Audit Services Group (PASG) aims to improve public sector administration and accountability by adding value through an effective program of performance audits and related products.

The majority of ANAO staff are located in Canberra with a small regional office in Sydney. The organisation and senior management structure of the ANAO, as at 30 June 2002, is shown in Figure 1.

Figure 1: Organisation and senior management structure as at 30 June 2002



For more information

The ANAO website, www.anao.gov.au, provides extensive information on the ANAO and also includes links to audit offices in other jurisdictions in Australia and internationally.



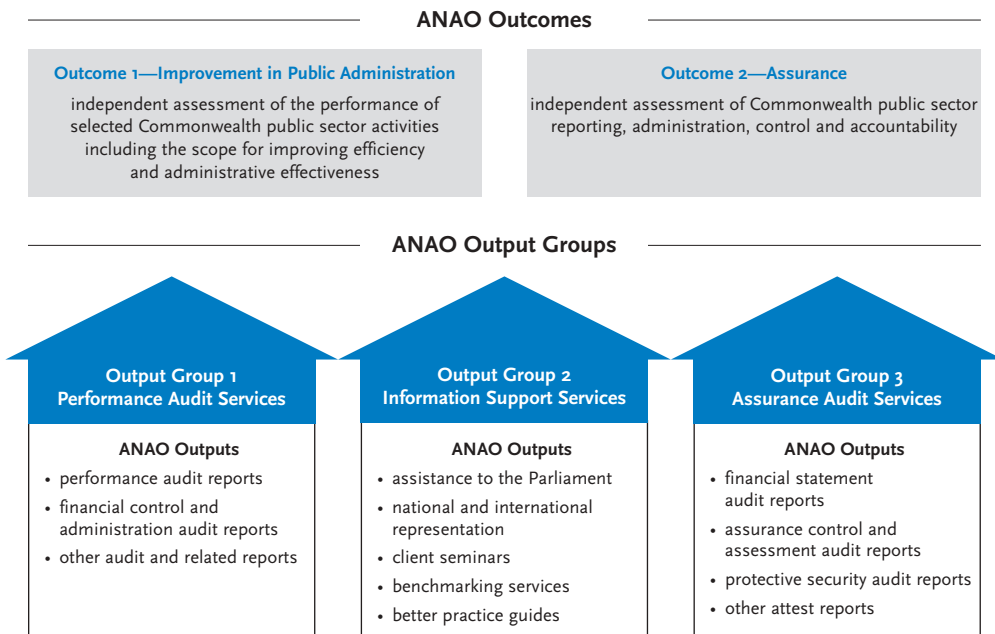
The ANAO's homepage

The ANAO's Outcome–Output framework

The following explanation relates the Outcome-Output framework as set out in the ANAO 2001–02 Portfolio Budget Statement (PBS) to its actual achievement for the year. Figure 2 shows the ANAO's current outputs and their relationships through output groups, to the ANAO's outcomes.

Commencing from the 2002–03 financial year, the outputs *financial control and administration audit reports and assurance and control assessment audit reports* have been replaced by a new output: *business support process audit reports*. This new output is part of Output Group 3—Assurance Audit Services.

Figure 2: The ANAO's Outcome–Output framework



The three output groups contribute in varying degrees to the achievement of the ANAO's outcomes.¹¹ The challenge is to make credible assessments of those contributions.

The next major section of this report, 'Reporting on Performance', outlines each of the ANAO's output groups and details the performance of those groups in achieving the ANAO's outcomes.

The ANAO's financial statements for 2001–02 are set out at Appendix 2, which also includes a commentary on the ANAO's financial performance for the financial year. The financial resources for 2001–02, on an outcome–output basis, are summarised in Table A2–3. Tables A2–4 and A2–5 detail the financial resources for each outcome.

11 In 2001–02, each output group was estimated to contribute to each outcome as follows:

- Performance Audit Services—67 per cent to Outcome 1 and 33 per cent to Outcome 2.
- Information Support Services—50 per cent to Outcome 1 and 50 per cent to Outcome 2.
- Assurance Audit Services—10 per cent to Outcome 1 and 90 per cent to Outcome 2.

Reporting on performance

The ANAO's Scorecard provides an overview of ANAO performance for each of the four key result areas (KRAs). Reporting on the ANAO's performance for 2001–02 is structured in accordance with the ANAO's Outcome–Output framework, as outlined in the 'Report overview' section.

The performance measures that relate to the three output groups are quantitative in nature and are essentially concerned with issues of efficiency and productivity in delivering audit products. The measures relate primarily to quantity, timeliness and cost. Specific performance against an indicator is highlighted in blue.

The outputs' contributions to the achievement of the ANAO's outcomes are also discussed. These sections relate primarily to the impacts (outcomes) that the ANAO's outputs have on the Parliament, public sector entities and public sector administration in general. Both quantitative and qualitative measures are used to assess the ANAO's performance.

This approach provides readers with an understanding of the link between the ANAO's products (outputs) and their resulting impacts (outcomes). In turn, it will assist readers to assess how cost-effectively the ANAO is delivering its products and to what extent the ANAO is achieving its agreed outcomes.

These sections are followed by a discussion of the ANAO's internal management, entitled 'Management and Accountability'. This section focuses on the delivery of corporate strategies and services to support the cost-effective delivery of quality audit products and achievement of the ANAO's outcomes. The discussion focuses on the key managerial and support activities undertaken in the ANAO.

ANAO Scorecard 2001–02

KRA 1 Meeting Clients' Needs	Target	Actual	KRA 2 Quality Products and Services	Target	Actual
Parliament acknowledges the value of the ANAO contribution.	90% value role of ANAO	Parliament is supportive of ANAO reports. ²	Number of products produced: — performance audit services — information support services — assurance audit services	50 8 8	50 ⁵ 9 ⁶ 13 ⁷
Level of satisfaction with timeliness of reports in assisting parliamentarians to make informed decisions.	75%	Parliament is supportive of ANAO reports. ²	Number of financial statement audit opinions issued	290	272 ⁸
Percentage of audit recommendations supported by the JCPAA and other parliamentary committees.	95%	All supported ³	Percentage of unqualified audit opinions issued	100%	97.4%
Public sector organisations acknowledge the value added by ANAO products and services.	100% = or >3 ¹	Benefit/value 3.7	Briefings and information provided to the satisfaction of parliamentary committees and individual parliamentarians	Enhanced appreciation of role of ANAO	Relevant parliamentary committees continue to be supportive of ANAO findings and seek our briefings on selected reports ²
Percentage of recommendations agreed by audited entities.	90%	91% ⁴ and 93% ⁴	Number of overseas secondments to the ANAO	Maximum of 2 per year	3 ⁹

KRA 1 Meeting Clients' Needs	Target	Actual	KRA 2 Quality Products and Services	Target	Actual
Contribute to international and national development	All obligations and requests met within agreed timeframes.	Achieved	Relevant advice and information provided to overseas delegations	Delegates recognise value of ANAO's advice and information	Feedback and ongoing requests for assistance indicate the value of ANAO advice and information
Seminar topics meet the needs of participants	Average = or >4	Benefit/value	3.8 Number of client seminar series conducted	2	2
			Quality assurance results indicate audits are conducted in accordance with ANAO Auditing Standards	100%	100% ¹⁰
			Ratio of estimated potential financial benefits from performance audit products compared to the full cost of outputs	2:1	10:1 ¹¹
			Timeliness of issuing audit opinions following receipt of signed financial statements ¹² :		
			• same day	75%	71%
			• 1–2 day after	18%	12%
			• 3–7 days after	4%	9%
			• >1 week after	3%	8%

KRA 3 Highly Performing People

Public sector organisations acknowledge knowledge, understanding and skills of ANAO staff through client satisfaction surveys

2% improvement on previous years results

100%

General improvement over positive results in previous years¹³

17.9%

18%

Percentage of audit products completed in accordance with budgeted timeframe (maximum 11 months for performance audits)

\$0.3m

Average cost of performance audit products

\$0.306m

46% completed under 11 months

Average time overall: 11.4 months

Our staff turnover is within agreed targets

28% considered there was room for improvement¹⁴

100%

Staff consider the ANAO's management information system provides sufficient information for their purposes

100%

97%

Most users find system provides the necessary information

Review of workforce planning implementation reflects an improvement in the management of our workforce

36% considered there was room for improvement¹⁴

100%

Relevant costs are recovered, either notionally or actually

97%

97%

Relevant costs are recovered, either notionally or actually

Our people management skills have improved

Benefit/value ratio used in survey, maximum score is five.

A Parliamentary Survey to be conducted in 2002-03 will provide further information to support assessment of this measure.

Based on JCPAA reports tabled in 2001-02.

Performance Audits 91% and Financial Statement Audits 93%.

Includes 46 Performance Audits, two Financial Control and Administration Audits and two Audit Activity Reports.

Includes five Better Practice Guides and four Benchmarking studies.

Our people management skills have improved

Includes nine Assurance Control and Assessment Audits, three Financial Statement Audits and one Protective Security Audit.

The reduction is largely due to the classification under the *Corporations Act 2001* of a number of small entities as non-reporting entities for the 2000-01 financial year.

Two secondees from New Zealand commenced in July 2001 for six weeks. One secondee carried over from the previous year from Canada.

Conducted in year 2000-01.

Includes recurring savings of \$1.6 million and non-recurring savings of \$151 million.

Based on the 2000-01 audit cycle completed in October 2001.

Both PASG and AASG client surveys were positive with most major areas showing an improvement. This can be interpreted as at least a two per cent improvement over previous year's results.

Percentage from 2001-02 Staff Survey.

OUTPUT GROUP 1

Performance Audit Services

The outputs that comprise Output Group 1 in 2001–02 are:

- performance audit reports;
- financial control and administration reports; and
- other audit and related products, such as audit activity reports.

The following summarises the ANAO's performance against these outputs. Details of the financial resources for performance audit services are detailed in Tables A2–3, A2–4 and A2–5 in this report.

Performance audit reports

The *Auditor-General Act 1997* (the Act) allows the Auditor-General to conduct at any time a performance audit of an agency, a Commonwealth authority or company, other than a GBE or any of its subsidiaries. The Auditor-General may conduct a performance audit of a GBE or its subsidiaries if the responsible Minister, the Finance Minister or the JCPAA requests the audit. The Act defines a performance audit as a 'review or examination of any aspect of the operations of a body or person'. In accordance with accepted auditing practice, performance audits are an independent, objective and systematic examination of the operations of a body for the purposes of forming an opinion on whether:

- management of the operations has been economical, efficient and effective;
- 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).

The ANAO's performance audit reports are tabled in the Parliament. Typically, performance audits examine the use of resources, information systems, performance measures, monitoring systems and legal compliance. In seeking to improve administration, performance audits often identify exemplary practices, which may then be incorporated into BPGs for dissemination throughout the Commonwealth public sector. The guides are discussed under Output Group 2.

Because of the size, complexity and diversity of most Commonwealth entities, a performance audit usually examines selected segments of their operations. Normally this sample enables the auditors to form an opinion on the administration of those operations. General (cross-portfolio or cross-agency) performance audits address the same issue or activity in a number of entities and may have application across the Commonwealth public sector.

Audit topics are selected on two grounds:

- activities where an audit can be expected to add the greatest value in improved accountability, economy, efficiency and administrative effectiveness; and

- to ensure appropriate coverage of entity operations within available audit resources.

Audit topics are selected to ensure the performance audit program is targeted appropriately to add value to public administration, thus contributing to effective performance audit outcomes. In selecting audit topics for 2001–02, consideration was given to the following issues:

- governance issues (human resource management, financial management, and performance management and measurement);
- procurement and contract management;
- information technology; and
- service delivery.

The ANAO's Audit Work Program is developed in close consultation with the JCPAA and agencies.

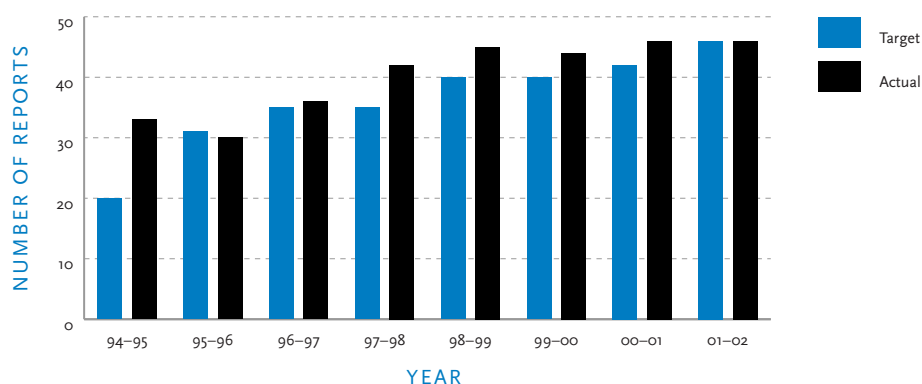
Performance

The primary performance attributes for this output relate to the number of reports produced, timeliness and cost. Measures of quality are discussed under 'Contribution to Outcomes'.

Number of reports

During the year 46 performance audit reports were produced against a target of 46. For 2000–01 the comparable figures were 46 and 42. Figure 3 shows the number of reports produced under this output over the past eight years.

Figure 3: Number of performance audit reports



Performance audits are conducted in all ministerial portfolios and the audit reports tabled during 2001–02 addressed aspects of the operations of most portfolios, with the main concentration being directed to portfolios with significant Government outlays or revenues. A full list of audit reports tabled in 2001–02 is at Appendix 3. All recent performance audit reports are also placed on the ANAO's homepage at <<http://www.anao.gov.au>>.



ANAO performance auditors Celia Street (left) and Stephen Blair

Appendix 4 summarises audit reports tabled during the year, grouped according to the main issues that guided planning of the audit program. Reports are also summarised in the ANAO's bi-annual publications entitled *Audit Activity Report*.

Timeliness of reports

Recognising the importance of audit reports being relevant and timely, the ANAO has set a target of 11 months as the average time to complete a performance audit report for tabling in the Parliament. This target was met in 2000–01, but in 2001–02 the average time was 11.4 months, reflecting the extra complexity of some audits completed during the year as well as some delays in audits associated with the lead-up to the November Federal Election.

The method for notifying the Parliament and other stakeholders of our audit timetable was modified in 2001–02 to take account of the more extensive use of our internet site. Accordingly, the ANAO now publishes a 'Tabling Schedule' on its site showing all reports currently in progress and their intended tabling dates.

Cost

The performance audit reports output consumed \$15.267 million in resources¹² in 2001–02 (\$15.051 million in 2000–01).

Overall, the Performance Audit Services Group charged 127 668 hours in 2001–02, generating \$15.101 million in notional cost recovery against actual costs of \$16.075 million.

Financial control and administration (FCA) audit reports

FCA audits are general performance audits undertaken under section 18 of the *Auditor-General Act 1997*. These audits have the following characteristics:

- they are cross-the-board reviews typically involving up to ten organisations;
- they examine business processes that support the delivery of outputs;

¹² 'Resources', in terms of the cost of outputs in this report, is defined as cost before revenue from independent sources.

- they are reported generically, that is, common findings only are included in the report to Parliament and these findings are not attributed to any organisation; and
- they form the basis of the development of BPGs, as appropriate.

FCA audits have particular regard to the various financial management reforms implemented over the last decade or so, covering for example: devolution of authority, management of risk, financial reporting, an emphasis on results and enhanced accountability.

Performance

The primary performance attributes for this output relate to the number of reports produced, timeliness and cost. Measures of quality are discussed under 'Contribution to Outcomes'.

Number of reports

Two 'across-the-board' FCA audit reports were completed and tabled during the year against a target of four. These were Report No.12 *Selection, Implementation and Management of Financial Management Information Systems in Commonwealth Agencies*; and Report No.52 *Internal Budgeting*. The other two audits planned to be tabled in 2001–02 will be tabled in 2002–03.

Commencing from 2002–03, FCAs become part of a new output: business support process audit reports.

Timeliness

The benchmark target for the tabling of FCA audit reports is 11 months from the inception of the audit to its completion. The average elapsed time of the FCA audits tabled during the year was 20 months. This was due mainly to the time that was needed to appropriately develop the issues in Report No.12. Each of the nine agencies audited received a detailed presentation and briefing to enable senior management to gauge performance in comparison to other agencies.

Cost

FCA audits consumed \$0.587 million in resources in 2001–02 (\$0.922 million in 2000–01). During 2001–02 the increased emphasis on benchmarking products resulted in a commensurate decrease in resources for FCA audits.

Other audit and related products

The ANAO has also developed the following audit-related products as part of its integrated audit services' delivery. Those products are summarised below.

The *Audit Work Program 2002–03* was developed in consultation with the JCPAA and agencies and provided to the Prime Minister, Leader of the Opposition, Ministers, Shadow Ministers, the JCPAA and agency heads, the Privacy Commissioner and the Ombudsman in July 2002. The JCPAA takes the lead role in coordinating parliamentary input to the

development of the program. The program outlines the performance audits in progress at 1 July 2002 and a list of performance audit topics from which audits for 2002–03 are selected. The program also sets out in summary form the work programs intended to be undertaken by the other ANAO Output Groups, namely Assurance Audit Services and Information Support Services, which are discussed later in this report.

Audit Activity Reports—Summary of Outcomes are produced bi-annually to:

- inform the Parliament of the issues being addressed by the ANAO in its work to both encourage, and provide assurance about, a better performing and more accountable public sector;
- provide the Parliament with a consolidated summary of the audit reports tabled in the previous six months as well as details of BPGs and other audit services provided in the period; and
- focus on some of the major lessons learned from the audit services provided by the ANAO.

The ANAO also produces a periodic newsletter, *Opinions*, which aims to keep stakeholders informed of ANAO current and future products, with timeframes for the tabling of audit reports as well as important technical audit issues and developments.¹³

Cost

The cost of other audit and related products in 2001–02 was \$1.930 million (\$1.779 million in 2000–01).

Contribution to Outcome 1—Improvement in public administration

Performance audit services are the dominant contributor to the ANAO's achievement of Outcome 1—Improvement in public administration. In turn, the extent to which the outcome is being achieved is largely gauged by the impact of performance audit outputs on the Parliament, as the ANAO's principal stakeholder, and the client entities being audited.

Outcome 1 is shared to a varying degree by all government organisations, making it difficult to measure in precise terms the ANAO's contribution from its Outputs. However, quantitative and qualitative performance measures, including survey results, have been developed to provide an overall picture of the contribution that our products and services make to the Parliament and public sector entities. These measures, together with related outcomes, are discussed below. The final section outlines the impact of the outputs in potential annual recurring financial benefits to the Commonwealth.

Contribution to the Parliament

The contribution of performance audit services to the work of the Parliament is measured, in part, by a review of comments in Parliamentary committee reports and at committee hearings. Parliamentary committee review of audit reports gives an impetus to entities in their implementation of audit recommendations and to the positive outcomes from

¹³ The bi-annual Audit Activity Reports in respect of audit reports tabled in 2001–02 were Audit Report No.31 2001–02 *Audit Activity Report: July to December 2001—Summary of Outcomes* and Audit Report No.4 2002–03 *Audit Activity Report: January to June 2002—Summary of Outcomes*.

performance auditing. As indicated below, committees continued to be supportive of audit findings.

The JCPAA reviews all audit reports and conducts public inquiries into selected audit reports. The ANAO gives evidence at these inquiries and assists the JCPAA in its review work. The JCPAA tabled the following reports of its inquiries into audit reports during the year:

- JCPAA *Report 383* reviewed audit reports on Navy's amphibious transport ships, the Government's technology and infrastructure outsourcing, AQIS cost-recovery and Defence's knowledge system equipment.¹⁴
- JCPAA *Report 385* reviewed audit reports on fraud control in the Australian Taxation Office and in Defence and estate facilities operations in Defence.¹⁵
- JCPAA *Report 389* reviewed audit reports on Australian Defence Force Reserves, assessment of new claims for the age pension and financial assistance under the Natural Heritage Trust.¹⁶

The JCPAA indicated its support for the audit reports reviewed; noted agencies' advice of implementation of the ANAO recommendations; and made recommendations consistent with those made by the ANAO.

JCPAA *Report 384—Review of Coastwatch* was tabled in August 2001. As part of this review the JCPAA considered Audit Report No.38 1999–2000 *Coastwatch*. The JCPAA was generally supportive of the ANAO's recommendations.

In July 2001 the ANAO gave evidence on the Australian Taxation Office's risk management practices to the Senate Economics References Committee Inquiry into Mass Marketed Tax Effective Schemes and Investor Protection.

The ANAO provided a submission in May 2002 to the Senate Foreign Affairs, Defence and Trade References Committee's Inquiry into the Materiel Acquisition and Management Framework of the Department of Defence. The submission drew on the ANAO's reports on Defence project management and summarised factors that the ANAO perceived as relevant to successful project outcomes.

The Joint Standing Committee on Electoral Matters announced an inquiry in May 2002 into Audit Report No.42 2001–02 *Integrity of the Electoral Roll*, which was tabled in April 2002.

Report No.5 *Parliamentarians' Entitlements 1999–2000* was undertaken following a resolution of the Senate on 2 November 2000 requesting the Auditor-General to review all expenditures and entitlements accruing to Parliamentarians and Ministers in 1999–2000. As a result of the audit, the ANAO suggested that there would be merit in a comprehensive

14 JCPAA *Report 383* 'Amphibious Transport Ship Project, Implementation of Whole-of-Government Technology and Infrastructure Consolidation and Outsourcing Initiative, AQIS Cost-Recovery Systems, Knowledge System Equipment Acquisition Projects in Defence—Review of Auditor-General's Reports 2000–01, First Quarter' June 2001 (tabled 30 August 2001).

15 JCPAA *Report 385* 'Australian Taxation Office Internal Fraud Control Arrangements, Fraud Control in Defence and Defence Estate Facilities Operations—Review of Auditor-General's Reports 2000–2001, Second & Third Quarters' August 2001.

16 JCPAA *Report 389* 'Australian Defence Force Reserves, Assessment of New Claims for the Age Pension by Centrelink, Family and Community Services' Oversight of Centrelink's Assessment of New Claims for the Age Pension, Performance Information for Commonwealth Financial Assistance under the Natural Heritage Trust—Review of Auditor-General's Reports 2000–2001 Fourth Quarter' June 2002.

review of the framework for senators' and members' entitlements. The ANAO made a further 27 recommendations aimed at strengthening the stewardship of public money, improving services provided to parliamentarians and enhancing public disclosure in the parliamentary system.

The Auditor-General advised the President of the Senate in February 2001 that, following on from Report No.5, the ANAO would conduct a separate audit of the administration of entitlements to staff employed under the *Members of Parliament (Staff) Act 1984*. The audit began in June 2002. The time period examined will be between 1998–99 and 2001–02, enabling some trend analysis over a four-year period.

Report No.6 *Commonwealth Fisheries Management: Follow-up* was undertaken at the request of the House of Representatives Standing Committee on Primary Industries and Rural Services. The audit addressed implementation of recommendations in Audit Report No.32 1995–96 *Commonwealth Fisheries Management—Australian Fisheries Management Authority* and of those recommendations in an earlier parliamentary committee report that were accepted by the Government. The report *Managing Commonwealth Fisheries: The Last Frontier* was tabled by the House of Representatives Standing Committee on Primary Industries, Resources and Rural and Regional Affairs in 1997.

Report No.16 *Defence Reform Program—Management and Outcomes* was undertaken in response to a suggestion by the JCPAA in 1999 that the ANAO might audit the results of this Program about the time it was completed. The Program was brought to a close in 2000, and the audit began later that year. Speaking in the Senate when the report was tabled, Senator John Hogg commented extensively on the report, which he said he was particularly pleased to see. He said that he had been very supportive of ANAO reports, which he considered have a real positive role in the conduct of the business of the Parliament.¹⁷

Report No.50 *A Preliminary Examination into the Allocation of Grant Funding for the Co-Location of National General Practice Organisations* was undertaken at the request of the Shadow Minister for Health and Ageing, Mr Stephen Smith MP, and the Federal President of the Australian Medical Association Limited. The preliminary examination focused on whether due process was followed in deciding to transfer funds between Outcomes of the Department of Health and Aged Care.

Contribution to public sector entities

Recommendations made in audit reports are not mandatory and must stand on their merits. A major outcome from the ANAO's performance audit work is the improvement in the management and administration of major Commonwealth programs brought about by entities' acceptance and implementation of the recommendations made in audit reports. These recommendations are also expected to yield significant efficiencies or savings, further enhancing the cost-effectiveness of performance auditing.

Report No.59 *AusAID Contract Management* reported that many aspects of AusAID's aid contract management are soundly based and well managed. However, there were some inconsistencies in contract management and weaknesses in supporting practice that require strengthening. During the audit AusAID completed a wide-ranging review of its strategic

¹⁷ Senate Hansard 14 February 2002 P268.

direction. The ANAO kept AusAID informed of emerging findings throughout the audit to assist in its reform process. AusAID welcomed the audit and agreed with the ten recommendations, which it believed would further strengthen management and delivery of the aid program.

Report No.56 *Workforce Planning in the Department of Immigration and Multicultural and Indigenous Affairs* received considerable attention in the Department. The Department indicated that the audit would complement its work and requested that ANAO officers work with its officers in the alignment of the Department's draft workforce plan with strategic and other documents.

Report No.51 *Research Project Management—Commonwealth Scientific and Industrial Research Organisation (CSIRO)* addressed the effectiveness of CSIRO in administering research projects to deliver required results. It found that CSIRO has wide experience in managing projects, but that further strengthening of project management arrangements is required. CSIRO began a process of organisational revisions and change during the audit. The ANAO's findings were communicated to CSIRO at an early stage to inform the change process. CSIRO responded positively to the audit, and agreed to implement all recommendations of the report as part of its strategic change agenda.

Report No.18 *Performance Information in Portfolio Budget Statements (PBS)* assessed PBS performance information in ten agencies. Based on information collected in the audit, and a subsequent workshop involving public sector agencies and further research, a BPG for PBS performance information was prepared. The report and guide should assist agencies improve their PBS performance information and, thereby, address concerns expressed in Parliament in relation to this issue and its impact on agency transparency and accountability.

Report No.11 *Administration of the Federation Fund Programme* set out a range of administrative improvement opportunities to enhance the achievement of outcomes from any future assistance programme of a similar nature to the Federation Fund.

Several reports tabled during the year were particularly noteworthy.

Report No.47 *Administration of the 30 Per Cent Private Health Insurance Rebate* reported that Commonwealth agencies worked well together to achieve the tight implementation time frame set by the Government for the Private Health Insurance Rebate. However, the Health Insurance Commission, after analysing potential risks, decided, initially, not to impose robust controls to confirm the validity of payments to private health funds under the Premium Reduction Scheme. The Commission did not strengthen its controls until mid-2001, some two years after implementation.

Report No.41 *Transactional Banking Practices in Selected Agencies* reviewed selected agencies' implementation of new transactional banking arrangements for FMA agencies, which came into effect on 1 July 1999. The main financial risk to the Commonwealth lay in the revenue risks created by the flow of \$339 billion in revenue and payments between agency accounts, the Official Public Account and third parties rather than in the management of annual bank fees of around \$10 million. As a result, ANAO made four recommendations relating to risk assessment planning, the monitoring and review of banking arrangements, the conduct of

tender processes, and the timely execution of formal written agreements. The new arrangements for banking were to be Budget neutral but the audit identified that the scheme was not budget neutral over the three years to June 2002. The possible savings identified from the audit are some \$151 million.

Report No.38 *Management of Australian Defence Force Deployments to East Timor* concluded that, although Defence performed well in East Timor, it needs to apply lessons learned from those deployments to assist in any future overseas deployments.

Report No.13 *Internet Security within Commonwealth Government Agencies* concluded that internet security across ten audited agencies varied from very good to very poor; most of the agencies had insufficient internet security; and some were not effectively administering threat and risk assessments. All significant disclosed internet security weaknesses were addressed during the audit.

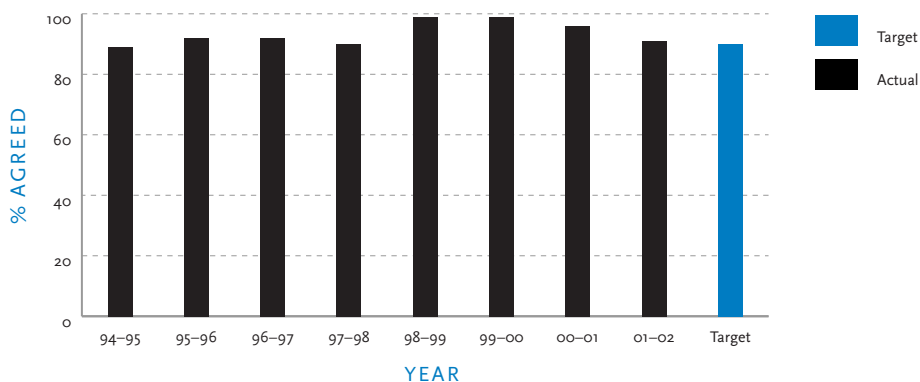
Report No.4 *Commonwealth Estate Property Sales* found room for improvement in Finance's property divestment process and contracts with consultants; the hurdle rate of return to be applied in the sell/hold decision for property; tender evaluations; and assessment of value for money during tender evaluation in sale and long-term leaseback transactions for the Commonwealth.

Entity Agreement to Recommendations

Improvements in administration, accountability and better service delivery are more likely to occur if the recommendations in performance audit reports are agreed by the audited entity at the time of the audit. Inevitably, there may be some differences of opinion between audited entities and the ANAO and it would not be realistic to expect that all recommendations would be agreed. Equally, however, if the reports of performance audits are to be viewed as adding value to public administration and accountability, it is important that the majority of their recommendations are recognised, agreed and implemented by entities.

For 2001–02 the target proportion of recommendations accepted by audited entities continued to be 90 per cent. The result for the year was that 91 per cent, that is 253 of the 276 recommendations made, were accepted by entities.¹⁸ Figures for the last eight years are illustrated in Figure 4.

Figure 4: Entity agreement to recommendations in performance audit reports



¹⁸ Senate Hansard 14 February 2002 P268.

Surveys of entities

Further performance information on the impact of performance audits is obtained through a survey of audited entities' responses to tabled reports. After each performance audit report is tabled, feedback on the audit process is sought independently from the senior manager responsible for the audited program by means of a questionnaire and an interview with the responsible manager. This evaluation is performed by a firm of consultants that works to the ANAO but is independent of the audit teams responsible for the conduct of performance audits.

The consultant firm reported in June 2002 that survey responses received so far in the 2001–02 reporting period remained positive and that across-the-board improvements in entities' satisfaction can be seen from the last reporting period. The firm said that this improvement is particularly encouraging when taking into account that entity expectations are ever increasing and that different individuals rate performance differently.

When compared with results from previous years, and particularly last year, the majority of questionnaire responses indicated varying degrees of improvement in the conduct of audits. Improvement could particularly be seen in the following key areas: effective audit team consultation with the agency during audit planning; professional interaction and effective liaison with agency staff; audit team integrity and ethical approach; audit team appreciation of audit topic complexities; audit reports were balanced and fair; recommendations were practical and with clear benefits; reports provided the agency with an assurance regarding program administration; and the audit would improve agency management. The survey also indicated areas where audit teams could improve the level of positive responses.

Overall, the interviews with managers were generally positive and many of the comments were consistent with those received in previous years. Among the points raised by managers was that the experience this year was more positive and an improvement on previous years. They said that external endorsement from the ANAO confirmed the agency's direction and achievements, and that this validation provided credibility in dealing with third parties, such as the Executive and State Governments. The benefit/value rating was '3.7' (out of a possible '5') in 2001–02, as it was in 2000–01. Managers indicated generally that audit consultation was well conducted, reporting phases were successful, auditors were cooperative, capable and professional and the audit was useful and added value in various ways.

Financial impact

A further measure of the impact of performance audit services is the potential financial benefits that could be realised from implementation of audit report recommendations. While it is not always easy to cost the value of recommendations, the ANAO's target for financial benefits continued to be 'at least twice the cost of conducting performance audits'. In 2001–02 the estimated potential annual recurring financial benefit from performance audits agreed with agencies was \$1.6 million.¹⁹ In addition there were once-only potential financial benefits of \$151 million.

¹⁹ There may also be financial benefits from Report No.44 *Australian Defence Force Fuel Management*, which reported scope for Defence to save \$630 000 annually in reduced fuel prices.

Table 1 shows the estimated potential financial benefits from performance audits for the last five years.

Table 1: Potential financial benefits of performance audits

Description	2001–02	2000–01	1999–00	1998–99	1997–98
Estimated potential annual recurring benefits	\$1.6m ^a	\$85.5m ^b	\$2.2m ^c	\$502m	\$37m ^d

(a) Report No.65 *Management of Commonwealth Superannuation Benefits to Members* \$1.6 million (\$1 million to Commonwealth Superannuation Scheme and Public Sector Superannuation Scheme and \$0.6 million to Consolidated Revenue Fund) plus potential once-only savings in Report No.41 *Transactional Banking Practices in Selected Agencies* of \$151 million

(b) Plus potential once-only savings of \$90.4 million

(c) Plus potential once-only savings of \$121.4 million

(d) Plus a potential once-only saving of \$197 million

The average cost for performance audit products for the year of \$306 000 was marginally more than the target of \$300 000 average per audit.

Quality assurance

The ANAO supports a quality assurance program that evaluates the extent to which ANAO performance audits attain internal standards set for the conduct of the audits. The program found that in 2000–01 all audits examined complied fully with these standards. The program will examine a selection of audits tabled in 2001–02 later in 2002.

During the year, a two-person team from the ANAO conducted a peer review of two performance audits by the Office of the Auditor-General of New Zealand. Later in 2002, that Office will conduct a peer review of two ANAO audit reports tabled in 2001–02. Peer reviews are an important means of exchanging better practice between audit offices.

Contribution to Outcome 2—Assurance

Performance audits also contribute to Outcome 2—Assurance, as they assist in providing assurance to individual entities, Ministers and the Parliament through an assessment of an entity's performance, including its accountability obligations in relation to expenditure of public funds and for management in the public interest.²⁰ Examples of audit reports that provided assurance about the operations of various aspects of public administration are outlined below.

Report No.54 *Drug Detection in Air and Containerised Sea Cargo and Small Craft* reported that the effectiveness of Australian Customs Service's drug detection strategies for air, containerised sea cargo and small craft was sound, particularly in terms of its intelligence structures and systems, law enforcement cooperation, governance arrangements and response capabilities.

Report No.37 *Purchase of Hospital Services from State Governments Follow-up Audit* reviewed progress by the Department of Veterans' Affairs in implementing recommendations in Audit Report No.40 1997–98. The Department has implemented five of the recommendations and is implementing another four.

²⁰ It is a matter for Commonwealth bodies to provide a degree of assurance to the Parliament and the Government about the accountability framework they have put in place, but it is the independent assurance that the ANAO provides that is assessed under this outcome.

Report No.35 *ATO Progress in Addressing the Cash Economy* reported that the ATO had implemented, in full or in part, most of the recommendations of its Cash Economy Task Force.

Report No.32 *Home and Community Care Follow-up Audit* reviewed progress by the Department of Health and Ageing in implementing recommendations in Report No.36 1999–2000. Health has implemented five of the recommendations and is implementing another four. It has made good progress in improving the timeliness of triennial national plan and annual state plans.

Report No.26 *Management of Fraud and Incorrect Payment in Centrelink* and Report No.20 *Fraud Control Arrangements in the Department of Agriculture, Fisheries and Forestry Australia* reported that, although both agencies could improve their fraud control arrangements, both had implemented fraud control arrangements consistent with the fraud control policy of the Commonwealth.

Report No.16 *Defence Reform Program—Management and Outcomes* provided assurance that the Program achieved most of its intended savings; was successful in enhancing Defence's operational capability; and that Defence had identified lessons to be learned to assist in any future reform programs.

Report No.15 *Agencies' Oversight of Works Australia Client Advances* reported that as of July 2001 the \$43.7 million in Commonwealth client advances transferred to the purchaser of the former DAS Business Unit, Works Australia, in August 1997 had been effectively accounted for by the Commonwealth agencies concerned.

Report No.14 *Client Service Initiatives Follow-up Audit* provided assurance that Austrade had implemented 10 of the 12 recommendations in Report No.4 1998–99 and was substantially progressing the remaining recommendations that require longer timeframes. Implementation of the recommendations has resulted in strengthening of client focus, service delivery and client satisfaction.

OUTPUT GROUP 2

Information Support Services

Output Group 2—Information Support Services (ISS) covers a range of services delivered by a variety of areas across the ANAO. ISS outputs are:

- assistance to the Parliament;
- better practice guides;
- benchmarking services;
- national and international representation; and
- client seminars.

The ISS activities undertaken by the ANAO are designed to provide the Parliament with general assistance relating to relevant management and service-wide issues and audit clients with practical insights into achieving better financial management and control within their own organisations. The ANAO also contributes, where practical, and benefits from, the work or experience of the global auditing community.

Assistance to the Parliament

Consistent with past practice, the ANAO continued to provide briefings to Ministers, Shadow Ministers, parliamentary committees and their staff on audit reports tabled in the Parliament. The assistance to the Parliament output cost the ANAO \$0.610 million in 2001–02 (\$0.755 million in 2000–01). The ANAO has continued to liaise closely with committees and second staff members to assist committees. In 2001–02 four ANAO staff undertook placements with parliamentary committees.

Better practice guides (BPGs)

BPGs aim to improve public administration by ensuring that better practices employed in some organisations are recognised and promulgated to the whole of the APS. This can involve examining practices in the public or private sectors, in Australia or overseas. The ANAO's emphasis is to identify, assess and articulate good practice from its knowledge and understanding of the public sector as well as areas where improvements are warranted.

Depending on the subject and nature of information collected during an audit, BPGs may be produced in conjunction with an audit. Alternatively, a BPG might be prepared as a result of a perceived need to provide guidance material in a particular area of public administration.

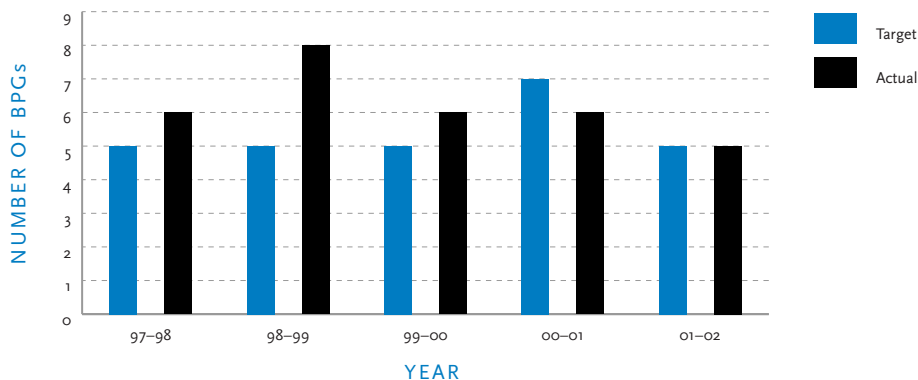
Performance

The primary performance measures for this output relate to the number of products and services produced and cost. Measures of quality are discussed under 'Contribution to Outcomes'.

Number of BPGs produced

Five BPGs were produced by the ANAO in 2001–02, against a target of five. Figure 5 shows this result compared to the number of BPGs produced over the last five years.

Figure 5: Number of BPGs produced



The BPGs produced were:

- *A MODEL Non-Commercial Authority Illustrative Financial Statements for the Year Ended 30 June 2002* (June 2002) and *A MODEL Agency Illustrative Financial Statements for the Year Ended 30 June 2002* (May 2002): these guides count as one product and assist Commonwealth agencies and entities in the preparation of their financial statements by providing examples of better practice in Commonwealth public sector financial reporting and disclosure.
- *Performance Information in Portfolio Budget Statements* (May 2002): reforms in the APS over many years have emphasised the importance of a performance culture supported by clear lines of authority. This guide provides assistance in the development of sound performance information for Portfolio Budget Statements.
- *Administration of Grants* (May 2002): this guide provides practical assistance with the planning, project selection, management and review of grant programs within the APS.
- *Life Cycle Costing* (December 2001): this guide assists APS managers who are responsible for decisions relating to acquiring, owning, operating and maintaining major assets. The guide is useful for anyone making life cycle costing decisions to support the purchase or replacement of assets.
- *Better Practice Principles for Developing Policy Advice* (November 2001): this guide is designed to enhance management and quality assurance of the policy advising function across the APS. It was developed from the better practice principles and the policy development checklist from Report No.21.

Cost

BPGs cost \$0.704 million in 2001–02 (\$1.058 million in 2000–01).

Marketing of BPGs and related products

Ongoing presentations to Comcover continued through 2001–02 with ANAO staff speaking at 11 seminars on Risk Management in Contracts. During 2001–02 ANAO officers participated at a number of APS meetings, seminars and conferences to promote various BPGs, and audit reports.



A range of better practice guides produced by the ANAO in 2001–02

Benchmarking services

Benchmarking is a widely accepted approach for achieving business performance improvements. It is defined by the American Productivity and Quality Center as *the process of identifying, learning and adapting outstanding practices and processes [best practice] from any organisation, anywhere in the world, to help an organisation improve its performance*.

In the ANAO, our benchmarking services or products currently comprise functional studies of the major corporate support areas. The overall results of these reviews are published generically and tabled in the Parliament. At the audit client level, a customised report is provided to each organisation participating in the study.

Performance

The performance measures for this output relates to the number of studies completed and cost. Measures of quality are discussed under ‘Contribution to Outcomes’.

Number of benchmarking study reports completed

Four benchmarking study reports were finalised during 2001–02 (against a target of three).

Report No.28 *An Analysis of the Chief Financial Officer Function in Commonwealth Organisations*: this benchmarking study surveyed the roles and functions of chief financial

officers (CFOs) from 15 Commonwealth organisations in 2000–01. The CFOs provided self-assessments in response to questions about their role, responsibilities, priorities and challenges. In particular the study sought to identify:

- the skills, qualifications and experience of Commonwealth CFOs;
- CFOs' perceptions of their roles, responsibilities and priorities and how these may have changed in relation to previous studies and available Andersen Global Best Practices (from the Andersen Global Best Practices® knowledge base); and
- how Commonwealth CFOs viewed and used information technology to achieve their financial management objectives.

The benchmarking study also sought to draw out the contributions by CFOs in helping their organisations achieve the Government's requirements for improvements in financial management.

Report No.36 *Benchmarking Implementation and Production Costs of Financial Management Information Systems*: in view of the significant level of investment by Commonwealth agencies in the implementation and production of Financial Management Systems (FMISs), the ANAO, in conjunction with Gartner²¹, undertook a benchmarking study within the Commonwealth budget sector with the objective of determining and reporting on FMIS: implementation and production costs; and implementation timeframes.

The benchmarking study also provides some data on resource support, size, volume and utilisation of the FMIS information. These data and metrics have significant implications for FMIS product selection. The study follows on from Report No.12 *Selection, Implementation and Management of Financial Management Information Systems in Commonwealth Agencies*, which was tabled in September 2001. That report provided details of the results of FMIS selections and implementations across the same eight Commonwealth budget sector agencies (the Commonwealth peer group) considered in the benchmarking study.

Report No.61 *Managing People for Business Outcomes*: the shift towards a more competitive, efficient and effective public sector requires agencies to focus on their management of resources and outputs produced, and to measure performance more completely. A key resource for agencies is its employees. Those agencies whose employees: have the 'right' skills, are clear about what they are required to do, and are supported by good people management practices, have the potential to significantly improve the quality and timeliness of their outputs and outcomes. The role of managers in leading and developing people is critical. Employee expenses comprised \$18.5 billion (11 per cent of expenses) for budget-funded agencies for the financial year 2000–01. Agencies have a responsibility to ensure that managers and employees understand their accountabilities in delivering a high quality return on this investment.

The study summarises a review of people management practices, that is, the way in which managers lead and manage people to achieve business outcomes, across 14 agencies. It identifies five key issues and makes a number of recommendations that are relevant at the agency level and across the APS.

21 An international IT consultant which has better practice metrics available from its private and public sector client base.

Report No.62 *Benchmarking the Finance Function Follow-on-Report*: this report is the final report of a three-year benchmarking study and follows on from the Benchmarking the Finance Function report tabled in June 2001. The objective of this study was to report on, over time, quantitative and qualitative data relating to finance function activities as they operate in Commonwealth organisations. Over the three-year period of the study, the majority of participating Commonwealth organisations have shown an improvement in their quantitative and/or qualitative benchmark results across the range of finance function activities. The report provides guidance as to some of the better practices that participating organisations, and the wider public sector, may wish to adopt, or adapt in order to achieve improved performance in the activities of the finance function.

Cost

Benchmarking services cost \$1.338 million in 2001–02 (\$0.852 million in 2000–01). The increased level of expenditure reflects an increase in the number of studies undertaken during the year.

National and international representation

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);
- Asian Organisation of Supreme Audit Institutions (ASOSAI);
- Commonwealth Auditors-General Conferences;
- Auditors-General Global Working Group; and
- International Consortium on Governmental Financial Management.

In meeting our responsibilities to these organisations, the Auditor-General and selected staff of the ANAO attend international conferences, short-term placements and training workshops, prepare research papers, assist with training secondments and host short-term familiarisation visits. The ANAO participated in the third meeting of the Global Working Group in New Zealand in February 2002, where the Auditor-General presented a paper entitled 'E-Government and joined up government'.

From 23 October to 1 November 2001, the ANAO hosted a Value for Money (VFM) Workshop sponsored by ASOSAI. A total of 22 participants, five instructors and two secretariat staff attended the workshop, representing 23 countries. The aim of the workshop was to provide participants with the opportunity to upgrade their knowledge and skills in VFM (performance) audit. The participants evaluated all sessions and the workshop overall as being of a very high standard, resulting in improved knowledge and skills in VFM audit.

The ANAO contributes to the development of other audit offices by hosting delegations and providing training opportunities to staff of overseas offices. During 2001–02, the ANAO hosted short-term visits from Auditors-General and delegations from a large number of countries including Bangladesh, Brazil, China, France, Indonesia, Japan, Korea, Malaysia, the Netherlands, New Zealand, Philippines, Papua New Guinea, South Africa,

Sweden, Tajikistan, Thailand, the United Kingdom, the United States of America and Vietnam. Positive feedback from these delegations indicates they found their visit to the ANAO to be an informative and worthwhile experience. The ANAO also continued to host an exchange officer from the Office of the Comptroller and Auditor-General, Canada. Further details of secondments are provided under the heading 'Mobility' in Appendix 1.

At the national level, the ANAO is a member of the Australasian Council of Auditors-General (ACAG). The objective of ACAG, comprising the Auditor-General of each Australian State and Territory, Fiji, New Zealand and Papua New Guinea, is to promote and foster public sector auditing in the Australasian region through an exchange of experiences, ideas, training and development and cooperation. The ANAO contributes to the work of the Council by hosting business meetings, preparing papers, joint initiatives on information exchange, peer reviews and training. The ANAO participated in the Council's business meetings in November 2001 and April 2002.

Cost

The national and international representation output cost \$0.458 million in 2001–02 (\$0.529 million in 2000–01).

Client seminars and advice

In addition to its primary role of providing independent assurance and advice to the Parliament, the ANAO seeks to support and advise audit clients where this complements its primary role and is within its area of expertise.

The ANAO arranges seminars and provides advice on topical and emerging issues to assist agencies regarding new accountability and reporting requirements. The focus of this activity is directed towards improving financial reporting. Two series of financial reporting seminars were again held in 2001–02.

As in 2000–01, a full day workshop on performance auditing was conducted for public sector internal auditors. In addition, ANAO staff accepted invitations to speak to Commonwealth organisations and other bodies on issues arising from audit reports and BPGs.

Cost

The client seminars output cost \$0.218 million in 2001–02 (\$0.250 million in 2000–01).

Contribution to outcomes

Output Group 2 contributes equally to both of the ANAO's outcomes. Effectiveness of those contributions is assessed largely from formal and informal parliamentary and audit client feedback and from client demand for these services.

Positive feedback continues to be received on the ANAO's BPGs from agencies, other audit offices and professional organisations.

OUTPUT GROUP 3

Assurance Audit Services

The outputs that comprise Output Group 3 are:

- financial statement audit reports;
- assurance and control assessment reports;
- protective security reports; and
- other attest reports.

The following summarises the ANAO's achievements against those outputs as well as commenting on how the outputs contribute to the ANAO's outcomes.

Financial statement audit reports

The Auditor-General, or his delegate, conducts financial statement audits to express an opinion on whether financial statements of Commonwealth Government entities have been prepared in accordance with the Government's reporting framework and give a true and fair view, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements of the financial position of each entity as at year end, and the results of the entities operations and the entities cash flows for the year then ended.

The Auditor-General has delegated signing responsibility for certain financial statement audits to a number of different levels based on a risk assessment of each audit.

In addition to the audit opinion on the financial statement, the ANAO provides each audited entity with a report that deals with the results of the financial statement audit. A report on the audit is also provided to the responsible Minister. The ANAO also provides two cross-entity assurance reports to the Parliament each year. The first details the results of an assessment of the control structure of major entities²² while the second provides a summary commentary on the results of all financial statement audits undertaken in the 12-month audit cycle ending in October of each year.²³

Report No.29 *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2001*: this report summarised the final result of the audits of the financial statements of Commonwealth entities for the period ended 30 June 2001, including the Commonwealth Government of Australia Consolidated Financial Statements. The report also provided a commentary on a number of contemporary issues relating to the Commonwealth Financial Reporting Framework, focusing on the Commonwealth Government's Consolidated Financial Statements.

The report noted that there had been a small improvement in the average time taken to prepare financial statements over that achieved in the prior year. Financial statement reporting issues in relation to recognition of appropriations and the accurate attribution of costs to relevant outcomes/output groups were required to be worked through with individual agencies and will continue to be addressed as the financial reform agenda moves

²² This report was tabled on 28 June 2002—Audit Report No.67, 2001–02 *Control Structures as Part of the Audits of Financial Statements of Major Commonwealth Entities for the Year Ended 30 June 2002*.

²³ This report was tabled on 21 December 2001—Audit Report No.29, 2001–02 *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2001*.

forward. The report also discussed the summary final result of the audits of the financial statements, providing details regarding qualifications and any matters emphasised in audit reports. It also detailed the results of the individual financial statement audits and any additional significant control issues identified by each audit.



ANAO assurance auditors Ron Wah (left) and Lorena Skipper with Maureen Allan from the Business Support Process Branch

Report No.67 *Control Structures as part of the Audits of the Financial Statements of Major Commonwealth Entities for the Year Ended 30 June 2002*. This report summarised audit findings in relation to entity internal control structures, financial systems, controls and processes arising from the interim phase of the financial statement audits of major Commonwealth entities for 2001–02. An examination of such issues is designed to assess the reliance that can be placed on control structures, systems, specific controls and processes to produce complete, accurate and valid information for financial reporting purposes. The report also provides an update on the broader corporate governance issues that impact on financial management and reporting.

The report noted that, while progress was made in the financial year ended 30 June 2001 in resolving many of the internal control and financial reporting issues raised in previous years, improvement is still required across all areas in most entities to improve the quality of financial management and reporting. All entities generally acknowledged that enhancements were necessary in areas such as:

- building risk awareness and better management of operational processes;
- achieving consistency in systems of authorisation;
- enhancing the quality of financial reporting; and
- integrating financial and non-financial data as part of the development of credible performance measure frameworks.

Control improvements were required in relation to information systems in areas including:

- security controls to restrict access to authorised personnel;
- business continuity planning and resumption planning;
- integration of IT planning with strategic risk management planning;
- refinement of IT project management policies and procedures; and
- refinement of security strategies and policies.

The report noted that some entities continued to experience difficulty with particular aspects of their environment, including cash and receipting processes, segregation of duties, inappropriate delegations, monitoring of grant and funding agreements. The report also highlighted the need for review and timely preparation of reconciliations relating to bank accounts, payroll processing, appropriations, other revenues, interface systems and asset registers.

Audit methodology

This is the second year of the implementation of revised financial statement audit methodology. The new methodology was implemented as part of our ongoing continuous improvement program. The methodology emphasises the need for a detailed understanding of the client organisation and associated business risks and seeks to place greater reliance on business processes and management controls. A comprehensive training program has supported the implementation, reflecting our commitment to improved service through our investment in our people and enhanced products.

Client survey

In October 2001, an independent survey was conducted to gain feedback from agencies on the conduct of the audit of their 2000–01 financial statements. Of the 214 agencies that were included in the survey, 152 responses were received representing a response rate of 75 per cent.

Overall, the survey results received were positive. There was a clear indication that, in the opinion of most agencies surveyed, the 2000–01 financial statements was conducted in a professional, consultative manner and made a valuable contribution to the management of the agency. Key findings included the following:

- 93 per cent of respondents indicated that sufficient opportunity was provided to the agency for consultation during the audit;
- 88 per cent of respondents agreed that audit staff demonstrated sufficient understanding of the function/role of the agency;
- 92 per cent of respondents considered that audit staff demonstrated that they had the professional skills and knowledge to conduct the audit;
- 88 per cent of respondents agreed that they were kept informed of likely observations/findings and that ANAO reporting contained ‘no surprises’; and
- 85 per cent of agencies agreed that the ANAO’s financial statement audit services make a valuable contribution to the agency.

The results of the survey have been circulated and discussed with ANAO staff to identify lessons learned so that improvements can continue to be made to future audits. Ongoing initiatives include ensuring contract staff have an improved understanding of the public sector and specific public sector financial reporting requirements. The ANAO is also exploring avenues to increase agency awareness of the products, publications and services available on financial statement and related assurance matters as a means of improving their performance.

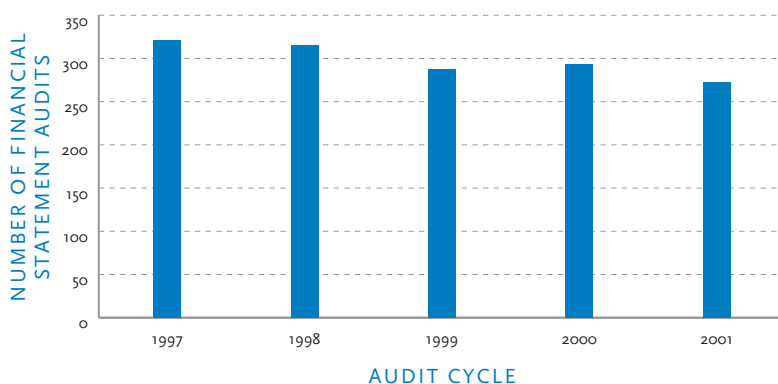
Performance

The primary performance measures for financial statement audit reports relate to the number of opinions issued, timeliness and cost. Measures of quality are discussed under ‘Contribution to Outcomes’.

Number of opinions issued

The number of audit opinions issued for the financial statement audit cycle, which ended in October 2001, in comparison to prior periods, is illustrated in Figure 6.

Figure 6: Number of outputs from the financial statement audit process



The ANAO issued 272 audit opinions for the audit cycle ended October 2001. This compares with 293 opinions for the previous cycle. The reduction in the number of Commonwealth reporting entities in the current financial year is largely due to the classification under the *Corporations Act 2001* of a number of small entities as non-reporting entities for the 2000–01 financial year. It is not necessary to issue audit opinions in relation to the financial statements of these entities.

Separate reports were also provided to Ministers on the results of all financial statement audits.

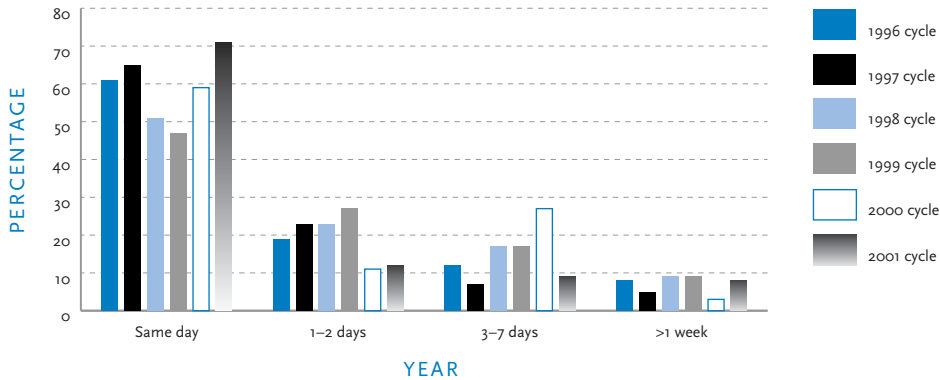
Timeliness of issuing opinions

Issuing audit opinions on the day the financial statements are signed, or shortly thereafter, assists agencies in meeting their own management and annual report commitments. For the audit cycle ended October 2001, 83 per cent of opinions were issued on the day the

financial statements were received or within one to two days, which compared to 70 per cent in the previous cycle.

Figure 7 indicates the time taken to issue audit opinions in relation to the date of signing of the financial statements over the last six years.

Figure 7: Timeliness of issuing audit opinions



Cost

Financial statement audits for the 2001–02 financial year required 157 103 hours and consumed \$25.014 million (\$23.700 million in 2000–01) of resources. The audit cycle ended October 2001 required 158 079 hours (budget 146 090 hours). In the previous year the financial statement audits required 134 665 hours (forecast 126 700) and \$23.7 million of resources. The increase in the hours required to complete the audits was primarily a result of two factors: the increased complexities in financial reporting; and the requirement to complete the audit of material entities by 15 August to enable the Government's Final Budget Outcome reporting to be completed by 30 September 2001.

Overall, the Assurance Audit Services Group charged 182 167 hours (forecast 178 255) and generated \$18.189 in notional or actual revenue against actual costs of \$18.332 million.

Audit fees

Commonwealth authorities and companies and their subsidiaries that are subject to the *Commonwealth Authorities and Companies Act 1997* pay fees for the audit of their financial statements based on a scale determined by the Auditor-General under section 14 of the *Auditor-General Act 1997*. Section 14 also requires the Auditor-General to include in the ANAO Annual Report, details of the basis on which the Auditor-General determined the audit fees that applied during the financial year concerned.

The audit fees charged for financial statement audits are calculated on a cost recovery basis using an accrual-based costing model to determine an hourly charge out rate per level. The costing model takes into account all relevant costs including the attribution of overhead costs. The latter costs do not include those costs associated with meeting the Auditor-General's broader governance responsibilities such as costs relating to international and

Commonwealth–State relations and the additional costs incurred as a result of being located in the Parliamentary triangle.

Assurance and control assessment audit reports

Assurance and control assessment (ACA) audits examine common administrative processes and provide a positive assurance that agencies are meeting their obligations under the financial legislative framework. The audits are undertaken within the general performance audit provisions (section 18) of the *Auditor-General Act 1997* and principally examine internal control structures that are not specifically covered by financial statement audits or other performance audits.

The following ACA audit reports were tabled in 2001–02:

- Report No.53 *Goods and Services Tax Administration by Commonwealth Organisations*;
- Report No.45 *Recordkeeping*;
- Report No.34 *Management of Travel—Use of Taxis*;
- Report No.33 *Senate Order of 20 June 2001 (February 2002)*;
- Report No.27 *Agency Management of Software Licensing*;
- Report No.25 *Accounts Receivable*;
- Report No.19 *Payroll Management*;
- Report No.10 *Management of Bank Accounts by Agencies*; and
- Report No.8 *Disposal of Infrastructure, Plant and Equipment*.

Commencing from 2002–03, ACAs become part of the new output: business support process audit reports.

Performance

The primary performance measures for this output relate to the number of audits completed, timeliness and resource usage. Measures of quality are discussed under ‘Contribution to Outcomes’.

Number of ACA audit reports

Nine ACA audit reports were tabled during 2001–02 against a target of seven. In addition, as at 30 June 2002, audits on the topics of recordkeeping, Senate Order (for the Autumn sittings), administration of accounts payable, GST processing in small states and software capitalisation were in progress.

Timeliness

The benchmark target for the tabling of ACA audit reports is 11 months from the inception of the audit to its completion. The average elapsed time of the ACA audits tabled during the year was 11.6 months. A total of 67 per cent of ACA audit reports were tabled in 11 months or less.

Cost

The cost of the ACA audit reports output for 2001–02 was \$2.353 million (\$2.351 million in 2000–01).

Protective security audit reports

Protective security audits are ‘across-the-board’ studies, similar to the approach taken for FCA audits. These audits examine particular aspects of security, including: information security; personnel security; and physical security.

Performance

The primary performance measures for this output relate to the number of reports completed and cost. Measures of quality are discussed under ‘Contribution to Outcomes’.

Number of protective security reports

Report No.22 *Personnel Security—Management of Security Clearances* was tabled in December 2001 against a target of one protective security report. The audit reviewed security clearance and vetting policies and practices in a number of Commonwealth organisations and considered whether those organisations were managing the processes efficiently and effectively as well in accordance with Commonwealth policy, as outlined in the *Protective Security Manual*.

Timeliness

The benchmark target for the tabling of a protective security audit report is 11 months from the inception of the audit to its completion and Report No.22 met this target.

Cost

The cost of the protective security audit reports output for 2001–02 was \$0.214 million (\$0.254 million in 2000–01).

Other attest reports

Agencies can request the ANAO to undertake reviews of aspects of their activities on a cost recovery basis. The ANAO may also provide services to agencies on matters outside the scope of the financial statement audit. Examples of such services include the provision of letters of comfort in respect of borrowings, payroll tax certificates and other financial information and special purpose engagements. Increasingly through the year, a number of agencies, as part of their own corporate governance arrangements, are seeking reviews or audits of their half-year financial statements. Undertaking these reviews resulted in a large increase in the actual cost of the other attest output for 2001–02 compared to the previous year.

The cost of the other attest output for 2001–02 was \$1.588 million (\$0.638 million in 2000–01).

Contribution to Outcome 1—Improvement in public administration

Output Group 3—Assurance Audit Services contributes in an important way to the achievement of Outcome 1—Improvement in public administration. For example, the conduct of financial statement audits, assurance and control assessment audits and protective

security audits raise issues that result in overall improvements across the APS or in particular agencies.

Contribution to Outcome 2—Assurance

Through the conduct of financial statement audits, assurance and control assessment audits, protective security audits and other attest audits, the ANAO contributes to providing assurance to individual agencies, Ministers, the Parliament and the public about the financial administration and accountability of public sector entities.

The main output that contributes to Outcome 2 is the conduct of annual financial statement audits of Commonwealth entities, which provide stakeholders with assurance that an entity's financial statements fairly represent its financial operation and its position at year-end.

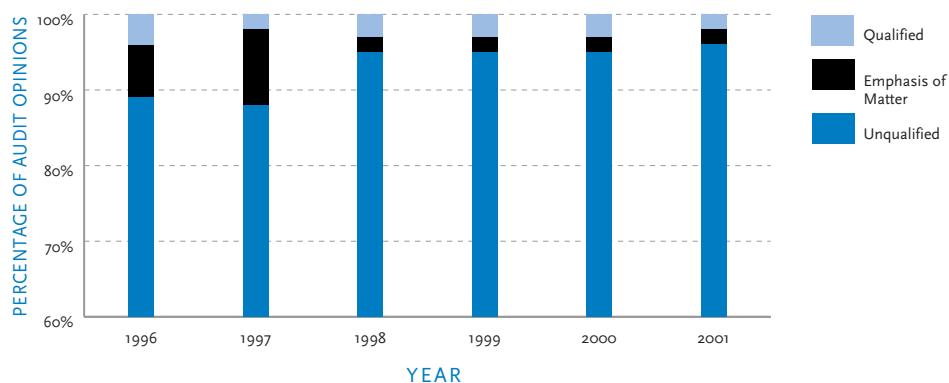
Financial statements must be accompanied by an audit opinion pursuant to legislative requirements. The audit opinion issued by the ANAO adds credibility to the financial statements, thereby allowing all Commonwealth agencies to fulfil their own accountability obligations.

The provision of the audit opinion therefore is, of itself, fulfilment of a desired intermediate outcome. In this light, the identified indicators of ANAO effectiveness in relation to audit opinions expressed on financial report audits are as follows:

- the *nature* of the opinion expressed (that is, unqualified or qualified); and
- the *nature* and *frequency* of audit findings.

The need to *qualify* an audit opinion can arise for a number of reasons outside the control of the ANAO. However, the ANAO works closely with the Boards and management of each agency in an endeavour to eliminate factors that may result in a qualified opinion. The percentage of unqualified audit opinions issued in the audit cycle ended October 2001 was 97.4 per cent.

Figure 8: Percentage of unqualified opinions(a)



(a) The classification 'emphasis of matter' was introduced in the 1995–96 audit cycle. Such references are provided in *unqualified* reports to draw the reader's attention to important matters that aid understanding of the financial statements.

A significant component of both the financial statement audit or ACA audits is a report on the outcome of the audits for presentation to the audit committee, the Chief Executive Officer, the Board and/or senior management of agencies. Such reports provide an assessment of the internal control structure in operation and make recommendations designed to improve the entity's controls environment. An effective internal control structure can significantly lower the risk that the financial statements produced by an entity will contain material errors.

Recent financial statement audits have highlighted that the following issues continue to impact on the ANAO's ability to provide a positive assurance about entities' internal control environments:

- the need to further improve reconciliation processes;
- the need to strengthen computer access, security and program change controls;
- the need to build risk awareness and strengthen business practices and systems of authorisation; and
- the need to enhance financial reporting and analysis.

Developments in the auditing profession

Accounting and auditing frameworks are currently under scrutiny in Australia and overseas as a result of the recent collapses of a number of high profile entities. The current Australian framework governing the auditing profession relies on a co-regulatory model, with key statutory provisions governing the responsibilities of registered company auditors set out in the *Corporations Act 2001* and the professional requirements determined by CPA Australia and the Institute of Chartered Accountants in Australia.

The ANAO is taking appropriate action to respond to the changing environment including reviewing its risk management framework and relevant policies and procedures, as well as contributing to the parliamentary and professional debate.

Management and accountability

The ANAO supports the delivery of its outputs through a robust corporate governance framework as well as a number of management initiatives and other corporate activities.

Corporate governance

Key elements of the ANAO's corporate governance arrangements are outlined below.

Executive Board of Management

The Executive Board of Management (EBOM) was established to provide leadership to the ANAO in achieving the objectives and strategies outlined in the ANAO's Corporate Plan, and assist the Auditor-General to meet his statutory responsibilities under both the *Auditor-General Act 1997* and the *Financial Management and Accountability Act 1997*. EBOM is chaired by the Auditor-General and attended by the Deputy Auditor-General and Group Executive Directors as well as the Executive Director, Corporate Management. EBOM meets monthly, or as required, and exercises its responsibilities in three primary ways:

- as a decision-maker in respect of strategic corporate directions/policies and budgetary allocations and strategic policies;
- as a vehicle for communicating the ANAO's vision, strategies and other key issues to ANAO staff; and
- as an advisory body to staff and organisational units with corporate governance responsibilities in the ANAO.

The Committee's membership comprises:

- Pat Barrett, Auditor-General;
- Ian McPhee, Deputy Auditor-General;
- Warren Cochrane, Group Executive Director, PASG;
- John Meert, Group Executive Director, PASG;
- Trevor Burgess, Group Executive Director, AASG;
- Michael Watson, Group Executive Director, AASG; and
- Russell Coleman, Executive Director, Corporate Management Branch.



The Executive Board of Management. Front row (from left): Ian McPhee, Pat Barrett and Trevor Burgess. Back row (from left): John Meert, Warren Cochrane, Russell Coleman and Michael Watson

Audit committee

The ANAO's Audit Committee is a sub-committee of EBOM. It functions as an oversight and review committee and, through its operations, fulfils the requirements of section 46 of the *Financial Management and Accountability Act 1997* which provides for each chief executive to establish and maintain an audit committee.

The broad functions of the Audit Committee are to:

- enhance the ANAO's control framework;
- improve the objectivity and reliability of externally published financial and other information; and
- assist the Auditor-General to comply with all legislative and other organisational objectives.

The committee met four times in 2001–02. At 30 June 2002 its membership comprised:

- Will Laurie, formerly Partner, PricewaterhouseCoopers (Chair and external independent member);
- Ian McPhee, Deputy Auditor-General;
- Warren Cochrane, Group Executive Director, Performance Audit Services;
- David Crossley, Executive Director, Assurance Audit Services;
- Michael Coleman of KPMG (Independent Auditor); and
- David Gray of Acumen Alliance (internal audit representative; Secretariat).

Russell Coleman, Executive Director, Corporate Management, and Chief Financial Officer, attends each meeting as an observer.

Products and services committee

The products and services committee was established in early 2002. Its role is to identify and implement strategic business opportunities and manage business risks with a view to maximising product delivery against the key result areas of *meeting clients' needs with quality products and services*.

The responsibilities of the former IT strategic reference group were transferred to the product and services committee.

The committee's membership comprises:

- Trevor Burgess (Chair), Group Executive Director, Assurance Audit Services;
- Warren Cochrane, Group Executive Director, Performance Audit Services;
- John Meert, Group Executive Director, Performance Audit Services;
- Michael Watson, Group Executive Director, Assurance Audit Services;
- Russell Coleman, Executive Director, Corporate Management Branch;
- Darren Box, Executive Director, R&D;
- Alan Greenslade, Executive Director, Performance Audit Services;
- Paul Nicoll, Executive Director, Performance Audit Services;
- David Crossley, Executive Director, Assurance Audit Services; and
- Greg Welsh, Executive Director, Assurance Audit Services.

People and business management committee

The people and business management committee was formed in early 2002. Its role is to identify and implement strategic business opportunities and manage business risks with a view to maximising product delivery against the key result areas of *highly performing people and good business management*.

The committee's membership comprises:

- Warren Cochrane (Chair), Group Executive Director, Performance Audit Services;
- Trevor Burgess, Group Executive Director, Assurance Audit Services;
- John Meert, Group Executive Director, Performance Audit Services;
- Michael Watson, Group Executive Director, Assurance Audit Services;
- Russell Coleman, Executive Director, Corporate Management Branch;
- Steven Lack, Executive Director, Performance Audit Services;
- Peter White, Executive Director, Performance Audit Services;
- Alan Thompson, Executive Director, Assurance Audit Services; and
- Greg Welsh, Executive Director, Assurance Audit Services.

Strategic planning framework

Key elements of the ANAO's strategic planning framework are shown in Figure 9.

Figure 9: Strategic planning framework

Corporate Plan

The ANAO's current *Corporate Plan 2001–2004* is the defining document for all planning and other strategic and operational activities for its three-year period. The Plan outlines the vision, role and shared values of the ANAO as well as the four key result areas (KRAs) against which the ANAO measures its performance:

- meeting our clients' needs;
- with quality products and services;
- using highly performing people; and
- with good business management.

Business Plan

The ANAO released its *Business Plan 2001–2004* in August 2001. The Business Plan outlines how the KRAs from the Corporate Plan are to be achieved and provides a 'scorecard' (as shown in this Annual Report) so that the ANAO's performance against the KRAs can be assessed, monitored and measured. The Business Plan is supported by annual service group Product Plans, and, CMB and R&D branch plans. The Business Plan is a three-year rolling plan that is updated annually. A Business Plan for 2002–2003 was released in August 2002.

Risk management

The ANAO adopts the Joint Standard AS/NZS 4360:1999 in our approach to risk management. The ANAO regularly updates its Risk Management Plan and individual plans for each of the service groups, CMB and R&D branch to take account of any changes to our environment including revised business requirements and changes to our control environment. The plan underpins the ANAO's corporate governance framework. The ANAO's Audit Committee is responsible for overseeing the implementation of the plan.

In summary, the ANAO approach to risk management identifies risks associated with each business objective and agreed business targets. Risks are considered first at the strategic level; in particular how they relate to our strategic and business planning processes. In considering these risks we address the following questions: is our overall vision and direction appropriate; do our products (including new products) meet client needs and expectations; are our resources (staff, financial, physical and information) appropriate (capability) and do we have sufficient (capacity) to deliver our products?

Fraud Control Plan

During the year the ANAO conducted a review of its fraud control arrangements. This review involved the conduct of a comprehensive fraud risk assessment and the amendment of our Fraud Control Plan in accordance with the requirements of the revised *Commonwealth Fraud Control Guidelines May 2002* (CFCG). The plan is an important strategic document that draws together all fraud prevention and detection initiatives that have been adopted by the ANAO into one consolidated document.

The ANAO has implemented the requirements of the CFCG and has appropriate fraud prevention, detection, investigation and reporting procedures and processes in place. Annual fraud data will be reported to the Attorney-General's Department in accordance with the CFCG Guideline 8.

Information Technology Strategic Plan (ITSP)

During the year significant progress was made on many of the ITSP projects including improved audit report templates, e-procurement and the development of a business case for access to the internet by all staff from their desktops. Policies on changes to the ANAO's operating systems and applications were endorsed and incorporated into the ITSP as principles and standards. A comprehensive update of the ITSP including several proposed new projects was undertaken and was submitted for endorsement by the Executive in August 2002.



IT Audit Manager Wayne Jones with Tricia Wells from Corporate Management Branch

Code of Conduct

The revised *ANAO Code of Conduct* was published in August 2001 and provides information on the conduct expected of all ANAO employees in carrying out their responsibilities including interacting with clients, fellow employees and other stakeholders. The Code is framed around the central theme of the *APS Values* and the *APS Code of Conduct* set out in the *Public Service Act 1999* and also reflects the ANAO's own core values and behaviours which focus on the key elements of *Respect, Integrity and Excellence* (see Figure 10). The Code also recognises the importance of auditing and accounting standards developed by the Australian auditing and accounting professional bodies.

Figure 10: ANAO values and behaviours



External and internal scrutiny

External audit

Section 41 of the *Auditor-General Act 1997* establishes the position of the ANAO Independent Auditor who carries out both the audit of the ANAO's financial statements (see Appendix 2) and selected performance audits of the ANAO. The Act requires the Independent Auditor to have regard to the audit priorities of the Parliament as determined by the JCPAA, in the conduct of performance audits. Currently the ANAO's Independent Auditor is Michael Coleman of KPMG who was reappointed in May 2002 for a further period of three years.

A performance audit entitled *ANAO Audit Management Processes* was completed in October 2001. The objectives of the audit were to perform an independent and systematic examination of the ANAO's audit management processes for the purposes of:

- forming a view as to whether the audit management processes ensure efficient and effective audits; and
- suggesting ways by which management practices, for the above processes, might be improved.

The audit concluded that the ANAO has structured audit management processes covering planning, implementation, monitoring of progress and obtaining feedback on audit performance. The audit found these processes were operating efficiently and effectively.

The audit also noted that the ANAO is proactive in monitoring current best practice in audit methodology and has engaged in peer reviews with other Audit Offices and has commissioned external quality assurance and benchmarking reviews.

The audit identified the following four areas where there were opportunities for improvement:

- the setting of budgets for key stages of a performance audit and, where possible, defined milestones. It was also recommended that time and cost benchmark data be established for each type of performance audit;
- a structured post audit debriefing process be developed that involves identifying lessons learnt and improvement areas for each completed audit;
- consideration be given to reducing the number of layers of review where a performance audit has been assessed as 'no known or potential risk' or 'potential minimal risk'; and
- consideration be given to the potential quality and efficiency benefits that may be gained by having an in-house specialist assist audit teams with the formatting and drafting of performance audit reports.

The ANAO has taken action to address each of these issues.

Internal audit

The ANAO's Internal Audit function is responsible to the Auditor-General through the ANAO Audit Committee for providing an assurance concerning ANAO systems and

processes directed at attaining better practices and the objectives specified in the ANAO's Corporate Plan.

Audits completed in 2001–02 included recruitment and induction, travel, financial compliance, performance management and the management of non-audit consultants.

The audits found that the activities subject to audit were operating in a generally satisfactory manner. Internal audit made a range of recommendations designed to improve performance in the areas reviewed. The majority of the recommendations were agreed by ANAO management and action taken to address them.

Inquiries by parliamentary committees

Involvement by the ANAO in inquiries on its audit reports by Parliamentary Committees is discussed earlier in this report. During the year, the ANAO also provided submissions and provided evidence to the following Inquiries:

- JCPAA: 'Review of Independent Auditing by Registered Company Auditors';
- JCPAA: 'Review of the Accrual Budget Documentation';
- JCPAA: 'Inquiry into the Auditor-General Act 1997' *Report No.386*, tabled 26 September 2001;
- JCPAA: 'Review of Coastwatch' *Report No.384*, tabled 22 August 2001;
- Senate Finance and Public Administration (F&PA) References Committee inquiry: 'Recruitment and training in the Australian Public Service'; and
- Senate F&PA Legislation Committee: 'Inquiry into Bills concerning Political Honesty and Advertising'.

JCPAA Report 386 contained four recommendations dealing with amendments to the *Auditor-General Act 1997* and one dealing with the issue of parliamentary privilege of ANAO draft audit reports.

Decisions by courts and tribunals

There have been no relevant decisions by courts or tribunals affecting the ANAO during 2001–02.

Commonwealth Ombudsman

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

Management of human resources

An overview of the ANAO's staffing profile is provided at Tables A1–1, A1–2, A1–3 and A1–5. During the year, the ANAO continued with a number of important initiatives designed to provide a more rewarding and professional environment, as well as maintaining and enhancing the skills of its people. These are summarised below.

Workforce planning

During the year, development on the key foundation workforce planning areas has continued. This culminated in November 2001 with a formal launch to staff of the Recruitment and Selection Policy and Implementation Guide, the Personal Development Scheme, the ANAO Capabilities Framework, and Identification of Staff Turnover Targets.

A 360-degree feedback process, based on the ANAO Capabilities Framework, was trialled for the senior executive service in early 2002. A further trial involving Executive Level 2 staff will be undertaken during the latter half of 2002.

ANAO Certified Agreement 2000–2003

The current ANAO Certified Agreement has a nominal expiry date of 30 April 2003. An evaluation of the agreement was undertaken in December 2001. The evaluation identified a number of employment and policy areas that could be considered for modification in the next round of agreement making, but generally found that the agreement was meeting the needs of staff and the organization.

A staff bulletin with a timetable setting out the various milestones towards achieving a new certified agreement was circulated to staff for their information. This was followed by the establishment of a Management Steering Group, election of staff elected representatives and the nomination of union representatives as a first step in the development of the third ANAO Certified Agreement.

Workplace Consultative Forum

The ANAO Workplace Consultative Forum (WCF) was initially established under the first ANAO *Certified Agreement* in 1998 to facilitate consultation with staff and employee representatives on a range of operational and strategic issues affecting them in the workplace. A new Forum was established following certification of the current Agreement.

During 2001–02, the WCF met on nine separate occasions and continued to play an active role in the development, implementation and review of a broad range of employment matters. These included the market testing of Corporate functions, the ANAO capabilities framework, a revised recruitment and selection policy and implementation guide, 360-degree feedback, studies assistance policy, staff survey results, revised salary packaging arrangements and a whistle blowing policy.

Performance Assessment Scheme

The ANAO *Performance Assessment Scheme* was revised as part of the current ANAO *Certified Agreement*. The Scheme incorporates a three-tier rating scale (a '3' being highest) and is based on individual performance agreements drawn up between managers and staff. Performance assessments against those agreements are conducted at six monthly intervals in October and April. Remuneration increases and lump sum payments are linked to performance ratings.

The aggregated results for the 2001–02 performance cycle are shown in Table 2.

Table 2: Summary of ratings from performance assessment in 2001–02

OCTOBER 2001	3	2	1	TOTAL²⁴
ANAO Bands 3 and 4 (Exec 1 and 2)	33	66	2	101
ANAO Bands 1 and 2 (APS1–6)	40	94	2	136
TOTAL	73 (31%)	160 (67%)	4 (2%)	237
APRIL 2002	3	2	1	TOTAL
ANAO Bands 3 and 4 (Exec 1 and 2)	18	70	nil	88
ANAO Bands 1 and 2 (APS1–6)	27	97	nil	124
TOTAL	45 (21%)	167 (79%)	nil	212

Performance pay—Senior Executive Service

In 2001–02, a total of \$46 300 was paid in performance bonuses to a number of eligible ANAO SES officers. The nature and amount of remuneration for SES officers is determined by factors such as:

- people management;
- performance against time, cost and quality targets; and
- corporate contribution.

Learning and development

The ANAO has an integrated learning and development program that recognises the importance of high professional standards, continuous improvement, innovation, learning and knowledge sharing. The learning and development program consists of three key elements: a People Development Program (PDP); a suite of technical training and learning courses tailored to staff at all levels; and individual professional development opportunities. Expenditure on staff training is detailed in Table A1–6.

People development program

The PDP, which concluded at the end of June 2002, was implemented at two levels: Core Programs for all staff; and work group programs for work-based teams at the local work level.

Corporate courses were delivered covering the topics: Career Management; Team Effectiveness; Feedback; Managing Difficult Situations; and Prioritising/Time Management. The Core Programs were well attended by staff and were designed as a direct response to development needs identified by staff through focus groups and an annual staff survey.

At the local level, nineteen work groups developed training programs tailored to their individual needs. These covered a wide range of interpersonal and communication issues, including team building, stress management, communication skills, personality and team indicators, team planning and goal setting.

²⁴ Table excludes SES.

Technical training and learning

The ANAO's Learning Curriculum and Professional Development (PD) Calendar provides the foundation of technical professional development within the ANAO. It is based on the skills and knowledge identified by ANAO staff as being critical to ongoing work efficiency, future technical and managerial needs and personal growth of staff. Technical training and learning is delivered by the R&D Branch in the two streams of financial and performance auditing. For each stream, programs are a balance between formal courses and professional update sessions for staff on current issues that directly impact their audits and add to their broader knowledge and skills.

Individual PD opportunities

Opportunities exist for individual ANAO staff to enhance their personal skills and knowledge through participation in targeted PD activities. These opportunities are identified through the ANAO Performance Assessment Scheme, career development discussions with supervisors and the ANAO Mentor Program.

Professional qualifications and representation*Studies assistance*

During 2001–02 the ANAO supported 69 staff members with their study programs. Of these, the majority participated in the Chartered Accountant (CA) or CPA Australia programs, while a number of staff undertook programs directly related to information technology, vocational or post-graduate university study.

The following ANAO staff completed their CA program in 2001–02:

- Karen Incher;
- Gerlinde Jacker;
- Ian Reid;
- Lorena Skipper;
- Ben Sladic; and
- Tania Wesolek.

The following ANAO staff completed their CPA program in 2001–02:

- Andrew Blunden;
- Serena Buchanan;
- Paul Gubecka; and
- Tammy Haines.

Representation

A number of members of ANAO staff have roles outside the organisation that contribute significantly to the auditing and accounting profession:

- Pat Barrett is involved in the CPA Australia Public Sector Centre of Excellence, gives presentations to a wide range of audiences around the world and prepares numerous articles and papers for various journals and other publications;
- Ian McPhee is a member of both the ACT Divisional Council of CPA Australia and the Auditing and Assurance Standards Board as well as the public sector representative on the International Auditing and Assurance Standards Board;
- Trevor Burgess is on the CPA Australia (ACT Region) Public Sector Accountants Committee and the Corporate Governance Committee;
- Mike Watson is on the ACT Regional Council of the Institute of Chartered Accountants Australia;
- John Meert holds the position of Councillor on the ACT Advisory Council of the Australian Institute of Management NSW and ACT Limited;
- Anton Muller is the Treasurer and a member of the Executive and the Board of the Australasian Evaluation Society Inc;
- Richard Rundle is member of the Standards Australia Management and Business Standards Sector Board; and
- Lisa Usback is a member of the CPA Australia Applications Committee.

Appendix 5 provides a full list of papers and presentations by the Auditor-General and senior ANAO officers.

Graduate Certificate in Performance Auditing

The ANAO participates in a Graduate Certificate in Performance Auditing with the University of Canberra, with the first enrolment of students in 2001. The Certificate, developed collaboratively by the ANAO and the University, is designed to provide a structured development program for performance auditors, and can be completed in 12–18 months. The course comprises one unit tailored to the requirements of performance audit and two elective subjects chosen from a wide range of legal, human resource management, accounting and information technology subjects. Nine ANAO students were enrolled for the Graduate Certificate in 2002. Two staff members, Karla Rayner and Celia Street, graduated in July and several more will complete their studies at the end of 2002.

Graduates

Fourteen graduates commenced employment with the ANAO in February 2002. After completing an initial induction program, graduates are placed into work areas in either the performance or assurance audit service groups. During their first 12 months, all graduates participate in an intensive development program, which consists of both technical and general training and skill development.

For its February 2003 intake, the ANAO has joined a consortium of eight other APS agencies and involves promotions/advertising across a variety of mediums, which has been complemented by the ANAO participating in a number of careers fairs at universities. In excess of 1200 applications were received by the ANAO. An assessment centre has been established in Canberra to assess candidates for up to 23 positions across the performance and assurance audit service groups.



The 2002 ANAO graduate intake. L–R back row: Nathan Johnstone, Nicholas Anderson and Brendan O'Hanlon; middle row: Ewan Windsor, Amanda Brooks, Summer McPhee, Greg Asher and Naomi Widdowson; front row: Rebecca Collareda, Elizabeth Goodall, Phyllis Chan, Veronica Lau of the People Management section, Deborah Ross and Adrian Tan. Absent: Alicia Hall, Alexandra McElwee and Sonia Mercier

Staff survey

The annual ANAO staff survey received a 75 per cent response rate in 2002, which represents a higher rate than previous years. Many of the questions in the survey were correlated against those in the 1999 and 2000 surveys. This has provided valuable comparative information to monitor and evaluate changes over time and to implement focussed programs to address identified key issues.

Feedback from the survey indicated the need to continue to support improved people management, leadership and technical and professional skilling.

Staff also identified a range of positive aspects of working at the ANAO; in particular the observation and application of the ANAO Values and Behaviours in their work area and the acceptance of the challenge of peak workload periods. Staff also continued to be generally satisfied with their work environment, the work they do, their terms and conditions, including remuneration, and the achievement of an appropriate balance with their work and home life.

Awards and recognition

The ANAO supports an awards system that recognises and rewards where appropriate, individual staff and teams who are achieving and contributing to corporate goals including client service, people management, audit and business management and innovation.

The Auditor-General's Annual Awards for Outstanding Achievement is the premier award in a suite of awards which comprise the National Australia Day Council's medallion and Auditor-General Certificates of Appreciation that are awarded for particular achievements.

The Auditor-General's Annual Awards for Outstanding Achievement for 2002 were awarded to David Cunneen, Tony Minchin, David Sloan and Michael White.

The National Australia Day Council medallions were presented by the Auditor-General to: Christina Brauer, Pamela Foster, Tamsyn Harris, Carla Jago, Wayne Jones and Karen Sutcliffe.

Workplace diversity

The ANAO is committed to promoting and supporting diversity in the workplace by recognising, valuing and promoting in its people a range of abilities and skills, and recognising different languages, cultures and backgrounds. The ANAO encourages diversity in the workplace that is consistent with the APS Values and Code of Conduct. An analysis of workplace diversity within salary levels is provided in Table A1–4.

The ANAO has appointed six staff members as diversity contact officers (DCOs) who provide a first point of contact for staff in relation to diversity issues. The DCOs are also members of a broader diversity action group that meets periodically to promote and disseminate information of diversity related issues.

Occupational health and safety (OH&S)

Throughout 2001–02, the ANAO continued to maintain a strong commitment to the health, safety and welfare of its staff. Specific achievements during this period have included:

- the OH&S Committee continues to take a strategic and integrated approach to health and welfare awareness;
- implementation of a number of strategies targeting occupational overuse syndrome and stress, including the conduct of stress seminars and information sessions for staff;
- provision of free influenza vaccinations to all staff on a voluntary basis; and
- continued support of ergonomic and workstation assessments as part of the ANAO policy of providing a safe working environment.

Incidents during 2001–02

During 2001–02 three incidents were reported under Section 68 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991* (the Act). The incidents all related to minor personal injuries. There were no tests, directions or notices given under sections 30, 45, 46 or 47 of the Act.

Employee assistance program

The ANAO continued to provide access to confidential professional counselling for staff and their families. This program, provided through an external employee assistance program, is designed to assist members with personal or work related problems.

Commonwealth disability strategy

The ANAO continues to address any disability issues within the ANAO Diversity Plan and OH&S strategies.

Audit reports are tabled in Parliament and distributed to all parliamentarians and Commonwealth agency heads. Public access to audit reports and BPGs is available in electronic form through the ANAO's internet home page, www.anao.gov.au, and complimentary copies are provided to the general public on request. The ANAO's updated internet site meets all mandatory and optional disability access requirements.

In addition, the ANAO maintains a distribution list of approximately 300 Australian and overseas organisations that are provided with hard copies of each audit publication. All ANAO audit publications are also available from AusInfo bookshops.

Other management issues

A range of other management activities and services are undertaken by the ANAO in support of its primary audit functions. These include financial management, property management, management of legal matters, production of reports and publications, and the provision of IT and administrative services.

Consulting services

During 2001–02, the ANAO used approximately 110 contractors or consultants to provide a range of professional, independent and expert advice or services at a total cost of approximately \$20.163 million. Further details of ANAO consultancies are provided at Table A6–1.

Major competitive tendering and contracting activities

The ANAO makes extensive use of the private sector in the delivery of its audit services where it is cost-effective to do so, with approximately 30 per cent of financial statement audits being outsourced for the 2001–02 financial year. In addition, the ANAO has contractual arrangements with private sector organisations for the delivery of a range of support services including IT, publishing and legal services.

IT services

In March 2002 the ANAO replaced its key business critical file servers and implemented Storage Area Network (SAN) technology to address current and future storage requirements. The move to a SAN provides the ANAO with the ability to manage storage space to meet the changing needs of applications and includes spare capacity and an incremental low cost upgrade path to cater for data storage requirement increases over the

coming years. At the same time the ANAO upgraded its PC/Server operating environment to WIN 2000, its Desktop toolset to Office 2000 and its workgroup platform to Lotus Notes 5. Using the ANAO's IT project methodology, and adopting a structured risk management approach, the outputs were delivered on time, within budget and with minimal disruption to users.

In June 2002, following a review of performance and extensive consultation, the ANAO agreed to an extension of its IT outsourcing contract until 30 June 2003.

Publishing services

The ANAO entered into a new contract for publishing and related services with an external services provider.

Legal services

In March 2002, the ANAO extended its arrangement with the four firms on its legal panel for a further two-year term. The four members of the panel are the Australian Government Solicitor, Minter Ellison, Mallesons Stephen Jaques and Blake Dawson Waldron. The panel continues to provide timely and cost-effective legal advice to the ANAO across a wide spectrum of areas and issues.

ANAO Centenary project

The ANAO's historical publication, *From Accounting to Accountability: A Centenary History of the Australian National Audit Office*, was formally launched by the then Honourable President of the Senate, Margaret Reid, on 14 November 2001 in the Mural Hall of Parliament House.

This publication represents a celebration of the ANAO's achievements, a chronicle of some of the more colourful aspects of our history and, importantly, underlines the importance of an effective audit office to Australia's system of parliamentary democracy.

The book was written by a team of authors led by Professor John Wanna from Griffith University, Queensland. The project was overseen by an Editorial Committee consisting of the Auditor–General, Pat Barrett, Tony Blunn AO, Professor John Uhr from the Australian National University and Jack Waterford, Editor of *The Canberra Times*. Many other people generously donated their time for interviews, editing and proof reading as well as providing many research materials. Published reviews of the book have been very positive about its content and style.



The ANAO's historical publication, *From Accounting to Accountability: a Centenary History of the Australian National Audit Office*, published November 2001

Advertising and market research

During 2001–02, the ANAO did not undertake any market research activity. Approximately \$0.143 million was spent on advertising in relation to recruitment and tenders, as detailed in Table 3.

Table 3: Details of advertising expenditure

Name of firm	Purpose	\$ 000
TMP Worldwide	Recruitment	252
Starcom Worldwide	Recruitment/Tenders	18
Department of Information Technology, Communication and the Arts	Gazettal of Auditing Standards	3
Michael Page International	Recruitment	2
Nga.net	Recruitment	1
		143

IT security

Consistent with the ANAO's IT Strategic Plan and 2001 Online Action Plan and in the light of the revised *Protective Security Manual* a comprehensive review of the ANAO's IT security, policies and practices was undertaken during the latter part of 2001. Action has been taken to address all recommendations arising from the review.

Freedom of information

The Auditor-General is exempt from the provisions of 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 through the ANAO's internet home page or in hard copy.

Environmental protection and biodiversity conservation

The ANAO's strategy to achieve energy savings is underpinned by a comprehensive maintenance contract for heating, ventilation and air conditioning, electrical and essential services in respect of its Centenary House premises. The contract stipulates that the contractor must achieve specified annual savings in energy costs and consumption.

The ANAO continued to support the Australian Greenhouse Office's (AGO's) Working Energy Program which includes a contract between the AGO and ActewAGL for the whole of government supply of electricity to contestable Commonwealth sites in the ACT.

The ANAO continues to implement recycling measures that meet environmental policy guidelines.

Service charter

The ANAO, in a broad sense, provides a service to the community through its public audit reports and other products such as BPGs. The ANAO does not, however, provide a direct service to members of the public and therefore has not developed a service charter relating to dealings with the public.

Discretionary grants

The ANAO does not administer any grant programs and therefore has no grant recipients.

Appendices

Appendices

1. ANAO staffing overview
2. 2001–02 Financial Results Commentary & Financial Statements
3. Audit and other publications
4. Main issues raised in performance audit reports tabled in 2001–02
5. Addresses and papers by the Auditor-General and ANAO senior officers
6. Procurement activities
7. Contact directory

APPENDIX 1

ANAO staffing overview

Table A1-1: Staffing profile as at 30 June 2002

Classification	ACT	NSW	TOTAL	
			2001-02	2000-01
SES Band 3	1	–	1	1
SES Band 2	4	–	4	4
SES Band 1	17	–	17	17
Exec 2	61	2	63	61
Exec 1	43	1	44	46
APS 6	34	8	42	41
APS 5	43	–	43	25
APS 4	38	1	39	49
APS 3	7	–	7	8
APS 2	3	–	3	8
APS 1	2	–	2	2
Graduate	15	–	15	20
Cadet	2	–	2	1
TOTAL	270	12	282	283

Note: all staff employed by ANAO, including operative and inoperative staff

Table A1-2: ANAO paid operative staff (employed under the *Public Service Act 1999*)

Location	June 2002		June 2001	
	Audit	Management	Audit	Management
ACT	203	42	219	44
NSW	10	1	8	1
TOTAL	213	43	227	45
GRAND TOTAL	256		272	

Note: excludes six staff on paid and unpaid long-term leave

Table A1-3: Paid full-time, part-time and non-ongoing staff as at 30 June 2002

Classification	Full-time		Part-time		Non-ongoing		Total	
	M	F	M	F	M	F	M	F
SES Band 3	1	–	–	–	–	–	1	–
SES Band 2	4	–	–	–	–	–	4	–
SES Band 1	16	1	–	–	–	–	16	1
Exec 2	39	16	1	2	–	–	40	18
Exec 1	19	18	1	5	–	–	20	23
APS 6	12	22	–	–	2	3	14	25
APS 5	19	22	–	–	–	–	19	22
APS 4	11	26	–	–	–	1	11	27
APS 3	–	7	–	–	–	–	–	7
APS 2	1	2	–	–	–	–	1	2
APS 1	2	–	–	–	–	–	2	–
Graduate	6	9	–	–	–	–	6	9
Cadet	–	2	–	–	–	–	–	2
TOTAL	130	125	2	7	2	4	134	136
GRAND TOTAL	255		9		6		270	

Note: includes paid operative and inoperative staff and excludes 12 unpaid staff

Table A1-4: Analysis of workplace diversity within salary levels

Salary Range	Total staff	Women	NESB1	NESB2	ATSI	PWD
	2001-02	2001-02	2001-02	2001-02	2001-02	2001-02
\$73 219 and above	92	27	9	10	–	2
\$53 153 to \$73 051 (includes APS 6–Exec 1)	79	47	6	3	–	1
\$43 469 to \$53 152 (includes APS 4–5)	83	50	20	8	1	–
\$33 470 to \$43 242 (includes APS 2–3 and Graduates)	24	17	6	1	–	–
Below \$33 470 (includes APS 1 and Cadets)	4	2	–	1	2	–
TOTAL	282	143 (51%)	41 (15%)	23 (8%)	3 (1%)	3 (1%)

Note: all staff employed by ANAO, including operative and inoperative

Key

NESB1 Non English speaking background, overseas born

NESB2 Non English speaking background, first generation Australian

ATS Aboriginal or Torres Strait Islander

PWD Persons with Disabilities

Table A1-5: Details of gains and losses

Location	Movements		Medical retirements	Voluntary retirements	Total losses	Gains
	to other agencies	Resignations				
ACT	21	23	–	4	48	46
NSW	–	–	–	–	–	1
TOTAL	21	23	–	4	48	47

Note: all staff employed by ANAO, including operative and inoperative

Table A1–6: Expenditure on staff training

Description	2001–02	2000–01	1999–00	1998–99	1997–98
Net eligible training expenditure (excludes salaries)	\$808 418	\$757 336	\$467 190	\$552 877	\$586 800
Total number of person-days spent by staff on eligible training programs	1566	1842	1448	1311	1778
Total number of staff participating in eligible training programs	246	228	259	239	341

Mobility

The ANAO has arrangements in place to provide staff with the opportunity for secondments to other Commonwealth agencies and the JCPAA in order to gain cross-APS agency and parliamentary committee experience. Similarly, we accept staff from other agencies and the Parliament for temporary assignment within the ANAO to increase awareness and understanding of the ANAO's roles and responsibilities.

The staff secondments during 2001–02 were:

To the ANAO	From
Nicholas Swales	Office of the Auditor General of Canada
Leigh Griffin	Audit New Zealand
Patricia Rands	Audit New Zealand
From the ANAO	To
Tamsyn Harris	Audit New Zealand
Carla Jago	Audit New Zealand
Brandon Jarrett	Office of the Auditor General of Canada
Rebecca Reilly	Office of the Auditor General of Canada
Natalie Zimoch	House of Representatives
Mark Rogala	JCPAA
Christian Anderson	JCPAA
Bill Bonney	JCPAA
Jon Hansen	Department of Finance and Administration
Kathryn Culver	Attorney-General's Department
John Guilfoyle	Health Insurance Commission

Exchange placements—New Zealand/Canada

The ANAO has established exchange placements with Audit New Zealand and the Office of the Auditor General of Canada. The placements involve two staff from the Assurance Audit Service Group travelling to New Zealand or Canada for a six-week period with reciprocal arrangements in place for staff from New Zealand and Canada travelling to the

ANAO. Carla Jago and Tamsyn Harris travelled to New Zealand in September 2001. Brandon Jarrett and Rebecca Reilly travelled to Canada in April 2002. The placements are viewed as a development opportunity for the individuals concerned and a means of gaining valuable insights into the operations of other audit offices.

Table A1-7 Basis of employment of staff

Level	Employed under Certified Agreement	Employed on AWAs
SES	–	22
Non SES staff	217	43
Sub-total	217	65
TOTAL	282	

APPENDIX 2

2001–02 Financial Results Commentary and Financial Statements

Financial results commentary 2001–02

Introduction

The ANAO's operations are funded largely through parliamentary appropriations. A small amount of revenue is received for the provision of audit related services and interest on term deposits which, under an arrangement pursuant to section 31 of the *Financial Management and Accountability Act 1997*, is accounted for as agency revenue and retained for use by the ANAO.

In accordance with section 14 of the *Auditor-General Act 1997*, the ANAO charges fees for the non-discretionary audit of financial statements of Commonwealth authorities and companies. The revenue received is accounted for as administered funds and paid directly into Consolidated Revenue.

Overview of financial position

The ANAO's financial position strengthened during 2001–02. The ANAO has cash reserves sufficient to meet its ongoing commitments. Table A2–1 provides a summary of the ANAO's financial position which include employee entitlements, lease obligations and the periodic upgrade of its assets, particularly IT assets.

Table A2–1: Summary of financial position

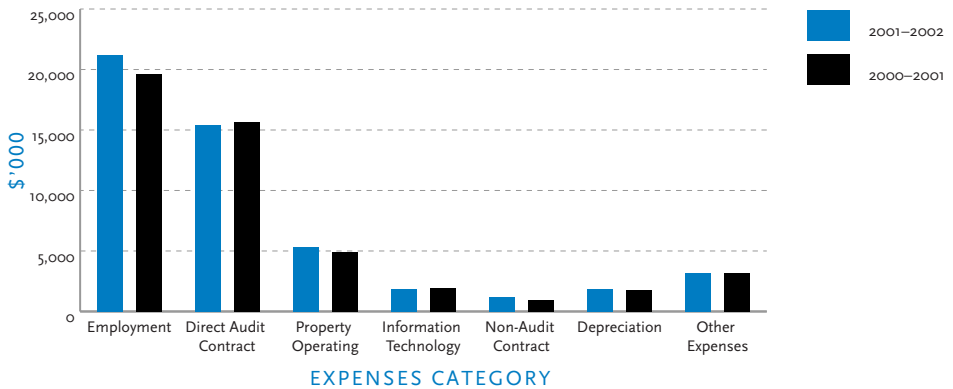
Statement of financial performance	2001–02 \$000	2000–01 \$000	variance \$000	variance %
Total operating revenues	53 087	51 859	1 228	2.4
Total operating expenses	50 281	48 133	2 148	4.5
Operating surplus attributable to the Commonwealth	2 806	3 726	(920)	(24.7)
Capital Usage Charge	707	443	264	59.6
Net surplus	2 099	3 283	(1 184)	(36.1)
Statement of financial position				
Total assets	23 280	22 704	576	2.5
Total liabilities	17 506	19 029	(1 523)	(8.0)
Net assets	5 774	3 675	2 099	57.1
Equity	5 774	3 675	2 099	57.1

Detailed analysis

Operating expenses

Total operating expenses for the year ended 30 June 2002 were \$2.148 million (4.5 per cent) more than for 2000–01. This increase in expenses reflects an increase in costs, particularly employment costs but also property operating expenses and administrative expenses, which have increased by 7.9 per cent, 9.6 per cent and 12.3 per cent respectively. The increase in employment cost is reflective of the increase in average staffing levels, 284 in 2001–02 (270 in 2000–01). Property operating expenses have increased due to the annual rental increase and administrative expenses have increased due to the increase in surplus lease space interest. A breakdown of total operating expenses into major expense categories is shown in Figure A2–1.

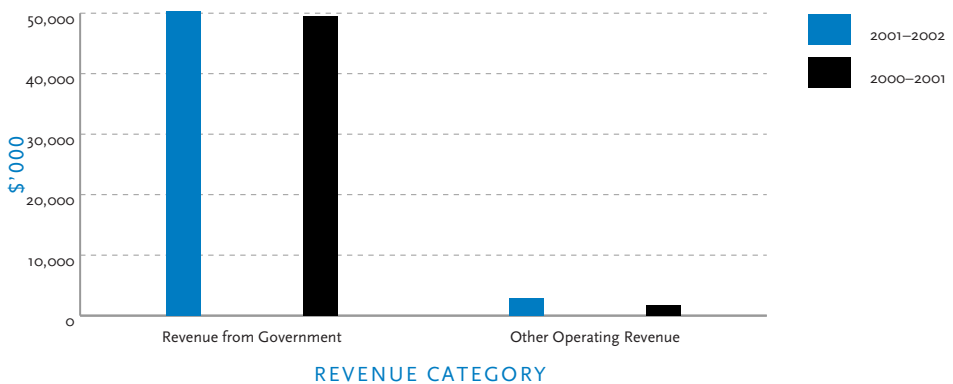
Figure A2–1: Operating expenses



Operating revenue

The increase in revenues is due to an increase in other operating revenues for the financial year of 65.8 per cent reflecting an increase in fees from discretionary audit services retained under section 31 agreement mentioned above. A breakdown of operating revenue is provided in Figure A2–2.

Figure A2–2: Operating revenue



Balance sheet summary

The ANAO's balance sheet position has improved over the past year with a reduction in actual expenditure levels compared to budget, resulting in larger than expected cash balances. This has resulted in an improvement in the net asset/equity position of the ANAO by \$2.099 million or 57.1 per cent.

The decrease in liabilities is predominantly due to the reduction in the liability arising from the accounting for surplus lease space which is consistent with expectations. Supplier payables have decreased due to a smaller number of trade creditors payable at the end of the financial year. Employee related liabilities have also shown an overall decrease with the implementation of the measures introduced to better manage annual leave entitlements.

Administered funds financial summary

Audit fees billed to Commonwealth authorities and companies for non-discretionary audit work remained relatively stable compared with 2000–01.

Table A2–2: Administered funds

	2001–02 \$000	2000–01 \$000
Administered revenue and expenses		
Sale of goods and services	10 338	10 454
Cash transferred to the Consolidated Revenue	11 079	10 925
Administered assets and liabilities		
Financial Assets	2 368	3 201
Equity and liabilities	2 368	3 201

Other*Net outlays to government*

In total, the ANAO generated \$13.299 million in revenues from audit and related services. Given that the ANAO received appropriations totalling \$50.126 million, the net outlay by government was \$36.827 million (\$37.833 million in 2000–01) or a reduction of 2.5 per cent.

Audit fees and cost recovery

The ANAO policy on the calculation of audit fees is discussed in Output Group 3 under the heading of *Audit fees*. The hourly charge rates, for each staffing level, are set for the purpose of charging audit fees under section 14 of the *Auditor-General Act 1997* and are also used to determine the cost and price of all ANAO products and services. In 2001–02 total revenue generated (actual and notional) was \$33.290 million compared with net costs to recover of \$34.461 million. The 2000–01 comparative figures were \$34.384 million and \$34.465 million respectively.

Financial summary

The ANAO's overall financial position strengthened throughout 2001–02 as a result of effective financial management and implementation of the measures introduced in 2000–01 to reduce liabilities, particularly in relation to annual leave. The ANAO has exceeded targets for the tabling of performance audits and again increased the total number of hours expended on the delivery of audit products and services from the prior year.

The ANAO has sufficient assets to meet ongoing liabilities and commitments, including escalations in lease obligations, employee entitlements and asset replacements including sufficient funds to maintain periodic upgrade program.

The ANAO's internal and external audit scrutiny has confirmed that the ANAO's control environment continues to be effective and our year-end financial statement preparation is timely and efficient. A comprehensive review of the Auditor-General's Instructions and Procedural Rules in the latter half of the year has resulted in a further improvement to the general control environment.

Resources for outcomes

Table A2-3 Financial resources summary

By Outcome	\$'000
	Actual
	2001-02
Outcome 1	16 497
Outcome 2	33 784
Subtotal Outcomes	50 281
Revenue from other sources	(2 961)
TOTAL PRICE FOR OUTCOMES	47 320
Revenue from Government (Appropriation)	
for Departmental Outputs	(50 126)
Operating Surplus	2 806
By Output Group	\$'000
	Actual
	2001-02
Output Group 1 (Performance Audit Services)	17 784
Output Group 2 (Information Support Services)	3 328
Output Group 3 (Assurance Audit Services)	29 169
Subtotal Outcomes	50 281
Revenue from other sources	(2 961)
TOTAL PRICE FOR OUTCOMES	47 320
Revenue from Government (Appropriation)	
for Departmental Outputs	(50 126)
Operating Surplus	2 806

Table A2-4 Resources for Outcome 1

Outcome 1—Improvement in Public Administration

	\$'000 Budget 2001-02	\$'000 Actual 2001-02	\$'000 Variance	\$'000 Budget* 2002-03
Price of Departmental Outputs				
Output Group 1 (Performance Audit Services)				
Output 1.1.1 Performance Audit Reports	13 432	10 229	3 203	17 039
Output 1.1.2 Financial Control and Administration Reports	654	393	261	–
Output 1.1.3 Other Audit and Related Reports	1 329	1 293	36	1 286
Subtotal Output Group 1	15 415	11 915	3 500	18 325
Output Group 2 (Information Support Services)				
Output 1.2.1 Assistance to the Parliament	365	305	60	401
Output 1.2.2 National and International Representation	121	229	(108)	217
Output 1.2.3 Client Seminars	23	109	(86)	91
Output 1.2.4 Benchmarking Services	215	669	(454)	219
Output 1.2.5 Better Practice Guides	304	352	(48)	493
Subtotal Output Group 2	1 028	1 664	(636)	1 421
Output Group 3 (Assurance Audit Services)				
Output 1.3.1 Financial Statement Audit Reports	2 368	2 503	(135)	–
Output 1.3.2 Business Support Process Audit Reports	–	–	–	–
Output 1.3.3 Assurance and Control Assessment Audit Reports	101	235	(134)	–
Output 1.3.4 Protective Security Reports	4	21	(17)	–
Output 1.3.5 Other Attest Reports	34	159	(125)	–
Subtotal Output Group 3	2 507	2 918	(411)	–
Subtotal Output Groups	18 950	16 497	2 453	19 746
Revenue from other sources	(819)	(747)	(72)	(552)
TOTAL PRICE FOR OUTCOME 1	18 131	15 750	2 381	19 194
Revenue from Government (Appropriation) for Outputs	(18 950)	(16 419)	(2 531)	(19 746)

Table A2–5 Resources for Outcome 2

Outcome 2—Assurance

	\$'000 Budget 2001–02	\$'000 Actual 2001–02	\$'000 Variance	\$'000 Budget* 2002–03
Price of Departmental Outputs				
Output Group 1 (Performance Audit Services)				
Output 2.1.1 Performance Audit Reports	6 630	5 038	1 592	–
Output 2.1.2 Financial Control and Administration Reports	317	194	123	–
Output 2.1.3 Other Audit and Related Reports	645	637	8	–
Subtotal Output Group 1	7 592	5 869	1 723	–
Output Group 2 (Information Support Services)				
Output 2.2.1 Assistance to the Parliament	365	305	60	401
Output 2.2.2 National and International Representation	121	229	(108)	217
Output 2.2.3 Client Seminars	23	109	(86)	91
Output 2.2.4 Benchmarking Services	215	669	(454)	219
Output 2.2.5 Better Practice Guides	304	352	(48)	493
Subtotal Output Group 2	1 028	1 664	(636)	1 421
Output Group 3 (Assurance Audit Services)				
Output 2.3.1 Financial Statement Audit Reports	21 226	22 511	(1 285)	28 298
Output 2.3.2 Business Support Process Audit Reports	–	–	–	3 000
Output 2.3.3 Assurance and Control Assessment Audit Reports	967	2 118	(1 151)	–
Output 2.3.4 Protective Security Reports	42	193	(151)	210
Output 2.3.5 Other Attest Reports	322	1 429	(1 107)	665
Subtotal Output Group 3	22 557	26 251	(3 694)	32 173
<hr/>				
Subtotal Output Groups	31 177	33 784	(2 607)	33 594
Revenue from other sources	(819)	(2 214)	1 395	(938)
<hr/>				
TOTAL PRICE FOR OUTCOME 2	30 358	31 571	(1 212)	32 656
<hr/>				
Revenue from Government				
(Appropriation) for Outputs	(31 177)	(33 707)	(2 530)	(33 594)

* The 2002–03 budget figures have been prepared on the following basis: 100 per cent of Output Group 1 (Performance Audit Services) allocated to Outcome 1; Output Group 2 (Information Support Services) allocated equally between Outcomes 1 and 2; 100 per cent of Output Group 3 (Assurance Audit Services) allocated to Outcome 2.

Financial Statements for the Year Ended 30 June 2002



INDEPENDENT AUDITOR'S REPORT

The Australian National Audit Office

Madam President

Mr Speaker

Scope

I have audited the financial statements of the Australian National Audit Office for the year ended 30 June 2002 in accordance with section 57 of the *Financial Management and Accountability Act 1997* ("The Act").

The financial statements comprise:

- Statement by the Auditor-General;
- Statements of Financial Performance, Financial Position and Cash Flows;
- Schedules of Commitments and Contingencies; and
- Notes to and forming part of the Financial Statements.

The Auditor-General is responsible for the preparation and presentation of the financial statements and the information they contain. I have conducted an independent audit of the financial statements in order to express an opinion on them to you.

The audit has been conducted in accordance with the Australian National Audit Office Auditing Standards which incorporate the Australian Auditing Standards, to provide reasonable assurance as to whether the financial statements are free of material misstatement. Audit procedures included 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 Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with my understanding of the Australian National Audit Office's financial position, its financial performance and its cash flows.

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





Audit opinion

In my opinion the financial statements:

- (i) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*; and
- (ii) give a true and fair view, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Finance Minister's Orders, of the financial position of the Australian National Audit Office as at 30 June 2002, and its financial performance and cash flows for the year then ended.

A handwritten signature in black ink, appearing to read 'Michael J Coleman', written in a cursive style.

Michael J Coleman
Independent Auditor

Appointed under clause 1 of Schedule 2 of the *Auditor-General Act 1997*


Canberra
12 August 2002

Australian National Audit Office

Statement by the Auditor-General

In my opinion, the attached financial statements for the year ended 30 June 2002 give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*.

Signed

A handwritten signature in black ink, appearing to read 'PJ Barrett', written over a dotted line.

PJ Barrett
Auditor-General

12 August 2002

Australian National Audit Office

STATEMENT OF FINANCIAL PERFORMANCE for the year 30 June 2002

	Notes	2001–2002 \$'000	2000–2001 \$'000
Revenues from ordinary activities			
Revenues from government	4A	50 126	50 073
Sales of goods and services	4B	2 285	1 022
Interest	4C	676	762
Net gains from the sale of assets	4D	–	2
Total revenues from ordinary activities		53 087	51 859
Expenses from ordinary activities			
Employees	5A	21 234	19 665
Suppliers	5B	26 934	26 576
Depreciation and amortisation	5C	1 844	1 792
Net loss from the sale of assets	4D	8	–
Write-down of assets	5D	45	(29)
Other	6	216	129
Total expenses from ordinary activities		50 281	48 133
Net operating surplus (deficit) from ordinary activities		2 806	3 726
Net surplus (deficit)		2 806	3 726
Net surplus (deficit) attributable to the Commonwealth		2 806	3 726
Net credit (debit) to asset revaluation reserve	8A	–	424
Total revenues, expenses and valuation adjustments attributable to the Commonwealth and recognised directly in equity		–	424
Total changes in equity other than those resulting from transactions with owners as owners		2 806	4 150

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

Australian National Audit Office

STATEMENT OF FINANCIAL POSITION as at 30 June 2002

	Notes	2001–2002 \$'000	2000–2001 \$'000
ASSETS			
Financial assets			
Cash	7A	17 273	15 815
Receivables	7B	1 122	1 131
Other	7C	120	30
<i>Total financial assets</i>		<u>18 515</u>	<u>16 976</u>
Non-financial assets			
Infrastructure, plant and equipment	8A	3 279	3 732
Intangibles—computer software	8B	964	1 353
Prepayments	8D	522	643
<i>Total non-financial assets</i>		<u>4 765</u>	<u>5 728</u>
Total assets		<u>23 280</u>	<u>22 704</u>
LIABILITIES			
Interest bearing liabilities			
Other	9A	7 095	8 060
<i>Total interest bearing liabilities</i>		<u>7 095</u>	<u>8 060</u>
Provisions			
Capital usage charge	11A	707	443
Employees	10A	7 340	7 534
<i>Total provisions</i>		<u>8 047</u>	<u>7 977</u>
Payables			
Suppliers	11B	2 364	2 992
<i>Total payables</i>		<u>2 364</u>	<u>2 992</u>
Total liabilities		<u>17 506</u>	<u>19 029</u>
NET ASSETS		<u>5 774</u>	<u>3 675</u>
EQUITY			
Contributed equity		6 043	6 043
Reserves		579	579
Accumulated deficit		(848)	(2 947)
Total equity	12	<u>5 774</u>	<u>3 675</u>
Current assets		18 404	16 986
Non-current assets		4 876	5 718
Current liabilities		7 934	8 172
Non-current liabilities		9 572	10 857

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

Australian National Audit Office

STATEMENT OF CASH FLOWS for the year ended 30 June 2002

	Notes	2001–2002 \$'000	2000–2001 \$'000
OPERATING ACTIVITIES			
Cash received			
Appropriations		50 126	50 073
Sales of goods and services		2 161	914
Interest		676	972
GST returned from the ATO		1 262	1 727
Other		–	205
Total cash received		<u>54 225</u>	<u>53 891</u>
Cash used			
Employees		21 452	18 905
Suppliers		29 817	29 824
Total cash used		<u>51 269</u>	<u>48 729</u>
Net cash from operating activities	13	<u>2 956</u>	<u>5 162</u>
INVESTING ACTIVITIES			
Cash received			
Proceeds from sales of infrastructure, plant and equipment		8	8
Total cash received		<u>8</u>	<u>8</u>
Cash used			
Purchase of infrastructure, plant and equipment		873	433
Purchase of computer software		190	232
Total cash used		<u>1 063</u>	<u>665</u>
Net cash from (used by) investing activities		<u>(1 055)</u>	<u>(657)</u>
FINANCING ACTIVITIES			
Cash received			
Appropriations—contributed equity		–	–
Total cash received		<u>–</u>	<u>–</u>
Cash used			
Capital usage charge paid		443	–
Total cash used		<u>443</u>	<u>–</u>
Net cash from (used by) financing activities		<u>(443)</u>	<u>–</u>
Net increase in cash held		1 458	4 505
Cash at the beginning of the reporting period		<u>15 815</u>	<u>11 310</u>
Cash at the end of the reporting period	13	<u>17 273</u>	<u>15 815</u>

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

Australian National Audit Office

SCHEDULE OF COMMITMENTS as at 30 June 2002

	2001–2002 \$'000	2000–2001 \$'000
BY TYPE		
OTHER COMMITMENTS		
Operating leases ¹	45 716	50 512
Other commitments ²	19 737	24 142
Total other commitments	65 453	74 654
Commitments Receivable (GST)	(5 644)	(5 692)
Net commitments	60 097	68 962
BY MATURITY		
All net commitments		
One year or less	16 575	18 077
From one to five years	33 582	33 575
Over five years	9 940	17 310
Net commitments	60 097	68 962
Operating Lease Commitments		
One year or less	5 526	5 762
From one to five years	29 256	25 709
Over five years	10 934	19 041
Net commitments	45 716	50 512

NB: Commitments are GST inclusive where relevant. The ANAO will claim the GST paid as an input tax credit in relevant future periods.

- Operating leases included for 2001–2002 are effectively non-cancellable and comprise:
 - leases for office accommodation, in ACT with the terms of the lease arrangement being 15 years expiring 22 September 2008, with an option to extend for 5 years, and an escalation clause of 9% each and every year on rental amount, and NSW with terms of the lease arrangement being 5 years, expiring 30 June 2007, with no option for renewal and no increase on rental for the next 12 months; and
 - agreements for the provision of motor vehicles to senior executive officers, which have an average lease term of between 18 and 36 months, and floating interest rate.
 - future minimum lease payments receivable for non-cancellable sub-leases expected to be received for ACT until the expiration date of sub-lease for ACT (October 2002) amounts to approximately \$0.139m.
- Other commitments comprise contract audit services \$18.044 million (00–01: \$22.330 million), information technology contracts \$1.313 million (00–01: \$1.353 million) and other corporate contracts totalling \$0.380 million (00–01: \$0.459 million).

SCHEDULE OF CONTINGENCIES as at 30 June 2002**CONTINGENCIES**

The ANAO is not aware of any contingent departmental liabilities or assets as at signing date which would require disclosure in the Financial Statements.

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

Australian National Audit Office**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**for the year ended 30 June 2002

Note	Description
1	Objectives of Australian National Audit Office
2	Summary of Significant Accounting Policies
3	Events Occurring after Balance Date
4	Operating Revenues
5	Operating Expenses
6	Other Expenses
7	Financial Assets
8	Non-Financial Assets
9	Interest Bearing Liabilities
10	Provisions
11	Payables
12	Equity
13	Cash Flow Reconciliation
14	Executive Remuneration
15	Remuneration of Auditors
16	Average Staffing Level
17	Act of Grace Payments, Waivers and Defective Administration Scheme
18	Financial Instruments
19	Administered Items
20	Appropriations
21	Trust Moneys
22	Reporting of Outcomes

Australian National Audit Office

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2002

Note 1—Objectives of Australian National Audit Office

The Australian National Audit Office (ANAO) assists the Auditor-General to carry out his duties and responsibilities under the *Auditor-General Act 1997* and other relevant legislation.

The ANAO has two outcomes which are directly related to the role of the Auditor-General.

Outcome 1: Improvement in Public Administration—*independent assessment of the performance of selected Commonwealth public sector activities including the scope for improving efficiency and administrative effectiveness.*

Outcome 2: Assurance—*independent assurance of Commonwealth public sector financial reporting, administration, control and accountability.*

Through the conduct of financial statement audits, assurance control and assessment audits, protective security audits and other services associated with the conduct of financial statement audits, the ANAO contributes to providing assurance to individual entities, Ministers and the Parliament about the financial administration and accountability of public sector entities.

Through the conduct of performance audits, financial control and administration audits, benchmarking services, the identification and dissemination of better practice guides, the provision of direct and indirect assistance to the Parliament and the Auditor-General's contribution to the Australian and international auditing and accountability framework, the ANAO makes a contribution to improving the efficiency and administrative effectiveness of the Australian Commonwealth public sector.

Agency assets, liabilities, revenues, and expenses are those items that are controlled by the ANAO. They are used by the ANAO in producing its outputs including:

- computers, plant, equipment and software used in providing goods and services;
- liabilities for employee entitlements;
- revenues from appropriations or independent sources in the payment of outputs; and
- employee, supplier and depreciation expenses incurred in producing ANAO outputs.

Administered items are those items which are controlled by the Government and managed or oversighted by the ANAO on behalf of the Government. These items include audit fees.

The purposes of the separation of agency and administered items is to enable an assessment of the administrative efficiency of the ANAO in providing goods and services. The basis of accounting described in Note 2.1 applies to both agency and administered items. Administered items are disclosed by way of note.

Australian National Audit Office**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**for the year ended 30 June 2002

Note 2—Summary of Significant Accounting Policies**2.1 Basis of Accounting**

The financial statements are required by section 49 of the *Financial Management and Accountability Act 1997* and are a general purpose financial report.

The statements have been prepared in accordance with:

- The Finance Minister’s Orders (being the *Financial Management and Accountability (Financial Statement 2001–2002) Orders*);
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board;
- other authoritative pronouncements of the Board; and
- Consensus Views of the Urgent Issues Group.

The statements have also been prepared having regard to:

- the Explanatory Notes to Schedule 1, and
- Finance Briefs issued by the Department of Finance and Administration.

The ANAO’s Statements of Financial Performance and Financial Position have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain assets which, as noted, are at current valuation or depreciated replacement cost. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

Assets and liabilities are recognised in the ANAO’s Statement of Financial Position when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. Assets and liabilities arising under agreements equally proportionately unperformed are, however, not recognised unless required by an Accounting Standard. Liabilities and assets which are unrecognised are reported in the Schedule of Commitments and the Schedule of Contingencies.

Revenues and expenses are recognised in the ANAO’s Statement of Financial Performance when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

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

Administered revenues, expenses, assets and liabilities, and cash flows are accounted for on the same basis and using the same policies as for Agency items, except where otherwise stated at Note 2.20 and are reported at Note 19.

Australian National Audit Office

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2002

2.2 Changes in Accounting Policy

The accounting policies used in the preparation of these financial statements are consistent with those used in 2000–2001, except in respect of:

- presentation and disclosure of administered items (refer note 2.20).

2.3 Reporting of Outcomes

A comparison of Budget and Actual figures by outcome specified in the Appropriation Acts relevant to the ANAO is presented in Note 22. The net cost to Budget outcomes shown includes intra-government costs that are eliminated in calculating the actual budget outcome for the Government overall.

2.4 Revenues

Revenues from Government are revenues relating to the core operating activities of the ANAO.

Policies for accounting for revenue from government are detailed below; amounts and other details are given in Note 4.

Revenues from Government—Agency Appropriations

The full amount of the appropriation for departmental outputs for the year (less any savings offered up at Additional Estimates and not subsequently released) is recognised as revenue.

Other Revenue

Revenue from the sale of goods and services is recognised upon the delivery of audit and related services.

Revenue is recognised by reference to the stage of completion. The stage of completion is determined according to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Interest revenue is recognised on a proportional basis taking into account interest rates applicable to the financial assets.

Revenue from the disposal of non-current assets is recognised when control of the asset has passed to the buyer.

All revenues described in this note are revenues relating to the audit and related operating activities of the ANAO, whether in its own right or on behalf of the Commonwealth, except for revenues received from the sublease of surplus space, gains from the sale of ANAO assets and interest income. Revenue amounts are disclosed in Note 4.

Australian National Audit Office**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**for the year ended 30 June 2002

2.5 Employee Entitlements*Leave*

The liability for employee entitlements includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of 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 2002 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 2002. In determining the present value of the liability, the ANAO has taken into account attrition rates and salary increases through promotion and inflation.

The rates of remuneration, on which leave calculations are based, are used to take into account amounts payable by the ANAO for employer superannuation contributions on these employee leave entitlements.

Superannuation

Staff of the ANAO contribute to the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. Employer contributions amounting to \$2.307 million in 2001–02 (\$2.013 million in 2000–01) in relation to these schemes have been expensed in these financial statements.

No liability for superannuation contributions is recognised as at 30 June 2002 as the employer contributions fully extinguish the accruing liability, which is assumed by the Commonwealth.

Employer Superannuation Productivity Benefit contributions totalled \$0.410 million (00–01: \$0.368 million).

2.6 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 did not have any finance leases as at 30 June 2002.

Operating lease payments are expensed on a basis which is representative of the pattern of benefits derived from the leased assets. The net present value of future net outlays in respect of surplus space under non-cancellable lease agreements is expensed in the period in which the space becomes surplus.

Australian National Audit Office**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

for the year ended 30 June 2002

2.6 Leases (cont'd)

Lease incentives taking the form of 'free' leasehold improvements and rent holidays are recognised as liabilities. These liabilities are reduced by allocating lease payments between rental expense and reduction of the liability.

2.7 Cash

Cash includes notes and coins held and any deposits held with a bank or financial institution.

2.8 Financial Instruments

Accounting policies for financial instruments are stated at note 18.

2.9 Acquisition of Assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition.

2.10 Infrastructure, Plant and Equipment*Asset Recognition Threshold*

Purchases of infrastructure, plant and equipment are recognised initially at cost in the Statement of Financial Position, except for purchases costing less than \$2,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

Revaluations

The ANAO revalued its leasehold improvements, computer equipment, office equipment and furniture and fittings at 31 May 2001 in accordance with the policy of revaluing all assets within each of these classes at least once every three years.

Assets in each class acquired after the commencement of a revaluation cycle were not captured by the revaluation and have been recorded at cost.

In accordance with the deprival method, the ANAO records revalued assets at their depreciated replacement cost if there is no recognised market. Where there is an identifiable recognised market the assets are revalued at their current market buying price. Any assets which would not be replaced or are surplus to requirements are valued at current market selling price. At 30 June 2002, the ANAO had no assets in the category of surplus to requirements.

All valuations are independent.

Australian National Audit Office**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

for the year ended 30 June 2002

2.10 Infrastructure, Plant and Equipment (cont'd)*Recoverable Amount Test*

Schedule 1 requires the application of the recoverable amount test to departmental non-current assets in accordance with AAS 10 *Recoverable Amount of Non-Current Assets*. The carrying amounts of these non-current assets have been reviewed to determine whether they are in excess of their recoverable amounts. In assessing recoverable amounts, the relevant cash flows have been discounted to their present value.

Depreciation and Amortisation

Depreciable infrastructure, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to the ANAO using, in all cases, the straight line method of depreciation. 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.

Depreciation/amortisation rates (useful lives) and methods are reviewed at each balance date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate. Residual values are re-estimated for a change in prices only when assets are revalued.

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

	2001–2002	2000–2001
Computer equipment	3 years	3 years
Leasehold improvements	Lease term	Lease term
Office equipment	3–15 years	3–15 years
Furniture & fittings	12–20 years	12–20 years

The ANAO's intangibles comprise off the shelf and internally developed software. The assets are carried at cost and amortised on a straight-line basis over their anticipated useful lives as follows:

Internally Developed Software	3 years	3 years
Financial & Human Resources Systems	5 years	5 years

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 5C.

2.11 Inventories

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

Australian National Audit Office**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

for the year ended 30 June 2002

2.12 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 amount expected to be recovered.

2.13 Bad and Doubtful Debts

A provision is raised for any doubtful debt 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.

2.14 Taxation

The ANAO is exempt from all forms of taxation, except fringe benefits tax and the goods and services tax.

2.15 Foreign Currency

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the 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.

2.16 Insurance

The ANAO has insured for risks through the Commonwealth's insurable risk managed fund, called 'Comcover'. Worker's compensation is insured through Comcare Australia.

2.17 Capital Usage Charge

A capital usage charge (CUC) of 11% (2000–01: 12%) is imposed by the Government on the net departmental assets of the ANAO. The charge is adjusted to take account of asset gifts and revaluation increments during the financial year.

2.18 Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required.

2.19 Rounding

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

- act of grace payments and waivers;
- remuneration of executives;
- remuneration of auditors; and
- appropriation note disclosures.

Australian National Audit Office**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**for the year ended 30 June 2002

2.20 Reporting of Administered Activities

Administered revenues, expenses, assets, liabilities and cash flows are presented in the Notes to these financial statements. In 2000–01, summary information was presented in Schedules following the primary Agency statements. Either presentation is permitted by AAS 29 *Financial Reporting by Government Departments*.

Accounting policies for administered items are as stated in Note 2.1 above.

These financial statements do not report the receipt of administered appropriations from the Official Public Account (OPA) as administered revenues, nor are transfers of administered receipts to the OPA reported as administered expenses. This change in 2001–02 acknowledges that the administered activities of agencies are performed on behalf of the Commonwealth Government and it is not appropriate to identify resources transferred between administered activities of different agencies as revenues and expenses of the Administered entity. Generally, therefore, the notes to these financial statements do not report any transactions or balances that are internal to the Administered entity. One exception is the disclosure of administered cash flows, since cash transferred between the OPA and ANAO's administered bank account is necessary for the completeness of the cash flow disclosures.

Accounting policies, which are relevant to administered activities only of ANAO, are disclosed below.

Revenue

All administered revenues are revenues relating to the core operating activities performed by the ANAO on behalf of the Commonwealth.

Fees are charged for services rendered and expenses incurred in relation to the conduct of certain audits of Commonwealth authorities and companies.

Note 3—Events Occurring after Balance Date

There have been no events occurring after balance date which should be brought to account or noted in the 2001–2002 financial statements.

Australian National Audit Office

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2002

	2001–2002 \$'000	2000–2001 \$'000
Note 4—Operating Revenues		
Note 4A—Revenues from Government		
Appropriations for outputs	<u>50 126</u>	<u>50 073</u>
Note 4B—Sales of Goods and Services		
Audit related services	998	51
Rental income	1 277	958
Other	<u>10</u>	<u>13</u>
	<u>2 285</u>	<u>1 022</u>
Goods and Services were sold as follows:		
Government	1 974	724
Non-Government	<u>311</u>	<u>298</u>
Total	<u>2 285</u>	<u>1 022</u>
Note 4C—Interest		
Interest on term deposits	<u>676</u>	<u>762</u>
Note 4D—Net Gains from Sales of Assets		
Infrastructure, plant and equipment:		
Proceeds from sale	8	8
Net book value at sale	<u>(16)</u>	<u>(6)</u>
Net Gain/(Loss)	<u>(8)</u>	<u>2</u>
Note 5—Operating Expenses		
Note 5A—Employee Expenses		
Remuneration (for services provided)	20 858	19 468
Separation and redundancy	<u>274</u>	<u>89</u>
Total remuneration	<u>21 132</u>	<u>19 557</u>
Other employee expenses	<u>102</u>	<u>108</u>
Total	<u>21 234</u>	<u>19 665</u>

Australian National Audit Office**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

for the year ended 30 June 2002

	2001–2002	2000–2001
	\$'000	\$'000
Note 5—Operating Expenses (cont'd)		
Note 5B—Supplier Expense		
Supply of goods and services	21 342	21 371
Operating lease rentals ¹	5 592	5 205
Total	<u>26 934</u>	<u>26 576</u>
1 These comprise minimum lease payments only.		
Note 5C—Depreciation and Amortisation		
The aggregate amounts of depreciation or amortisation expensed during the reporting period for each class of depreciable asset are as follows:		
Depreciation—infrastructure, plant and equipment	1 048	1 097
Amortisation—computer software	559	459
Amortisation—leasehold improvements	237	236
	<u>1 844</u>	<u>1 792</u>
No depreciation or amortisation was allocated to the carrying amounts of other assets.		
Note 5D—Write Down of Assets		
Non-financial assets		
Infrastructure, plant and equipment—write-off	45	18
Adjustments for assets previously written off	-	(47)
	<u>45</u>	<u>(29)</u>
Note 6—Other Expenses		
Surplus space liability interest	<u>216</u>	<u>129</u>

Australian National Audit Office

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2002

	2001–2002	2000–2001
Notes	\$'000	\$'000
Note 7—Financial Assets		
Note 7A—Cash		
Cash on hand	1	1
Cash at bank	17 272	15 709
Cash on deposit	–	105
13	<u>17 273</u>	<u>15 815</u>
All cash recognised is a current asset.		
Note 7B—Receivables		
Goods and services	156	14
Less: Provision for doubtful debts	–	(1)
	<u>156</u>	<u>13</u>
GST receivable	865	1 030
Interest receivable	9	4
Other	92	84
	<u>1 122</u>	<u>1 131</u>
Current	489	498
Non Current	633	633
	<u>1 122</u>	<u>1 131</u>
Goods and services receivables are aged as follows:		
Not Overdue		
• Less than 30 days	62	11
Overdue by:		
• 30 to 60 days	82	–
• 60 to 90 days	1	2
• More than 90 days	11	–
	<u>156</u>	<u>13</u>
Note 7C—Other		
Work in progress—audit related services	120	30

All work in progress recognised is a current asset.

Australian National Audit Office

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2002

	2001–2002 \$'000	2000–2001 \$'000
Note 8—Non-Financial Assets		
8A—Infrastructure, Plant and Equipment		
Leasehold improvements—at cost	134	–
Accumulated amortisation	(10)	–
	<u>124</u>	<u>–</u>
Leasehold improvements—at valuation 2001	1 681	1 682
Accumulated amortisation	(246)	(19)
	<u>1 435</u>	<u>1 663</u>
Plant and equipment—at cost	1 444	733
Accumulated depreciation	(337)	(7)
	<u>1 107</u>	<u>726</u>
Plant and equipment—at valuation 2001	1 378	1 406
Accumulated depreciation	(765)	(63)
	<u>613</u>	<u>1 343</u>
Total Infrastructure, Plant & Equipment	<u>3 279</u>	<u>3 732</u>
The revaluations were in accordance with the revaluation policy at Note 2.10 and were completed by an independent valuer, the Australian Valuation Office on 31 May 2001. Assets acquired after this date are shown at cost. Revaluation increments were made to the asset revaluation as follows:		
Leasehold improvements	–	132
Plant and equipment	–	292
	<u>–</u>	<u>424</u>
8B—Intangibles—Computer Software		
Computer software—at cost	2 299	2 145
Accumulated amortisation	(1 335)	(792)
Total Intangibles	<u>964</u>	<u>1 353</u>

Australian National Audit Office

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2002

Note 8—Non-Financial Assets (cont'd)**8C—Infrastructure, Plant and Equipment, and Intangibles****TABLE A—Reconciliation of the opening and closing balances of property, plant and equipment and intangibles**

Item	Leasehold Improvements	Plant & Equipment	Computer software— Intangibles	TOTAL
	\$'000	\$'000	\$'000	\$'000
Gross value as at 1 July 2001	1 682	2 139	2 145	5 966
Additions: Purchases of Assets	133	740	190	1 063
Write-offs	–	(38)	(36)	(74)
Disposals	–	(19)	–	(19)
Gross value as at 30 June 2002	1 815	2 822	2 299	6 936
Accumulated depreciation / amortisation as at 1 July 2001	(19)	(70)	(792)	(881)
Depreciation / amortisation charge for the year	(237)	(1 048)	(559)	(1 844)
Write-offs	–	13	16	29
Disposals	–	3	–	3
Accumulated depreciation / amortisation as at 30 June 2002	(256)	(1 102)	(1 335)	(2 693)
Net book value as at 30 June 2002	1 559	1 720	964	4 243
Net book value as at 1 July 2001	1 663	2 069	1 353	5 085

Australian National Audit Office

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2002

Note 8—Non-Financial Assets (cont'd)

TABLE B—Assets at valuation

Item	Leasehold Improvements	Plant & Equipment	Computer software— Intangibles	TOTAL
As at 30 June 2002	\$'000	\$'000	\$'000	\$'000
Gross value	1 681	1 378	—	3 059
Accumulated depreciation / amortisation	(246)	(765)	—	(1 011)
Net book value	1 435	613	—	2 048
As at 30 June 2001				
Gross value	1 682	1 406	—	3 088
Accumulated depreciation / amortisation	(19)	(63)	—	(82)
Net book value	1 663	1 343	—	3 006

Australian National Audit Office

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2002

	Notes	2001–2002 \$'000	2000–2001 \$'000
Note 8—Non-Financial Assets (cont'd)			
Note 8D—Prepayments			
Goods and Services		<u>522</u>	<u>643</u>
All prepayments are recognised as current assets.			
Note 9—Interest Bearing Liabilities			
9A—Other			
Lease incentives		–	31
Surplus lease space		<u>7 095</u>	<u>8 029</u>
		<u>7 095</u>	<u>8 060</u>
Current		837	821
Non Current		<u>6 258</u>	<u>7 239</u>
		<u>7 095</u>	<u>8 060</u>
Note 10—Provisions			
Note 10A—Employees			
Salaries and wages		423	620
Annual leave		2 217	2 325
Long service leave		4 137	3 974
Superannuation		519	514
Comcare Trust account	21	44	101
		<u>7 340</u>	<u>7 534</u>
Current		4 026	3 916
Non Current		<u>3 314</u>	<u>3 618</u>
		<u>7 340</u>	<u>7 534</u>
Note 11—Payables			
Note 11A—Capital Usage Charge			
Capital Usage Charge		<u>707</u>	443
Capital usage charge payable is a current liability.			
Note 11B—Supplier Payables			
Trade creditors		1 069	2 314
Other		<u>1 295</u>	678
		<u>2 364</u>	<u>2 992</u>

All Supplier payables recognised are current liabilities.

Australian National Audit Office

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2002

Note 12—Equity

Note 12A—Analysis of Equity

Item	Capital		Accumulated results		Asset Revaluation Reserve		TOTAL EQUITY	
	2001–2002 \$'000	2000–2001 \$'000	2001–2002 \$'000	2000–2001 \$'000	2001–2002 \$'000	2000–2001 \$'000	2001–2002 \$'000	2000–2001 \$'000
Opening Balance as at 1 July	6 043	6 043	(2 947)	(6 230)	579	155	3 675	(32)
Net surplus/(deficit) after extraordinary items	–	–	2 806	3 726	–	–	2 806	3 726
Capital Usage Charge	–	–	(707)	(443)	–	–	(707)	(443)
Net revaluation increment / decrement	–	–	–	–	–	424	–	424
Closing Balance as at 30 June	6 043	6 043	(848)	(2 947)	579	579	5 774	3 675
Less: outside equity interests	–	–	–	–	–	–	–	–
Total equity attributable to the Commonwealth	6 043	6 043	(848)	(2 947)	579	579	5 774	3 675

Transactional banking arrangements introduced from 1 July 1999 enabled agencies to manage their surplus cash balances and earn interest on them. Reviews are being conducted by the Department of Finance and Administration with each agency to determine whether interest earned to 30 June 2002 was consistent with the Government's Budget-neutrality condition for the arrangements. The review in this Agency indicated excess interest amounting to \$1.129 million. However, as at the date of signing these financial statements, no decision had been made by the Government on the amount, if any, to be returned as contributed equity by the ANAO.

Australian National Audit Office

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2002

	2001–2002	2000–2001
	\$'000	\$'000
Note 13—Cash Flow Reconciliation		
Reconciliation of cash per Statement of Financial Position to Statement of Cash Flows		
Cash at year end per Statement of Cash Flows	17 273	15 815
Statement of Financial Position items comprising above cash: 'Financial Asset—Cash'	17 273	15 815
Reconciliation of net surplus to net cash from operating activities:		
Net surplus (deficit)	2 806	3 726
Amortisation—computer software	559	459
Depreciation / amortisation	1 285	1 333
(Profit)/loss on sale of non-current assets	8	(2)
Write down of assets	45	(29)
(Increase) / decrease in receivables	9	(11)
(Increase) / decrease in other non-financial assets	121	(136)
(Increase) / decrease in other financial assets	(90)	(30)
Increase / (decrease) in employee provisions	(194)	619
Increase / (decrease) in supplier payables	(628)	(87)
(Increase) / decrease in other liabilities	(965)	(680)
Net cash from operating activities	<u>2 956</u>	<u>5 162</u>

Australian National Audit Office

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2002

Note 14—Executive Remuneration

The number of executives who received or were due to receive total remuneration of \$100 000 or more:

	2001–2002	2000–2001
	Number	Number
\$100 000 to \$110 000	–	1
\$110 001 to \$120 000	–	2
\$120 001 to \$130 000	1	–
\$130 001 to \$140 000	4	3
\$140 001 to \$150 000	7	6
\$150 001 to \$160 000	1	2
\$160 001 to \$170 000	3	1
\$170 001 to \$180 000	1	1
\$190 001 to \$200 000	2	2
\$260 001 to \$270 000	–	1
\$280 001 to \$290 000	1	–
\$330 001 to \$340 000	–	1
\$360 001 to \$370 000	1	–
	<u>21</u>	<u>20</u>

Remuneration includes salaries, accrued annual and long service leave, performance pay, accrued superannuation, the cost of motor vehicles, fringe benefits tax and separation and redundancy payments.

	2001–2002	2000–2001
	\$	\$
The aggregate amount of total remuneration of executives shown above.	<u>3,526,016</u>	<u>3,262,732</u>

The 2000–2001 comparative figures have been adjusted to vary one Executive's remuneration from band \$320 000 to \$330 000 to band \$330 000 to \$340 000 to reflect accurately the remuneration due and payable.

The aggregate amount of separation and redundancy payments during the year to executives shown above.

	<u>80,728</u>	<u>–</u>
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Australian National Audit Office

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2002

	2001–2002	2000–2001
	\$	\$
Note 15—Remuneration of Auditors		
Amounts received, or due and receivable by the Independent Auditor for:		
• Financial Statement Audit	55,998	56,443
• Performance Audit	40,164	41,118
	<u>96,162</u>	<u>97,561</u>

Mr Michael J Coleman, a partner from the firm of KPMG, was appointed as Independent Auditor on 22 March 1999 and reappointed in May 2002 for a further three year period until 30 November 2005. Mr Coleman's appointment is a personal one and he performed no other services for the ANAO.

Note 16—Average Staffing Level

The average staffing level for the ANAO in 2001–2002 was 284 (2000–2001: 270).

Note 17—Act of Grace Payments, Waivers and Defective Administration Scheme

No Act of Grace payments were made during the reporting period. No waivers of amounts owing to the Commonwealth were made pursuant to subsection 34(1) of the *Financial Management and Accountability Act 1997*.

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2002

Note 18—Financial Instruments

a) Terms, Conditions and Accounting Policies

Financial Instrument	Notes	Accounting Policies and Methods (including recognition criteria and measurement basis)	Nature of Underlying Instrument (including significant terms & conditions affecting the amount, timing and certainty of cash flows)
<i>Financial Assets</i>		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Cash at bank	7A	Deposits are recognised at their nominal amounts. Interest is credited to revenue as it accrues.	The ANAO invests funds with the Reserve Bank of Australia. The ANAO's operational bank accounts are held with Westpac Banking Corporation. Monies in the ANAO's bank accounts are swept into the Official Public Account nightly and interest is earned on the daily balance at rates based on money market call rates. Rates have averaged 5% for the year (2000–2001: 4%). Interest is paid on maturity of investments and quarterly on operational accounts.

Note 18—Financial Instruments (cont'd)

a) Terms, Conditions and Accounting Policies (cont'd)

Financial Instrument	Notes	Accounting Policies and Methods (including recognition criteria and measurement basis)	Nature of Underlying Instrument (including significant terms & conditions affecting the amount, timing and certainty of cash flows)
Receivables	7B	Audit fee receivables accrue and are recognised at the time the service is performed. Other receivables are recognised at the nominal amounts due, less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less, rather than more, likely.	The majority of receivables are with Commonwealth entities. Credit terms are net 30 days (2000–2001: 30 days).
Work in progress	7C	Work in progress for audit assignments, for which fees are payable, accrues at a rate calculated to recover costs incurred.	As for receivables.
Financial liabilities			
Trade creditors	11B	Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured. Creditors and accruals are recognised at their nominal amounts being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).	Settlement is usually made net 30 days.

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2002

Note 18—Financial Instruments (cont'd)

(b) Interest Rate Risk

Financial Instrument	Notes	Floating Interest Rate 01-02 00-01 \$'000 \$'000	Fixed Interest Rate Maturing In				Non-Interest Bearing 01-02 00-01 \$'000 \$'000	Total 01-02 00-01 \$'000 \$'000	Weighted Average Effective Interest Rate 01-02 00-01 % %
			1 Year or Less 01-02 00-01 \$'000 \$'000	1 to 2 Years 01-02 00-01 \$'000 \$'000	2 to 5 Years 01-02 00-01 \$'000 \$'000	> 5 Years 01-02 00-01 \$'000 \$'000			
Financial Assets									
Cash at bank	7A	17 272 15 709	-	-	-	-	1 17 273 15 815	4.5 4.8	
Receivables	7B	-	-	-	-	1 122 1 131	1 122 1 131	- -	
Work in progress	7C	-	-	-	-	120 30	120 30	- -	
Total		17 272 15 709	- 105 - -	- - - -	- - - -	1 243 1 162	18 515 16 976	4.5 4.8	
Total Assets							23 280 22 704		
Financial Liabilities									
Supplier payables	11B	-	-	-	-	2 364 2 992	2 364 2 992	- -	
Total		- -	- - - -	- - - -	- - - -	2 364 2 992	2 364 2 992	- -	
Total Liabilities							17 560 19 029		

Australian National Audit Office

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2002

Note 18—Financial Instruments (cont'd)

(c) Net Fair Values of Agency Financial Assets and Liabilities

	Notes	2001–2002		2000–2001	
		Total carrying amount	Aggregate net fair value	Total carrying amount	Aggregate net fair value
		\$'000	\$'000	\$'000	\$'000
Departmental Financial Assets					
Cash at bank	7A	17 273	17 273	15 815	15 815
Receivables	7B	1 122	1 122	1 131	1 131
Work in progress	7C	120	120	30	30
Total Financial Assets		18 515	18 515	16 976	16 976
Financial Liabilities					
Supplier payables	11B	2 364	2 364	2 992	2 992
Total Financial Liabilities		2 364	2 364	2 992	2 992

Financial assets

The net fair values of cash and non-interest-bearing monetary financial assets approximate their carrying amounts.

Financial liabilities

The net fair values for trade creditors are short-term in nature are approximated by their carrying amounts.

(d) Credit Risk Exposures

The ANAO's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

The ANAO has no significant exposures to any concentrations of credit risk.

Australian National Audit Office

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2002

Note 19—Administered Items

Note 19A—Revenues Administered on Behalf of Government

for the year ended 30 June 2002

	2001–2002	2000–2001
	\$'000	\$'000
Revenues		
Non-taxation		
Sales of goods and services (audit fees)	10 338	10 454
Total	<u>10 338</u>	<u>10 454</u>
Total Revenues Administered on Behalf of Government	<u>10 338</u>	<u>10 454</u>

Note 19B—Assets Administered on Behalf of Government

as at 30 June 2002

Financial Assets

Cash	95	–
Receivables—Financial Statement audit	1 459	2 842
Work in progress	814	359
Total	<u>2 368</u>	<u>3 201</u>
Total Assets Administered of Behalf of Government	<u>2 368</u>	<u>3 201</u>

Receivables (gross) are aged as follows:

Not overdue		
• Less than 30 days	871	2 484
Overdue by:		
• 30 to 60 days	588	219
• 60 to 90 days	–	139
• More than 90 days	–	–
Total receivables (gross)	<u>1 459</u>	<u>2 842</u>

Note 19C—Liabilities Administered on Behalf of Government

as at 30 June 2002

Payables

GST Payable	165	259
Other	95	–
Total	<u>260</u>	<u>259</u>
Total Liabilities Administered of Behalf of Government	<u>260</u>	<u>259</u>

All liabilities are expected to be settled within 12 months of balance date.

Australian National Audit Office

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2002

Note 19D—Administered Cash Flows

for the year ended 30 June 2002

	2001–2002 \$'000	2000–2001 \$'000
OPERATING ACTIVITIES		
Cash received		
Sale of goods and services (audit fees)	11 267	11 697
Total cash received	11 267	11 697
Cash used		
GST paid	93	772
Net Cash to Official Public Account	11 079	10 925
Total cash used	11 172	11 697
Net cash from operating activities	95	–
Net increase (decrease) in cash held	95	–
Cash at the beginning of the reporting period	–	–
Cash at the end of the reporting period	95	–

Note 19E—Administered Commitments

as at 30 June 2002

Net Commitments	–	–
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Note 19F—Administered Contingencies

as at 30 June 2002

The ANAO is not aware of any contingent administered liabilities or assets as at signing date, which would require disclosure in the Financial Statements.

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2002

Note 19G—Administered Financial Instruments

a) Terms, Conditions and Accounting Policies

Financial Instrument	Accounting Policies and Methods (including recognition criteria and measurement basis)	Nature of Underlying Instrument (including significant terms & conditions affecting the amount, timing and certainty of cash flows)
<i>Financial Assets</i>	Refer Note 18—Financial Instruments	Refer Note 18—Financial Instruments
<i>Financial Liabilities</i>	Refer Note 18—Financial Instruments	Refer Note 18—Financial Instruments

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2002

Note 19G—Administered Financial Instruments (cont'd)

b) Interest Rate Risk

Financial Instrument	Notes	Floating Interest Rate	Fixed Interest Rate Maturing In				Non-Interest Bearing	Total	Weighted Average Effective Interest Rate
			1 Year or Less	2 to 5 Years	2 to 5 Years	> 5 Years			
		01-02 00-01 \$'000	01-02 00-01 \$'000	01-02 00-01 \$'000	01-02 00-01 \$'000	01-02 00-01 \$'000	01-02 00-01 \$'000	01-02 00-01 %	
Financial Assets									
Cash	19B	-	-	-	-	95	95	-	
Receivables	19B	-	-	-	-	1 459	1 459	-	
Work in progress	19B	-	-	-	-	814	814	-	
Total		-	-	-	-	2 368	2 368	-	
Total Assets							2 368	3 201	
Financial Liabilities									
GST payable	19C	-	-	-	-	165	165	-	
Other	19C	-	-	-	-	95	95	-	
Total		-	-	-	-	260	260	-	
Total Liabilities							260	259	

Australian National Audit Office

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2002

Note 19H—Administered Financial Instruments (cont.)

(c) Net Fair Values of Financial Assets and Liabilities

	Notes	2001–2002		2000–2001	
		Total carrying amount \$'000	Aggregate net fair value \$'000	Total carrying amount \$'000	Aggregate net fair value \$'000
Administered Financial Assets					
Cash	19B	95	95	–	–
Receivables	19B	1 459	1 459	2 842	2 842
Work in progress	19B	814	814	359	359
Total Financial Assets		2 368	2 368	3 201	3 201
Administered Financial Liabilities (Recognised)					
GST payable	19C	165	165	259	259
Other	19C	95	95	–	–
Total Financial Liabilities (Recognised)		260	260	259	259

Note 20—Appropriations

Note 20A—Appropriation Acts (No. 1/3) 2001–2002

Particulars Year ended 30 June 2002	Departmental Outputs \$
Balance carried from previous year	15 815 040
Appropriation for reporting period (Act 1)—Basic	49 799 000
Appropriation for reporting period (Act 1)—Special	327 000
GST credits (FMA s 30A)	1 261 729
Annotations to 'net appropriations' (FMA s 31)	2 837 669
Available for payments	70 040 438
Payments made	(52 767 644)
Balance carried to next year	17 272 794
Year ended 30 June 2001	
Available for payments 2001	63 048 347
Payments made 2001	(47 233 307)
Balance carried forward to 1 July 2001	15 815 040

FMA = Financial Management and Accountability Act 1997

Act 1 = Appropriations Act (No.1) 2001–2002

Act 3 = Appropriations Act (No.3) 2001–2002

There were no savings offered up during the year and there have been no savings offered up in previous years that are still ongoing.

Prior year 'available' figures have been adjusted where the final determinations of amounts lapsed differed to that reported in 2000–01.

Australian National Audit Office

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2002

Note 21—Trust Moneys

Comcare Trust Account

Purpose—monies held in trust and advanced to ANAO by COMCARE for the purpose of distributing compensation payments made in accordance with the *Safety Rehabilitation and Compensation Act 1998*.

	Trust Money	
	Comcare Trust Account	
	2001–2002	2000–2001
	\$'000	\$'000
Balance carried forward from previous period	101	105
Receipts during the year	44	95
Available for payments	145	200
Payments made	(101)	(99)
Balance carried forward to next year	44	101
Trust Account Balance as at 1 July	101	105
Balance required by ANAO	(57)	(4)
Trust Account Balance as at 30 June	44	101

Salary Packaging Trust Account

Purpose—monies held in trust for employees of the ANAO for the purpose of Salary Packaging.

	Trust Money	
	Salary Packaging	
	Trust Account	
	2001–2002	2000–2001
	\$'000	\$'000
Balance carried forward from previous period	47	29
Receipts during the year	466	333
Available for payments	513	362
Payments made	(366)	(315)
Balance carried forward to next year	147	47

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2002

Note 22: Reporting of Outcomes

Note 22A—Total Cost/Contribution of Outcomes (Whole of Government)

	Outcome 1		Outcome 2		Total
	Improvement in				
	Public Administration				Assurance
	Actual	Budget	Actual	Budget	Actual
	\$'000	\$'000	\$'000	\$'000	\$'000
Other administered revenues	(1 034)	(1 062)	(9 304)	(9 558)	(10 620)
Net cost of departmental outputs	15 749	18 313	31 571	29 880	48 193
Net cost to Budget outcome	14 715	17 251	22 267	20 322	36 982
					37 573

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2002

	Note 22B—Major Departmental Revenues and Expenses by Output Group								Total	
	Output Group 1		Output Group 2		Output Group 3		Assurance	Audit Services		
	Performance	Audit Services	Information	Support Services	Support Services	Audit Services				
2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating revenues										
Revenues from government	17 533	18 730	3 534	3 580	29 059	27 763	50 126	50 073		
Sale of goods and services	455	377	95	72	1 735	560	2 285	1 009		
Other non-taxation revenues	236	291	48	56	392	430	676	777		
Total operating revenues	18 224	19 398	3 677	3 708	31 186	28 753	53 087	51 859		
Operating expenses										
Employees	9 207	7 355	1 692	1 406	10 335	10 904	21 234	19 665		
Suppliers	7 838	9 940	1 487	1 900	17 609	14 736	26 934	26 576		
Depreciation and amortisation	645	671	130	129	1 069	992	1 844	1 792		
Other	94	37	19	7	156	56	269	100		
Total operating expenses	17 784	18 003	3 328	3 442	29 169	26 688	50 281	48 133		

An explanation of the ANAO Outcomes is given at Note 1 to the Financial Statements. Revenues and expenses for the three output groups have been apportioned to each group in accordance with the hours expended against each group.

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2002

	Note 22C—Major Classes of Departmental Assets and Liabilities by Output Group									
	Output Group 1		Output Group 2		Output Group 3		Non-Attributable			Total
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Departmental assets										
Goods and services receivable	-	-	-	-	-	-	156	14	156	14
Net GST receivable	-	-	-	-	-	-	865	1 030	865	1 030
Less: provision for doubtful debts	-	-	-	-	-	-	-	(1)	-	(1)
Other—work in progress	-	-	4	2	116	28	-	-	120	30
Infrastructure, plant and equipment	739	1 151	-	-	879	1 102	1 661	1 479	3 279	3 732
Intangibles—computer software	-	-	-	-	56	113	908	1 240	964	1 353
Cash at bank and on hand	-	-	-	-	-	-	17 273	15 815	17 273	15 815
Interest receivable	-	-	-	-	-	-	9	4	9	4
Other	-	-	-	-	-	-	92	84	92	84
Prepayments	-	-	-	-	-	-	522	643	522	643
Total	739	1 151	4	2	1 051	1 243	21 486	20 308	23 280	22 704
Departmental liabilities										
Leases	-	-	-	-	-	-	7 095	8 060	7 095	8 060
Employees	3 218	3 373	-	-	2 261	2 263	1 861	1 898	7 340	7 534
Suppliers	-	-	-	-	-	-	2 364	2 992	2 364	2 992
Capital usage charge	-	-	-	-	-	-	707	443	707	443
Total	3 218	3 373	-	-	2 261	2 263	12 027	13 393	17 506	19 029

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2002

Note 22D—Major Classes of Administered Revenues by Outcome	Outcome 1		Outcome 2		Total
	Improvement in Public Administration		Assurance		
	2002	2001	2002	2001	
	\$'000	\$'000	\$'000	\$'000	\$'000
Operating revenues					
Revenue from the sale of goods and services (audit fees)	1 034	1 045	9 304	9 409	10 338
Total operating revenues	1 034	1 045	9 304	9 409	10 338

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2002

Note 22E—Major Classes of Administered Assets and Liabilities by Outcome

	Outcome 1		Outcome 2		Non-Attributable		Total	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Administered assets								
Cash	9	—	86	—	—	—	95	—
Fees receivable—Financial								
Statement Audit	146	284	1 313	2 558	—	—	1 459	2 842
Work in progress	81	36	733	323	—	—	814	359
Total	236	320	2 132	2 881	—	—	2 368	3 201
Administered liabilities								
GST payable	16	26	149	233	—	—	165	259
Other	9	—	86	—	—	—	95	—
Total	25	26	235	233	—	—	260	259

An explanation of the ANAO Outcomes is given at Note 1 to the Financial Statements.

APPENDIX 3

Audit and other publications

Report title	Tabled	Cost
Audit Report No.1 Financial Statement Audit <i>Control Structures as part of the Audits of the Financial Statements of Major Commonwealth Entities for the Year Ended 30 June 2001</i>	9/7/2001	\$220 000
Audit Report No.2 <i>Examination of Allegations Relating to Sales Tax Fraud</i> Australian Taxation Office	10/7/2001	\$285 400
Audit Report No.3 Performance Audit <i>The Australian Taxation Office's Administration of Taxation Rulings</i> Australian Taxation Office	17/7/2001	\$620 000
Audit Report No.4 Performance Audit <i>Commonwealth Estate Property Sales</i> Department of Finance and Administration	1/9/2001	\$315 000
Audit Report No.5 Performance Audit <i>Parliamentarians' Entitlements: 1999–2000</i>	7/8/2001	\$418 000
Audit Report No.6 Performance Audit <i>Commonwealth Fisheries Management: Follow-up Audit</i> Australian Fisheries Management Authority	9/8/2001	\$309 000
Audit Report No.7 Audit Activity Report <i>Audit Activity Report: January to June 2001</i> Summary of Outcomes	9/8/2001	\$31 000
Audit Report No.8 Assurance and Control Assessment Audit <i>Disposal of Infrastructure, Plant and Equipment</i> Across Agencies	9/8/2001	\$340 000
Audit Report No. 9 Performance Audit <i>Learning for Skills and Knowledge—Customer Service Officers</i> Centrelink	16/8/2001	\$370 000
Audit Report No.10 Assurance and Control Assessment Audit <i>Management of Bank Accounts by Agencies</i> Across Agencies	17/9/2001	\$369 000
Audit Report No.11 Performance Audit <i>Administration of the Federation Fund Programme</i> Across Agencies	19/9/2001	\$450 000

Report title	Tabled	Cost
Audit Report No.12 Financial Control and Administration Audit <i>Selection, Implementation and Management of Financial Management Information Systems in Commonwealth Agencies</i>	20/9/2001	\$800 000
Audit Report No.13 Performance Audit <i>Internet Security within Commonwealth Government Agencies Across Agencies</i>	20/9/2001	\$280 000
Audit Report No.14 Performance Audit <i>Client Service Initiatives Follow-up</i> Australian Trade Commission (Austrade)	28/9/2001	\$156 000
Audit Report No.15 Performance Audit <i>Agencies' Oversight of Works Australia Client Advances</i> Across Agencies	2/10/2001	\$186 000
Audit Report No.16 Performance Audit <i>Defence Reform Program Management and Outcomes</i> Department of Defence	5/10/2001	\$211 000
Audit Report No.17 Performance Audit <i>Administration of Petroleum Excise Collections</i> Australian Taxation Office	26/10/2001	\$325 000
Audit Report No.18 Performance Audit <i>Performance Information in Portfolio Budget Statements</i> Across Agencies	1/11/2001	\$337 000
Audit Report No.19 Assurance and Control Assessment Audit <i>Payroll Management</i> Across Agencies	15/11/2001	\$430 000
Audit Report No.20 Performance Audit <i>Fraud Control Arrangements in the Department of Agriculture, Fisheries and Forestry—Australia (AFFA)</i>	16/11/2001	\$150 000
Audit Report No.21 Performance Audit <i>Developing Policy Advice</i> DEETYA, DEWRSB and FACS	20/11/2001	\$373 500
Audit Report No.22 Protective Security Audit <i>Personnel Security—Management of Security Clearances</i> Across Agencies	4/12/2001	\$320 000
Audit Report No.23 Performance Audit <i>Broadcasting Planning and Licensing</i> Australian Broadcasting Authority	7/12/2001	\$155 000

Report title	Tabled	Cost
Audit Report No.24 Performance Audit <i>Status Reporting of Major Defence Acquisition Projects</i> Department of Defence	10/12/2001	\$142 000
Audit Report No.25 Assurance and Control Assessment Audit <i>Accounts Receivable</i> Across Agencies	11/12/2001	\$235 500
Audit Report No.26 Performance Audit <i>Management of Fraud and Incorrect Payment in Centrelink</i>	14/12/2001	\$420 000
Audit Report No.27 Assurance and Control Assessment Audit <i>Agency Management of Software Licensing</i> Across Agencies	17/12/2001	\$105 000
Audit Report No.28 Information Support Services <i>An Analysis of the Chief Financial Officer Function in Commonwealth Organisations</i> Across Agencies	21/12/2001	\$90 000
Audit Report No.29 Financial Statement Audit <i>Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2001</i>	21/12/2001	\$22.551 million
Audit Report No.30 Performance Audit <i>Test and Evaluation of Major Defence Equipment Acquisitions</i> Department of Defence	24/1/2002	\$350 000
Audit Report No.31 Audit Activity Report <i>Audit Activity Report: July to December 2001</i> Summary of Outcomes	14/2/2002	\$44 000
Audit Report No.32 Performance Report <i>Home and Community Care Follow-up Audit</i> Department of Health and Ageing	14/2/2002	\$81 000
Audit Report No.33 Assurance and Control Assessment Audit <i>Senate Order of 20 June 2001 (February 2002)</i> Across Agencies	25/2/2002	\$185 000
Audit Report No.34 Assurance and Control Assessment Audit <i>Management of Travel—Use of Taxis</i> Across Agencies	26/2/2002	\$90 000
Audit Report No.35 Performance Audit <i>ATO Progress in Addressing the Cash Economy</i> Australian Taxation Office	11/3/2002	\$238 000

Report title	Tabled	Cost
Audit Report No.36 Information Support Services <i>Benchmarking Implementation and Production Costs of Financial Management Information Systems</i> Benchmarking Study	13/3/2002	\$417 000
Audit Report No.37 Performance Audit <i>Purchase of Hospital Services from State Governments Follow-Up Audit</i> Department of Veterans' Affairs	15/3/2002	\$77 000
Audit Report No.38 Performance Audit <i>Management of Australian Defence Force Deployments to East Timor</i> Department of Defence	19/3/2002	\$319 000
Audit Report No.39 Performance Audit <i>Management of the Provision of Information to Job Seekers</i> Department of Workplace Relations	4/4/2002	\$295 000
Audit Report No.40 Performance Audit <i>Corporate Governance in the Australian Broadcasting Corporation</i>	8/4/2002	\$690 000
Audit Report No.41 Performance Audit <i>Transactional Banking Practices in Selected Agencies</i> Across Agencies	8/4/2002	\$339 000
Audit Report No.42 Performance Audit <i>Integrity of the Electoral Roll</i> Australian Electoral Commission	18/4/2002	\$437 000
Audit Report No.43 Performance Audit <i>Indigenous Education Strategies</i> Aboriginal and Torres Strait Islander Commission	23/4/2002	\$260 000
Audit Report No.44 Performance Audit <i>Australian Defence Force Fuel Management</i> Department of Defence	24/4/2002	\$337 000
Audit Report No.45 Assurance and Control Assessment Audit <i>Recordkeeping</i> Across Agencies	1/5/2002	\$320 000
Audit Report No.46 Performance Audit <i>Management of an IT Outsourcing Contract</i> Department of Veterans' Affairs	6/5/2002	\$455 000
Audit Report No.47 Performance Audit <i>Administration of the 30 Per Cent Private Health Insurance Rebate</i> Across Agencies	7/5/2002	\$322 000

Report title	Tabled	Cost
Audit Report No.48 Performance Audit <i>Regional Assistance Programme</i> Department of Transport and Regional Services	8/5/2002	\$390 000
Audit Report No.49 Performance Audit <i>The Management of Commonwealth National Parks and Reserves</i> Department of Transport and Regional Services	13/5/2002	\$298 000
Audit Report No.50 Preliminary Examination <i>A Preliminary Examination into the Allocation of Grant Funding for the Co-Location of National General Practice Organisations</i>	16/5/2002	\$65 000
Audit Report No.51 Performance Audit <i>Research Management Project</i> CSIRO	23/5/2002	\$372 000
Audit Report No.52 Financial Control and Administration Audit <i>Internal Budgeting</i> Across Agencies	24/5/2002	\$330 000
Audit Report No.53 Assurance and Control Assessment Audit <i>Goods and Services Tax Administration by Commonwealth Organisations</i> Across Agencies	29/5/2002	\$450 000
Audit Report No.54 Performance Audit <i>Drug Detection in Air and Containerised Sea Cargo and Small Craft</i> Australian Customs Office	06/6/2002	\$411 000
Audit Report No.55 Performance Audit <i>Administration of Tobacco Excise</i> Australian Taxation Office	07/6/2002	\$258 000
Audit Report No.56 Performance Audit <i>Workforce Planning in the Department of Immigration and Multicultural and Indigenous Affairs</i>	13/6/2002	\$275 000
Audit Report No.57 Performance Audit <i>Management Framework for Preventing Unlawful Entry into Australian Territory</i> Department of Immigration and Multicultural and Indigenous Affairs	14/6/2002	\$390 000
Audit Report No.58 Performance Audit <i>Defence Property Management</i> Department of Defence	17/6/2002	\$200 000

Report title	Tabled	Cost
Audit Report No.59 Performance Audit <i>AusAID Contract Management</i> Australian Agency for International Development	20/6/2002	\$385 000
Audit Report No.60 Performance Audit <i>The Costing of Operational Activities and Services, Follow-up Audit</i> Centrelink	20/6/2002	\$89 000
Audit Report No.61 Information Support Services <i>Managing People for Business Outcomes</i> Benchmarking Study	25/6/2002	\$720 000
Audit Report No.62 Information Support Services <i>Benchmarking the Finance Function Follow-on Report</i> Benchmarking Study	26/6/2002	\$530 000
Audit Report No.63 Performance Audit <i>Management of DASFLEET Tied Contract</i>	27/6/2002	\$240 000
Audit Report No.64 Performance Audit <i>Management of Learning & Development in the</i> <i>Australian Public Service</i> Across Agencies	28/6/2002	\$410 000
Audit Report No.65 Performance Audit <i>Management of Commonwealth Superannuation Benefits to Members</i> Comsuper	28/06/2002	\$290 000
Audit Report No.66 Performance Audit <i>Aviation Safety Compliance Follow-up Audit</i> Civil Aviation Authority	28/6/2002	\$295 000
Audit Report No.67 Financial Statement Audit <i>Control Structures as part of the Audits of the Financial</i> <i>Statements of Major Commonwealth Entities for the</i> <i>Year Ending 30 June 2002</i>	28/6/2002	\$368 500

Other titles published in 2001–02

A MODEL Non-Commercial Authority Illustrative Financial Statements for the Year Ended 30 June 2002 (June 2002)

A MODEL Agency Illustrative Financial Statements for the Year Ended 30 June 2002 (May 2002)
Performance Information in Portfolio Budget Statements (May 2002)

Administration of Grants (May 2002)

Life Cycle Costing (December 2001)

Better Practice Principles for Developing Policy Advice (November 2001)

Annual Report 2000–2001 (September 2001)

APPENDIX 4

Main issues raised in performance audit and FCA reports tabled in 2001–02

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

The main ANAO outputs are performance audit services and assurance audit services. The ANAO aims to achieve these by focusing on four key result areas: namely, meeting our clients' needs; quality products and services; highly-performing people; and good business management. Strategies for achieving results are set out in the ANAO's *Business Plan 2001–2004*.

This appendix indicates the main issues raised in performance audit and FCA reports tabled during the year. The report summaries are grouped according to audit issues.

Governance—human resource management

Report No.9 *Learning for Skills and Knowledge—Customer Service Officers—Centrelink*. The audit examined Centrelink systems ensure that its Customer Service Officers had the skills and knowledge necessary to meet expected levels of performance and customer service. The audit found that, because planning of learning was devolved to network managers, Centrelink had diverse approaches to development of officers' operational skills. Therefore, Centrelink was unable to compare the effectiveness of its learning strategies across different areas except by using overall business performance indicators. Centrelink has now taken steps to address almost all of these weaknesses or outlined plans to so.

Report No.56 *Workforce Planning in the Department of Immigration and Multicultural and Indigenous Affairs*. The audit assessed whether the Department's workforce planning systems effectively support human resource management practices that contribute to program outcomes. The Department has responded to an increasing workload resulting from a larger number of unauthorised arrivals, growth in applications to enter Australia and the impact of international crises, in particular in the Balkans, Timor and Afghanistan. However, existing workforce planning systems in the Department have generally provided low levels of support for effective human resource management.

Report No.64 *Management of Learning and Development in the Australian Public Service*. The efficiency and cost-effectiveness with which agencies are able to deliver their outputs depend, in large part, on the skills of their workforce. This audit found that, although agencies had made significant efforts to ensure that their learning and development strategies were aligned with their business needs, a lack of supporting management information and performance measures meant they were unable to demonstrate the efficiency and effectiveness of their investment in learning and development and its contribution to organisational effectiveness.

Governance—financial management

Report No.4 *Commonwealth Estate Property Sales*. The audit examined Department of Finance and Administration management of some \$1 billion in Commonwealth Estate property sales. ANAO identified room for improvement in the management and implementation of the property divestment process, including management of contractual arrangements with external consultants; review of the hurdle rate of return to be applied in the sell/hold decision for property; tender evaluation processes; and assessment of value for money during tender evaluation in sale and long-term leaseback transactions for the Commonwealth.

Report No.5 *Parliamentarians' Entitlements 1999–2000*. The audit was in response to a Senate resolution on 2 November 2000 requesting the Auditor–General to review all expenditures and entitlements accruing to Parliamentarians and Ministers in 1999–2000. As a result of the audit, the ANAO suggested that there would be merit in a comprehensive review of the framework for senators' and members' entitlements. The ANAO made a further 27 recommendations aimed at strengthening the stewardship of public money, improving the services provided to Parliamentarians and enhancing public disclosure in the Parliamentary system.

Report No.15 *Agencies' Oversight of Works Australia Client Advances*. The ANAO found that \$43.7 million in Commonwealth client advances transferred to the purchaser of the former DAS Business Unit, Works Australia, in August 1997 had been effectively accounted for as of July 2001 by the Commonwealth agencies concerned.

Report No.17 *Administration of Petroleum Excise Collections*. The audit assessed Australian Taxation Office (ATO) administration of petroleum excise collections. It found that, to provide the necessary assurance on the integrity and effectiveness of the excise revenue collection function, the ATO should strengthen existing controls relating to excise revenue collection arrangements with Australian Customs Service.

Report No.20 *Fraud control arrangements in the Department of Agriculture, Fisheries and Forestry—Australia (AFFA)*. The audit assessed whether AFFA has implemented appropriate fraud control arrangements in line with Commonwealth fraud control policy and whether these arrangements operated effectively. The report concluded that AFFA has developed an appropriate fraud control policy with supporting fraud risk assessments and operational procedures consistent with that policy. However, a specific performance assessment framework that included appropriate performance indicators for fraud control had not been developed.

Report No.26 *Management of Fraud and Incorrect Payment in Centrelink*. The audit assessed whether Centrelink had implemented appropriate fraud control arrangements. The report concluded that, overall, Centrelink had implemented fraud control arrangements. Centrelink had a clear focus on preventing fraud and had appropriate procedures relating to proof of identity (POI). However, POI coding errors in claims adversely impacts on the quality of Centrelink's electronic records. Current compliance activities, including an extensive data-matching program, would detect a significant proportion of the attempted fraud.

Report No.41 *Transactional Banking Practices in Selected Agencies*. On 1 July 1999 new transactional banking arrangements came into effect for FMA agencies (agencies subject to the Financial Management and Accountability Act 1997). The audit reviewed selected agencies' implementation and management of contractual banking arrangements and agencies' tendering processes for procurement of banking services. The ANAO made recommendations on risk assessment planning; monitoring and review of banking arrangements; tender processes; and timely execution of formal written agreements with transactional banking providers.

Report No.47 *Administration of the 30 Per Cent Private Health Insurance Rebate*. The audit reviewed Commonwealth agencies' administration of the Private Health Insurance Rebate. It found that agencies worked well together to achieve the very tight implementation time frame set by the Government. However, to meet the implementation date, the Health Insurance Commission, after advising the then Department of Health and Aged Care and the ATO of potential risks, decided, initially, not to impose robust controls to confirm the validity of payments to private health funds under the Premium Reduction Scheme. The Commission did not strengthen its controls until mid-2001, some two years after implementation.

Report No.50 *A Preliminary Examination into the Allocation of Grant Funding for the Co-Location of National General Practice Organisations*. This was a preliminary examination of records relating to the co-location of national general practice organisations. It focused on whether due process was followed in deciding to transfer funds between Outcomes of the then Department of Health and Aged Care. The preliminary examination also considered procedures adopted by the Department in developing the funding proposal; the advisory role of the Department of Finance and Administration; specific advice provided by both departments to their Ministers; and disclosure of the related budget measure.

Report No.52 *Internal Budgeting*. The audit focused on processes associated with the 2000–01 internal budget. Most organisations reviewed had sound and well-established processes for the development of internal budgets. In those organisations, the development of the internal budget was closely integrated with business planning processes, ensuring that the determination and allocation of resources were based on operational needs and consistent with approved strategies and priorities. The audit also observed a number of shortcomings in the ongoing management of internal budgets. These shortcomings tended to reduce the effectiveness of the contribution of internal budgeting to the overall internal financial management and control environment.

Report No.60 *The Costing of Operational Activities and Services—Centrelink*. This follow-up audit focused on findings relevant to Centrelink's costing systems in Report No.43 1999–2000 *Planning and Monitoring for Cost Effective Service Delivery—Staffing and Funding Arrangements*. The follow-up audit concluded that Centrelink was implementing a comprehensive costing system as a basis for planning productivity improvements and accounting for its expenditure of purchaser funds. This included an activity-based costing methodology to determine the costs of operational activities and services.

Report No.65 *Management of Commonwealth Superannuation Benefits to Members*. The audit reviewed the administrative effectiveness of ComSuper in providing benefits to members of the members of the closed Commonwealth Superannuation Scheme and the current Public Sector Superannuation Scheme. The ANAO identified the need for improvement in the areas of: service standards and reporting of performance against those standards; quality and timeliness of superannuation data provided by employers; revising interest determinations for calculation of benefits in line with advances made by ComSuper in benefit processing; and tightening procedures and documentation related to calculation and payment of benefits.

Governance—performance management and measurement

Report No.3 *Australian Taxation Office Administration of Taxation Rulings*. The audit found that the ATO does not have appropriate mechanisms for reporting fully on the efficiency of its administration of taxation rulings. The ANAO recommended that the ATO take a holistic approach to its performance information and reporting regime for the production of public and private rulings by developing standards and monitoring performance, taking due account of trade-offs between timeliness, cost, quantity and quality.

Report No.6 *Commonwealth Fisheries Management: Follow-up*. The audit assessed progress by the Australian Fisheries Management Authority (AFMA) in addressing issues in ANAO Report No.32 1995–96 *Commonwealth Fisheries Management—Australian Fisheries Management Authority* and a 1997 parliamentary committee report.²⁵ AFMA had made progress in developing fisheries management but there has been limited progress in some areas previously identified as warranting improvement. These were in areas such as limitations to data on the status of the marine environment and implementing Statutory Management Plans. The ANAO made five further recommendations, which were accepted by AFMA.

Report No.11 *Administration of the Federation Fund Programme*. The audit focused on the extent to which the administration of the Programme met identified better practice for arrangements of this kind. It highlighted difficulties associated with reporting on program performance where more than one portfolio is responsible for delivering a particular programme's objectives. The audit report set out a range of administrative improvement opportunities to enhance the achievement of programme outcomes for any future assistance programme of a similar nature to the Federation Fund.

Report No.16 *Defence Reform Program—Management and Outcomes*. The audit found that, in 1997, at the start of the Program, there was inadequate planning of initiatives to achieve Program objectives. The Program encountered numerous problems as a change program because the major focus was on savings and not on the reform initiatives. Although the Program achieved most of its intended savings and was successful in enhancing Defence's operational capability, Defence has recognised that it could have been better managed.

Report No.18 *Performance Information in Portfolio Budget Statements (PBS)*. The audit examined, in ten public sector agencies, performance information in PBS and annual

²⁵ House of Representatives Standing Committee on Primary Industries, Resources and Rural and Regional Affairs *Managing Commonwealth Fisheries: The Last Frontier* (June 1997).

reports, and agency arrangements to identify, collect and review this information. The ANAO concluded that, overall, performance information in the PBS should be improved to enable agencies to demonstrate links between outcomes, outputs and performance indicators. As well, PBS performance information without targets makes it difficult to assess performance. Agencies generally had adequate arrangements to support PBS information and reporting. PBS data quality standards would ensure that data supplied to Parliament are valid, reliable and accurate.

Report No.21 *Developing Policy Advice*. The audit reviewed policy advising functions of the then Department of Education, Training and Youth Affairs; the then Department of Employment, Workplace Relations and Small Business; and the Department of Family and Community Services. The report concluded that the departments had appropriate elements of a sound quality management system for developing policy advice for high-order strategic issues. However, they could strengthen their management systems for providing policy advice by implementing, consistently, a range of procedures that were currently ad hoc or applied with varying degrees of rigour.

Report No.35 *ATO Progress in Addressing the Cash Economy*. The audit focused on the ATO's implementation of recommendations by its Cash Economy Task Force in the light of tax reform that has taken place over the last two years. The audit found that most of the task force recommendations were implemented, either in full or in part. However, there was still room for improvement in the ATO's approach to dealing with cash economy intelligence and its communication and education strategies related to the cash economy.

Report No.38 *Management of Australian Defence Force Deployments to East Timor*. The short time available for additional training and marshalling equipment for the International Force East Timor (INTERFET) left Defence personnel and units with capability deficiencies when they deployed to East Timor. Despite this, Defence personnel performed their task to high professional standards. Lessons to be learned from the deployments related to a need for an effective logistic system to sustain military operations; ability to track personnel in areas of operation; unauthorized discharges of weapons; physical testing for individual battle fitness; and pre-deployment training and medical preparedness.

Report No.40 *Corporate Governance in the Australian Broadcasting Corporation (ABC)*. The audit did not disclose any evidence to indicate that the ABC does not comply with its charter requirements, which set out the functions and duties of the ABC and the characteristics of its programming. Nevertheless, there was significant scope for the ABC to improve its strategic planning and measurement so that it can demonstrate how well it performs against its charter.

Report No.42 *Integrity of the Electoral Roll*. The audit provided an opinion on the integrity of the electoral roll and examined the effectiveness of Australian Electoral Commission (AEC) management of the electoral roll in ensuring the roll's accuracy, completeness, validity and security. The ANAO found shortcomings in AEC's management information systems and identified a need for the AEC to develop a suite of performance measures and benchmarks to regularly report to AEC management on the integrity of the electoral roll.

Report No.43 *Indigenous Education Strategies*. The audit examined management by the Department of Education, Science and Training of Commonwealth agreements for the Indigenous Education Strategic Initiatives Programme, which aims to improve educational outcomes for Indigenous Australians. The audit found scope to improve future agreement negotiation processes through a more comprehensive risk assessment and preparatory consultations with providers on the terms and conditions of agreements, including the approach taken to the setting of targets.

Report No.44 *Australian Defence Force Fuel Management*. The Defence fuel and lubricants supply chain is complex and involves a wide range of processes and control structures. The strategic management of this supply chain is fragmented and insufficiently coordinated, and there is significant scope for Defence to improve its liaison and consultation with external agencies, concerning the petroleum industry environment. Defence is undertaking a number of activities to improve the management of fuel and lubricants through organisational redesign and administrative reviews. Defence would benefit from having a fuel procurement price risk management policy.

Report No.49 *Management of Commonwealth National Parks and Reserves*. The audit examined the adequacy of planning, management and reporting systems in Commonwealth National Parks. The audit found that planning mechanisms provide a good foundation for an efficient and effective planning system. Management of natural and cultural heritage complied with fundamental park management principles but it was difficult to make any broad assessment of changes over time.

Report No.51 *Research Project Management—Commonwealth Scientific and Industrial Research Organisation*. The objective of this audit was to assess the effectiveness of CSIRO in administering research projects to deliver required results. The audit found that further strengthening of several aspects of project management would provide appropriate assurance that research projects, which are funded by substantial Commonwealth and private sector investment, are managed cost-effectively. This is particularly the case for research activities funded by appropriation moneys. CSIRO agreed to implement all recommendations of the report as part of its strategic change agenda.

Report No.54 *Drug Detection in Air and Containerised Sea Cargo and Small Craft*. The audit assessed the administrative effectiveness of Customs' detection strategies for air and containerised sea cargo and small craft activity. The audit report found that performance measures used by Customs track activity only, that is, the number of drug detections and quantities of drugs seized. They do not measure the impact or effectiveness of drug detection efforts. Measuring the effectiveness and impact of drug detection initiatives would allow Customs to assess its strategies and ultimately the policy that the strategies, processes, systems and procedures underpin.

Report No.57 *Management Framework for Preventing Unlawful Entry into Australian Territory*. The audit assessed management by the Department of Immigration and Multicultural and Indigenous Affairs of offshore measures to prevent and detect unlawful entry. The ANAO concluded that management of those measures would be enhanced by a more systematic and documented governance structure. The department placed too much emphasis on the

ability of individuals to respond effectively to particular situations and insufficient emphasis on accepted governance arrangements to mitigate risks, communicate strategies and assess performance.

Procurement and contract management

Report No.24 *Status Reporting of Major Defence Acquisition Projects*. The audit found that Defence status reports on its major equipment acquisition projects do not always indicate whether projects are meeting agreed criteria relating to project time, cost and quality. Defence's program to reform its major acquisition processes will include testing a new system for reporting project progress. A sound project reporting system would assist in assessing progress with broader reform objectives and in managing the significant risks in major acquisition projects. A full audit of this area will be carried out when the reforms are further advanced.

Report No.30 *Test and Evaluation of Major Defence Equipment Acquisitions*. Defence's test and evaluation (T&E) policy aims to promote a unified approach to T&E to guarantee efficient use of all T&E resources. In practice, however, there was little evidence of that approach. Defence groups have formulated their own practices. Records relating to some major capital equipment indicate the need to improve T&E policy and practices. The policy needs to be reviewed and to articulate how the unified approach is to be implemented. Defence could also benefit by establishing an office for independent oversight of operational T&E.

Report No.48 *Regional Assistance Programme—Department of Transport and Regional Services*. The audit examined the Department's processes to support the administration of this Programme; whether funding was allocated in accordance with Programme guidelines; and management of Programme contracts. The ANAO concluded that the Department's administration of the Programme was generally efficient and effective. Funding for the Programme was allocated in accordance with policy guidelines, with a balanced distribution of funds to remote, regional and metropolitan areas. The Department has a good contract management framework, underpinned by appropriate guidelines and procedures.

Report No.58 *Defence Property Management*. Defence property management staff are responsive to individual Defence clients' property needs but property management is largely reactive and lacks a proactive, structured approach. Guidance to property management staff would help overcome regional variations in procedures. Customer Service Agreements with Defence clients will also assist in this regard. Management of Defence property leases is outsourced to the private sector. Defence's management of the contract could be improved with respect to performance monitoring; payment procedures; electronic funds transfer; and granting of leases.

Report No.59 *AusAID Contract Management*. The audit objective was to assess AusAID's management of commercial contracts to deliver Australia's overseas aid program. The ANAO concluded that many aspects of AusAID's aid contract management are soundly based and well managed. However, there are some inconsistencies in contract management and weaknesses in supporting process and practice that require strengthening.

Report No.63 *Management of the DASFLEET Tied Contract*. The audit found that, throughout the course of the DASFLEET Tied Contract with Macquarie Fleet (1 September 1997 to 5 July 2001), the Department of Finance and Administration was unable to effectively monitor performance, or manage the Commonwealth's exposure, under the Contract. A series of complex commercial disputes arising out the Commonwealth's 1997 sale of DASFLEET were the reason for this. The disputes were settled on 5 July 2001 with the novation of an Amended Tied Contract to another provider and payments between the parties.

Information technology

Report No.12 *Selection, Implementation and Management of Financial Management Information Systems in Commonwealth Agencies*. The audit examined the selection and implementation, and post implementation management, of financial management information systems (FMISs) in eight agencies. Overall, the ANAO concluded that few agencies in the audit both selected an FMIS appropriate to their size or complexity and then proceeded to effectively implement the product. As a result, serious gaps emerged in the functionality achieved in some agencies suggesting concerns about the ongoing cost-effectiveness of the implemented FMIS. In addition, most agencies did not pro-actively manage their systems after the 'go-live' date to address such functionality and cost concerns. The survey undertaken by the ANAO of agencies in the budget sector indicates that some of the problems noted with the management of selection and implementation by agencies in the audit also occurred across the wider APS.

Report No.13 *Internet Security within Commonwealth Government Agencies*. This was one of a series of ANAO reports on IT and IT governance. This report concluded that internet security across ten audited agencies varied from very good to very poor. The audit found that, for the majority of agency websites in the audit, the level of internet security was insufficient. Some of the agencies were not effectively administering threat and risk assessments. All significant disclosed internet security weaknesses were addressed during the audit.

Report No.46 *Management of an IT Outsourcing Contract*. The audit examined Department of Veterans' Affairs' (DVA's) management of its IT outsourcing contract. Overall, DVA has managed the contract to ensure the delivery of its services, but a stronger linkage was needed between the contract and DVA's IT strategic outlook. Lack of clarity, and numerous tasks, in the contract led to significant administrative effort to monitor the contractor's performance. The contract provided for financial and other benefits to DVA flowing from benchmarking. DVA was undertaking a benchmarking study but was finding it difficult to get valid and meaningful comparisons.

Report No.55 *Administration of Tobacco Excise*. The audit assessed ATO administration of tobacco excise, including its intelligence capabilities relevant to detection and prevention of trade in illicit Australian-grown tobacco. The ANAO recommended that the ATO's Excise Business Line review its information technology requirements to ensure that these are directed at meeting its business needs by developing access to intelligence information.

It also recommended effective use of intelligence analysis tools to collate and analyse information to strengthen the administration of tobacco excise.

Service delivery

Report No.14 *Client Service Initiatives Follow-up Audit*. The audit sought to assess Austrade's implementation of the 12 recommendations made in Report No.4 1998–99 *Client Service Initiatives—Australian Trade Commission*. The ANAO concluded that Austrade had given a high priority to addressing the issues and recommendations raised by the previous audit and had adopted a systematic approach to implementing the recommendations and to monitoring the success of action taken. This has strengthened client focus, service delivery and client satisfaction.

Report No.23 *Broadcasting Planning and Licensing*. Planning the broadcasting spectrum has been a large and resource-intensive task spanning many years. The audit found opportunities to improve the overall management of the Australian Broadcasting Authority's planning and licensing functions, including: risk management; project management, including planning, resource allocation and monitoring; continuous improvement, including benchmarking; and reporting, accountability and transparency.

Report No.39 *Management of the Provision of Information to Job Seekers*. The audit found that management by the Department of Employment and Workplace Relations of the provision of employment services information to job seekers is generally effective. The Department's annual surveys of job seekers' satisfaction with employment services generally indicate that job seekers are satisfied with the information they receive. However, there is some confusion among job seekers about the respective roles of Centrelink and Job Network, and job seekers do not understand their rights as well as they understand their obligations.

Report No.66 *Aviation Safety Compliance Follow-up Audit*. The follow-up audit found that, overall, the Civil Aviation Safety Authority (CASA) has improved its management of aviation safety compliance, particularly in areas such as the identification of risks at the operator level; the frequency and coverage of surveillance; and enforcement of the Act. CASA has adequately addressed the majority of recommendations from an earlier audit in 1999 and has partially implemented the remaining relevant recommendations.

APPENDIX 5

Addresses and papers by the Auditor-General and ANAO senior officers

Pat Barrett AM

Achieving Better Practice Corporate Governance in the Public Sector
International Quality and Productivity Centre Seminar
Canberra, 26 June 2002

Pat Barrett AM

Auditing in a Changing Governance Environment
Senate Occasional Lecture Series
Canberra, 21 June 2002

Pat Barrett AM

Corporate Governance—More Than a Passing Fad
Attorney-General's Department Luncheon Address
Canberra, 12 June 2002

Pat Barrett AM

The Future Directions of Audit—a National Audit Office Perspective
Occasional Paper
Canberra, 31 May 2002

Pat Barrett AM

External Scrutiny of Government Decisions—Trends and Lessons Learnt
Institute of Public Administration Australia
Canberra, 31 May 2002

Alan Greenslade

Good practices of effective performance audits: process evaluations
Netherlands Court of Audit Seminar
The Hague, Netherlands, 30 May 2002

Alan Greenslade

ANAO Overview
Industry Research and Development Board Meeting
Canberra, 30 May 2002

Ann Thurley

Performance Audit of Centrelink's Balanced Scorecard
International Quality and Productivity Centre—Balanced Scorecard Conference
Sydney 29–30 May 2002

Paul Nicoll

Performance Audit and Some Current Management Issues
Public Sector Leadership Conference
Singapore, 24 May 2002

Pat Barrett AM
'Exploring Public Sector Governance Issues'
CPA Australia Public Sector Centre of Excellence article, May 2002

Alan Greenslade
Auditing of Innovation Programs
Research and Development Board Meeting
Canberra, 30 April 2002

David McKean
Emerging Issues Arising from ANAO Audits
Office of Evaluation Audit and Planning Conference
Canberra, 30 April 2002

Pat Barrett AM
Putting the APS into or out of Business
Public Service Merit Protection Commission Planning Retreat
Bungendore, 16 April 2002

Richard Rundle
Protective Security Audits
Security in Government Conference
Canberra, 11–13 April 2002

Pat Barrett AM
Implementing Adequate Supervision—What Kind and How Much
Laboratory for Politicians and Top Managers from Different Public Institutions in Europe
Regione Lombardia, Italy, 6 April 2002

Pat Barrett AM
Corporate Governance in the Public Sector
Staff of the Public Management Group, Public Administration Department
Bocconi University, Milan, 3 April 2002

Ian McPhee
Overview of ANAO
Finance SES Forum
Canberra, 19 March 2002

Ian McPhee
Strategies for Better Governance—Organisational Governance
Public Service Merit Protection Commission
Canberra, 6 March 2002

Pat Barrett AM
The Role of Performance Auditing in Strengthening Democracies
Address to University of Canberra students
Canberra, 28 February 2002

Richard Rundle

Improving Procurement Processes to Achieve Best Value in the Public Sector

International Quality and Productivity Centre—Strategic Procurement for Government Conference

Canberra 27 February 2002

Pat Barrett AM

Management of Intellectual Property in the Public Sector

Australian Government Solicitor Seminar

Sydney, 26 February 2002

Pat Barrett AM

E-Government and Joined-up Government

Global Working Group Meeting

Wellington, New Zealand, 14–15 February 2002

Pat Barrett AM

Government Accounting Forum—Address

Government Accounting Forum, Institute of Chartered Accountants in Australia

Canberra, 5 February 2002

Pat Barrett AM

‘Managing Risk’

CPA Australia Magazine, November 2001

Pat Barrett AM

The Role of Watchdogs in this New Era of Partnerships

Institute of Public Administration Australia National Conference

Sydney, 30 November 2001

Pat Barrett AM

Some Recent Professional Initiatives and Issues in Risk Management

ARIMA Conference

Canberra, 20 November 2001

Pat Barrett AM

Corporate Governance—More than Good Management

Financial Reporting by Governments—the Road to Damascus?

CPA Australia Conference

Adelaide, 16 November 2001

Pat Barrett AM

Auditing in an Environment of Public/Private Partnership and Greater Collaboration in the Provision of Public Services

Japan Board of Audit

Tokyo, 18 October 2001

Pat Barrett AM

Evaluation and Performance Auditing: Sharing the Common Ground

Australian Evaluation Society Conference

Canberra, 10 October 2001

Pat Barrett AM

Some Current Issue Impacting on Performance Audits

Australasian Council of Auditors-General Conference

Canberra, 8 October 2001

Ian McPhee

Financial Management Reform—From Rhetoric to Results and Getting Back to the Basics

Canberra, 19 September 2001

Pat Barrett AM

‘Calculating risks—the challenge of outsourcing is balancing the risks and rewards’

Article published in the Spring Edition of the *CIO Government* magazine.

Ian McPhee

Strategies for Better Governance

Canberra, 17 August 2001

Pat Barrett AM

Intellectual Property in the Public Sector

Australian Government Solicitor Intellectual Property Seminar

Canberra, 24 July 2001

Pat Barrett AM

Some Current Issues in Accountability

Public Service and Merit Protection Commission Senior Executive Service Seminar

Canberra, 24 July 2001

APPENDIX 6

Procurement activities

The Commonwealth purchasing policy framework is outlined in the *Commonwealth Procurement Guidelines—Core Policies and Principles*.²⁶ These set out a series of core principles.

ANAO performance against core purchasing policies

The ANAO's purchasing activities in 2001–02, have again focused on adhering to the objectives set out in the guidelines, particularly in the contracting out of its financial statement audits and its internal administration. Open tender processes were conducted that sought high quality services that provided value for money for the Commonwealth. In its performance audit work, the ANAO, where appropriate, also considered the implementation of the guidelines and adoption of the core principles in other agencies. ANAO reports that have dealt with these matters are outlined in Appendix 4.

In order to ensure the ANAO meets the objectives set out in the guidelines, a policy of open and public tendering has been adopted. To streamline its processes, the ANAO has established a number of panels of contractors and consultants with particular skills to meet its ongoing needs. The performance of these outsourced arrangements was outlined in 'Management and Accountability'.

Where highly specialised skills are required for which there is a limited market, or the location of the work is remote, the ANAO adopts selective tender processes. These normally follow a market analysis. Underpinning all the ANAO's procurement activity is the need to balance the quality of the service to be provided with the cost of that service.

Of the total, in context of the Commonwealth Procurement Guidelines, more than 10 per cent of total purchases were from small or medium enterprises while the large majority of suppliers are Australia or New Zealand based.

ANAO policy on the selection and engagement of consultants

The ANAO uses consultants on a needs basis for a variety of tasks. The most common uses of contracted-in consultants include the following:

- to undertake financial statement or performance audits under the direction of ANAO staff (that is to supplement audit skills);
- to undertake particular research or studies or a particular task associated with an audit under the direction of ANAO staff; or
- to provide specialised services, including assistance with the development and/or implementation of purpose-built IT systems and legal advice.

Using an initial tender process the ANAO has selected, and maintained a panel of consultants, who can be used for audit-related work. In addition, consultancies for larger activities (audit or non-audit related) are put out to tender.

²⁶ Department of Finance and Administration *Commonwealth Procurement Guidelines—Core Policies and Principles* at <<http://www.finance.gov.au/ctc/publications/purchasing/cpg/commonwealth%5Fprocurement%5Fguide.html>>.

A suite of standard contracts has been developed for use by ANAO staff to assist in the engagement of contractors and consultants. These can be adapted readily by ANAO staff to suit individual circumstances. During 2001, the ANAO undertook an exercise to review and streamline its existing standard contracts and used a legal provider on the relevant ANAO panel to review the existing set of standard contracts. That work has resulted in a revised set of contracts that are more user-friendly and easier for ANAO staff to follow. ANAO staff can also access a panel of legal experts who can provide specialised legal advice, for both contract issues and other legal services.

When consultants are contracted in to provide services under the Auditor-General Act, each must sign a Deed of Confidentiality to ensure they are aware of their legal commitment to the relevant confidentiality and secrecy provisions associated with the access powers under that Act. Consultants may exercise those powers only in respect to the services for which they are contracted.

Summary of consultancy information

Table A6–1 lists the consultancies valued at \$10 000 or more. The key at the end of the table explains the various entries under the ‘publicly advertised’ and ‘reason’ columns.

A total of \$26.043 million in contracts (representing 200 contracts) were let or managed by the ANAO during 2001–02.

Table A6–1: List of consultancy contracts let in 2001–02 valued at \$10 000 or more

Consultant	Purpose	Cost \$	Selection	
			process	Reason
90East	IT Security Review	133 025	1	b
90East	Audit assistance	60 000	7	b
90East	IT assistance	32 000	4	a
Acumen Alliance	Administrative assistance	30 000	5	a
Adrian Daley	Audit assistance	33 000	2	a
American Express Consulting Services	Corporate support	25 000	2	c
Arthur Andersen	Audit assistance	1 030 447	2	a
Arthur Andersen	Audit assistance	707 983	6	a
Arthur Andersen	Audit assistance	291 500	6	a
Arthur Andersen	Audit assistance	151 833	4	a
Arthur Andersen	Financial statement audit	129 250	6	a
Ascribe Reporting	Audit assistance	11 000	7	f
Business Risk Services	Audit assistance	127 050	6	a
Catalyst Interactive Pty Ltd	Electronic induction program	38 050	4	c
Christopher Conybeare & Associates	Audit assistance	37 490	7	a
Christopher Conybeare & Associates	Audit assistance	11 550	7	a
Collaborative Business	Corporate development	13 160	2	f
Corporate Project Management Group	Audit assistance	27 555	4	a
Courage Partners	Audit assistance	83 600	7	a

Consultant	Purpose	Cost \$	Selection	
			process	Reason
Courage Partners	Audit assistance	74 800	2	a
Courage Partners	Audit assistance	40 000	2	d
Courage Partners	Audit assistance	30 000	2	a
Courage Partners	Client survey	26 310	2	a
Currie & Brown	Audit assistance	25 740	4	a
Deloitte Touche Tohmatsu	Audit assistance	438 262	5	a
DILMA Consulting Pty Ltd	Audit assistance	51 600	7	a
DPM Limited	Corporate development	39 600	4	a
DPM Limited	Software maintenance	36 300	2	f
DPM Limited	Software maintenance	14 400	2	c
Ernst & Young	Audit assistance	138 238	5	a
Fielden Hummer & Co	Audit assistance	108 100	4	a
Fielden Hummer & Co	Audit assistance	69 850	2	a
Giftnock Consulting Pty Ltd	Audit assistance	20 750	4	b
Green & Green	Audit assistance	87 667	4	a
Hamilton James Bruce	Audit assistance	22 000	4	a
Hays Accountancy Personnel	Audit assistance	22 000	4	a
Hays Accountancy Personnel	Audit assistance	20 000	2	a
Hays Accountancy Personnel	Audit assistance	16 500	4	a
Hays Accountancy Personnel	Audit assistance	13 200	5	a
Hays Accountancy Personnel	Audit assistance	11 000	2	a
Information Management Solutions Pty Ltd	Develop new disposal authorities	42 548	4	a
ISIS Interiors Pty Ltd	Facilities service provision	97 138	4	a
KPMG	Audit assistance	258 600	6	a
Michael Page Finance	Audit assistance	27 500	4	a
Michael Page Finance	Audit assistance	22 000	4	a
Michael Page Finance	Audit assistance	22 000	4	a
Michelle Minaroy Pty Limited	Audit assistance	27 500	5	a
Origin Consulting	Audit assistance	101 000	7	a
Origin Consulting	Audit assistance	10 000	7	a
Orima Research	Audit assistance	136 063	7	a
Orima Research	Audit assistance	84 250	7	a
Orima Research	Audit assistance	16 200	7	a
Pat Farrelly & Associates Pty Ltd	Audit assistance	107 811	7	a
PC Pearson & Associates	Audit assistance	130 000	2	a
Piazza Consulting	Corporate support	13 565	2	c
PJ Gunning & Associates Pty Ltd	Internal budgeting	44 550	2	a
PricewaterhouseCoopers	Audit assistance	190 000	8	b
PricewaterhouseCoopers	Financial statement audit	125 150	6	a
PricewaterhouseCoopers	Audit assistance	22 000	3	b
ReEngineering Australia	Audit assistance	24 090	2	d
ReEngineering Australia	Audit assistance	38 690	7	a
Ron Richards Consulting	Corporate support	27 300	2	a

Consultant	Purpose	Cost \$	Selection process	Reason
Ron Richards Consulting	Corporate support	25 000	2	a
RSM Bird Cameron	Audit assistance	77 000	5	a
Saville and Holdsworth Australia Pty Limited	Corporate support	55 000	3	a
Steven Kouparitsas & Associates Pty Ltd	Audit assistance	33 000	5	a
Steven Kouparitsas & Associates Pty Ltd	Audit assistance	27 720	2	a
Strategic Facility Services Pty Ltd	Audit assistance	27 500	4	a
Strategic Facility Services Pty Ltd	Audit assistance	27 500	4	a
TMP Worldwide eResourcing Ltd	Accounting support	12 672	8	f
Towers Perrin	Accounting support	27 500	2	c
UNISYS Australia Limited	IT infrastructure upgrade	680 077	4	a
UNISYS Australia Limited	IT infrastructure upgrade	162 503	2	f
UNISYS Australia Limited	IT support	20 000	2	f
Total		\$7 023 237		

1. Publicly advertised through either Commonwealth Gazette or media
2. Not publicly advertised
3. Sole supplier
4. Two–three specific companies were approached to provide a selection of suitable people for interview
5. Letters written to 60 firms requesting staff with accounting skills for contracting—in during peak financial statement audit cycle.
6. Selective tender process (only those accounting firms considered to have the capability to deliver services on high cost/high risk financial statement audits)
7. Selected from an existing panel arrangement
8. Extension of an existing contract
 - (a) Lack of in-house resources and/or specialist skills
 - (b) Need for independent study
 - (c) Need for rapid access to latest technology and application experience
 - (d) Benchmarking
 - (e) In preparation for privatisation
 - (f) Government requirement

APPENDIX 7

Contact directory (as at 1 July 2002)

Homepage—<http://www.anao.gov.au>

Function

The ANAO provides objective, professional and 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 audit-related products; and
- providing advice and assistance which contributes to public sector reforms and initiatives.

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Abbreviations

AASG	Assurance Audit Services Group
ABC	Australian Broadcasting Corporation
ACA	Assurance control and assessment
ACAG	Australasian Council of Auditors–General
AEC	Australian Electoral Commission
AFFA	Department of Agriculture, Fisheries and Forestry—Australia
AFMA	Australian Fisheries Management Authority
AGO	Australian Greenhouse Office
ANAO	Australian National Audit Office
APS	Australian Public Service
ASOSAI	Asian Organisation of Supreme Audit Institutions
ATO	Australian Taxation Office
BPG	Better practice guide
BSP	Business support process
CA	Chartered Accountant
CASA	Civil Aviation Safety Authority
CFCG	<i>Commonwealth Fraud Control Guidelines</i>
CFO	Chief financial officer
CMB	Corporate Management Branch
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DCO	Diversity contact officer
DVA	Department of Veterans' Affairs
EBOM	Executive Board of Management
F&PA	[Senate] Finance and Public Administration [Committee]
FCA	Financial control and administration
FMIS	Financial management information system
GBE	Government business enterprise
INTOSAI	International Organisation of Supreme Audit Institutions
ISS	Information support services
ITSP	Information Technology Strategic Plan
JCPAA	Joint Committee of Public Accounts and Audit
KRA	Key result area
MIS	Management information system
OH&S	Occupational health and safety

PASG	Performance Audit Services Group
PBS	Portfolio Budget Statement
PD	Professional development
PDP	People Development Program
POI	Proof of identity
R&D	Research and development
SAN	Storage Area Network
T&E	Test and evaluation
VFM	Value for money
WCF	Workplace Consultative Forum

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