



# ANNUAL REPORT 2002–2003

## THE AUDITOR-GENERAL





ANNUAL REPORT 2002–2003  
THE AUDITOR-GENERAL

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<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

7 October 2003

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 2003.

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



P.J. Barrett  
Auditor-General



## Highlights

We met or exceeded the targets set in our ANAO Scorecard including the production of a record 68 audit products.

A survey of Parliamentarians found a high level of understanding of the ANAO's role and a high level of satisfaction with the quality of the ANAO's products and services.

A new Certified Agreement was put in place in May 2003, which provides attractive and competitive terms and conditions for staff for the next three years.

## Consistent performance

Our audit clients acknowledge our high level of understanding of their business and acceptance of our audit recommendations continues to be high.

Our financial position remains sound; we continue to effectively manage increases in costs, particularly in the areas of contract audit expenses and employee expenses.

Our workforce remains relatively stable and we continue to attract highly skilled candidates through targeted recruitment activity.

## Areas of focus for the coming year

We will:

- be alert to changes in governance frameworks to enable us to contribute to emerging issues;
- contribute to and assist our clients and our people to manage the adoption of international accounting and auditing standards;
- take action to achieve a more even tabling program of audit reports throughout the year;
- build on the initiatives in place to better manage our workforce including introducing a structured approach to succession and talent management; and
- develop improved means of managing our records and information.



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**Pat Barrett**  
Auditor-General for Australia



## Improving Organisational Governance in a Changing Environment

Recent years have seen a considerable re-evaluation of governance frameworks for both the public and the private sectors, and an increased focus on determining and implementing the elements of 'good governance'. New Public Management reforms have led to the public sector adopting, and/or adapting, private sector models and frameworks to achieve the Government's objectives. At the same time, a series of corporate collapses both in Australia, such as HIH, and internationally, such as Enron, have heightened attention to the importance of good governance for investor, the general public, and consumer confidence.

The changing environment has significant consequences for both public and private sector auditors, given the increased emphasis on establishing and demonstrating sound control systems and sound risk management, and on achieving a suitable balance between conformance and performance requirements. Auditors themselves have been the focus of considerable scrutiny, with particular attention being directed at the concept of auditor independence. Public sector managers have also been coming to terms with the need to marry private sector models and techniques with public sector accountability requirements as the two sectors increasingly converge.

The initial responses by regulators and related authorities have been aimed at the private sector. These have included the Sarbanes-Oxley Act and the upgraded corporate governance requirements of both the New York Stock Exchange and NASDAQ in the United States. In part, this action has set an initial benchmark of public expectation of the various authorities concerned. Australia has responded with the recommendations of the Ramsay Report<sup>1</sup> concerning auditor independence. This was largely accepted in the Corporate Law Economic Reform Program, Paper No.9 process<sup>2</sup>, which had a broader mandate and provided a range of suggestions building on those of the Joint Committee of Public Accounts and Audit (JCPAA), in its review of independent auditing by registered company auditors.<sup>3</sup>

The JCPAA's Report No.391 proposes a framework that would broaden the scope of the audit function to include, for example, corporate governance, risk management, internal control issues and other performance type issues. Business, professional and shareholder groups have broadly endorsed the Australian Stock Exchange Corporate Governance Council<sup>4</sup> voluntary guidelines on

<sup>1</sup> Ramsay, I 2001, *Independence of Australian Company Auditors: Review of the Current Australian Requirements and Proposals for Reform*, Report to the Minister for Financial Services and Regulation, Canberra, October.

<sup>2</sup> Commonwealth Treasury 2002, *Corporate Disclosure: Strengthening the Financial Reporting Framework*, Issues Paper No.9 of the Government's Corporate Law Economic Reform Program (CLERP 9), Canberra, 18 September.

<sup>3</sup> Joint Committee of Public Accounts and Audit (JCPAA) 2002, *Review of Independent Auditing by Registered Company Auditors*, Report No.391, Canberra, August.

governance, ethics and disclosure.<sup>5</sup> As well, Standards Australia has produced an authoritative set of standards for the effective corporate governance of large and small organisations, which establish general guidelines that can be tailored to individual needs.

Common themes in these reviews, reports and guidance have included a focus on audit quality issues, including independence, auditing standards, and oversight and enforcement issues.

The interest in corporate governance in Australia has continued with the establishment of a review led by Mr John Uhrig AC into the corporate governance of statutory authorities and office holders, with particular attention being paid to those that impact on the business community. A specific focus of the review is on a select group of agencies with critical business relationships, including the Australian Taxation Office, the Australian Competition and Consumer Commission, the Australian Prudential Regulation Authority, the Reserve Bank of Australia, the Australian Securities and Investments Commission, the Health Insurance Commission and Centrelink. A government response to the review is expected soon.

## Monitoring and reporting—performance assessment

Appropriate performance information is an essential element of the governance and operations of public and private enterprise organisations. As a consequence, over the last decade, many of the developments in relation to wide-ranging performance information such as the Balanced Scorecard and Triple Bottom Line<sup>6</sup> have been adopted, or adapted, by many organisations. Within the Australian Public Service (APS), agencies have devoted considerable resources to developing outcome/output/performance information frameworks consistent with the Department of Finance and Administration (Finance) guidelines associated with the implementation of accrual budgeting. We will see the first audit verified agency Triple Bottom Line accrual based report released in the near future.

While the ANAO is integral to the changing governance environment, it is also set apart from it due to its independent position within the Australian Government. It shares the accounting profession's concern over issues such as independence, the role of audit committees and boards, and the standardisation or 'harmonisation' of accounting and auditing standards internationally. However, it also faces unique challenges due to the particular dynamics influencing public sector administration. How we deal with a selection of these challenges to add value is discussed below.

## Integrated planning and delivery

The Australian National Audit Office (ANAO) occupies a unique position as the external auditor for the Australian Government. Public reports from an independent Auditor-General ensure that the Parliament, and beyond it the Australian public, have a reasonable degree of assurance in relation to the proper administration of Australian Government finances and public resources in general.

The ANAO has a dual role in terms of reporting on the financial management and overall performance of the public sector. Our first aim is to provide independent assurance. This is the

4 ASX Corporate Governance Council 2003, *Review of Corporate Governance of Statutory Authorities and Office Holders*, Press Release, 14 November.

5 For example, CPA Australia 2003, *Corporate Governance Council efforts must continue*. Information Centre: [http://www.cpaaustralia.com.au/01\\_information\\_centre/16\\_media\\_releases/2003/1\\_16\\_0\\_20030331\\_mr.asp](http://www.cpaaustralia.com.au/01_information_centre/16_media_releases/2003/1_16_0_20030331_mr.asp). Melbourne, 31 March.

6 A concept of business and government accountability that goes beyond shareholders for corporations and the parliament for government entities. The Triple Bottom Line concept includes economic, social, environmental and, recently, also governance issues.

more traditional 'watchdog' audit role. Our second is to suggest improvements to public administration based on our wide-ranging audit activities. Increasingly, it is this second, advisory role that is most important for a public sector which, in the proper pursuit of greater efficiency and effectiveness, is challenged by diverse governance issues which are growing in complexity, in particular in relation to accountability.

The ANAO is committed to providing an integrated auditing framework that draws on the strengths of each major element of our business; that is, financial (assurance) and performance audits. These audits are tailored to the assessed situation (needs) of public sector organisations. The approach capitalises on intelligence and experience gained in each area of administration and allows us to target areas for audit activity that add most value. In addition, it allows us to assess the value of our products over time, and to fine-tune our outputs to deliver required results. Our objective is to deliver high quality audit products that maintain and improve the high standards and professionalism of our audit and related services. These are the means by which we contribute to better management at the operational level and to better governance overall.

As with all other public sector agencies, negotiating the challenges of the changing governance environment, the ANAO has strengthened its own business practices to respond to new needs and directions. The ANAO has responded to the changed environment on two levels: both strategically and tactically. On the strategic level, we have given renewed attention to relationship management that demonstrates integrity and transparency, as well as to well-targeted products and services that provide assurance and value for money. On the tactical level, we have focussed on ensuring that our work continuously improves as we demonstrate accountability to Parliament, in terms of our legislative responsibilities, and for overall results to all our stakeholders. We endeavour to apply the same discipline and better practice to ourselves as we recommend for others.

## Audit Work Program

The ANAO continues to provide independent assurance on the financial statements and financial administration of Australian Government public sector entities to the Parliament, the Executive, Boards, Chief Executive Officers and to the public. To many, this is the essence of public sector auditing. However, we also aim to improve public sector administration and accountability by adding value through an effective program of performance audits and related products, including Better Practice Guides (BPGs). Communication of our activities and their outcomes through representation at a range of Parliamentary Committees, agency audit committees and Boards of government authorities and companies, is a growing element of our value adding activities. We also seek opportunities to contribute to the development of the accountability framework, including better practice and professional standards (as well as their harmonisation) in public sector accounting and auditing, through professional accounting and other audit bodies in Australia and overseas.

As part of its commitment to transparency, and in seeking to remain at the forefront of developments affecting the profession and its audit clients, the ANAO builds regular and ongoing liaison with relevant stakeholders into its annual schedule of activities. The most important of these, in terms of setting strategy for the Office over successive financial years, is the development and discussion of the ANAO's annual Audit Work Program. This document is made available to all Parliamentarians and public sector organisations as well as being placed on our website.

The administrative and related policy themes chosen as a basis for the development of an appropriate Audit Work Program, including the challenges that confront the public sector, continually change. This reflects a range of developments in the broader economic and social environment. Annual themes are identified as a basis for selecting topics to ensure that the audit program is targeted appropriately to improve the performance of public administration. An important part of this planning process is the early engagement of relevant stakeholders, including agency heads, and the Parliament, through the JCPAA, to ensure that the work program is optimally targeted to provide required assurance and assessment of a range of performance activities and results. More detail on progress against these themes is included in the following report overview.

In recent years, the ANAO has strengthened its assurance functional capability and extended its advisory role. By reinforcing its traditional functions, while remaining open to new approaches and innovation from its public and private sector colleagues in Australia and internationally, the ANAO is well placed to lead and guide in the contemporary public sector environment within our resource capabilities. In many cases, this ability is derived from the better practice observed in our audit activities.

For 2003–04, our audit coverage responds to emerging issues of interest to Parliament. As a consequence, the chosen themes include:

- governance following the Australian and international experiences of corporate failures;
- programs to meet the needs of communities in rural Australia following the drought;
- defence preparedness and security in the context of the heightened threat environment;
- the health and well being of Australians through effective health, education and employment programs;
- environmental issues including community concerns and expectations about the management of the environment; and
- the economy, through our audit process, supporting public sector initiatives to achieve good performance by improving public sector administration and accountability. In particular, audits that aim to encourage a more efficient Australian Government public sector with the implementation of better practices in key areas of public administration, and to provide independent assurance of financial reporting, administration, control and accountability in related areas.

Underpinning these areas of focus we will give strong consideration to the operational aspects of:

- human resource management, including workforce planning;
- financial management and reporting;
- performance management and measurement;
- procurement and contract management;
- application of information technology and other resources; and
- service delivery.

## Support for agencies

While independence is important for the ongoing credibility of the Auditor-General and the ANAO, we also try to nurture relationships with the full range of our stakeholders including the agencies we audit, as a means of improving our performance, credibility and acceptance.

It is vital that the ANAO continues to be an active participant in the public sector's development of the changing governance environment. While, in the past, the ANAO's prime focus may have been on ensuring compliance with legislation (the 'watchdog' function), this has now been subsumed as part of a broader approach to assist agencies to improve the quality and performance of public sector administration, including dealing effectively with the emerging governance and accounting changes. To be successful in such an environment also entails considerable understanding of those changes and what is driving them. In particular, this requires considerable cooperation between the Office and our audit clients as, together, we address the challenges confronting us.

We also encourage agencies to make early contact with the Office where they are faced with new or difficult administrative issues, such as any new accountability requirements and governance innovations. Our experience, across a range of issues both in Australia and overseas, allows us to assist agencies to understand better the opportunities and risks inherent in diverse management approaches. We are always mindful, however, of the need to maintain our independence whilst assisting agencies at the 'front end' with, say, observed better practice. It is for public sector managers to make their own decisions on whether or not to accept identified better practice, based on the particular risks and opportunities pertaining to their particular business environments.

## Products—designed to be relevant and state of the art

In order to meet its clients' changing needs in the new governance environment, the ANAO has moved towards a more strategic, risk-based audit approach. Our goal is to add value through audit products that are state of the art. We encourage innovation within a clearly defined auditing standards framework. The ANAO is committed to working closely with our national and international colleagues to ensure that we remain at the leading edge and that we have the right mix of assurance, compliance, accountability, and performance products.

ANAO audit products run the continuum from high-level performance audits that may target particular issues across the APS, to the traditional financial statement, financial control and business support products that provide assurance as to the stewardship of public funds in individual agencies. Demonstrating effective stewardship of public resources, virtually held in trust, is a key consideration in setting an appropriate public sector corporate governance approach that reflects the public interest, as well as ensuring high levels of performance.

The ANAO also disseminates better practice through a series of Better Practice Guides (BPGs), model financial statement reports (AMODEL) and Business Support Process (BSP) audit reports on a range of issues challenging the contemporary APS. For example, the ANAO released a BPG on Internal Budgeting designed to assist managers responsible for making decisions on the allocation, use and administration of resources.<sup>7</sup> Similarly, a BPG on managing Parliamentary Workflow provides practical assistance to agencies on their management of ministerial and

<sup>7</sup> ANAO 2003, *ANAO Better Practice Guide: Internal Budgeting*, Canberra, 10 March.



parliamentary support arrangements.<sup>8</sup> The recently released BPG on public sector governance is designed to assist Australian Government organisations to achieve better public sector governance, by discussing the overarching public sector governance framework, and proposing processes and practices to address commonly encountered governance problems.

Our reports are regarded as authoritative documents and enjoy a high level of demand from a range of public sector and private sector organisations and individuals. Our annual audit of the Consolidated Financial Statements and our assessment of agency control structures, for example, provide a unique overview as to the ongoing financial performance of almost 300 Australian Government entities. The report on ongoing control structures has attracted interest from other National Audit Offices.

## Cross portfolio audits

Recent years have seen an increase in the number of 'across the board' issues and cross-portfolio audits undertaken that compare experiences in a range of agencies and entities. For example, the ANAO has recently undertaken cross portfolio analysis of compliance with the 2001 Senate Order on commercial-in-confidence considerations, in relation to listing of departmental and agency contracts valued at \$100 000 or more on the internet.<sup>9</sup>

Other recent cross-portfolio audits include: the management of Australian Government guarantees, warranties, indemnities and letters of comfort<sup>10</sup>; energy efficiency in Australian Government agencies' operations<sup>11</sup>; and the payment of accounts and Goods and Services Tax administration by small Australian Government organisations.<sup>12</sup> Our ability to compare operations across the public sector, and sometimes with the private sector, as well as our statutory independence, are valuable strengths and add significant value to a wide range of stakeholders.

In terms of benchmarking services, our products currently comprise functional reviews of the major corporate support areas. The overall results of these reviews are published and tabled in the Parliament. At the audit client level, a customised report is provided to each entity participating in the benchmarking study. Our most recent benchmarking studies have covered the following areas: the internal audit function<sup>13</sup>; the finance function<sup>14</sup>; and managing people for business outcomes.<sup>15</sup>

Finally, as well as benchmarking and analysing public sector performance, we engage in comprehensive quality assurance review, both from internal and external sources, and compare our own performance to that of our peers in Australia and internationally. We also engage directly in peer reviews of other audit offices. These involvements are both a learning and accountability experience for the Office.

8 ANAO 2003, *ANAO Better Practice Guide: Managing Parliamentary Workflow*, 30 April.

9 ANAO 2003, *The Senate Order for Departmental and Agency Contracts (Spring 2002 Compliance)*, Report No.32, Canberra, 5 March.

10 ANAO 2003, *Management of Commonwealth Guarantees, Warranties, Indemnities and Letters of Comfort*, Report No.27, Canberra, 30 January.

11 ANAO 2002, *Energy Efficiency in Commonwealth Operations—Follow up Audit*, Report No.24, Canberra, 20 December.

12 ANAO 2002, *Payment of Accounts and Goods and Services Tax Administration by Small Commonwealth Organisations*, Report No.22, Canberra, 12 December.

13 ANAO 2002, *Benchmarking the Internal Audit Function Follow-on Report*, Report No.13, Canberra, 23 October.

14 ANAO 2002, *Benchmarking the Finance Function Follow-on Report*, Report No.62, Canberra, 26 June.

15 ANAO 2002, *Managing People for Business Outcomes*, Report No.61, Canberra, 25 June.

## Real time auditing

An additional challenge for the public sector is the shift towards 'real time' or early intervention auditing where issues can be identified and brought to the attention of management early in the process. The ANAO seeks to assist agencies expeditiously, and both technological developments and responsive relationship management can assist us in this. The trend towards real time auditing may have some implications for audit independence which needs to be well managed. However, 'real time' products and services are also of increasing value to our audit clients and consequently require further analysis as part of our strategic planning processes. This is particularly the case in terms of our financial statement audit approach. The significant issue continues to be having robust systems in place that can be relied on, particularly in maintaining security of information.

## International harmonisation of accounting and auditing standards

An issue given particular prominence in the debate over reform of the accounting and auditing environment is that of the harmonisation of international accounting standards. The next 18 months are shaping up as challenging times for the profession, with significant work still to be completed on the harmonisation of Australian Accounting Standards with International Standards. The official description is the 'adoption' of International Standards.

While the accounting profession as whole will be busy with this work, the public sector has the added task of considering the harmonisation of Government Financial Statistics (GFS) with Australian Generally Accepted Accounting Principles (GAAP). These initiatives are an indication of the gradual acceptance of the concept of one set of standards or at least one standards setting body, hopefully with a sector neutral approach to financial reporting, in part reflecting the convergence of the various sectors of the economy.

The ANAO supports the principle of harmonisation towards a single reporting framework as a means of overcoming user concerns. The development of such a framework through an industry specific accounting standard is primarily a matter for the Australian Accounting Standards Board's due process for promulgating accounting standards. However, its development will need the support of respective stakeholders involved in public sector accounting.

The ANAO is represented on the Heads of Treasuries Accounting and Reporting Advisory Committee's Working Group for GFS/GAAP Convergence. The Group has identified fifteen differences between the two frameworks. Following analysis of these differences, the Group concluded that a number of the GFS concepts could be readily accommodated within an Australian Accounting Standard for the public sector. However, some GFS treatments are not easily reconciled with the latter.<sup>16</sup> This Group will provide suitable material and suggestions to the AASB for any action they may wish to take in the standards arena. These issues also need to be considered in the broader context of Australia's commitment to adopt international accounting standards by 2005.

In addition to the harmonisation of Australian Accounting Standards with international standards, harmonisation will be extended to encompass auditing standards under the International Auditing and Assurance Standards Board (IAASB). Under the Corporate Law and Economic Reform

<sup>16</sup> Department of Finance and Administration and Tasmanian Department of Treasury and Finance 2003, *Harmonisation of Government Finance Statistics and Generally Accepted Accounting Principles—Issues Paper*, March, pp. 5–6.

Program (CLERP 9) proposals for reform, the Government has indicated it will expand the responsibilities of the Financial Reporting Council (FRC) to oversee auditor independence requirements in Australia, including auditing standard setting arrangements. A single set of high quality auditing standards would also enhance the reputation and credibility of the auditing profession and help restore public confidence in it.

The International Organisation of Supreme Audit Institutions (INTOSAI) and International Federation of Accountants (IFAC) through its Public Sector Committee have been providing institutional coordination to manage the ongoing international harmonisation processes. As a member of both INTOSAI and IFAC the ANAO has significant influence in these important developments.

## Investing in the future

As well as actively participating with its national and international colleagues in debates surrounding the new governance and auditing environment, the ANAO is seeking to ensure that it is well placed to lead and guide in the future from its audit activities. The latter can provide considerable better practice and benchmarking material which is supplemented from the close association we have with other Audit Offices and professional bodies, including relevant international bodies.

A major current focus at the ANAO is the implementation of a workforce planning initiative that is designed to provide a more rewarding professional environment for staff, as well as to maintain and enhance the skills of our own people. Elements of the workforce planning strategy include a rewards and recognition program, the definition and promotion of ANAO culture and values, identification of ANAO specific capabilities, new recruitment and selection procedures, improved workforce reporting, career development frameworks, and other targeted staff retention strategies. Our aim is to achieve an optimum fit between our people, our skills and the work required of us. Our ultimate aim is to ensure that the ANAO remains an employer of choice for people with appropriate professional skills and/or experience.

It is important that the ANAO ensures that it has the expertise required to undertake audits in emerging areas. For the ANAO, this means striking a balance between building and maintaining specialist skills in-house, and developing effective alliances and partnerships with other professional organisations in both the public and private sectors and with specialists in relevant industry and other groups. The practical issue is that we cannot expect to have all required skills in-house.

The increased scrutiny of corporate governance frameworks in both the public and private sectors has led to a corresponding demand for training in this aspect of administration. The Big 4 accounting firms have been working with corporate boards to enhance awareness of the impact of the new rules for business and industry.<sup>17</sup> As mentioned earlier, the Australian Stock Exchange and Standards Australia have developed better practice principles and corporate governance standards respectively. The ANAO has developed an update of its BPGs on corporate governance, which was released in July this year. As well, we continue to work with client agencies in promoting identified better practice and disseminating lessons learned from across the public and private sectors.

<sup>17</sup> Morris, J 2003, *Demand for Audit Training Soars*, Business Review Weekly, 27 February, p.74.

An important new area of ANAO activity in building skills for the future is the introduction of the Graduate Certificate in Performance Auditing, which is a joint initiative of the ANAO and the University of Canberra.<sup>18</sup> While performance audit has had a well-established role in public administration for at least 20 years, training has so far been largely 'on-the-job'. Such training has been complemented by some excellent analytical materials from other organisations, such as the Australian Bureau of Statistics, and other audit offices.<sup>19</sup>

The Graduate Certificate course aims to enhance the professional development of both public and private sector auditors, and to provide a nationally and internationally recognised qualification in this increasingly important field for graduates. As the governance and auditing environment becomes ever more complex and dynamic, such expertise will undoubtedly be invaluable. This has been an important initiative, as part of our strategy for the future, which involves working with others for our mutual benefit to ensure we have the capabilities to fulfil our legislative imperatives and to achieve other required results.

## The year in perspective

This past year we have built on our previous success with a record number of quality products. However, next year we will endeavour to improve the tabling schedule to achieve a more even distribution throughout the year thus minimising the peaks in June and December. We increased our senior staff involvement with Parliament, individual members, chiefs of staff and also agency heads to promote greater understanding and cooperation. In response to JCPAA Report 386, which recommended a number of amendments to the Auditor-General Act, we have taken the early step of adopting the recommendation to include agency comments in the final report in full and have advised agency heads accordingly.

Our annual controls report, which updates our previous year's assessment of audit findings in relation to major entity internal control structures, indicates there has been a modest but general improvement in: agencies' internal control environment; information technology systems; and control procedures. We have also noted that, while there were areas of improvement identified, findings were generally sound in relation to our areas of focus this year, namely: human resource management including workforce planning; financial management and reporting; performance management and measurement; procurement and contract management; application of information technology and other resources; and service delivery.

There has been a greater involvement of Ministers and their staff in performance auditing which is welcome. However, in some cases this has extended the timeframe for the completion of some audits and added to audit costs as well as delays to other audits. It is important for the audit program, and our performance, that the statutory period for agency comment on our final draft reports<sup>20</sup> is met, other than in exceptional circumstances.

Our workforce planning initiative is progressing well and I am pleased to report that most of our HR indicators are positive. We have also maintained our overseas exchange program, which includes arrangements with the Audit Offices of New Zealand and Canada.

<sup>18</sup> For more information on the Graduate Certificate in Performance Auditing, see <http://www.dmt.canberra.edu.au/flex/intensive/gradcertperfaud.html>

<sup>19</sup> A good example is the UK National Audit Office and Audit Scotland's current Statistical Handbook *Measuring Evidence—for value for money and performance audit*, London 2002.

<sup>20</sup> Under section 19 of the *Auditor-General Act 1997*.

As always, I must acknowledge the outstanding efforts of my staff. They continue to perform their duties with professional dedication and always find the extra effort needed to meet the challenges of our changing environment, which brings great credit to the Office. In closing, I was honoured to be awarded the Order of Australia in this year's Queens Birthday Awards for service in the promotion of good governance in the public sector. I see this award as recognition, not only of my efforts, but the excellent achievements of the Office as a whole. I would therefore like to publicly acknowledge these achievements with a sincere thanks to all concerned.





## The Auditor-General's role and responsibilities

The Auditor-General, through the ANAO, provides an independent review of the performance and accountability of Australian Government 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 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 Australian Government 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 1994*. Performance audits of wholly owned GBEs may only be undertaken at the request of the responsible Minister, the Finance Minister or the JCPAA.

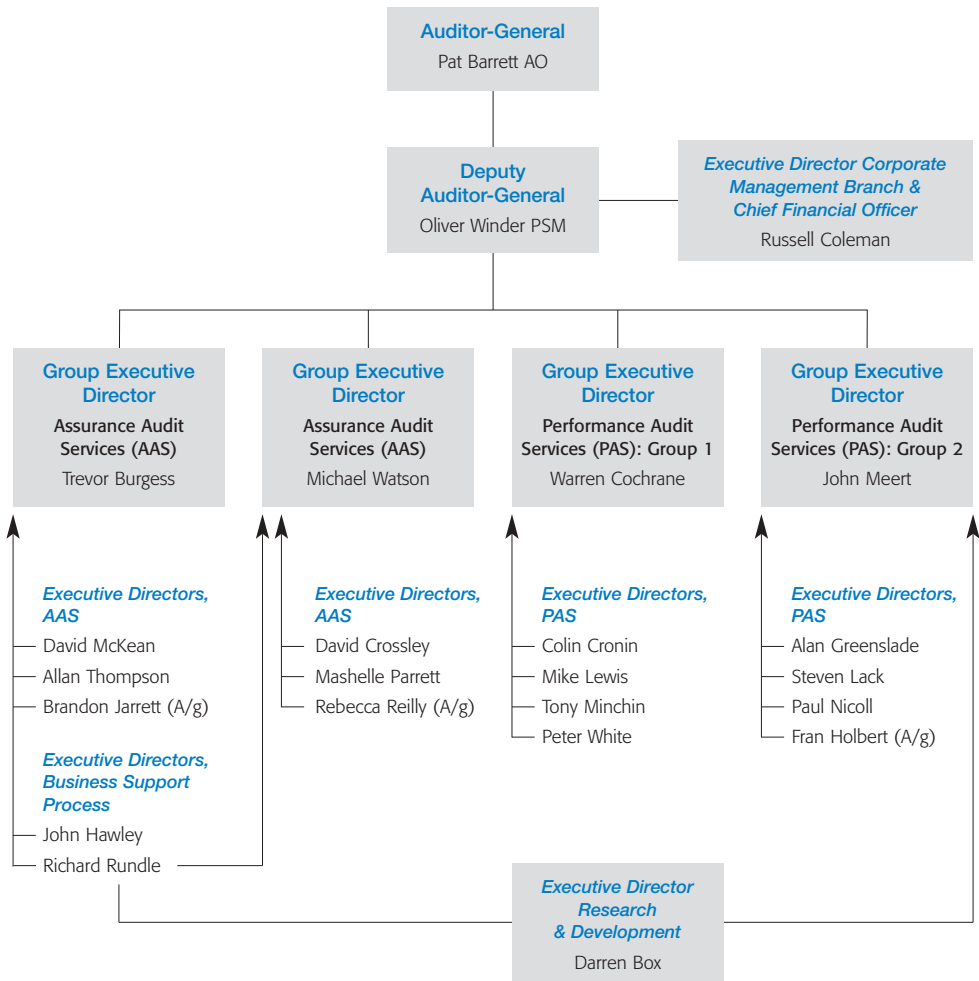
## Organisation

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 Australian Government public sector entities to the Parliament, 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 2003, is shown in Figure 1.



Figure 1: Organisation and senior management structure as at 30 June 2003



### For more information

The ANAO website, [www.anao.gov.au](http://www.anao.gov.au), provides extensive information on the ANAO and also provides links to audit offices in other jurisdictions in Australia and internationally.



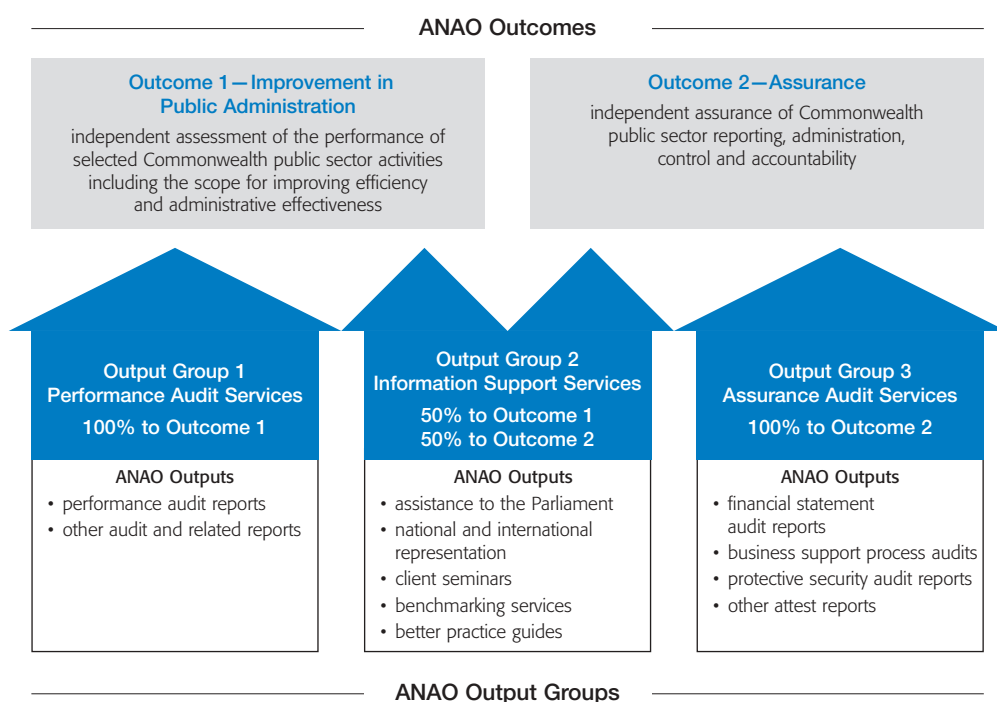
The ANAO's homepage.

## The ANAO's Outcome–Output framework

The following explanation relates the Outcome–Output framework as set out in the ANAO 2002–03 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 this 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 to the achievement of the ANAO's outcomes.

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 financial resources for 2002–03, on an outcome–output basis, are summarised in Table 1. Tables 2 and 3 detail the financial resources for each outcome.

The ANAO's financial statements for 2002–03 are set out at Appendix 2, which also includes a commentary on the ANAO's financial performance for the financial year.

## Financial Summary

The ANAO's overall financial position improved during 2002–03 as a result of prudent management of expenditure and the continued effect of measures to reduce liabilities, particularly employee annual leave entitlements. At the same time, the ANAO has met the targets for tabling of performance audits and increased the total number of hours devoted to the delivery of audit products and services.

The ANAO continues to have sufficient assets to meet ongoing liabilities and commitments, including escalations in lease obligations, employee entitlements and assets replacement. More detailed information on the ANAO's financial position is outlined in the 2002–03 Financial Results Summary at Appendix 2.

It is satisfying to note that the ANAO's Independent Auditor found that the systems and controls in the corporate services area were operating effectively and year-end financial statement preparation procedures were well organised and undertaken in an efficient and timely manner. The Independent Auditor added that reinforcement of the Auditor-General's Instructions has improved the general control environment.

## Resources for Outcomes

**Table 1: Financial resources summary**

<b>Summary—ANAO by outcome</b>		<b>\$'000</b>
		<b>Actual</b>
		<b>2002–03</b>
Outcome 1		21 370
Outcome 2		30 974
	Subtotal Outcomes	52 344
	Revenue from other sources	(3 580)
	<b>TOTAL PRICE FOR OUTCOMES</b>	<b>48 764</b>
<b>Revenue from Government (Appropriation) for Departmental Outputs</b>		<b>(53 340)</b>
	<b>Operating Surplus</b>	<b>4 576</b>
<b>By Output Group</b>		<b>\$'000</b>
		<b>Actual</b>
		<b>2002–03</b>
Output Group 1 (Performance Audit Services)		19 860
Output Group 2 (Information Support Services)		3 020
Output Group 3 (Assurance Audit Services)		29 464
	Subtotal Outcomes	52 344
	Revenue from other sources	(3 580)
	<b>TOTAL PRICE FOR OUTCOMES</b>	<b>48 764</b>
<b>Revenue from Government (Appropriation) for Departmental Outputs</b>		<b>(53 340)</b>
	<b>Operating Surplus</b>	<b>4 576</b>
	<b>Average Staffing Level</b>	<b>285</b>

Table 2: Resources for Outcome 1

## Outcome 1 – Improvement in Public Administration

	\$'000 Budget 2002–03	\$'000 Actual 2002–03	\$'000 Variance
<b>Price of Departmental Outputs</b>			
<b>Output Group 1 (Performance Audit Services)</b>			
Output 1.1 Performance Audit Reports	17 039	18 097	(1 058)
Output 1.2 Other Audit and Related Reports	1 286	1 763	(477)
Subtotal Output Group 1	18 325	19 860	(1 535)
<b>Output Group 2 (Information Support Services)</b>			
Output 2.1 Assistance to the Parliament	401	412	(11)
Output 2.2 National and International Representation	217	269	(52)
Output 2.3 Client Seminars	91	124	(33)
Output 2.4 Benchmarking Services	219	302	(83)
Output 2.5 Better Practice Guides	493	403	90
Subtotal Output Group 2	1 421	1 510	(89)
<b>Output Group 3 (Assurance Audit Services)</b>			
Output 3.1 Financial Statement Audit Reports	–	–	
Output 3.2 Business Support Process Audit Reports	–	–	
Output 3.3 Protective Security Audit Reports	–	–	
Output 3.4 Other Attest Reports	–	–	
Subtotal Output Group 3	–	–	
<b>Subtotal Output Groups</b>	19 746	21 370	(1 624)
<b>Revenue from other sources</b>	552	1 124	(572)
<b>TOTAL PRICE FOR OUTCOME 1</b>	<b>20 298</b>	<b>22 494</b>	<b>(2 196)</b>
<b>Revenue from Government (Appropriation) for Outputs</b>	19 746	19 833	(87)

Table 3: Resources for Outcome 2

## Outcome 2—Assurance

	\$'000 Budget 2002–03	\$'000 Actual 2002–03	\$'000 Variance
<b>Price of Departmental Outputs</b>			
<b>Output Group 1 (Performance Audit Services)</b>			
Output 1.1 Performance Audit Reports	—	—	
Output 1.2 Other Audit and Related Reports	—	—	
Subtotal Output Group 1	—	—	
<b>Output Group 2 (Information Support Services)</b>			
Output 2.1 Assistance to the Parliament	401	412	(11)
Output 2.2 National and International Representation	217	269	(52)
Output 2.3 Client Seminars	91	124	(33)
Output 2.4 Benchmarking Services	219	302	(83)
Output 2.5 Better Practice Guides	493	403	90
Subtotal Output Group 2	1 421	1 510	(89)
<b>Output Group 3 (Assurance Audit Services)</b>			
Output 3.1 Financial Statement Audit Reports	28 298	25 850	2 448
Output 3.2 Business Support Process Audit Reports	3 000	2 224	776
Output 3.3 Protective Security Reports	210	137	73
Output 3.4 Other Attest Reports	665	1 253	(588)
Subtotal Output Group 3	32 173	29 464	2 709
<b>Subtotal Output Groups</b>	<b>33 594</b>	<b>30 974</b>	<b>2 620</b>
<b>Revenue from other sources</b>	<b>938</b>	<b>2 456</b>	<b>(1 518)</b>
<b>TOTAL PRICE FOR OUTCOME 2</b>	<b>34 532</b>	<b>33 430</b>	<b>1 102</b>
<b>Revenue from Government (Appropriation) for Outputs</b>	<b>33 594</b>	<b>33 507</b>	<b>87</b>

## Summary of progress against audit themes

Each year 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. These topics are developed as part of the audit work program in close consultation with the JCPAA and, through the JCPAA, with other committees of the Parliament. In selecting audit topics for 2002–03, as noted earlier, consideration was given to the following issues:

- governance issues (human resource management; financial management and reporting; and performance management and reporting);
- procurement and contract management;
- application of information technology and resources; and
- service delivery.

Highlights of our progress against these themes is discussed below. A more detailed account of findings from relevant audit reports in relation to these themes is set out in Appendix 4.

## **Governance—human resource management**

The benchmarking study, *Managing People for Business Outcomes, Year Two*, provided an excellent vehicle to focus on this issue. Since the first study, the majority of participating agencies have demonstrated improved performance, with three showing significant progress. Areas most improved were learning and development, workforce planning, organisation development, and reward and recognition. Least overall improvement was observed in the area of performance management. Improvement in the learning and development area was reinforced with the better practice guide *Managing Learning and Development in the APS*, which followed an audit on the same theme in 2001–02.

Other work included an audit on customer service delivery, which was able to emphasise the importance of the human resource management function in supporting customer service staff to achieve better service delivery outcomes. An audit of Centrelink examined progress in the planning and delivery of training against earlier audit findings. Some progress was evident, but areas for additional improvement were identified. An audit on absence management found that there is significant scope for improvement in this area across the Australian Public Service.

## **Financial management and reporting**

ANAO advice and advocacy work has again contributed to the improved financial management and reporting across the Australian Government. This year, management of agency funds and administered expenses and revenues has been highlighted, as has the treatment of the goods and services tax. As a result of an audit on GST fraud prevention and control, the ATO is now revising fraud prevention and control procedures. A business support process audit of the payment of accounts and GST administration in small Commonwealth agencies showed improved performance. Guidance for the management of GST has been reinforced in a detailed better practice guide.

Other audits show that Australian Government agencies have also identified continuing improvement in their management of guarantees, indemnities and letters of comfort in recent years, with exposures halving since June 1997. Management of trust monies and international financial commitments have emerged as areas in need of attention. Other recommendations in the areas of: grants administration; replication of financial statements; audit report information into annual reports; the capitalisation of software; and agencies' monthly 'closing the books' processes; were accepted by agencies, which has added real value to these important areas of public administration.

## **Performance management and reporting**

Agency performance reporting has been closely monitored for some years. This year the ANAO maintained the focus on assisting agencies to better understand and gain value from improved performance information and reporting. However, this remains an area of difficulty for many agencies. The ANAO seeks to assist agencies where difficulties arise. For example, this year early guidance for ecologically sustainable development was provided to assist relevant agencies with their annual reporting requirements. As well agencies' performance against business continuity management better practice principles was reviewed in light of the ANAO better practice guide *Business Continuity Management—Keeping the Wheels in Motion*. The audit confirmed that the guide continues to provide relevant and useful information to assist agencies in assessing their performance in business continuity planning and management.

## Procurement and contract management

There has been an increasing focus on procurement and contract management in ANAO audit work, reflecting a greater use of outsourcing and contracting by agencies across the public sector. As well as reinforcing previous work in the area of contract management, including the publication of the better practice guide entitled *Contract Management, February 2001*, a series of recent ANAO audits has focused on the conduct of large asset sales. Findings from successive audits indicate a growing awareness by public sector agencies that their performance in this area is likely to be scrutinised by the ANAO. It was therefore pleasing to report in the recent review on the sale of Sydney airport, that the sale had been both effectively managed and represented a very good outcome for the Australian Government. Work done on the review of the Senate requirement to present certain contract information on agency websites has also reinforced an awareness of the scrutiny that is being applied to this requirement. This enhanced awareness has contributed to a marked improvement in the amount and quality of information available on contracts let by agencies.

## Application of information technology (IT) and resources

With the growth in IT systems throughout the public sector there has been a corresponding need to place a greater emphasis on the audit of the management and effectiveness of these systems. As with the other areas of emphasis, the ANAO seeks to help agencies understand the importance of overall IT governance issues, including areas where improvements can be realised. This year the ANAO was able to expose a number of issues, where there was room for improvement, including IT governance and the ability of systems to support cost effective and reliable service delivery. It was not unusual to find that agency IT systems were managed soundly at one level of the business, but were in need of significant improvement in others.

## Service delivery

Audits show an increasing awareness by agencies of the emphasis placed by the Government and the public on achieving efficient, value for money service delivery outcomes. For example a Child Support Agency follow-up audit demonstrated that the Agency had placed strong emphasis on addressing issues and recommendations cited in a previous audit. Good outcomes were also evident in areas such as passport services, pest and disease management and Medicare customer service delivery. However, other audits of services involving large-scale payments revealed a mixed picture, with some agencies identifying significant room for improvement.

## Report on Control Structures as part of the Audit of Financial Statements

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 Australian Government 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. An overview of the findings of this report are discussed below. A more detailed account can be found in the Outcomes Group Three section of this report.

### **Internal control environment**

As part of the financial statement audit process, the ANAO assesses whether an entity's internal control environment comprises measures that contribute positively to sound corporate governance. Entities generally agreed in last year's report that improvements were necessary in areas including risk awareness; quality and presentation of monthly financial reporting; integrating financial and non financial data; and improving the capacity of internal audit to deliver a blend of compliance, performance and risk-based audit services. Audit observations indicated that progress has been achieved across most entities in these areas. However, in some cases, further progress and refinement is still required. This is particularly the case in respect of expanding the level of reporting of non-financial performance measures and reviewing the effectiveness and efficiency of entity internal audit functions.

### **Information technology (IT) systems**

This report last year identified IT areas in need of improvement including greater levels of integration of IT into the corporate planning process; refinement of IT project management policies; expansion in the reporting of IT organisational monitoring; continued development of business continuity and disaster recovery plans; and refinement of IT security strategies and policies. Overall, the results of audit testing indicate that most entities have taken steps to address the issues raised in last year's report, albeit to varying degrees. Opportunities exist for most entities in the coming year to further improve their IT processes, which will continue to assist in better aligning the IT corporate governance framework with business objectives.

### **Control procedures**

An entity's system of internal control includes the procedures established to provide reasonable assurance that operational and administrative objectives and goals are achieved. Internal control procedures within significant operational and accounting processes and financial systems are examined as part of the audit of an entity's financial statements. In most entities, key areas covered in the interim phase of the audit will include: appropriations and other revenues; payment of expenses; employment and related costs; cash management; and asset management. Some entities continue to experience difficulty with a number of control processes specific to their operations. Examples include: timely completion and review of reconciliations; segregation of duties; inappropriate delegations; incorrect classification of general ledger expenses; monitoring of grant and funding agreements; reconciliation of program payments; poor documentation relating to asset acquisitions and disposals; and the timely recording of those asset movements. Reconciliation of the asset register to the financial management information system remains an issue requiring attention.





## Australian National Audit Office

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 2002–03 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 primarily 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'.

## ANAO scorecard 2002–03

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 very supportive of ANAO reports 96% surveyed <sup>1</sup> expressed satisfaction with ANAO information products.	<b>Performance audit products</b> <ul style="list-style-type: none"> <li>— performance audit reports</li> </ul> <b>Information support products</b> <ul style="list-style-type: none"> <li>— better practice guides</li> <li>— benchmarking studies</li> <li>— activity reports</li> <li>— financial statement client seminars</li> </ul> <b>Assurance audit products</b> <ul style="list-style-type: none"> <li>— financial statement audit opinions</li> <li>— business support process audit reports</li> <li>— protective security audit reports</li> <li>— financial statement related reports</li> </ul>	48	47
Level of satisfaction with timeliness of reports in assisting parliamentarians to make informed decisions.	75%	Parliament is very supportive of ANAO reports. 96% surveyed expressed satisfaction with ANAO information products.	Audits conducted in conformance with ANAO Auditing Standards.  100% of audits subject to quality assurance reviews.	100%	100%
Percentage of audit recommendations supported by the JCPAA and other parliamentary committees.	90%	All supported.	Product Ratings by the Executive—suitable or higher.	100%	100%
Public sector organisations acknowledge the value added by ANAO products and services.	90% value role of ANAO.	88% AASG <sup>2</sup> 94% PASG <sup>3</sup>	Services and products meet cost and timeliness standards.	80% for all product types.	90%

KRA 3 Highly Performing People		KRA 4 Good Business Management		
Staff satisfaction is at an acceptable level.	>70% <sup>4</sup>	Bi-annual staff survey, next scheduled for October 2003.	The performance of support services met agreed targets. <sup>5</sup>	100%  All targets were met to an agreed level of satisfaction.
Staff retention is within agreed parameters.	<18% turnover. <sup>6</sup>	19.6%	All relevant costs are recovered either notionally or actually.	100%
Public sector organisations acknowledge understanding and skills of ANAO staff through client satisfaction surveys.	90% of agencies rate ANAO staff skills as '4' or above. <sup>7</sup>	92% AASG 92% PASG	Implementation of Business Plan initiatives within agreed timeframes and standards.	Nine of the eleven initiatives were fully implemented. One in progress, one deferred until 2003–04.
Professional development program result in an improvement in the level of performance of staff.	Staff and supervisors acknowledge a performance benefit. <sup>8</sup>	78% of staff and supervisors acknowledge performance improvement.		
Staff acknowledge ANAO Values and Behaviours are exhibited.	85% <sup>9</sup>	Bi-annual staff survey, next scheduled for October 2003.		

1. 2002–03 Parliamentary Client Survey.

2. AASG Client survey.

3. PASG Client Survey.

4. Measured by staff survey.

5. These are outlined in the relevant Product or Operational Plans for each work area.

6. ANAO wide target—separate targets are set up for each work area.

7. Client surveys, ratings scale 1 to 5.

8. Measured by staff survey.

9. Measured by staff survey.

## OUTPUT GROUP 1

### PERFORMANCE AUDIT SERVICES

The outputs that comprise Output Group 1 in 2002–03 are:

- performance audit 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 1 and 2 in this report.

Prior to 2002–03, Financial Control and Administration (FCA) audits were reported as part of Output Group 1. In 2002–03 these audits have been replaced by Business Support Process audits and are now included as part of Output Group 3.

#### 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 Better Practice Guides (BPGs) for dissemination throughout the Australian Government public sector. The guides are discussed under Output Group 2.

Because of the size, complexity and diversity of most Australian Government 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 Australian Government public sector.

Audit topics are selected on two grounds:

- 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 performance audit outcomes. In selecting audit topics for 2002–03, consideration was given to the following issues:

- governance issues (human resource management; financial management and reporting; and performance management and reporting);
- procurement and contract management;
- application of information technology and resources; and
- service delivery.

The ANAO's Audit Work Program is developed in close consultation with the JCPAA and agencies. The JCPAA also seeks and coordinates comments for other Parliamentary committees on the ANAO's draft Audit Work Program.

### **Inclusion of agency comments in audit reports**

Maintaining a relationship of professional co-operation with the audited body during the life of an audit is of crucial importance to the ANAO. To facilitate this outcome: the ANAO consults fully with agencies during the planning stages; provides early information on the audit approach and objectives; maintains open and regular communication with the audited body; and advises audit conclusions and proposed recommendations as soon as practicable. In addition, under Section 19 of the *Auditor-General Act 1997*, the Auditor-General provides a copy of the proposed report to the audited agency. The audited agency is allowed a maximum of 28 days to respond to the proposed report.

In its Report 386 (*Inquiry into the Auditor-General Act 1997*, published in September 2001), the JCPAA recommended a number of amendments to the Act. One recommendation was that the Auditor-General include agency comments on a proposed report in full in the final report. The Government agreed to this recommendation. The Auditor-General decided that, for proposed reports issued from 1 July 2003, agency comments are to be included in full, and advised agency heads accordingly.

This decision emphasises the need for careful management, by both audited agencies and the ANAO, of the 28-day comment period to ensure that requests for extensions of time remain the exception. While the ANAO recognises practical problems of co-ordination of responses, increasingly protracted delays add unrecoverable costs to an audit, increase the risk of the timeliness of reports to the Parliament being lost, and disrupt the audit program, with consequent adverse impacts on other agencies.

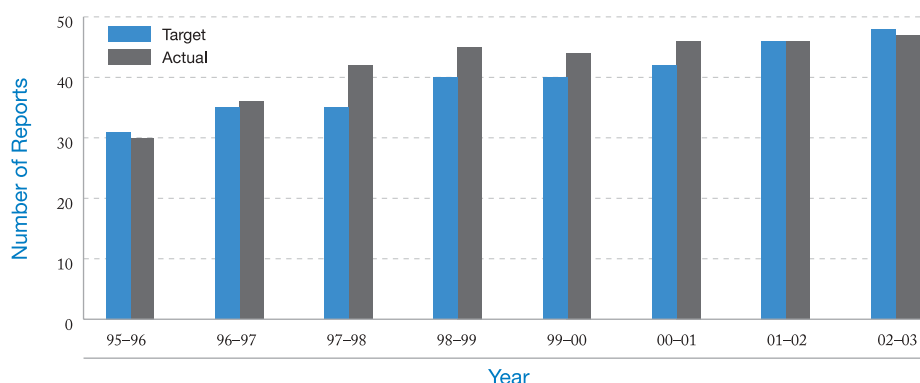
### **Performance**

The primary performance attributes for this output relate to the number of reports produced, their cost and quality. Quality targets for performance audit reports are set out in the ANAO Business Plan, which are reported in the ANAO Scorecard in the previous section, and also discussed under 'Contribution to Outcomes'.

### Number of reports

During the year 47 performance audit reports were produced against a target of 48. For 2001–02 the comparable figures were 46 and 46. 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 may be conducted in all ministerial portfolios and the audit reports tabled during 2002–03 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 2002–03 is at Appendix 3. All recent performance audit reports are also placed on the ANAO’s homepage at <http://www.anao.gov.au>.

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*.

### Average timeframes and costs

The average time taken to complete an audit report was 11 months with a range from 5.2 to 15.5 months. The average cost was \$310 000 with a range from \$112 000 to \$631 000.

### Cost

The ANAO has in place an activity based costing system which involves a charge-out rate being struck for each level of audit staff. This charge-out rate is applied to the hours consumed on each target or service to determine its cost. The objective is for all relevant costs to be reflected in the costs of our products and services.

The performance audit reports output consumed \$18.097 million in resources in 2002–03 (\$15.267 million in 2001–02).

Overall, the Performance Audit Services Group charged 120 325 hours in 2002–03, generating \$16.210 million in notional cost recovery against actual costs of \$16.199 million. (127 668 hours in 2001–02, generating \$15.101 million in notional cost recovery against actual costs of \$16.075 million).

## Other audit and related products

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

During the latter half of 2002–03 the *Audit Work Program 2003–04* 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 August 2003. 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 2003 and a list of performance audit topics from which audits for 2003–04 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.

## Cost

The cost of other audit and related reports in 2002–03 was \$1.763 million (\$1.930 million in 2001–02).

## Contribution to Outcome 1—Improvement in public administration

### 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 Australian Government.



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



ANAO performance auditors Corinne Horton (left) and Greg Adnams.

## JCPAA

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 390 reviewed audit reports on the administration of tax rulings, Australian Government estate property sales, the administration of the Federation Fund Program and the management of security clearances.

JCPAA Report 393 reviewed audit reports on the corporate governance of the Australian Broadcasting Corporation, research project management in the Commonwealth Scientific Research and Industrial Organisation, the management framework for preventing unlawful entry into Australian territory, and the management of the DASFLEET tied contract.

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.

The JCPAA also held hearings into but is yet to report on the following reports:

- Audit Report No.2 2002–03 *Grants Management* (Aboriginal and Torres Strait Islander Commission);

- Audit Report No.3 2002–03 *Facilities Management at HMAS Cerberus* (Department of Defence);
- Audit Report No.7 2002–03 *Client Service in the Child Support Agency Follow-up Audit*;
- Audit Report No.18 2002–03 *Management of Trust Monies* (Cross Agency);
- Audit Report No.19 2002–03 *The Australian Taxation Office's Management of its Relationship with Tax Practitioners* (Australian Tax Office);
- Audit Report No.20 2002–03 *Employee Entitlements Support Schemes* (Department of Employment and Workplace Relations);
- Audit Report No.23 2002–03 *Physical Security Arrangements in Commonwealth Agencies* (Cross Agency);
- Audit Report No.25 2002–03 *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2002* (Cross Agency);
- Audit Report No.26 2002–03 *Aviation Security in Australia* (Department of Transport and Regional Services);
- Audit Report No.27 2002–03 *Management of Commonwealth Guarantees, Warranties, Indemnities and Letters of Comfort* (Cross Agency); and
- Audit Report No.28 2002–03 *Northern Territory Land Councils and the Aboriginal Benefit Account*.

The JCPAA also produced one report in the year following up an ANAO report. Report 394, *Review of Australia's Quarantine Function*, followed up ANAO Audit Report No.47 2000–01 *Managing for Quarantine Effectiveness*. In its review, the Committee sought to reassure the Parliament that the Auditor-General's recommendations had been carried through, and that the additional funds allocated to the quarantine function were being well spent. In general, the Committee considers Australia's quarantine function was in good shape and the additional funding was being appropriately used. However, the Committee found some gaps and areas where enhancement was warranted, and made fourteen recommendations designed to assist enhancement.

In December 2002, the JCPAA announced an inquiry into the management and integrity of electronic information in the Australian Government. Committee hearings commenced in 2003. The inquiry is partly in response to the Audit Report No.13 2001–02 *Internet Security within Commonwealth Government Agencies* and the ANAO Better Practice Guide, *Internet Delivery Decisions*. The ANAO made a submission to the inquiry.

Following a review of Audit Report No.26 2002–03 *Aviation Security in Australia*, the JCPAA also announced, in June 2003, its intention to conduct a public inquiry into aviation security arrangements in Australia.

### **ANAO audits undertaken at the request of the Parliament**

Audit Report No.14 2002–03 *Health Group IT Outsourcing Tender Process*, was undertaken at the request of the Senate Finance and Public Administration References Committee. The objective of the audit was to examine and report on the selection of the preferred tenderer in the Health Group IT outsourcing process. Audit emphasis was placed on the management of probity aspects of the tender process, particularly in regard to events that occurred between June 1999,

when tenderers provided their penultimate pricing, and the selection of the preferred tenderer in September 1999.

Two reports on Defence tabled during the year were completed at ministerial or parliamentary committee request. Report No.3 2002–03 *Facilities Management at HMAS Cerberus*, was completed at the request, in 2001, of the then Minister for Defence. Report No.56 2002–03 *Management of Specialist Information System Skills* was completed at the request, also in 2001, of the JCPAA.

### Other ANAO undertakings at the request of Parliament

The Senate Foreign Affairs, Defence and Trade References Committee, in its inquiry into Defence materiel acquisition and management in Defence, made extensive use of the ANAO submission to the inquiry and ANAO reports on Defence management of major equipment acquisition projects and test and evaluation of such acquisitions.

In response to recommendations in the Committee's report *Materiel Acquisition and Management in Defence*, March 2003, the Senate, by resolution on 14 May 2003, requested that the Auditor-General conduct a 'cultural audit' on change management issues in the Defence Materiel Organisation and produce an annual report on progress in major Defence projects, detailing cost, time and technical performance data for each project.

The ANAO will schedule a preliminary study in 2003–04 to assess the feasibility of conducting such a cultural audit. Also, during a scheduled follow-up audit of the Defence Materiel Organisation in 2003–04, the ANAO will assess the feasibility of producing an annual report on major projects, and the resource requirements, in discussion with the JCPAA and the Department of Finance and Administration.

On 29 August 2002, the Senate passed a resolution that the ANAO audit the Australian Radiation Protection and Nuclear Safety Agency (ARPANSA). An audit was requested of ARPANSA's process and method of determining licence applications; scheduling and renewing; setting of licence charges; extent of unlicensed activities resulting from delays in licence processing; and the impact of delays, if any, on research and development in Australia. This audit has been included in the 2003–04 audit work program.

### Briefings

The ANAO briefed the Defence Sub-Committee of the Joint Standing Committee on Foreign Affairs, Defence and Trade on Report No.31 2002–03 *Retention of Military Personnel—Follow-up*, and Report No.39 2002–03 *Navy Operational Readiness*.

The House of Representatives Committee on the Environment and Heritage requested an informal briefing on Report No.38 2002–03 *Referrals, Assessments and Approvals under the Environment Protection and Biodiversity Conservation Act 1999*, and Report No.41 2002–03 *Annual Reporting on Ecologically Sustainable Development*.

In February 2003, the ANAO briefed Minister Ruddock on Report No.28 2002–03 *Northern Territory Land Councils and the Aboriginals Benefit Account*.

### Other Parliamentary comment/contact

The Joint Standing Committee on Electoral Matters (JSCEM) in November 2002 tabled a report on its review into Audit Report No.42 2001–02 *Integrity of the Electoral Roll*. The JSCEM noted the positive response from the Australian Electoral Commission to all ANAO recommendations and made recommendations consistent with those made by the ANAO. The Committee recommended that the ANAO conduct a follow-up audit so that the Committee could review the Australian Electoral Commission's progress in implementing the recommendations, well in advance of the next Federal Election. The Auditor-General agreed to include this follow-up audit in the ANAO's work program for 2003–04.

### 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 Australian Government programs brought about by entities' acceptance and implementation of the recommendations made in audit reports.

Summaries of a selection of ANAO audit reports that addressed a range of issues in public sector entities in 2002–03 are set out below.

#### *Audit Report No.12 2002–03 Management of the Innovation Investment Fund Program.*

This audit examined the Innovation Investment Fund (IIF), announced by the Prime Minister in the *More Time for Business* statement of March 1997. The program was designed to help redress the low level provision in Australia of high risk venture capital for small new technology-based companies commercialising research and development. Implementation of the IIF program has involved challenging and unique issues of public administration, including those arising from investment by the Australian Government in a market traditionally regarded as high risk, and the Australian Government having dual roles of program administrator and investor. The ANAO concluded that overall management of the program was largely effective, although there were areas that warrant improvement.

#### *Audit Report No.21 2002–03 Performance Information in the Australian Health Care Agreements.*

The audit examined whether the Department of Health and Ageing (Health) had the performance information necessary to administer the Australian Health Care Agreements (AHCAs). Health has some, but not all, of the performance information it needs to adequately administer the \$32 billion in Australian Government funding expected to be provided through AHCAs up to 2002–03. It has the financial information required to ensure the accuracy of total payments made to the States and Territories in accordance with those approved by the Minister for Health and Ageing. There is, however, only limited information on the performance of the States and Territories in meeting the conditions of federal funding on free and equitable access to public hospital services. Further, Health has only partial performance information on the effectiveness and efficiency of the AHCAs.

#### *Audit Report No.33 2002–03 Management of e-Business in the Department of Education, Science and Training.*

The audit examined the issue of information technology (IT) governance. IT governance is an integral part of agency governance. IT governance ensures that: an agency's IT strategy is aligned with, and supports, the agency business strategy; appropriate control structures are implemented; IT resources are used responsibly; and IT performance is measured

and appropriately managed. In summary, IT governance is a system of control to ensure that business objectives are achieved efficiently and effectively.

The audit also considered the operation of committees, and the importance of Committee Charters. A good Charter will include all or most of the following items: the authority for creation of the committee; the authority of the committee (can it make binding decisions?); the role of the committee and/or its Terms of Reference; the structure of the committee and its relationship to other committees; membership, including any technical advisors or observers; the role of the chair, individual members, and the secretariat; frequency of meeting, and ability to call extraordinary meetings; how decisions should be reached (consensus or majority vote for example); the work program/calendar; and an annual evaluation of the progress and achievements of the committee.

*Audit Report No.34 2002–03 Pest and Disease Emergency Management Follow-up Audit.*

The audit assessed the implementation of the recommendations of a previous ANAO audit, Report No.9 1999–2000, *Managing Pest and Disease Emergencies—Agriculture, Fisheries and Forestry—Australia*. The ANAO also observed and assessed relevant parts of the September 2002 foot and mouth disease simulation, *Exercise Minotaur*. The follow-up audit found that AFFA had adopted a systematic approach to addressing the previous audit's recommendations. This was assisted by additional funding to strengthen post-border preparedness, enhance epidemiological and diagnostic resources, and boost rural veterinary services. The effectiveness of the Australian Government's planning and response strategies for pest and disease emergencies has improved as a result of AFFA's actions in responding to the previous audit's recommendations. Extensive work was completed by the Department, including the establishment of a new Emergency Risk Management Unit. A priority for the new unit will be the completion of outstanding actions identified by the ANAO in its report.

*Audit Report No.42 2002–03 Managing Residential Aged Care Accreditation.* The audit assessed the Aged Care Standards and Accreditation Agency's (the Agency's) management of the residential aged care accreditation process. The audit found that the Agency successfully assessed all residential aged care homes by 1 January 2001 under the new accreditation system, and implemented a system to accredit and support services. The ANAO concluded that the Agency had identified and implemented a system to meet its legislative responsibilities, and its people management and workflow to support the accreditation process. The ANAO also concluded that there was scope for improvement in the Agency's costing system, information management and quality assurance mechanisms. The Agency responded positively to the audit. In agreeing to implement the six recommendations, the Agency recognised that the recommendations would strengthen its management of the accreditation system.

*Audit Report No.47 2002–03 Implementation and Management of the Indigenous Employment Policy.*

The ANAO made seven recommendations focused on the need for DEWR to define what results are sought for each Indigenous Employment Policy (IEP) element and determine the extent to which the IEP is generating more employment opportunities for Indigenous job seekers. DEWR agreed to all recommendations, two with qualification. DEWR, in responding to the audit, stated that the audit provided a sound basis for ongoing enhancement of the administration and management of the IEP.

**Audit Report No.48 2002–03 *Indigenous Land Corporation—Follow-up audit*.** As a result of the follow-up audit, the ANAO made four recommendations primarily aimed at improving aspects of the Indigenous Land Corporation’s (ILC) operations and performance. These include enhancing performance measurement and reporting; developing ILC’s strategic planning; developing an appropriate evaluation regime including stakeholder feedback; and the introduction of a quality assurance program to ensure compliance with its land acquisition and land management procedures and relevant provisions of the *Aboriginal and Torres Strait Islander Commission Act 1989*. The ILC agreed with all four recommendations.

**Audit Report No.52 2002–03 *Absence Management in the Australian Public Service*.** This audit acted as a catalyst for many agencies to review their absence data, policies and practices to see if action needed to be taken to address absence levels that were higher than desirable.

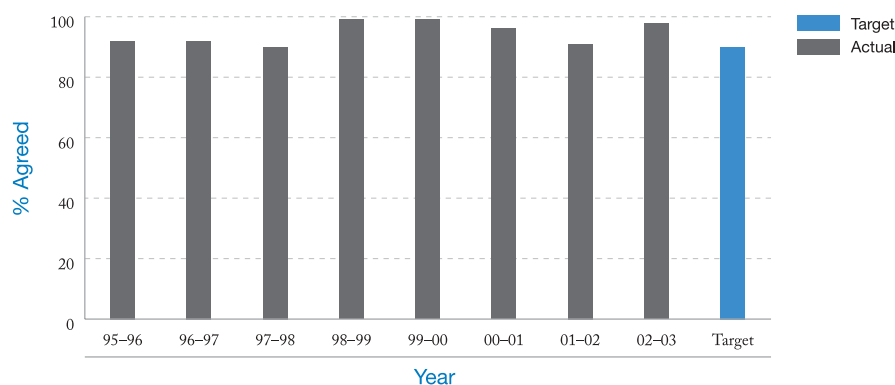
**Audit Report No.62 2002–03 *Management of Selected Aspects of the Family Migration Program*.** The audit report made five recommendations to improve published performance information, record keeping, quality assurance and to review and formalise consultative arrangements for setting health policy for migrants. The Department of Immigration, Multicultural and Indigenous Affairs agreed to all recommendations and noted in its response to the audit that the department is committed to a process of continuous improvement and, in that spirit, appreciated the work that had been undertaken by the ANAO.

### 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 2002–03 the target proportion of recommendations accepted by audited entities continued to be 90 per cent. The result for the year was that 97.9 per cent, that is 191 of the 187 recommendations made, were accepted by entities. Figures for the last eight years are illustrated in Figure 4.

**Figure 4: Agreement to recommendations in performance audit reports**



## 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.

Unlike last year, which reported on findings to date, this year the report for the full auditing year has been used. This means that the report refers to the previous reporting period, but as with the financial report survey in the Output Group 3 section of this report, it will provide a more meaningful basis for comparison going forward.

In the December 2002 survey the consultant firm reported on responses received for the 2001–02 reporting period. The overall observations were that there has been a very significant improvement in positive responses. The cross agency results are also positive and generally consistent with individual agency results but no conclusions can be drawn concerning trends, as this is the first year they have been reported separately. Overall the results indicate that, in the opinion of agencies audited, the ANAO audit reports and activities are viewed very positively and continue to play an important role in improving public sector administration. The ANAO Scorecard in the previous section provides some key survey results, which support this overall opinion.

## 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 2002–03 the estimated potential annual recurring financial benefit from all performance audits agreed with agencies ranged between \$79 million and \$117 million, depending on the level of improved performance achieved.

Table 4 shows the estimated potential financial benefits from performance audits for the last five years.

**Table 4: Potential financial benefits of performance audits**

Description	2002–03	2001–02	2000–01	1999–00	1998–99
Estimated potential annual recurring benefits	\$79m– \$117m <sup>a</sup>	\$1.6m <sup>b</sup>	\$85.5m <sup>c</sup>	\$2.2m <sup>d</sup>	\$502m

(a) Report No.52 2002–03 Absence Management in the Australian Public Service Scheme generated all estimated potential annual recurring benefits depending on the level of improvement achieved.

(b) Report No.65 2002–03 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.

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

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

## Quality assurance

The ANAO conducts a quality assurance review of selected audits to evaluate whether ANAO performance audits are completed in accordance with ANAO Auditing Standards, incorporating Australian Auditing Standards. The review of audits tabled in 2001–02 found that those examined complied with these standards.

During the year a two-person team from the Office of the Auditor-General New Zealand conducted a peer review of two ANAO performance audits tabled in 2002. The review found that the audits examined were of a high standard, with a number of good practices observed and made some suggestions for improvement. Later in 2003, the ANAO will conduct a peer review of two New Zealand audit reports. Peer reviews are an important means of exchanging better practice between audit offices.



## 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 \$0.824 million in 2002–03 (budget \$0.802 million), compared with \$0.610 million in 2001–02 (budget \$0.730 million). The ANAO has continued to liaise closely with committees and second staff members to assist committees. In 2002–03 three ANAO staff members undertook a placement with a Parliamentary Committee.<sup>21</sup>

### 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, Better Practice Guides (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

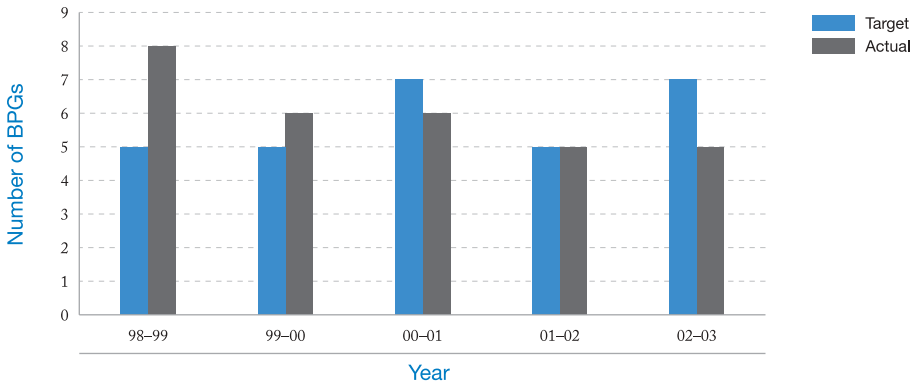
The primary performance measures for this output relate to the number of products and services produced and cost. Measures of quality are discussed under 'Contribution to Outcomes'.

21 Ms Suzanne Hinchcliffe, Mr Bill Bonney with the Joint Committee Public Accounts and Audit, and Mr Christian Anderson with the Joint Committee Electoral Matters.

### Number of BPGs produced

Five BPGs were produced by the ANAO in 2002–03, against a target of seven. One of the outstanding BPGs was published in July 2003. 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:

- *Internal Budgeting (February 2003)*. This guide is designed to assist managers responsible for making decisions on the allocation, use and administration of resources. In particular, it outlines a series of better practice elements that, if adopted, will encourage more efficient and effective achievement of organisational goals and objectives.
- *Building Capability—A framework for managing learning and development in the APS (April 2003)*. This guide has been prepared to: provide a better practice model for managing learning and development processes across the APS; foster an APS learning culture for better business outcomes; and provide a source of audit criteria for any future ANAO work in this area.
- *Managing Parliamentary Workflow (April 2003)*. This Better Practice Guide has been prepared to provide practical assistance to Australian Government agencies in their management of ministerial and parliamentary support arrangements. This Guide updates and expands on the contents on the previous Guide on this subject, released in 1999.
- *Goods and Services Tax (GST) Administration (May 2003)*. This Better Practice Guide, prepared jointly by the ANAO and the Australian Taxation Office (ATO), is designed to assist practitioners in the Australian Government public sector establish appropriate frameworks for the effective management of GST administration in their organisations.
- *A MODEL Non-Commercial Authority Illustrative Financial Statements for the Year Ended 30 June 2003 (June 2003) and A MODEL Agency Illustrative Financial Statements for the Year Ended 30 June 2003 (April 2003)*. These two guides are counted as one product and assist Australian Government agencies and entities in the preparation of their financial statements by providing examples of better practice in Australian Government public sector financial reporting and disclosure.

## Cost

BPGs cost \$0.806 million in 2002–03 (\$0.704 million in 2001–02).

## Marketing of BPGs and related products

During 2002–03 ANAO officers participated in a number of APS meetings, seminars and conferences to promote various BPGs and other audit reports.



A selection of better practice guides produced by the ANAO in 2002–03.

## 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, benchmarking services or products currently comprise functional studies of 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

Two benchmarking study reports were finalised during 2002–03 against a target of one.

*Audit Report No.13 2002–03 Benchmarking the Internal Audit Function Follow-on Report.*

This benchmarking study was a follow on from Audit Report No.14 of 2000–01, *Benchmarking the Internal Audit Function*, which was published in October 2000. The objective of the study was

to obtain and report qualitative and quantitative data on aspects of the internal audit function and compare the public sector internal audit results with equivalent international data to identify better practices and highlight areas for improvement to achieve their financial management objectives.

*Audit Report No.50 2002–03 Managing People for Business Outcomes, Year 2.* 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. Agencies have a responsibility to ensure that managers and employees understand their accountabilities in delivering a high quality return on this investment.

This is the second year of the effectiveness and efficiency review of all aspects of people management in 13 agencies, covering some 36 per cent of APS employees. The study assessed each people management practice area against four criteria: quality, HR integration, effectiveness and efficiency and business contribution.

## Cost

Benchmarking services cost \$0.604 million in 2002–03 (\$1.338 million in 2001–02).

## 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.

### International representation

In meeting our responsibilities to these organisations, the Auditor-General and selected ANAO staff attend international conferences, short-term overseas placements and training workshops, prepare research papers and assist with secondments. The ANAO participated in the 18th Commonwealth Auditors-General Conference in Malaysia in October 2002, where the Auditor-General presented a paper entitled *Privatisation of State Activities: The Role of Supreme Audit Institutions*. The ANAO also participated in the 7th Tokyo Audit Forum in Japan in February 2003, presenting a paper on recent audit reports that had received particular attention from the Parliament and the media. The ANAO is also a member of the international team working on the latest ASOSAI Research Project, the objective of which is to develop an IT Audit manual for use by ASOSAI member countries.



ANAO staff (top left to right) Renée Gopal, Michael White, Milton Chen and David Crossley hosting a delegation from China.

In addition to the organisations listed above, the Auditor-General was appointed as Australia's representative on the Governing Board of the International Federation of Accountants (IFAC) for a period of three years commencing in February 2003. IFAC is the international body for professional accountants from over 150 countries; its role is to initiate and coordinate efforts to achieve international standards and guidelines for the accountancy profession (which includes auditing). The Auditor-General attended IFAC meetings in March and July of 2003.

The ANAO contributes to the development of other audit offices by hosting a number of international visitors throughout the year. During 2002–03, the ANAO hosted more than 20 short-term visits from delegations from a number of countries including China, Indonesia, Japan, Korea, Malawi, New Zealand, Norway and South Africa. Positive responses from delegates indicate they found their visit to the ANAO to be both an informative and worthwhile experience. The ANAO also continued its exchange program with Audit New Zealand and the Office of the Auditor-General of Canada.

### National representation

At the national level, the ANAO is a member of the Australasian Council of Auditors-General (ACAG). ACAG comprises the Auditor-General of each Australian State and Territory, Fiji, New Zealand and Papua New Guinea. ACAG's objective is to promote public sector auditing in the Australasian region through an exchange of experiences, ideas, training initiatives and cooperation. The ANAO contributes to ACAG's work by hosting business meetings, preparing papers, participating in information exchanges, peer reviews and training. The ANAO hosted the June 2003 ACAG Business Meeting and participated in the ACAG Conference in February 2003. Also in February, the Auditor-General attended the 7th Biennial Conference of the Australasian Council of Public Accounts Committees (ACPAC) and presented a paper entitled *Public-Private Partnerships: Are There Gaps in Public Sector Accountability?*

### Cost

The national and international representation output cost \$0.538 million in 2002–03 (\$0.458 million in 2001–02).

### 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 to meet any new accountability and reporting requirements. The focus of this activity is directed towards improving financial reporting. Two series of financial reporting seminars were conducted in 2002–03.

As in 2001–02, a full day workshop on performance auditing was conducted for public sector internal auditors. In addition, ANAO staff accepted invitations to speak to Australian Government organisations and other bodies on topical issues and issues arising from audit reports and BPGs.

### Cost

The client seminars and advice output cost \$0.248 million in 2002–03 (\$0.218 million in 2001–02).

### 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 and on ANAO seminars from client agencies.

## OUTPUT GROUP 3

### ASSURANCE AUDIT SERVICES

The outputs that comprise Output Group 3 are:

- financial statement audit reports;
- business support process audits;
- 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 Australian Government entities have been prepared in accordance with the Government's reporting framework, applicable Accounting Standards, and other mandatory professional reporting requirements.

The Auditor-General delegates 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 financial statements, the ANAO provides each audited entity with a report that deals with the results of the financial statement audit and an assessment of business or accounting processes. 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 entities<sup>22</sup> 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.<sup>23</sup>

*Audit Report No.25 2002–03 Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2002.* This report summarised the final result of the audits of the financial statements of Australian Government entities for the period ended 30 June 2002, including the Consolidated Financial Statements. The report also provided a commentary on a number of contemporary issues relating to the Australian Government financial reporting framework, focusing on the Consolidated Financial Statements and the Final Budget Outcome Report.

The report noted that there had been an increase in the average time taken to prepare financial statements in 2001–02 over that achieved in the prior year. This is against a background of entities needing to improve the timeliness of their financial reporting processes over the next two years. Notwithstanding this result, the percentage of audits that were completed within the agreed timeframe in 2001–02 was 76 per cent compared to 58 per cent in the previous year. The report also discussed the summary final result of the audits of the financial statements, providing details regarding qualifications of audit opinions and any matters emphasised in audit reports. It also

<sup>22</sup> This report was tabled on 30 June 2003—Audit Report No.61 2002–03 *Control Structures as Part of the Audits of Financial Statements of Major Commonwealth Entities for the Year Ended 30 June 2003*.

<sup>23</sup> This report was tabled on 23 December 2002: Audit Report No.25 2002–03 *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2002*.

detailed the results of the individual financial statement audits and any additional significant control issues identified by each audit. A broad range of internal control issues were raised in the report. Most were specific to the entity concerned and covered issues such as the need to:

- improve debt management processes including the need to establish clear lines of responsibility for their collection;
- monitor the integrity, accuracy and completeness of asset registers including formalising policy and guidelines associated with the identification and classification of expenditure relating to capital work-in-progress;
- restrict high-level access to systems which are inconsistent with the functions required to perform particular jobs;
- undertake independent reviews of key monthly financial reconciliations to reduce the possibility of exposure to errors or fraud; and
- ensure that appropriate costing systems are in place relating to the capitalisation of software development projects.

In addition, it was noted that a number of agencies still need to substantially improve their financial statement preparation processes, including their quality assurance and review processes.



AASG auditing staff, Milton Chen (left), Carla Jago and Craig Deane.

*Audit Report No.61 2002–03 Control Structures as part of the Audits of the Financial Statements of Major Commonwealth Entities for the Year Ended 30 June 2003.* This report summarised audit findings relating to entity internal control structures, financial systems, controls and processes arising from the interim phase of the financial statement audits of major Australian Government entities for 2002–03. 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 also provides a means for individual agencies to judge the quality of the internal management information used for decision-making during the course of the financial year.



## Internal control environment

As part of the financial statement audit process, the ANAO assesses whether an entity's internal control environment comprises measures that contribute positively to sound corporate governance. The measures should mitigate identified risks and reflect the specific governance requirements of each entity. In last year's corresponding report, it was noted that improvements were required by some entities in a number of these areas. Entities generally acknowledged that enhancements were necessary in areas such as:

- increased risk awareness assessment, and better management, including the use of performance management tools such as data metrics to monitor trends in risk;
- enhancing the quality and presentation of monthly financial reporting;
- integrating financial and non-financial data as part of the development of credible performance measurement frameworks; and
- improving the capacity of internal audit functions to deliver a blend of compliance, performance and risk-based audit services.

ANAO audit observations indicated that progress has been achieved across most entities in these areas. However, in some cases, further progress and refinement are still required. This is particularly the case in respect of expanding the level of reporting of non-financial performance measures and reviewing the effectiveness and efficiency of entity internal audit functions.

## Information technology systems

The Australian Government has a significant investment in information and communications technology (ICT). For example, an estimated \$2 billion was spent on ICT during 1999–2000.

Areas noted in last year's corresponding report, where control improvements were required in relation to information systems, included:

- greater levels of integration of IT into the corporate planning process by integrating IT planning with strategic and risk management planning;
- refining IT project management policies and procedures relating to the implementation of IT solutions;
- expanding the reporting of IT organisational monitoring to include the use of performance management and IT capacity;
- continued development and refining of business continuity and disaster recovery plans; and
- revising and refining IT security strategies and policies.

Overall, the results of audit testing in 2002–03 indicate that most entities have taken steps to address the above mentioned issues, but to varying degrees.

Opportunities exist for most entities in the coming year to further improve their IT processes which will continue to assist in better aligning the IT corporate governance framework with business objectives. The following are areas where most entities could continue to improve:

- tightening of information security across the entity and within key business applications;
- actively managing the security requirements specified in their outsourcing contracts;
- gaining a better understanding of their specific business continuity risks and business impact, assigning operational responsibility, establishing quality business continuity plans and disaster recovery plans and performing follow up reporting on progress; and
- maintaining the responsibility for business continuity planning and establishing more clearly defined relationships with their outsourcers to ensure both parties are aware of the business continuity risks.

### **Control procedures**

An entity's system of internal control includes the procedures established to provide reasonable assurance that operational and administrative objectives and goals are achieved. Internal control procedures within significant operational and accounting processes and financial systems are examined as part of the audit of an entity's financial statements. In most entities, key areas covered in the interim phase of the audit will include:

- appropriations and other revenues;
- payment of expenses;
- employment and related costs;
- cash management; and
- asset management.

Some entities continue to experience difficulty with a number of control processes covering, for example, timely completion and review of reconciliations, segregation of duties, inappropriate delegations, incorrect classification of general ledger expenses, monitoring of grant and funding agreements, reconciliation of program payments, poor documentation relating to asset acquisitions and disposals, and the timely recording of those asset movements.

Reconciliation of the asset register to the financial management information system (FMIS) is also a continuing area of difficulty. A persistent reconciliation issue, which was noted in last year's corresponding report, continues to occur in a number of entities. This relates to the need to reconcile payroll and leave costs recorded in human resource management information systems (HRMIS) with balances recorded in the general ledger of the FMIS. The ANAO continues to reinforce the importance of this reconciliation process given the significance of personnel costs to entities and the potential impact for errors in financial reporting.

### **Key findings**

The ANAO rates its findings according to a risk scale. Audit findings which pose a significant business or financial risk to the entity and which must be addressed as a matter of urgency, are rated as 'A'. Findings that pose a moderate business or financial risk are rated as 'B'. These should be addressed within the next 12 months. Findings that are procedural in nature, or reflect relatively minor administrative shortcomings, are rated as 'C'.

Overall, the results of audit activity over the past year indicate that there has been a marginal improvement in the quality of control procedures over business and accounting processes. This is demonstrated by:

- the number of entities with 'A' category audit findings reduced to two in 2002–03 from four in 2001–02;
- the total number of 'B' category audit findings across all entities reduced from 116 in 2001–02 to 96 in 2002–03;
- eleven of the 21 entities reported an improvement in the number of 'A' and 'B' category audit findings; four entities showed a deterioration in their position, with six entities remaining in the same position; and
- the number of major entities with no category 'A' or 'B' audit findings remained at two for both years.

The report identified 11 'A' category ratings overall. The Department of Defence had 10 'A' findings, a decrease of three from the previous year. The Australian Taxation Office had one 'A' finding, a decrease of two compared to 2001–02. The Health Insurance Commission and the Department of the Environment and Heritage no longer have 'A' category audit findings.

### **Issues to be addressed**

The results of interim audits to date indicate that most entities have achieved a position where the fundamental processes relating to financial statement reporting are substantially in place. However, it is again clear that for 2002–03 a small number of entities are yet to implement key elements of 'better practice' and still face considerable challenges in this regard, particularly the Department of Defence and the Australian Taxation Office.

The priority for entities is to continue to implement 'better practice' financial management in their operations, so they are better equipped to meet the challenges emerging from the evolution of the Government's financial reform process, including:

- the progressive move over the next 2 years to much tighter year end financial reporting deadlines;
- the need to ensure budgeting and revised cash management requirements allow entities to meet their operating and reporting responsibilities; and
- continuing improved decision support through the implementation of more effective performance measurement processes and analysis in key operating areas, by better linking financial and non-financial information.

As was noted in last year's corresponding report, it is only through continued focus on these key areas that the initiatives can be achieved in a way that is cost effective. They need to be targeted at priority areas where there are significant cost and operating issues to be managed. Taking such steps would enable entities to achieve a more efficient deployment of resources. As well, it will contribute positively to sound corporate governance through an increased understanding of financial risk and related management issues.

A related matter that was also noted last year, and continues to require further attention, is the management of IT security issues. Secure IT systems are the fundamental building block for ensuring data integrity, which is a pre-requisite for reliable financial reporting. The use of measurement tools, particularly data metrics, is under-utilised as a means of monitoring movements in risk. Analysis of data metrics provides an important reference point for assistance in the validation of the integrity of IT systems. Areas where this analysis could be of value include:

- virus occurrence and detection;
- unauthorised access and denial of services;
- password management and violation reporting;
- privileged access, procedures and monitoring; and
- security and audit trail logging, reporting and monitoring.

The rationale for this approach is that risk management practices should demonstrate a coherent analysis of IT systems security issues balanced and prioritised against defensible risk acceptance positions as part of an overall risk management plan that acknowledges the trade-off with increasing costs.

These strategic issues include:

- the need for financial information to become more integrated into the longer-term decision-making and resource allocation considerations of entity managers;
- the need for greater focus on linking risk assessment and its management to the potential financial impacts arising out of those risks;
- the need to ensure that the governance frameworks which have been set up are effectively integrated into the culture of entities; and
- the achievement of an Australian accounting standard for a single set of Government reports which are auditable, comparable between jurisdictions and in which the outcome statements are directly comparable with the relevant budget statements.

### **Audit methodology**

This is the third year of the implementation of revised financial statement audit methodology. The methodology was implemented as part of the ANAO's 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. A comprehensive training program has supported the implementation, reflecting the ANAO's commitment to improved service through investment in our people and enhanced products.

### **Client survey**

An independent survey was conducted in late 2002 to gain feedback from entities on the conduct of the audit of their 2001–02 financial statements. Of the entities that were included in the survey, 163 responses were received representing a response rate of 75 per cent.

The survey results received were very positive and indicated a high degree of satisfaction with the performance of the ANAO in auditing entity 2001–02 financial statements. Key findings include the following:

- 92 per cent of respondents indicated that the organisations felt that consultation and liaison between the auditors and their organisation was effective;
- 92 per cent of respondents felt that the auditors demonstrated sufficient understanding of the financial reporting requirements of the entity;
- 96 per cent of the respondents agreed that the auditor’s interaction with agency staff was conducted in a professional manner;
- 93 per cent of the respondents agreed that they were kept informed of likely observations/findings and that ANAO reporting contained ‘no surprises’; and
- 88 per cent of entities agreed that the ANAO’s financial statement audit services make a valuable contribution to the organisation.

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 enhancing contract staff’s understanding of the public sector and specific public sector financial reporting requirements. The ANAO is continuing to explore avenues to increase entity awareness of the products, publications and services available on financial statement and related assurance matters as a means of improving their performance.

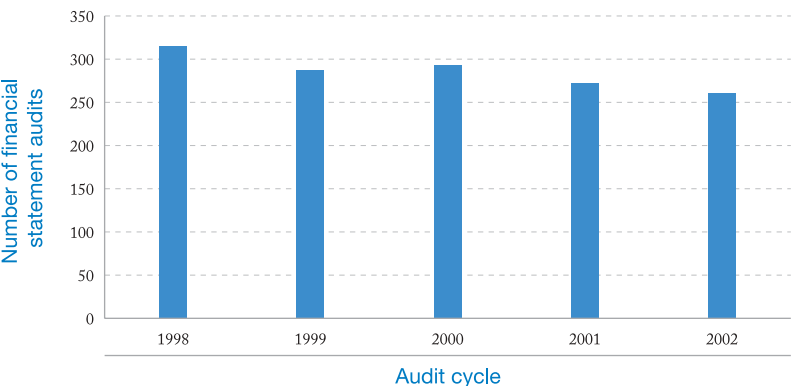
### Performance

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 and type of opinions issued

The number of audit opinions issued for the financial statement audit cycle, which ended in October 2002, in comparison to previous periods, is illustrated in Figure 6.

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



The ANAO issued 257 audit opinions for the audit cycle ended October 2002. This compares with 272 opinions in the previous cycle. The reduction in the number of Australian Government reporting entities in the current financial year is largely due to the sale or wind up of a number of companies/corporations.

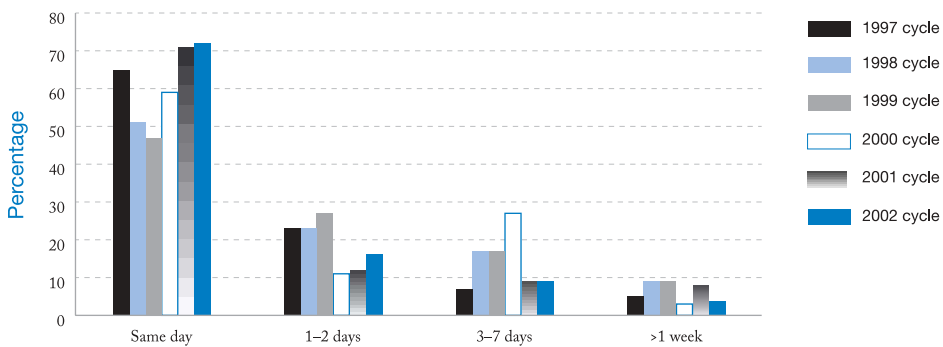
Separate reports were also provided to Ministers on the results of all financial statement audits.

### 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 2002, 88 per cent of opinions were issued on the day the financial statements were received or within two days as compared to 83 per cent in the previous cycle.

The time taken to issue audit opinions after the date of signing the financial statements for the last six years is shown in Figure 7.

**Figure 7: Timeliness of issuing audit opinions**



### Cost

Financial statement audits for the 2002–03 financial year required approximately 163 000 hours and consumed \$25.850 million (157 103 hours and \$25.014 million respectively in 2001–02) of resources. The audit cycle ended in October 2002 required approximately 158 000 hours.

Overall, the Assurance Audit Services Group charged 204 645 hours and generated \$22.458 in notional and actual revenue against actual costs of \$22.146 million. (182 167 hours in 2001–02, generating \$18.189 million in notional cost recovery 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* are liable to 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. All audit fees were recovered, either notionally or actually, in 2002–03.

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.

## Business support process (BSP) audits

BSP audits are the successor to Assurance and Control Assessment audits and Financial Control and Administration audits. BSP audits examine business processes that support the delivery of outputs provided by public sector agencies. BSP audit reports focussed on:

- the effectiveness of the accountability mechanisms operating within public sector entities;
- the efficacy of the design and implementation of internal controls;
- the components of the control structure, including risk management, the control environment, specific control measures, monitoring and review processes and management information systems and communication processes; and
- the extent of legal compliance; and of compliance with internal and external policies and procedures.

The audits are normally conducted in a number of organisations, and although the audit findings are usually reported to Parliament in generic terms, the organisations subject to audit are identified. In addition, individual reports are provided to client organisations. Output from these audits may also include the development of better practice guides.

## 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 BSP audit reports

Nine BSP audit reports were tabled during 2002–03 against a target of nine. A synopsis of each report appears below.

*Audit Reports No.8 and No.32 2002–03 The Senate Order for Department and Agency Contracts*: These were the second and third audit reports under the Senate Order, which requires all *Financial Management and Accountability Act 1997* (FMA Act) agencies to place on the Internet lists of contracts of \$100 000 and more by the tenth day of the Spring and Autumn sittings of Parliament. They relate to the audits of the contract information to be listed on the Internet by the tenth day of the Autumn 2002 and Spring 2002 sittings. The audits involved

desktop reviews of all FMA Act agencies' Internet listings; and detailed reviews at twelve selected agencies (six in each report) of the process for making the Internet listings, and the policies and practices for determining confidentiality provisions in contracts.

*Audit Report No.16 2002–03 The Administration of Grants (Post-Approval) in Small to Medium Organisations.* This audit of the administration of grants in small to medium organisations was undertaken across six Australian Government organisations to: assess whether agencies had implemented appropriate risk management strategies for grant programs; evaluate whether grants had been administered in accordance with the appropriate legislation, Australian Government guidance, and other accepted internal controls; and to recommend improvements in the controls and practices relating to grants administration. The audit found that the audited organisations were generally administering grants in accordance with applicable legislation, Government policy and internal controls. However, the audit also found there were opportunities for organisations to enhance their performance by accepting the sound and better practices highlighted in the report.

*Audit Report No.18 2002–03 Management of Trust Monies.* The audit reviewed the management of trust monies in five Australian Government organisations. The objectives of the audit were to: assess whether selected Australian Government organisations were managing trust monies in accordance with legal and administrative requirements and better practice principles; identify better practices in the management of trust monies; and recommend improvements in the controls and practices relating to the management of trust monies. A significant finding of the audit was that organisations were exposed to a number of risks by not complying fully with the requirements of trust law in relation to the duties of trustees.

*Audit Report No.22 2002–03 Payment of Accounts and Goods and Services Tax Administration by Small Commonwealth Organisations.* The audit objectives were to determine whether: organisations had implemented appropriate risk management strategies and made effective use of technology in the payment of accounts process; and payments had been properly authorised; made only for goods and services appropriately received; were timely in accordance with agreed terms and conditions; to determine whether organisations had implemented adequate control frameworks and processes to mitigate the risks associated with GST obligations and transactions; and gather additional information from a wider range of organisations than covered in the previous audit so that a Better Practice Guide on GST administration could be developed. The audit concluded that six of the eight organisations audited had satisfactory payment of account processes, which ensured that payments were accurately authorised and made on a timely basis. In relation to GST administration, the ANAO found that all organisations should take action to better understand their GST environment so that cost effective controls can be implemented.

*Audit Report No.45 2002–03 Reporting of Financial Statements and Audit Reports in Annual Reports.* This report examined the publication of financial statements and audit reports in hardcopy and website forms of the annual reports of 117 Australian Government reporting entities. The audit objective was to determine whether the published financial statements and audit reports agreed in all respects with those that had been certified by the chief executive or governing body (as appropriate) and the Auditor-General or his delegate. The reporting period covered was the year ended 30 June 2002. The audit found that the reporting entities examined had successfully replicated their financial statements and audit report into both forms of their annual report with nil or insignificant errors.



**Audit Report No.53 2002–03 *Business Continuity Management Follow-on Audit*.** In January 2000, the ANAO published a Better Practice Guide (BPG), *Business Continuity Management, Keeping the Wheels in Motion* (the Guide). The Guide established that the objective of Business Continuity Management (BCM) is to ensure the uninterrupted availability of all key business resources required to support essential (or critical) business activities. This is achieved by organisations building resilience (controls and redundancy) into business operations to prevent, or minimise, the likelihood of business continuity risks occurring and, also, developing plans that minimise the impact should they occur. The primary objective of this audit was to examine BCM arrangements across four Australian Government organisations, to assess whether their existing BCM frameworks (or frameworks under development) exhibited the principles espoused in the Guide.

**Audit Report No.54 2002–03 *Capitalisation of Software*.** The audit examined the management of computer software assets at four Australian Government bodies. It focussed on the capitalisation of software for the purposes of annual financial reporting. The specific objectives were to: determine whether the selected bodies had established effective internal control frameworks for the capitalisation of externally acquired and internally developed software; and assess whether software costs were capitalised in accordance with organisational policy, accounting standards and relevant legislation. The audit concluded that most of the audited bodies had established internal control frameworks and mechanisms that effectively addressed software capitalisation control risks and supported the identification and capitalisation of computer costs in accordance with internal policy accounting standards and Commonwealth Government Financial reporting requirements.

**Audit Report No.60 2002–03 *Closing the Books*.** Closing the books processes sometimes referred to as ‘month-end or year-end processing’ are those processes undertaken by organisations in order to generate periodic financial information. This audit focused on the monthly closing the books processes undertaken at six of the material Australian Government organisations, in order to provide some generic conclusions on the operation and effectiveness of these periodic processes in the Australian Government and to identify opportunities for improvement. The audit found that all organisations had implemented adequate control frameworks and processes to mitigate the risks associated with closing their books, although there is a need to improve the quality of basic activities such as month-end reconciliations in half of the organisations.

In addition at 30 June 2003, audits on the topics of risk management, property management, human resources management, information systems, record keeping, discretionary payments, financial delegations, waivers of debt and compliance with the Senate Order for departmental and agency contracts (Autumn 2003) were in progress

## Cost

The cost of the BSP audit reports output for 2002–03 was \$2.22 million (\$2.94 million in 2001–02).

## Protective security audit reports

Protective security audits are 'across-the-board' studies, similar to the approach taken for BSP 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

*Audit Report No.22 2002–03 Physical Security Arrangements in Commonwealth Agencies.*

The report was tabled in December 2002 against a target of one protective security report. The audit valued the protective security policies and practices of seven Australian Government agencies to determine whether they had established an appropriate physical security control framework based on the principles outlined in Part E of the Commonwealth Protective Security Manual (PSM). The ANAO also examined whether agencies had considered the risks of, and developed an appropriate policy statement on, the physical security arrangements for employees who work from home. The ANAO concluded that all agencies in the audit had made reasonable progress towards meeting their protective security responsibilities as outlined in the PSM. This typically resulted in the establishment of a protective security control framework capable of limiting their exposure to, and the consequences of, their identified security risks.

### Cost

The cost of the protective security audit reports output for 2002–03 was \$0.137 million (\$0.214 million in 2001–02).

## 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, a number of agencies, as part of their own corporate governance arrangements, are seeking reviews or audits of their half-year financial statements.

The cost of the other attest output for 2002–03 was \$1.253 million (\$1.588 million in 2001–02).

## Contribution to Outcome 2—Assurance

Through the conduct of financial statement audits, business support process 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 Australian Government entities, which provide stakeholders with assurance that an entity's financial statements fairly represent its financial operation and its position at year-end.

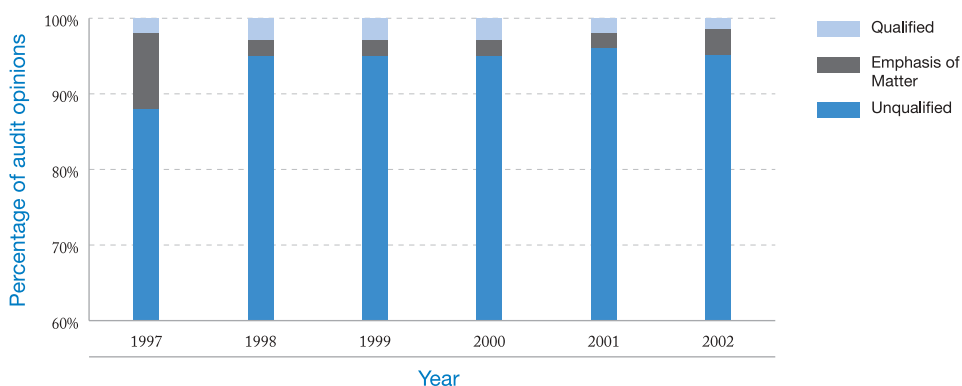
Financial statements must be accompanied by an audit opinion pursuant to legislative requirements. The audit opinion issued by the ANAO adds credibility to the financial statements, thereby allowing all Australian Government agencies to fulfil their own accountability obligations.

The provision of the audit opinion therefore fulfils an intermediate outcome. The 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 the 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 2002 was 95.6 per cent.

Figure 8: Percentage of unqualified opinions<sup>24</sup>



A significant component of both the financial statement audit or BSP 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 entities. 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 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.

<sup>24</sup> 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.

### **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.



## Corporate governance

The ANAO supports the delivery of its outputs through a structured corporate governance framework which ensures the effective management of business initiatives and other corporate activities.

During the year, the Executive Board of Management (EBOM) commissioned an independent review of the ANAO's corporate governance framework focussing in particular on the operations of EBOM and its sub-committees. Overall, the review found that the ANAO's corporate governance arrangements met the better practice standards detailed in the Better Practice Guide, *Corporate Governance Arrangements in Budget-Funded Agencies*.

The review also took into account the standards identified in the review of this Guide which was under way at the time.

The review identified several areas where improvements could be made to the ANAO's corporate governance structures and processes. These included:

- revision of the EBOM Charter to clarify the respective responsibilities of the Auditor-General and EBOM;
- amendment of the Audit Committee Charter to clarify its accountability to the Auditor-General and its reporting arrangements for EBOM; and
- revision of the operation and membership of the People and Business Management and Products and Services Committees.

Action has been taken to address each of the review's recommendations including the introduction of revised committee arrangements as outlined later in this section of the report. Key elements of the ANAO's corporate governance arrangements are outlined below.

### Executive Board of Management

The purpose of the Executive Board of Management (EBOM) is 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*. Recognising the Auditor-General's responsibilities, the decisions made by the board are legally decisions made by the Auditor-General as chair. The board is responsible for setting and monitoring the ANAO's strategic directions, overseeing key business opportunities and risks and the ANAO's budget.

The board is also:

- 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.

To facilitate the work of the Board, sub committees may be established to oversee specific areas of ANAO operation such as, Audit, Remuneration, People, Business and Information.

The Committee's membership comprises:

- Pat Barrett AO, Auditor-General;
- Oliver Winder PSM, Deputy Auditor-General;
- John Meert, Group Executive Director, Performance Audit Services;
- Warren Cochrane, Group Executive Director, Performance Audit Services;
- Trevor Burgess, Group Executive Director, Assurance Audit Services;
- Michael Watson, Group Executive Director, Assurance Audit Services; and
- Russell Coleman, Executive Director, Corporate Management.



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

The Board established four sub-committees, details of which are set out below.

### **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 2002–03. At 30 June 2003 its membership comprised:

- Will Laurie, Chair and external independent member;
- Oliver Winder, Deputy Auditor-General;
- Michael Watson, Group Executive Director, Assurance Audit Services;
- Paul Nicoll, Executive Director, Performance Audit Services; and
- Michael Coleman, Independent Auditor; David Gray of Acumen Alliance Chief Internal Auditor; and Russell Coleman, Executive Director Corporate Management and Chief Financial Officer, attend each meeting as observers.

The People Committee, Business Committee and Information Strategy Committee replaced the Products and Services Committee and the People and Business Committee from 1 July 2003. The new committees and their membership are described below.

### **People Committee**

The People Committee has been established to provide EBOM with policy advice and proposals to support the development of a workplace that achieves ANAO's business objectives.

The membership of this committee comprises:

- Warren Cochrane (Chair), Performance Audit Services;
- Steven Lack, Performance Audit Services;
- Mashelle Parrett, Assurance Audit Services;
- Darren Box, Research and Development;
- Russell Coleman, Corporate Management;
- Barbara Cass, Performance Audit Services; and
- Phil Hagen, Research and Development.

### **Business Committee**

The purpose of the Business Committee is to assist the EBOM 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 objectives.

The membership of this committee comprises:

- John Meert (Chair), Performance Audit Services;
- Peter White, Performance Audit Services;
- David Crossley, Assurance Audit Services;
- Darren Box, Research and Development;



- Brandon Jarrett, Assurance Audit Services;
- Fran Holbert, Performance Audit Services;
- Mary-Ann Johnston, Assurance Audit Services;
- Jeff Storer, Performance Audit Services; and
- Julie McNamara, Assurance Audit Services.

### Information Strategy Committee

The purpose of the Information Strategy Committee is to assist the EBOM with policy advice and proposals on matters relating to information management and information and communications technology.

The membership of this committee comprises:

- Trevor Burgess (Chair), Assurance Audit services
- Alan Greenslade, Performance Audit Services;
- Darren Box, Research and Development;
- Russell Coleman, Corporate Management;
- Andrew Little, Assurance Audit Services;
- Wayne Jones, Assurance Audit Services; and
- Peter J. Green, Chief Information Officer.

### Strategic planning framework

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

Figure 9: Strategic planning framework



## Corporate Plan

The ANAO's current *Corporate Plan 2001–04* 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 *Business Plan 2002–03* was issued in July 2002. The ANAO Business Plan outlines how the KRAs from the Corporate Plan are to be achieved and provides a 'scorecard' (as shown in the introduction) so that the ANAO's performance against the KRAs can be assessed, monitored and measured. The Business Plan is supported by annual Service Group, CMB and R&D Branch plans. The Business Plan is a three-year rolling plan that is updated annually.

## Risk management

The ANAO adopts the Joint Standard AS/NZS 4360:1999 in its approach to risk management. The ANAO Risk Management Plan underpins the ANAO's corporate governance framework and the ANAO's Audit Committee is responsible for overseeing the implementation of the plan. The ANAO regularly updates its Plan and individual plans for each of the Service Groups, Corporate Management Branch and Research and Development Branch, to take account of any changes to our environment including revised business requirements and changes to our control environment. In addition to the normal review process, this year our risk management framework has been further developed with a view to better integrating all plans and to enhance the presentation and readability of the documents.

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?



Peter Sinfield from the Information Research Centre with Audrey Moffatt, a performance auditor.

### Fraud Control Plan

We maintain a comprehensive fraud risk assessment and 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 links with our risk management framework and draws together all fraud prevention and detection initiatives that have been adopted by the ANAO into one consolidated document. As for our risk management plans we review our fraud control framework to take account of any relevant changes in our environment. In addition, the fraud risk assessment and fraud control plan are comprehensively reviewed every two years. The next review is scheduled for July 2004.

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 is reported to the Attorney Generals' Department in accordance with CFCG Guideline 8.

### Information Technology Strategic Plan (ITSP)

The project initiatives outlined within the ANAO's current *Information Technology Strategic Plan 2000–03* are nearing completion. Major activities this year included:

- implementation of a managed protected gateway firewall during October 2002;
- establishment of an ongoing process to identify and manage IT security risks/issues and maintain the *IT Security Policy*;
- implementation of Internet to the desktop in October 2002 following a detailed business and security assessment; and
- membership of the *Fedlink* secure communications service from November 2002.

The ITSP is a three-year rolling plan that is reviewed annually. Development of a new plan to articulate the ANAO's IT vision for the next three years is currently being progressed, with oversight and governance for this process being provided by the Information Strategy Committee.

## Code of Conduct

The ANAO *Code of Conduct* 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* as depicted in 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 undertakes 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, partner of KPMG who has been appointed until May 2005.

A performance audit entitled *Report on Results of a Performance Audit of Contract Management Arrangements within the ANAO* was completed in December 2002. The objectives of the audit were to perform an independent and systematic examination of the processes in place within the ANAO over the use of contractors to:

- undertake financial statement or performance audits under the direction of ANAO staff;
- undertake particular research or studies or a particular task associated with an audit under the direction of ANAO staff; and

- provide specialist services, including the assistance with the development and/or implementation of purpose-built IT systems and legal advice.

The audit found that contract management processes in place within the ANAO are generally operating in an efficient and effective manner. The audit identified a number of opportunities for improvement particularly in the areas of evaluating tender bids, decision and implementation, ongoing management, evaluation and transition planning and formal risk management.

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

In 2003 the independent auditor requested the JCPAA for guidance on further areas of review. The chairman of the JCPAA suggested a sample of performance audits conducted by the ANAO be evaluated to assess whether such audits represented 'value for money'. This task is being progressed at present.

### **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 assisting in meeting the objectives specified in the ANAO's Corporate Plan.

Audits completed in 2002–03 included reviews of:

- Business Continuity Planning, completed in April 2003;
- implementation of IT security recommendations arising from an external review, completed in April 2003; and
- audit project management, completed in May 2003.

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

In addition to these reviews a scoping study on 'meeting clients needs' was conducted to determine whether this aspect of our operations should be the subject of a full audit. It was found that an audit into this area was justified but there was not an immediate need to conduct such a review. Accordingly, the audit has been scheduled for inclusion in the 2004–05 Internal Audit Program.

### **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:

- Senate Finances and Public Information References Committee: *Inquiry into the First Year of Operation of the Senate Order for Departmental and Agency Contracts*;
- Senate Foreign Affairs, Defence and Trade References Committee: *Inquiry into the Material Acquisition and Management Framework of the Department of Defence*;
- Parliamentary Joint Committee on ASIO, ASIS and DSD: *Review of Administration and Expenditure of ASIO, ASIS and DSD*;

- JCPAA: *Review of Independent Auditing by Registered Company Auditors*; and
- JCPAA: *Inquiry into the Draft Financial Framework Legislation Amendment Bill*.

### Decisions by courts and tribunals

There have been no relevant decisions by courts or tribunals affecting the ANAO during 2002–03.

### 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 progressed a number of important initiatives designed to provide staff with a rewarding and professional environment, as well as maintaining and enhancing the skills of its people. These are summarised below.

### Workforce planning

Over the past two to three years a range of workforce planning initiatives have been developed and implemented. During 2002–03 reviews were conducted of the recruitment and selection process, the ANAO Capabilities Framework, and the ANAO Values and Behaviours. These reviews were undertaken to assess the continuing relevance and effectiveness of the activities commenced and resulted in a range of improvements being made to existing arrangements. The ANAO also undertook an external review of its progress in implementing the work force planning framework and to incorporate actions to address issues arising from a staff survey conducted earlier in the year.

An initiative introduced to increase the focus on people management as a result of this review was a process of upwards appraisal as an integral part of the performance appraisal of SES officers. This will be extended to Executive Level 2 officers in 2003–04.

### e-Induction

To assist new staff to assimilate into their new work environment an on-line induction program was developed and implemented during the year. The program outlines key legislative and compliance requirements and a range of general information relating to the ANAO's operating environment.

### ANAO Certified Agreement 2003–06

A new Section 170 LK Certified Agreement was ratified by the Industrial Relations Commission on 19 May 2003 following an extensive consultation process which resulted in a 'yes' vote of 73 per cent from a ballot of 217.<sup>25</sup> This process was facilitated by an agreement making team comprising staff, union and management representatives.

<sup>25</sup> There were 271 eligible voters.

The new agreement provides access to a range of increased benefits for staff in return for increased productivity as assessed by a revised performance management scheme and an increase in target productive hours.

Key elements of the agreement are:

- salary increases amounting to 12.5 per cent over the life of the agreement;
- an increase in productive audit hours by 25 hours per annum for each year of the agreement, culminating in a total increase of 75 hours over the period of the agreement;
- further simplification of working conditions to support our audit program and facilitate a better balance between work and personal lives;
- an increase in paid maternity leave absence from 12 weeks to 15 weeks;
- more emphasis on the devolution of decision making to supervisors at the working level; and
- a revised performance management scheme with more incentives for improved performance.

### **Workplace Consultative Forum**

The Workplace Consultative Forum (WCF) continues to play a significant role in facilitating consultation on a range of operational and strategic issues affecting staff in the workplace. The WCF comprises three staff elected representatives, three union representatives and three management representatives.

During 2002–03 the WCF convened on five occasions to consider the development, implementation and review of a broad range of employment matters. These included the ANAO Capabilities Framework, the ANAO's Workplace Diversity Program 2002–04, Internet to the Desktop, the ANAO 2002 Staff Survey and a revised Studies Assistance Policy.

### **Recruitment and selection**

During the year the ANAO conducted a major review of its Recruitment and Selection policy and practices, which encompassed the development and implementation of a revised Capabilities Framework and position descriptors for each classification level within the Office. The ANAO also engaged a marketing company to assist in developing recruitment and organisational concepts designed to enhance our ability to attract people with appropriate skills and experience to the office.

In addition, the ANAO has commenced a comprehensive evaluation of its revised recruitment practices, which aims to determine the level of success in key areas such as the quality of applicants and their suitability for work in the ANAO.

A key element of workforce planning is the conduct of personal interviews with staff departing the Office. The information is analysed and applied to a variety of workforce planning initiatives, including management reporting and retention strategies. An alumni program is also in place, which aims to maintain contact with former staff members with a view to attracting former employees with enhanced skills and experience back to the ANAO. While still in its infancy the alumni program is already proving a valuable initiative with a number of high quality staff returning to the Office.

## Performance Assessment Scheme

The ANAO has a performance assessment scheme, which provides for formal performance assessment to be undertaken each six months. The aggregated results for the 2002–03 performance cycle are shown in Table 5.

**Table 5: Summary of ratings from performance assessment in 2002–03**

<b>October 2002</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>Total</b>
ANAO Bands 2 and 4 (Exec 1 and 2)	28	55	0	83
ANAO Bands 1 and 2 (APS 1–6)	28	70	0	98
<b>Total</b>	<b>56 (31%)</b>	<b>125 (69%)</b>	<b>0</b>	<b>181</b>
<b>April 2003</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>Total</b>
ANAO Bands 2 and 4 (Exec 1 and 2)	28	75	0	103
ANAO Bands 1 and 2 (APS 1–6)	29	93	0	122
<b>Total</b>	<b>57 (25%)</b>	<b>168 (75%)</b>	<b>0</b>	<b>225</b>

## Performance pay

In 2002–03, a total of \$280 184 in performance bonuses was paid to eligible ANAO staff. Aggregated information on performance pay is set out in Appendix 1, Table A1–8.

## Learning and development

The ANAO has an integrated learning and development program which recognises the importance of high performing individuals and teams to deliver high quality audit products and services. This requires the acquisition of skills and capabilities, commitment to continuous improvement, innovation, learning and knowledge sharing. This is done through targeted learning and development which is set out in the ANAO Learning and Development Framework and Professional Development Calendar. The Personal Development Scheme, and individual professional development opportunities compliment the framework and calendar.

The Learning and Development Calendar provides staff with access to a range of core and non-core training options that represent the foundation of technical and people management and professional development within the ANAO. Programs are a balance between formal courses and professional update sessions targeted at staff responsibilities. Staff attending substantive courses, are, along with their supervisors, required to provide an assessment of the level of any on-the-job performance improvement resulting from course attendance. The aggregate result of these assessments are included in the ANAO's scorecard.

Another key element of people management in the ANAO is the Personal Development Scheme (PDS) which provides a structured process for staff and their supervisors to engage in an annual discussion to determine individual staff development needs, including study and future career options. Identified needs are incorporated into annual Individual Development Plans and form the basis of the core and non-core courses contained in the Learning and Development Calendar.



### ANAO Staff Seminar Series

The ANAO Staff Seminar Series invites guest speakers from a range of disciplines to present their perspectives on topical issues to ANAO staff. In May 2003, Mr Bill Edge Chairman of Audit and Assurance Standards Board, Pricewaterhouse Coopers presented the topic entitled *Impact of CLERP 9 on Audit Standards*. This series has been well received by staff and more speakers will present in an expanded series for 2003–04.

### Secondments

The ANAO provides staff with opportunities to experience work in other Australian Government agencies and the JCPAA to gain cross APS agency and Parliamentary Committee experience. Similarly the ANAO accepts staff from other agencies and the Parliament for temporary assignment to the ANAO to enhance awareness and understanding of the ANAO's role and responsibilities.

### Exchange placements—New Zealand/Canada

The ANAO has also 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. Keith Allen and Kristian Gage went on exchange to New Zealand in September and October 2002, and Paul Hinchey and Ron Wah to Canada in April and May 2003. 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.

Staff secondments and exchanges during the year 2002–03 are set out below.

#### *Secondments/Exchanges to the ANAO*

Advit Nath from Office of the Auditor-General of Canada  
Elizabeth de Pasille from Office of the Auditor-General of Canada  
Jasvinder Singh from Audit New Zealand  
Roger Dalton from Audit New Zealand

#### *Secondments/Exchanges from the ANAO*

Keith Allen to Audit New Zealand  
Kristian Gage to Audit New Zealand  
Paul Hinchey to Office of the Auditor-General of Canada  
Ron Wah to Office of the Auditor-General of Canada  
Keith Smith to Department of Defence  
Scott Warwick to Department of Family and Community Services  
Grant Caine to Centrelink  
Suzanne Hinchcliffe to JCPAA  
Christian Anderson to Joint Committee Electoral Matters  
William Bonney to JCPAA

Professional qualifications and representation

Studies Assistance

During 2002–03 the ANAO supported 77 staff members with their study programs. Of these, the majority participated in the Chartered Accountant (CA) or Certified Practising Accountants (CPA) Australia programs, while a number of staff undertook programs directly related to information technology, vocational or post-graduate university study.

The ANAO staff who completed their CA and CPA programs in 2002–03 are set out below.

CA Program		CPA Program	
Karin Hagel	Caterina Mangeruca	Karen O'Brien	Ian Turnbull
Danica Soldo	Yi-Ping Wang	Milton Chen	Leonie Burns
Katrina Foreman	Colin Bienen	Kristy Robb	Keith Allen
Melinda Skinner		Jacinta Thomas	Scott Warwick
Josephine Bushell		Donna McShane	Tracey Martin

Representation

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

- The Auditor-General is Director of the International Federation of Accountants, and is a member of the INTOSAI Auditing Standards and Privatisation Committee. He is also 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;
- Trevor Burgess is a member the ACT Divisional Council of CPA Australia and the CPA Australia Public Sector Accountants Committee;
- Michael Watson is a member the ACT Regional Council of the Institute of Chartered Accountants Australia;
- John Meert is a member of the Australian Institute of Management Advisory Council;
- Richard Rundle is a member of Standards Australia Management and the Business Standards Sector Board; and
- Paul Hinchey is the Deputy chair of the NSW CPA Australia Public Sector Committee and the Convenor of the CPA Sydney Accountants in Government Discussion Group.

Appendix 5 provides a full list of papers and presentations by the Auditor-General and senior ANAO officers in 2002–03.

Graduate Certificate in Performance Auditing

The ANAO has assisted in the development of a Graduate Certificate in Performance Auditing with the University of Canberra. The certificate is designed to provide a structured development program for performance auditors, and can be completed within 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.

The following ANAO staff graduated from the course in 2002–03:

Julie Cronin	Nicola Thatcher
Vicky Delgos	Ee-Ling Then
Janine McGuinness	Brett Stanton

The Senior Women in Management (SWIM) program is a prestigious Australian Public Service senior office development program designed by the Australian Public Service Commission. The ANAO continued its participation in this program with Ms Medha Kelshiker being selected to participate during the year.

### Graduates

Nineteen graduates commenced employment with the ANAO in February 2003. 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 technical, people management, general training and skill development.



The 2003 ANAO graduate intake. Left to right back row: Luke Johnstone, Jason Neame, Katrina Bevan, Layton Pike, Mathew Garrett, Nick Gutesa (middle row) Peter Matyk, Cecil Bhasme-Markus, Suzannah Ridley, David Belgrove, Anuj Chandra, David Toma, Lasantha Samaranayake, John Barnes (front row) Pamela Foster (Graduate Coordinator) Annie Ngo, Angela Slater, Tracy Rankin, Belinda Hogarth-Boyd, Fariha Chowdhury, Dianna Waanders. Absent: Amy Fox.

### Awards and recognition

The ANAO supports an awards system that recognises and rewards individual staff and teams who make a significant contribution to achieving business objectives. This typically includes such areas as client service, people management, business management, audit 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 2003 were awarded to the following members of staff:

- Renée Gopal and Cecelia Kaye, for their professional conduct and client service in the publications area, particularly their success in meeting tight deadlines;
- Stephen Lack, for his consistent management style, his support for a flexible, family friendly work environment, his constructive input into the team and the high staff morale he generates within the branch; and
- John Hawley, for consistently high quality work sustained over a long period of time.

The National Australia Day Council medallions were presented by the Auditor-General to the following members of staff:

- Tammy Haines, for her conscientious and professional manner in relation to her audit responsibilities and the willing support she provides to her colleagues across all areas;
- Christine Herrmann and Peter Sinfield, for their proactive work on the Information Research Centre client services plan and the provision of a consistently superior level of client service;
- Catherine Hughes and Brett Stanton, for initiating and coordinating a very successful Christmas charity challenge and concurrently maintaining a very high volume of quality audit work;
- Mark Moloney, for his contribution to the development of junior staff through his guidance and counsel; and
- Russell Laphorne for his considerable efforts in meeting audit deadlines, also his team work and contribution to the knowledge base and support structures of his branch.



Winners of the Auditor-General's Outstanding Achievement Awards for 2003. Stephen Lack (left) Cecelia Kaye, John Hawley, and Renée Gopal with the Auditor-General, Pat Barrett.

## **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.

In September 2002, the Workplace Diversity Program was reviewed and updated. The key priorities for the 2002–04 Program are to continue to cater for the diversity of the ANAO workforce through flexible and inclusive work practices which support and encourage staff to be aware of and exhibit diversity best practice in their daily work activities. The program also allows for the collection of appropriate data to facilitate an analysis of our position in relation to workplace diversity, however there were no incidents in relation to diversity issues that required reporting over the past year.

## **Occupational health and safety (OH&S)**

The ANAO continues to maintain a commitment to the health, safety and welfare of its staff and others who work at the ANAO. An OH&S Committee, which met on four occasions in 2002–03, is responsible for guiding the ANAO in respect of health and welfare awareness and also addressing a variety of OH&S issues that arise throughout the year.

The ANAO also continued the practice of providing free influenza vaccinations to all staff who wish to participate in this initiative. In addition, a considerable amount of work was done in ergonomic and workstation assessment, which ensures that staff have appropriate equipment and knowledge to work safely in an office environment.

## **Incidents during 2002–03**

During 2002–03 there was one incident reported under section 68 of *Occupational Health & Safety (CE) Act 1991*. There were no tests, directions or notices given under sections 30, 45, 46 or 47 of the Act.

## **Employee Assistance Program**

The ANAO, through the Employee Assistance Program (EAP), has continued to provide access to professional counselling services for its staff and their families. This service is offered to assist staff with any personal or work-related problems.

## **Australian Government Disability Strategy**

The ANAO Diversity Plan and OH&S strategies guide processes and action in relation to any disability issues that arise. In 2002–03 there have not been any matters of this nature requiring attention.

The ANAO's internet site meets all mandatory and optional disability access requirements. Public access to audit reports, other ANAO publications, speeches, papers and general information about the ANAO, is available in electronic form through the ANAO's internet home page, [www.anao.gov.au](http://www.anao.gov.au). Copies of ANAO publications are also provided to the general public on request.

## 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 2002–03, the ANAO used approximately 280 consultants to provide a range of professional, independent and expert advice or services at a total cost of approximately \$1.710 million. Further details of ANAO consultancies are provided at Table A6–1.<sup>26</sup>

### Major competitive tendering and contracting activities

The ANAO IT contract with *Unisys Australia* expired at the end of June 2003 and a request for tender was issued in January 2003 to five short listed firms. *Unisys Australia* was once again the successful tender and a four year contract was awarded with effect from 1 July 2003.

### Publishing services

The ANAO continues a sound working relationship with *Canprint Communications*, the external service provider for most publishing and related services, which was entered into in December 2001.

### Legal services

The ANAO uses a panel of four legal firms to provide our legal advice. The 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.

### Advertising and branding market research

During 2002–03, the ANAO spent \$112 000 on advertising in relation to recruitment and tenders. Details of advertising expenditure are set out in Table 6.

Table 6: Details of advertising expenditure

Name of firm	Purpose	\$000
Hudson Group (TMP Worldwide)	recruitment	91
Starcom	recruitment/tenders	5
HMA Blaze	recruitment	2
Nga.net	recruitment	14
<b>Total</b>		<b>112</b>

<sup>26</sup> This is the amount paid for consultants contracts let and managed in 2003–03 — as distinct from the total value of the contract which may be active for more than one year.

The ANAO also spent some \$26 000 on market research and the preparation of creative material to assist in promoting the ANAO to prospective employees.

### **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 (HVAC), electrical and essential services in respect of Centenary House premises. The contract stipulates that the contractor must achieve specified annual savings in energy costs and consumption.

The ANAO continued its support of the Australian Greenhouse Office's (AGO's) Working Energy Program by agreeing to be a party to a new contract between the AGO and ActewAGL for the whole of government supply of electricity to contestable Australian Government sites in the ACT.

The ANAO continues to investigate and implement new and improved energy and recycling measures that meet environmental policy guidelines where appropriate.

### **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.







1. ANAO staffing overview
2. 2002–03 Financial Results Commentary and Financial Statements
3. Audit and other publications
4. Main issues raised in performance audit and business support process (BSP) audit reports tabled in 2002–03
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 2003

Classification	ACT	NSW	2002-03	2001-02
SES Band 3	1	–	1	1
SES Band 2	4	–	4	4
SES Band 1	15	–	15	17
Exec 2	67	2	69	63
Exec 1	47	–	47	44
APS 6	48	8	56	42
APS 5	33	–	33	43
APS 4	26	1	27	39
APS 3	13	–	13	7
APS 2	2	–	2	3
APS 1	1	–	1	2
Graduate	19	–	19	15
Cadet	1	–	1	2
<b>TOTAL</b>	<b>277</b>	<b>11</b>	<b>288</b>	<b>282</b>

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 2003	
	Audit	Mgt	Audit	Mgt
ACT	203	42	217	42
NSW	10	1	10	1
	213	43	227	43
<b>TOTAL</b>	<b>256</b>		<b>270</b>	

Note: excludes 18 staff on long term paid and unpaid leave.

**Table A1-3: Paid full-time, part-time and non-ongoing staff as at 30 June 2003**

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	14	1	–	–	–	–	14	1
Exec 2	39	23	2	–	1	–	42	23
Exec 1	20	21	–	5	–	1	20	27
APS 6	19	26	–	1	2	4	21	31
APS 5	11	21	–	–	–	–	11	21
APS 4	8	17	–	–	–	2	8	19
APS 3	–	12	–	–	1	–	1	12
APS 2	1	1	–	–	–	–	1	1
APS 1	1	–	–	–	–	–	1	–
Graduate	12	7	–	–	–	–	12	7
Cadet	–	1	–	–	–	–	–	1

Note: includes paid operative and inoperative staff and excludes 9 unpaid staff

**Table A1-4: Analysis of workplace diversity groups within salary levels 2002-03**

Salary Range	Total staff	Women	NESB1	NESB2	ATSI	PWD
Below \$35 675 (includes APS 1 and Cadets)	2	1	–	1	1	–
\$35 675 to \$46 092 (includes APS 2–3 and Graduates)	34	20	11	5	–	1
\$46 333 to \$56 655 (includes APS 4–5)	60	41	12	9	1	–
\$56 656 to \$77 865 (includes APS 6–Exec1)	103	61	9	17	–	1
\$79 344 and above	89	27	5	4	–	2
<b>TOTAL</b>	<b>288</b>	<b>150</b>	<b>37</b>	<b>36</b>	<b>2</b>	<b>4</b>
		<b>(52%)</b>	<b>(13%)</b>	<b>(13%)</b>	<b>(0.7%)</b>	<b>(1%)</b>

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 to other Departments	Resignations	Medical Retirements	Voluntary Retirements	Total Losses	Gains
ACT	27	24	—	5	56	63
NSW	—	—	—	1	1	1
<b>TOTAL</b>	<b>27</b>	<b>24</b>	<b>—</b>	<b>6</b>	<b>57</b>	<b>64</b>

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

**Table A1-6: Expenditure on staff training**

Description	2002-03	2001-02	2000-01	1999-00	1998-99
Net eligible training expenditure (excludes salaries)	\$622 967	\$808 418	\$757 336	\$467 190	\$552 877
Total number of person-days spent by staff on eligible training programs	1591	1566	1842	1448	1311
Total number of staff participating in eligible training programs	266	246	228	259	239

**Table A1-7: Basis of employment of staff**

Level	Basis of Employment of Staff	
	Employed under Certified Agreement	Employed on AWAs
SES	—	20
Non SES staff	216	52
Sub-total	216	72
<b>TOTAL</b>	<b>288</b>	

Table A1–8: Performance Payments

Classification	Number	Total for classification \$
SES	22	90 753
Exec 2	22	77 344
Exec 1	11	31 411
APS 6	22	40 181
APS 5	12	25 932
APS 4	7	9 281
APS 1–3	3	5 282
<b>TOTAL</b>		<b>\$280 184</b>

## APPENDIX 2

### 2002–03 Financial Results Commentary and Financial Statements

#### 2002–03 Financial Results Commentary

Financial Statements for the year ended 30 June 2003

- Independent Auditor's Report
- Statement by Auditor-General
- Statement of Financial Performance
- Statement of Financial Position
- Statement of Cash Flows
- Schedule of Commitments
- Schedule of Administered Items
- Notes to and forming Part of the Financial Statements

## 2002–03 Financial Results Commentary

### Introduction

The Australian National Audit Office's operations are largely funded 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 2002–03. The ANAO has cash reserves sufficient to meet its ongoing commitments.

The following table provides a summary of the ANAO's financial position.

**Table A2–1: Summary of financial position**

Statement of Financial Performance	2002–03 \$000	2001–02 \$000	Variance \$000	Variance %
Total operating revenues	56 920	53 087	3 833	7.2
Total operating expenses	52 344	50 281	2 063	4.1
Operating surplus attributable to the Australian Government	4 576	2 806	1 770	63.1
Capital Usage Charge	446	707	(261)	(36.9)
Net Surplus	4 130	2 099	2 031	96.7
<b>Statement of Financial Position</b>				
Total assets	23 714	23 280	434	1.9
Total liabilities	14 924	17 506	(2 582)	(14.7)
Net assets	8 790	5 774	3 016	52.2
Equity	8 790	5 774	3 016	52.2

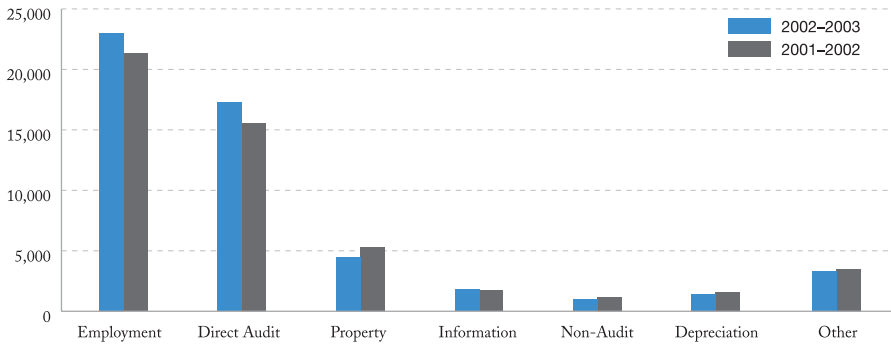
### Operating expenses

Total operating expenses for the year ended 30 June 2003 were \$2.063 million (4.1 per cent) more than for 2001–02. This increase in expenses reflects an increase in costs, particularly employment costs and audit related costs, which have increased by 8.7 per cent and 9.8 per cent, respectively. Average staffing level of 285 is broadly stable (284 in 2001–02). The increase in employment cost reflects the change in some staffing classifications and increased remuneration, in part resulting from the current certified agreement. Total property operating



expenses have decreased after allowing for the annual increase in the lease rate and the off-setting effect of sub leasing of part of the leased premises to another organisation. A breakdown of total operating expenses into major expense categories is shown in Figure A2-1.

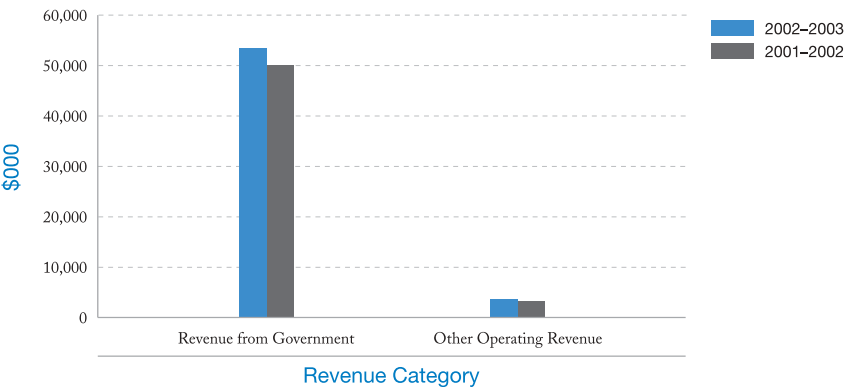
**Figure A2-1: Operating expenses**



### Operating revenue

The increase in total operating revenues is due to an increase in other operating revenues for the financial year of 20.9 per cent reflecting sub-leasing part of the leased premises. 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, due to achievement of another operating surplus, tight management of liabilities and sub leasing part of the leased premises. This has resulted in a further increase in available cash. The operating surplus of \$4.576m has resulted in an improvement in the equity position of the ANAO, which stands at \$8.790m (2002: \$5.774m) after payment of the capital use charge of \$0.446m (2002: \$0.707m) and repayment of contributed equity of \$1.114m (2002: \$Nil).

The decrease in liabilities is predominantly due to the reduction in other liabilities, largely represented by the provision for surplus lease space costs. Supplier payables has increased due to the receipt of an advance rental payment. The underlying liability for supplier payables remains relatively stable. Employee Related Liabilities have increased with adoption of the current certified agreement and adjustment of accrued employee leave liabilities to reflect the increased remuneration rates.

### Administered funds financial summary

Audit fees billed to Commonwealth authorities and companies for non-discretionary audit work remained relatively stable compared with 2001–02, as reflected in the following table.

**Table A2–2: Administered funds.**

	2002–03 \$000	2001–02 \$000
<b>Administered Revenue and Expenses</b>		
Sale of goods and services	11 226	10 338
Cash transferred to the Official Public Account	10 532	11 079
<b>Administered Assets and Liabilities</b>		
Financial Assets	3 153	2 368
Equity and liabilities	3 153	2 368

### Other

#### Net outlays to government

In overall terms, the ANAO generated \$14.806 million in revenues from audit and related services. Given that the ANAO received appropriations totalling \$53.340 million, the net outlay by Government was \$38.534 million (2001–02: \$36.827 million).

#### Audit fees and cost recovery

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 24 of the Auditor-General Act. Those rates are used to determine the cost and price of all ANAO products and services. In 2002–03, total revenue generated (actual and notional) was \$38 668 million (2001–02: \$33 290 million) compared with net costs to recover of \$38 345 million (2001–02: 34.461 million).

06 | FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2003

## INDEPENDENT AUDITOR'S REPORT

### The Australian National Audit Office

Mr President

Mr Speaker

#### Scope

I have audited the financial statements of the Australian National Audit Office for the year ended 30 June 2003 in accordance with section 57 of the *Financial Management and Accountability Act 1997* ("The Act").

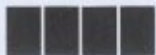
The financial statements comprise:

- Statement by the Auditor-General;
- Statements of Financial Performance, Financial Position and Cash Flows;
- Schedules of Commitments and Contingencies;
- Schedule of Administered Items; 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.



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### 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 2003, and its financial performance and its cash flows for the year then ended.

Michael J Coleman  
Independent Auditor

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

Sydney  
14 August 2003



KPMG, KPMG, an Australian partnership, is a member of KPMG International, a Swiss Association

## Australian National Audit Office Statement by the Auditor-General

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In my opinion, the attached financial statements for the year ended 30 June 2003 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.....

PJ Barrett  
Auditor-General

14 August 2003

Australian National Audit Office  
**STATEMENT OF FINANCIAL PERFORMANCE**  
*For the year to 30 June 2003*

	Notes	2003 \$'000	2002 \$'000
<b>Revenues from ordinary activities</b>			
Revenues from Government	3A	53 340	50 126
Sales of goods and services	3B	3 281	2 285
Interest	3C	248	676
Revenue from sale of assets	3D	51	-
<i>Revenues from ordinary activities</i>		<u>56 920</u>	<u>53 087</u>
<b>Expenses from ordinary activities</b>			
Employees	4A	23 094	21 234
Suppliers	4B	27 392	26 934
Depreciation and amortisation	4C	1 506	1 844
Value of assets sold	3D	-	8
Write-down of assets	4D	8	45
Other	5	344	216
<i>Expenses from ordinary activities</i>		<u>52 344</u>	<u>50 281</u>
<b>Net surplus</b>		<u>4 576</u>	<u>2 806</u>
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>		<u>4 576</u>	<u>2 806</u>

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

Australian National Audit Office  
STATEMENT OF FINANCIAL POSITION  
as at 30 June 2003

	Notes	2003 \$'000	2002 \$'000
<b>ASSETS</b>			
<b>Financial assets</b>			
Cash	6A	1 634	17 273
Receivables	6B	17 785	1 122
Work in Progress	6C	20	120
<b>Total financial assets</b>		<b>19 439</b>	<b>18 515</b>
<b>Non-financial assets</b>			
Infrastructure, plant and equipment	7A, C	3 056	3 279
Intangibles – computer software	7B, C	607	964
Other	7D	612	522
<b>Total non-financial assets</b>		<b>4 275</b>	<b>4 765</b>
<b>TOTAL ASSETS</b>		<b>23 714</b>	<b>23 280</b>
<b>LIABILITIES</b>			
<b>Interest bearing liabilities</b>			
Other	8A	3 708	7 095
<b>Total interest bearing liabilities</b>		<b>3 708</b>	<b>7 095</b>
<b>Provisions</b>			
Capital use charge	9A	-	707
Employees	9B	8 488	7 340
<b>Total provisions</b>		<b>8 488</b>	<b>8 047</b>
<b>Payables</b>			
Suppliers	10A	2 538	2 364
Other	10B	190	-
<b>Total payables</b>		<b>2 728</b>	<b>2 364</b>
<b>TOTAL LIABILITIES</b>		<b>14 924</b>	<b>17 506</b>
<b>NET ASSETS</b>		<b>8 790</b>	<b>5 774</b>
<b>EQUITY</b>			
Contributed equity		4 929	6 043
Reserves		579	579
Accumulated Surplus		3 282	(848)
<b>TOTAL EQUITY</b>	11	<b>8 790</b>	<b>5 774</b>
<b>Current assets</b>		<b>19 511</b>	<b>18 404</b>
<b>Non-current assets</b>		<b>4 203</b>	<b>4 876</b>
<b>Current liabilities</b>		<b>7 980</b>	<b>7 934</b>
<b>Non-current liabilities</b>		<b>6 944</b>	<b>9 572</b>

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 2003*

	Notes	2003 \$'000	2002 \$'000
<b>OPERATING ACTIVITIES</b>			
<b>Cash received</b>			
Goods and services		3 350	2 161
Appropriations		53 340	50 126
Interest		248	676
GST received from Australian Taxation Office		1 062	1 262
<b>Total cash received</b>		<b>58 000</b>	<b>54 225</b>
<b>Cash used</b>			
Employees		21 989	21 452
Suppliers		31 766	29 817
Transfer of Cash to Official Public Account		16 734	-
<b>Total cash used</b>		<b>70 489</b>	<b>51 269</b>
<b>Net cash (used by) / from operating activities</b>	12	<b>(12 489)</b>	<b>2 956</b>
<b>INVESTING ACTIVITIES</b>			
<b>Cash received</b>			
Proceeds from sales of infrastructure, plant and equipment		51	8
<b>Total cash received</b>		<b>51</b>	<b>8</b>
<b>Cash used</b>			
Purchase of infrastructure, plant and equipment		805	873
Purchase of intangibles		129	190
<b>Total cash used</b>		<b>934</b>	<b>1 063</b>
<b>Net cash (used by) investing activities</b>		<b>(883)</b>	<b>(1 055)</b>
<b>FINANCING ACTIVITIES</b>			
<b>Cash received</b>		-	-
<b>Cash used</b>			
Capital use charge paid		1 153	443
Return of Contributed Equity		1 114	-
<b>Total cash used</b>		<b>2 267</b>	<b>443</b>
<b>Net cash (used by) financing activities</b>		<b>(2 267)</b>	<b>(443)</b>
<b>Net increase / (decrease) in cash held</b>		<b>(15 639)</b>	<b>1 458</b>
Cash at the beginning of the reporting period		17 273	15 815
<b>Cash at the end of the reporting period</b>	12	<b>1 634</b>	<b>17 273</b>

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

**Australian National Audit Office**  
**SCHEDULE OF COMMITMENTS**  
*as at 30 June 2003*

	<b>2003</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>BY TYPE</b>		
Other Commitments		
Operating leases <sup>1</sup>	<b>40 437</b>	45 716
Other commitments <sup>2</sup>	<b>19 265</b>	19 737
<b>Total other commitments</b>	<b>59 702</b>	65 453
Commitments Receivable (GST)	<b>(5 421)</b>	(5 644)
<b>Net commitments</b>	<b>54 281</b>	59 809
<b>BY MATURITY</b>		
<b>Other Commitments excluding Operating Lease Commitments</b>		
One year or less	<b>12 335</b>	10 883
From one to five years	<b>6 912</b>	8 854
Over five years	<b>18</b>	-
<b>Net commitments by maturity</b>	<b>19 265</b>	19 737
<b>Operating Lease Commitments</b>		
One year or less	<b>6 483</b>	5 526
From one to five years	<b>31 856</b>	29 256
Over five years	<b>2 098</b>	10 934
<b>Net Commitments</b>	<b>40 437</b>	45 716

*NB: Commitments are GST inclusive where relevant.*

- 1 Operating leases included for 2002-2003 are effectively non-cancellable and comprise:

<i>Nature of lease</i>	<i>General description of leasing arrangements</i>
<b>Leases for office accommodation</b>	In the ACT the terms of the lease arrangement are 15 years expiring 22 September 2008, with an option to extend for 5 years, and a rent escalation clause of 9% each year. In NSW the terms of the lease arrangement are 5 years, expiring 30 June 2007, with no option for renewal and no increase on rental for the next 12 months. Future minimum lease payments receivable for non-cancellable sub-leases expected to be received for the ACT lease until the expiration date of the sub-lease (22 September 2008) amounts to approximately \$3.053 million.
<b>Agreements for the provision of motor vehicles to senior executive officers</b>	The lease terms are between 24 and 36 months with variable interest rates.

- 2 Other commitments comprise: contract audit services \$12.426 million (01-02: \$18.044 million), information technology contracts \$5.720 million (01-02: \$1.313 million) and other corporate contracts totalling \$1.119 million (01-02: \$0.380 million).

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

**Australian National Audit Office**  
**SCHEDULE OF ADMINISTERED ITEMS**

	Notes	2003 \$'000	2002 \$'000
<b><u>Revenues Administered on Behalf of Government</u></b> <i>for the year ended 30 June 2003</i>			
<b>Non-taxation revenue</b>			
Goods and services (audit fees)	19	11 226	10 338
<b>Total Revenues Administered on Behalf of Government</b>		<b>11 226</b>	<b>10 338</b>

**Assets Administered on Behalf of Government**  
*As at 30 June 2003*

<b>Financial Assets</b>			
Cash	20	214	95
Receivables-Financial Statement audit	20	1 299	1 459
Work in progress	20	1 640	814
<b>Total Assets Administered on Behalf of Government</b>		<b>3 153</b>	<b>2 368</b>

**Liabilities Administered on Behalf of Government**  
*As at 30 June 2003*

<b>Payables</b>			
GST Payable	21	137	165
Other	21	214	95
<b>Total Liabilities Administered on Behalf of Government</b>		<b>351</b>	<b>260</b>
Current Liabilities		351	260
Non-current Liabilities		-	-
Current Assets		3 153	2 368
Non-current Assets		-	-

*This schedule should be read in conjunction with the accompanying notes.*

**Australian National Audit Office**  
**SCHEDULE OF ADMINISTERED ITEMS (continued)**

	2003 \$'000	2002 \$'000
<b><u>Administered Cash Flows</u></b>		
<i>for the year ended 30 June 2003</i>		
<b>Operating Activities</b>		
<b>Cash received</b>		
Rendering of services (audit fees)	11 826	11 267
<b>Total cash received</b>	<u>11 826</u>	<u>11 267</u>
 <b>Cash used</b>		
GST paid	1 080	93
Net Cash to Official Public Account	10 532	11 079
<b>Total cash used</b>	<u>11 612</u>	<u>11 172</u>
 <b>Net cash from / (used in) operating activities</b>	 214	 95
 <b><u>Administered Commitments</u></b>		
<i>As at 30 June 2003</i>		
 <b>Net Commitments</b>	 -	 -

**Statement of Activities Administered on Behalf of Government**

The Australian National Audit Office undertakes audits of Commonwealth departments and agencies. Auditing expenses are departmental expenses of the ANAO. Those expenses are met from Parliamentary appropriations. Fees are charged for the provision of audit services to certain Commonwealth agencies. Recovered fees are credited to the Official Public Account. Australian National Audit Office auditing and related activities are directed towards achieving the two outcomes described in Note 1 to the Financial Statements. Details of planned activities for the year can be found in the Australian National Audit Office Portfolio Budget Statement for 2002-03, which has been tabled in the Parliament.

*This schedule should be read in conjunction with the accompanying notes.*

<b>Note</b>	<b>Description</b>
1	Summary of Significant Accounting Policies
2	Events Occurring after Balance Date
3	Operating Revenues
4	Operating Expenses
5	Other Expenses
6	Financial Assets
7	Non-Financial Assets
8	Interest Bearing Liabilities
9	Provisions
10	Payables
11	Equity
12	Cash Flow Reconciliation
13	Contingent Liabilities and Assets
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	Revenues Administered on Behalf of Government
20	Assets Administered on Behalf of Government
21	Liabilities Administered on Behalf of Government
22	Administered Reconciliation Table
23	Administered Financial Instruments
24	Administered Items – Credit Risk
25	Appropriations
26	Special Appropriations
27	Special Accounts
28	Assets Held in Trust
29	Reporting of Outcomes



**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
**For the year ended 30 June 2003**

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**Note 1: - Summary of Significant Accounting Policies**

**1.1 Objectives of the 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, business support process 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 Australian National Audit Office 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 Australian National Audit Office. They are used by the Australian National Audit Office 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 that are controlled by the Government and managed or oversighted by the Australian National Audit Office on behalf of the Government. These items include audit fees.

The purpose in separating agency and administered items is to enable an assessment of the administrative efficiency of the Australian National Audit Office in providing goods and services. The basis of accounting described in Note 1.2 applies to both agency and administered items.

**1.2 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 (or FMOs, being the *Financial Management and Accountability (Financial Statements for reporting periods on or after 30 June 2003) Orders*);
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board; and
- Consensus Views of the Urgent Issues Group.

The Australian National Audit Office's Statements of Financial Performance and Financial Position have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets that, as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

## **1.2 Basis of Accounting (continued)**

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. However, assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an Accounting Standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments (other than unquantifiable or remote contingencies, which are reported at Note 13).

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 continuation of appropriations by Parliament for the ANAO's administration and programs.

Administered revenues, expenses, assets and liabilities and cash flows are reported in the Schedule of Administered Items and related notes. They are accounted for on the same basis and using the same policies as for ANAO's items and are reported at Note 1.23.

## **1.3 Changes in Accounting Policy**

The accounting policies used in the preparation of these financial statements are consistent with those used in 2001-2002, except in respect of:

- measurement of certain employee benefits at nominal amounts (refer Note 1.6);
- the initial revaluation of infrastructure, plant and equipment on a fair value basis (refer to Note 1.11);
- the imposition of an impairment test for non-current assets carried at cost (refer to Note 1.12); and
- presentation and disclosure of administered items (refer Note 1.23).

## **1.4 Revenues**

### *Revenues from Government*

Departmental outputs appropriations for the year are recognised as revenue.

### *Other Revenue*

Revenue from rendering of services is recognised by reference to the stage of completion of contracts or other agreements to provide services. The stage of completion is determined according to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

The Agency Banking Incentive Scheme under which the Australian National Audit Office managed cash was reviewed during the year and interest earned was limited to the amount by which Parliamentary appropriations to the Australian National Audit Office had been adjusted in order that the Australian National Audit Office did not receive a net financial benefit and the Agency Banking Incentive Scheme remained Budget neutral.

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 audit and related operating activities of the Australian National Audit Office, except for revenues received from the sublease of surplus space, gains from the sale of Australian National Audit Office assets and interest income. Revenue amounts are disclosed in Note 3.

## **1.5 Transactions with the Government as Owner**

### *Equity Injections*

No equity injections were received by the Australian National Audit Office during the 2002-2003 financial year.

**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
**For the year ended 30 June 2003**

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**1.5 Transactions with the Government as Owner (continued)**

*Capital Use Charge*

A Capital Use Charge was imposed on net departmental assets of the Australian National Audit Office. In 2002-2003, the operation of the Capital Use Charge was reviewed as part of the Budget Estimates and Framework Review. Following that review, the amount of the Capital Use Charge for the 2002-2003 financial year was limited to the amount appropriated to the Australian National Audit Office for payment of the Capital Use Charge. Payment of the CUC is disclosed in Note 11 as a dividend to Government.

In accordance with the recommendations of the Budget Estimates and Framework Review, the Government decided to discontinue the Capital Use Charge with effect from 1 July 2003.

*Other distributions to owners*

The FMOs require distributions to owners to be debited to Contributed Equity unless it is in the nature of a dividend. As a result of government decisions in 2002-2003, the ANAO returned output appropriation funding of \$1,114,000 to the Official Public Account. This transaction is disclosed in Note 11.

**1.6 Employee Benefits**

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for wages and salaries (including non-monetary benefits), annual leave, sick leave are measured at their nominal amounts. Other employee benefits expected to be settled within 12 months of the reporting date are also measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability. This is a change in accounting policy from last year required on initial application of a new Accounting Standard AASB 1028 from 1 July 2002. The Australian National Audit Office's certified agreement increases pay rates in late May each year. The financial effect of this change is not material.

All other employee benefit liabilities are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

*Leave*

The liability for employee benefits 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 leave liabilities are calculated on the basis of employees' remuneration, including the Australian National Audit Office employer superannuation contribution rates, to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave has been measured at the present value of the estimated future cash flows to be made in respect of all employees at 30 June 2003. Estimation of the present value of the liability takes into account attrition rates and pay increases through promotion and the certified agreement.

*Superannuation*

Employees of the ANAO are members of the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. Employer contributions to these schemes amounting to \$2.536 million in 2002-03 (\$2.307 million in 2001-02) have been expensed in these financial statements.

The ANAO makes employer contributions to the Commonwealth at rates determined by an actuary to be sufficient to meet the cost to the Commonwealth of the superannuation entitlements of the ANAO's employees. No liability for superannuation contribution is recognised at 30 June 2003 as the employer contributions fully extinguish the accruing liability.

Employer Superannuation Productivity Benefit contributions totalled \$0.431 million (2001-02: \$0.410 million).



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**1.6 Employee Benefits (continued)**

The liability for superannuation recognised as at 30 June 2003 represent outstanding contributions for the final fortnight of the year.

**1.7 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 2003.

Operating lease payments are expensed on a basis that 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 leased space becomes surplus.

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 expenses and a reduction of the lease liability.

**1.8 Cash**

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

As a result of changes to the Government's cash management arrangements in 2002-2003, all cash exceeding the Australian National Audit Office's immediate working capital requirements was transferred to the Official Public Account on 30 June 2003. The amount transferred is shown as a Receivable in the Statement of Financial Position.

**1.9 Financial Instruments**

Accounting policies for financial instruments are stated at Note 18.

**1.10 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.

**1.11 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 that are significant in total).

*Revaluations*

*Frequency*

Infrastructure, plant and equipment is revalued every three years. The Australian National Audit Office last revalued these assets at 31 May 2001 in accordance with the policy of revaluing assets within each of these classes at least once every three years.

*Conduct*

All valuations are conducted by an independent, qualified valuer.

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**Note 1.11 Infrastructure, Plant and Equipment (continued)**

*Depreciation and Amortisation*

Depreciable infrastructure, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to the Australian National Audit Office 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 reporting date and necessary adjustments are recognised in the 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.

	2003	2002
Computer equipment	3 years	3 years
Leasehold improvements	Lease term	Lease term
Office Equipment	3 – 15 years	3 – 15 years

*Recoverable Amount Test*

From 1 July 2002, Schedule 1 of the Finance Minister's Orders no longer requires application of the recoverable amount test in Australian Accounting Standard AAS 10 *Recoverable Amount of Non-Current Assets* to the assets of the Australian National Audit Office when the primary purpose of the asset is not the generation of net cash inflows.

No infrastructure, plant and equipment assets have been written down to their recoverable amount per AAS 10. Accordingly, the change in policy has no financial effect.

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 4C.

*Basis*

Revaluations of infrastructure, plant and equipment undertaken up to 30 June 2002 were done on a deprival basis.

In accordance with the deprival method, the Australian National Audit Office records revalued assets at their depreciated replacement cost if there is no recognized market. Where there is an identifiable, recognised market the assets are revalued at their current market selling price. At 30 June 2003, the Australian National Audit Office had no assets that were surplus to requirements.

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

Future revaluations will be done on a fair value basis. This change in accounting policy is required by Australian Accounting Standard AASB 1041 *Revaluation of Non-Current Assets*.

**1.12 Intangibles**

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:

	2003	2002
Internally Developed Software	3 years	3 years
Financial & Human Resources Systems	5 years	5 years

From 1 July 2002, Schedule 1 of the FMOs no longer requires the application of the recoverable amount test in Australian Accounting Standard AAS 10 *Recoverable Amount of Non-Current Assets* to the assets of the ANAO when the primary purpose of the asset is not the generation of net cash inflows.

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**1.12 Intangibles (continued)**

However Schedule 1 of the FMOs now requires such assets, if carried at cost, to be assessed for indications of impairment. The carrying amount of impaired assets must be written down to the higher of its net market selling or depreciated replacement cost.

All software assets were assessed for impairment as at 1 July 2002 and 30 June 2003. No assets were found to be impaired.

**1.13 Inventory**

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

**1.14 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.

**1.15 Taxation**

The ANAO is exempt from all forms of taxation, except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST).

Revenues, expenses and assets are recognised net of GST:

- except where the amount of GST incurred is not recoverable from the Australian Taxation Office; and
- except for receivables and payables.

**1.16 Work in progress**

Work in progress includes all unbilled audit work at year-end for which an audit fee is chargeable and is valued at the amount expected to be recovered.

**1.17 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.

**1.18 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.

**1.19 Agency Banking Scheme**

Transactional banking arrangements introduced from 1 July 1999 allowed the Australian National Audit Office to manage surplus cash and to earn interest on invested monies. Interest earned on invested cash during the 2002-2003 financial year was limited to the amount by which appropriations were adjusted so that the Australian National Audit Office did not receive a net benefit and the Agency Incentive Banking Scheme remained Budget neutral. Interest earnings are disclosed in Note 3C.

Interest earned in previous years exceeded the amount by which appropriations made to the Australian National Audit Office had been adjusted. As a result, an amount equivalent to the excess interest earnings was paid to the Commonwealth during the 2002-2003 financial year and is disclosed in Note 11 as a repayment of Contributed Equity.



**Australian National Audit Office**  
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**1.19 Agency Banking Scheme (continued)**

Following review of the Agency Banking Incentive Scheme during the 2002-2003 financial year, the Australian National Audit Office transferred cash in excess of immediate working capital requirements to the Official Public Account. Under the revised cash management arrangements the Australian National Audit Office will not have access to surplus monies and will not earn interest in the future.

**1.20 Surplus Lease Space**

The Australian National Audit Office leases premises in the ACT under a long-term lease agreement. Part of that leased space has been accounted for as surplus space and was sub-leased on a long-term basis in December 2002. In accordance with Urgent Issues Group (UIG) Abstract 1 *Surplus Leased Space*, the liability for the surplus space has been recognised in the accounts. The provision will be written down over the remainder of the lease period. Rental income for the sub-lease will be recognised as it is received. The provision was reduced by \$2.558 million in 2002-2003, being the rental income to be derived during the period of the sub-lease.

**1.21 Comparative Figures**

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

**1.22 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.

**1.23 Reporting of Administered Activities**

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the Schedule of Administered Items and related Notes.

Except where otherwise stated below, administered items are accounted for on the same basis and using the same policies as for Agency items, including the application to the greatest extent possible of Accounting Standards, Accounting Interpretations and UIG Consensus Views.

Administered appropriations received or receivable from the Official Public Account (OPA) are not reported as administered revenues or assets respectively. Similarly, administered receipts transferred or transferable to the OPA are not reported as administered expenses or payables.

These transfers of cash are reported as administered (operating) cash flows and in the administered reconciliation table in Note 22.

Accounting policies that are relevant only to administered activities of the 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 2 – Events Occurring after Reporting Date**

There have been no events occurring after balance date that should be brought to account or noted in the 2002-2003 financial statements.

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	2003 \$'000	2002 \$'000
<b>Note 3 – Operating Revenues</b>		
<u>Note 3A – Revenues from Government</u>		
Appropriations for outputs	53 340	50 126
<u>Note 3B – Sales of Goods and Services</u>		
Audit related services	561	998
Rental income	2 720	1 277
Other	-	10
<b>Total sales of goods and services</b>	<b>3 281</b>	<b>2 285</b>
Rendering of services to:		
Related entities	699	1 974
External entities	2 582	311
<b>Total rendering of services</b>	<b>3 281</b>	<b>2 285</b>
<u>Note 3C – Interest Revenue</u>		
Interest on term deposits	248	676
<u>Note 3D – Net Gains from Sales of Assets</u>		
Infrastructure, plant and equipment:		
Proceeds from disposal	51	8
Net book value of assets disposed	-	(16)
<b>Net Gain / (Loss) from disposal of infrastructure, plant and equipment</b>	<b>51</b>	<b>(8)</b>
<b>Note 4 – Operating Expenses</b>		
<u>Note 4A – Employee Expenses</u>		
Salaries and wages	17 047	15 775
Superannuation	2 967	2 717
Leave and other entitlements	2 907	2 279
Separation and redundancies	28	274
Other employee expenses	40	87
<b>Total employee benefit expense</b>	<b>22 989</b>	<b>21 132</b>
Worker compensation premiums	105	102
<b>Total employee expenses</b>	<b>23 094</b>	<b>21 234</b>

**Australian National Audit Office**  
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	2003 \$'000	2002 \$'000
<b>Note 4 – Operating Expenses (cont'd)</b>		
<b>Note 4B – Supplier Expenses</b>		
Services from external entities	22 024	21 342
Operating lease rentals <sup>1</sup>	5 368	5 592
<b>Total supplier expenses</b>	<b>27 392</b>	<b>26 934</b>

<sup>1</sup>These comprise minimum lease payments only.

**Note 4C – Depreciation and Amortisation**

<b>Depreciation</b>		
Infrastructure, plant and equipment	791	1 048
<b>Total Depreciation</b>	<b>791</b>	<b>1 048</b>
<b>Amortisation</b>		
Intangible - computer software	487	559
Leasehold improvements	228	237
<b>Total Amortisation</b>	<b>715</b>	<b>796</b>
<b>Total depreciation and amortisation</b>	<b>1 506</b>	<b>1 844</b>

No depreciation or amortisation was allocated to the carrying amounts of other assets.

**Note 4D – Write Down of Assets**

<b>Non-financial assets</b>		
Infrastructure, plant and equipment – write-off	8	45

**Australian National Audit Office**  
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	Notes	2003 \$'000	2002 \$'000
<b>Note 5 – Other Expenses</b>			
Surplus space liability interest		<u>344</u>	<u>216</u>

**Note 6 – Financial Assets**

Note 6A – Cash

Cash on hand		1	1
Cash at bank		1 633	17 272
Cash on deposit		-	-
<b>Total Cash</b>	12	<u>1 634</u>	<u>17 273</u>

All cash recognised is a current asset.

Note 6B – Receivables

Goods and services		208	156
Less: Provision for doubtful debts		-	-
		<u>208</u>	<u>156</u>
GST receivable from the Australian Taxation Office		831	865
Interest receivable		12	9
Cash held in the Official Public Account		16 734	-
Other		-	92
<b>Total Receivables</b>		<u>17 785</u>	<u>1 122</u>
Current		17 245	489
Non Current		<u>540</u>	<u>633</u>
		<u>17 785</u>	<u>1 122</u>

Goods and services receivables (gross) are aged as follows:

Not Overdue

• Less than 30 days	146	62
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Overdue by:

• 30 to 60 days	57	82
• 60 to 90 days	1	1
• More than 90 days	4	11
	<u>208</u>	<u>156</u>

Note 6C – Other

Work in progress – audit related services		<u>20</u>	<u>120</u>
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All work in progress is recognised as a current asset.

**Australian National Audit Office**  
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	2003	2002
	\$'000	\$'000

**Note 7 – Non-Financial Assets**

7A – Infrastructure, Plant and Equipment

Leasehold improvements – at cost	214	134
Accumulated amortisation	(31)	(10)
	<u>183</u>	<u>124</u>
Leasehold improvements – at valuation 2001	1 681	1 681
Accumulated amortisation	(454)	(246)
	<u>1 227</u>	<u>1 435</u>
Plant and equipment – at cost	2 160	1 444
Accumulated depreciation	(919)	(337)
	<u>1 241</u>	<u>1 107</u>
Plant and equipment – at valuation 2001	1 286	1 378
Accumulated depreciation	(881)	(765)
	<u>405</u>	<u>613</u>
<b>Total Infrastructure, Plant &amp; Equipment (non-current)</b>	<u>3 056</u>	<u>3 279</u>

The revaluations were in accordance with the revaluation policy at Note 1.11 and were completed by an independent valuer, the Australian Valuation Office on 31 May 2001. Assets acquired after this date are shown at cost.

7B – Intangibles

Computer software – at cost (non-current)	2 428	2 299
Accumulated amortisation	(1 821)	(1 335)
<b>Total Intangibles</b>	<u>607</u>	<u>964</u>



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**Note 7 – Non-Financial Assets (cont'd)**

**7C – Analysis of Infrastructure, Plant and Equipment, and Intangibles**

<b>TABLE A – Reconciliation of the opening and closing balances of infrastructure, plant and equipment and intangibles</b>				
<b>Item</b>	<b>Leasehold Improvements</b>	<b>Plant &amp; Equipment</b>	<b>Computer software – Intangibles</b>	<b>TOTAL</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
As at 1 July 2002				
Gross book value	1 815	2 822	2 299	6 936
Accumulated depreciation / amortisation	(256)	(1 102)	(1 335)	(2 693)
Net book value	1 559	1 720	964	4 243
Purchases	80	725	129	934
Write-offs	-	8	-	8
<b>As at 30 June 2003</b>				
Gross book value	1 895	3 446	2 428	7 769
Accumulated depreciation / amortisation	(485)	(1 800)	(1 821)	(4 106)
<b>Net book value</b>	<b>1 410</b>	<b>1 646</b>	<b>607</b>	<b>3 663</b>

<b>TABLE B – Assets at valuation</b>				
<b>Item</b>	<b>Leasehold Improvements</b>	<b>Plant &amp; Equipment</b>	<b>Computer software - Intangibles</b>	<b>TOTAL</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>As at 30 June 2003</b>				
Gross value	1 681	1 286	-	2 967
Accumulated depreciation / amortisation	(454)	(881)	-	(1 335)
<b>Net book value</b>	<b>1 227</b>	<b>405</b>	<b>-</b>	<b>1 632</b>
As at 30 June 2002				
Gross value	1 681	1 378	-	3 059
Accumulated depreciation / amortisation	(246)	(765)	-	(1 011)
Net book value	1 435	613	-	2 048

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	2003 \$'000	2002 \$'000
Notes		
<u>Note 7D – Other Non-Financial Assets</u>		
Prepayments	<u>612</u>	<u>522</u>

All prepayments are recognised as current assets.

**Note 8 – Interest Bearing Liabilities**

8A – Other Interest Bearing Liabilities

Surplus lease space	<u>3 708</u>	<u>7 095</u>
Current	799	837
Non Current	<u>2 909</u>	<u>6 258</u>
<b>Total Other Interest Bearing Liabilities</b>	<u>3 708</u>	<u>7 095</u>

**Note 9 – Provisions**

Note 9A – Capital Use Charge Provision

Capital Use Charge	<u>-</u>	<u>707</u>
Balance owing 1 July	707	443
Capital Use Charge provided for during the period	446	707
Capital Use Charge paid	<u>(1 153)</u>	<u>(443)</u>
Balance owing 30 June	<u>-</u>	<u>707</u>

Capital use charge payable is a current liability.

Note 9B – Employee Provisions

Salaries and wages	782	423
Annual leave	2 307	2 217
Long service leave	4 661	4 137
Superannuation	684	519
Comcare Trust account	28 54	44
<b>Aggregate employee benefit liability and related on-costs</b>	<u>8 488</u>	<u>7 340</u>

Current	4 643	4 026
Non Current	<u>3 845</u>	<u>3 314</u>
	<u>8 488</u>	<u>7 340</u>

**Note 10 – Payables**

Note 10A – Supplier Payables

Trade creditors	541	1 069
Other	<u>1 997</u>	<u>1 295</u>
<b>Total supplier payables</b>	<u>2 538</u>	<u>2 364</u>

All supplier payables recognised are current liabilities.

Note 10B – Other Payables

Advance rental payment	<u>190</u>	<u>-</u>
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The advance rental payment is recognized as a non-current liability.

**Australian National Audit Office**  
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**Note 11 – Equity**

**Note 11A – Analysis of Equity**

Item	Accumulated Results		Asset Revaluation Reserves		Contributed Equity		TOTAL EQUITY	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Opening balance as at 1 July	(848)	(2 947)	579	579	6 043	6 043	5 774	3 675
Net surplus/deficit	4 576	2 806	-	-	-	-	4 576	2 806
<b>Transactions with owner:</b>								
Distributions to owner:								
Returns on Capital								
Capital Use Charge	(446)	(707)	-	-	-	-	(446)	(707)
Returns of Capital								
Returns of Contributed Equity	-	-	-	-	(1 114)	-	(1 114)	-
<b>Closing balance as at 30 June</b>	<b>3 282</b>	<b>(848)</b>	<b>579</b>	<b>579</b>	<b>4 929</b>	<b>6 043</b>	<b>8 790</b>	<b>5 774</b>
Less: outside equity interests	-	-	-	-	-	-	-	-
<b>Total equity attributable to the Commonwealth</b>	<b>3 282</b>	<b>(848)</b>	<b>579</b>	<b>579</b>	<b>4 929</b>	<b>6 043</b>	<b>8 790</b>	<b>5 774</b>

2003  
\$'000

2002  
\$'000

**Note 12 – 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	1 634	17 273
Statement of Financial Position items comprising above cash: 'Financial Asset – Cash'	1 634	17 273

**Reconciliation of net surplus to net cash from operating activities:**

Net surplus (deficit)	4 576	2 806
Amortisation – computer software	487	559
Depreciation / amortisation	1 019	1 285
(Profit)/loss on sale of non-current assets	(51)	8
Write down of assets	8	45
(Increase) / decrease in receivables	(16 663)	9
(Increase) / decrease in other non-financial assets	(90)	121
Decrease / (increase) in other financial assets	100	(90)
Increase / (decrease) in employee provisions	1 148	(194)
Increase / (decrease) in supplier payables	174	(628)
(Increase) / decrease in other liabilities	(3 197)	(965)
<b>Net cash (used by) / from operating activities</b>	<b>(12 489)</b>	<b>2 956</b>

**Note 13 – Contingent Liabilities and Assets**

There were no quantifiable, unquantifiable or remote contingencies at 30 June 2003 (2002: \$Nil).

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**Note 14 – Executive Remuneration**

	2003	2002
The number of executives who received or were due To receive total remuneration of \$100 000 or more:		
	Number	Number
\$110 000 to \$119 999	1	-
\$120 000 to \$129 999	-	1
\$130 000 to \$139 999	-	4
\$140 000 to \$149 999	3	7
\$150 000 to \$159 999	2	1
\$160 000 to \$169 999	5	3
\$170 000 to \$179 999	5	1
\$180 000 to \$189 999	2	-
\$190 000 to \$199 999	1	2
\$200 000 to \$209 999	1	-
\$230 000 to \$239 999	1	-
\$280 000 to \$289 999	-	1
\$360 000 to \$369 999	-	1
\$380 000 to \$389 999	1	-
	<u>22</u>	<u>21</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.

	\$	\$
The aggregate amount of total remuneration of executives shown above.	<u>3,939,139</u>	<u>3,526,016</u>

The aggregate amount of separation and redundancy payments made during the year to executives shown above.	<u>-</u>	<u>80,728</u>
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**Note 15 – Remuneration of Auditors**

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

Financial statement audit	54 357	55 998
Performance audit	39 980	40 164
	<u>94 337</u>	<u>96 162</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 2003 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 2002-2003 was **285** (2001-2002: 284).

**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*.



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**Note 18 – Financial Instruments**

**Note 18A – Terms, Conditions and Accounting Policies**

<b>Financial Instrument</b>	<b>Notes</b>	<b>Accounting Policies and Methods (including recognition criteria and measurement basis)</b>	<b>Nature of Underlying Instrument (including significant terms &amp; conditions affecting the amount, timing and certainty of cash flows)</b>
<b>Financial Assets</b>			
Cash at bank	6A	Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured. 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 2% for the year (2001-2002: 5%). Interest is paid on maturity of investments and quarterly on operational accounts. This arrangement ceased on 30 June 2003. ANAO will no longer invest funds.
Receivables	6B	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.	Generally, receivables includes i) monies held in the Official Public Account and ii) audit related fees receivable from certain Commonwealth agencies. Monies were not held in the Official Public Account in 2001-2002. The audit related fees are payable by Commonwealth entities. Credit terms are net 30 days (2001-2002: 30 days).
Work in progress	6C	Work in progress for audit assignments for which fees are payable. Work in progress value accrues at a rate calculated to recover costs incurred.	As for receivables.
<b>Financial liabilities</b>			
Supplier payables	10A	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.
Other payables	10B	Advance rent received is recognised at the nominal amount, being the amounts at which the liabilities will be settled. The liability is recognised to the extent that the service is provided and until the liability is discharged.	Settlement is made in accordance with business arrangements.

**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
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**Note 18 – Financial Instruments (cont.)**

**Note 18B – 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		1 to 2 Years		2 to 5 Years							
		2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%
Financial Assets															
Cash at bank	6A	1 633	17 272	-	-	-	-	-	-	1	1	1 634	17 273	2	4.5
Receivables	6B	-	-	-	-	-	-	-	-	17 785	1 122	17 785	1 122	-	-
Work in progress	6C	-	-	-	-	-	-	-	-	20	120	20	120	-	-
Total		1 633	17 272	-	-	-	-	-	-	17 806	1 243	19 439	18 515	2	4.5
Total Assets															
23 714 23 280															
Financial Liabilities															
Supplier payables	10A	-	-	-	-	-	-	-	-	2 538	2 364	2 538	2 364	-	-
Other payables	10B	-	-	-	-	-	-	-	-	190	-	190	-	-	-
Total		-	-	-	-	-	-	-	-	2 728	2 364	2 728	2 364	-	-
Total Liabilities															
14 924 17 506															

**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
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**Note 18 – Financial Instruments (cont.)**

Note 18C – Net Fair Values of Financial Assets and Liabilities

		2003		2002	
		Total carrying amount	Aggregate net fair value	Total carrying amount	Aggregate net fair value
	Notes	\$'000	\$'000	\$'000	\$'000
<b>Departmental Financial Assets</b>					
Cash at bank	6A	1 634	1 634	17 273	17 273
Receivables	6B	17 785	17 785	1 122	1 122
Work in progress	6C	20	20	120	120
<b>Total Financial Assets</b>		<b>19 439</b>	<b>19 439</b>	<b>18 515</b>	<b>18 515</b>
<b>Financial Liabilities</b>					
Supplier payables	10A	2 538	2 538	2 364	2 364
Other payables	10B	190	190	-	-
<b>Total Financial Liabilities</b>		<b>2 728</b>	<b>2 728</b>	<b>2 364</b>	<b>2 364</b>

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

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

Note 18D – 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 provides audit services to Commonwealth departments and agencies and has no significant credit risk. The ANAO operates in the Commonwealth public sector but does not have significant exposure due to concentration of credit risk.

**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
**For the year ended 30 June 2003**

	2003 \$'000	2002 \$'000
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**Note 19 – Revenues Administered on Behalf of Government**

**Goods and services**

Rendering of services – Financial statement audit fees	11 226	10 338
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<b>Total Revenues Administered on Behalf of Government</b>	<b>11 226</b>	<b>10 338</b>
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**Note 20 – Assets Administered on Behalf of Government**

**Cash**

Administered bank account – Australian National Audit Office	214	95
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**Receivables**

Receivables – Financial statement audit fees	1 299	1 459
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Receivables (gross) are aged as follows

Not overdue

Less than 30 days	926	871
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Overdue by

30 to 60 days	359	588
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60 to 90 days	-	-
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More than 90 days	14	-
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<b>Total receivables (gross)</b>	<b>1 299</b>	<b>1 459</b>
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**Work In Progress**

Financial Statement Audits	1 640	814
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<b>Total Assets Administered of Behalf of Government</b>	<b>3 153</b>	<b>2 368</b>
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**Note 21 – Liabilities Administered on Behalf of Government**

**Payables**

GST Payable to Australian Taxation Office	137	165
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Other	214	95
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<b>Total</b>	<b>351</b>	<b>260</b>
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<b>Total Liabilities Administered of Behalf of Government</b>	<b>351</b>	<b>260</b>
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*All liabilities are expected to be settled within 12 months of balance date.*

**Note 22 – Administered Reconciliation Table**

<b>Administered assets less administered liabilities as at 1 July</b>	<b>2 108</b>	<b>2 942</b>
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Plus Administered revenues	11 226	10 338
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Administered transfers to/from Government

Transfers to the Official Public Account	10 532	11 172
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<b>Administered assets less administered liabilities as at 30 June</b>	<b>2 802</b>	<b>2 108</b>
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**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
**For the year ended 30 June 2003**

Note 23 – Administered Financial Instruments													
23(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)							
Financial Assets	Refer Note 18 - Financial Instruments					Refer Note 18 - Financial Instruments							
Financial Liabilities	Refer Note 18 - Financial Instruments					Refer Note 18 - Financial Instruments							
23(b) Administered 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		1 to 2 Years		2 to 5 Years						
			2003 \$'000	01-02 \$'000	2003 \$'000	01-02 \$'000	2003 \$'000	01-02 \$'000	2003 \$'000	01-02 \$'000	2003 \$'000	01-02 \$'000	2003 %
Financial Assets													
Cash	20	-	-	-	-	-	-	-	214	95	214	95	-
Receivables	20	-	-	-	-	-	-	-	1 299	1 459	1 299	1 459	-
Work in progress	20	-	-	-	-	-	-	-	1 640	814	1 640	814	-
Total		-	-	-	-	-	-	-	3 153	2 368	3 153	2 368	-
Total Assets													
Financial Liabilities													
GST payable	21	-	-	-	-	-	-	-	137	165	137	165	-
Other	21	-	-	-	-	-	-	-	214	95	214	95	-
Total		-	-	-	-	-	-	-	351	260	351	260	-
Total Liabilities													

**Australian National Audit Office**  
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Note 23(c) Net Fair Values of Financial Assets and Liabilities					
	Notes	2003 Total carrying amount \$'000	Aggregate net fair value \$'000	2002 Total carrying amount \$'000	Aggregate net fair value \$'000
<b>Administered Financial Assets</b>					
Cash	20	214	214	95	95
Receivables	20	1 299	1 299	1 459	1 459
Work in progress	20	1 640	1 640	814	814
<b>Total Financial Assets</b>		<b>3 153</b>	<b>3 153</b>	<b>2 368</b>	<b>2 368</b>
<b>Administered Financial Liabilities (Recognised)</b>					
GST payable	21	137	137	165	165
Other	21	214	214	95	95
<b>Total Financial Liabilities (Recognised)</b>		<b>351</b>	<b>351</b>	<b>260</b>	<b>260</b>
<i>Financial Assets</i>					
The net fair values of cash and non-interest-bearing monetary financial assets approximate their carrying amount.					
<i>Financial Liabilities</i>					
The net fair values for trade creditors are short-term in nature, and are approximated by their carrying amount.					

**Note 24 – Administered Items – Credit Risk**

The Australian National Audit Office provides auditing and related services to the Commonwealth Public Sector. The maximum credit risk exposure of Administered Item at reporting date is the carrying amount of the various classes of financial assets as indicated in the Schedule of Administered Items.

Administered Items is comprised of financial assets arising from provision of audit and related services to certain Commonwealth agencies.

**Note 25 – Appropriations**

Appropriation Acts (Nos. 1 and 3) 2002-2003

Particulars	Departmental Outputs
<b>Year ended 30 June 2003</b>	<b>\$</b>
Balance carried from previous year	17 272 794
Appropriation for reporting period (Act 1) – Basic	52 997 000
Appropriation for reporting period (Act 1) – Special	343 000
GST credits (FMA s 30A)	1 062 563
Annotations to 'net appropriations' (FMA s 31)	3 649 055
Available for payments	<b>75 324 412</b>
Payments made	<b>(56 956 133)</b>
Balance carried to next year (Cash)	<b>18 368 279</b>
<b>Year ended 30 June 2002</b>	
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 s31)	2 837 669
Available for payments 2002	70 040 438
Payments made 2002	<b>(52 767 644)</b>
Balance carried forward to 1 July 2002 (Cash)	17 272 794

**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
**For the year ended 30 June 2003**

**Note 25 – Appropriations (continued)**

Reconciliation of Balance Carried forward to next year:

Particulars	Departmental Outputs
<b>Balance carried forward to the 2003-2004 financial year</b>	<b>\$</b>
Cash held in the Australian National Audit Office Official Account	1 633 396
Cash held in the Official Public Account	16 733 883
Cash on-hand held by the Australian National Audit Office	1 000
<b>Cash carried forward to the next financial year</b>	<b>18 368 279</b>
Add: GST credits recoverable from the Australian Taxation Office	17 276
<b>Balance carried forward to the new financial year</b>	<b>18 385 555</b>

Particulars	Departmental Outputs
<b>Balance carried forward to the 2002-2003 financial year</b>	<b>\$</b>
Cash held in the Australian National Audit Office Official Account	17 271 794
Cash on-hand held by the Australian National Audit Office	1 000
<b>Cash carried forward to the next financial year</b>	<b>17 272 794</b>
Add: GST credits recoverable from the Australian Taxation Office	27 908
<b>Balance carried forward to the new financial year</b>	<b>17 300 702</b>

FMA = Financial Management and Accountability Act 1997

Act 1 = Appropriations Act (No.1) 2002-2003

Act 3 = Appropriations Act (No.3) 2002-2003

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

**Note 26 – Special Appropriations**

Particulars	Departmental Outputs
<b>Year ended 30 June 2003</b>	<b>\$</b>
Balance carried from previous year	Nil
Special Appropriation for reporting period (Act 1)	343 000
<b>Available for payments</b>	<b>343 000</b>
Payments made	(343 000)
<b>Balance carried to next year (Cash)</b>	<b>Nil</b>
<b>Year ended 30 June 2002</b>	
Balance carried from previous year	Nil
Special Appropriation for reporting period (Act 1)	327 000
<b>Available for payments 2002</b>	<b>327 000</b>
Payments made 2002	(327 000)
<b>Balance carried forward to 1 July 2002 (Cash)</b>	<b>Nil</b>

**Note 27 – Special Accounts**

Special Accounts are administered by the Australian National Audit Office for the purpose of separating any monies held for or on behalf of any non-Commonwealth party or Commonwealth body that is not subject to the Financial Management and Accountability Act 1997. The Special Accounts are i) Other Trust Moneys Reserve and ii) Services for Other Governments & Non-Agency Bodies Reserve.

No transactions were recorded in either Special Account as the Australian National Audit Office did not transact nor hold any non-Commonwealth monies during the course of the 2002-2003 financial year.

**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
**For the year ended 30 June 2003**

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**Note 28 – Assets Held in Trust**

**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*.

	<b>2003</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance carried forward from previous period	44	101
Receipts during the year	54	44
Available for payments	98	145
Payments made	(24)	(101)
Balance carried forward to next year	74	44
Trust Account Balance as at 1 July	44	101
Balance required by ANAO	30	(57)
Trust Account Balance as at 30 June	74	44

**Salary Packaging Trust Account**

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

	<b>2003</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance carried forward from previous period	147	47
Receipts during the year	187	466
Available for payments	334	513
Payments made	(328)	(366)
Balance carried forward to next year	6	147



**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
**For the year ended 30 June 2003**

**Note 29 – Reporting of Outcomes**

The Australian National Audit Office used resource deployment records to determine the attribution of its shared items. This methodology attributes the resources employed in corporate activities to outcomes in-line with utilisation of program resources. The basis of attribution in the above table is consistent with the basis used for the 2002-03 Budget.

**Note 29A – Reporting of Outcomes**

	Outcome 1		Outcome 2		Total	
	Improvement in Public Administration		Assurance		Total	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Administered expenses	-	-	-	-	-	-
Departmental expenses	21,370	19,449	30,974	30,833	52,344	50,282
<b>Total expenses</b>	<b>21,370</b>	<b>19,449</b>	<b>30,974</b>	<b>30,833</b>	<b>52,344</b>	<b>50,282</b>
<i>Costs recovered from provision of goods and services to the non-government sector</i>						
Administered	-	-	-	-	-	-
Departmental	1,291	155	1,291	156	2,582	311
<b>Total costs recovered</b>	<b>1,291</b>	<b>155</b>	<b>1,291</b>	<b>156</b>	<b>2,582</b>	<b>311</b>
<i>Other External Revenues</i>						
Administered	-	-	-	-	-	-
Total Administered	-	-	-	-	-	-
Departmental	124	338	124	338	248	676
Interest on cash deposits	25	4	26	4	51	8
Revenue from disposal of assets	-	-	-	-	-	-
Other	350	987	349	987	699	1,974
Goods and services revenue from related entities	499	1,329	499	1,329	998	2,658
<b>Total Departmental</b>	<b>499</b>	<b>1,329</b>	<b>499</b>	<b>1,329</b>	<b>998</b>	<b>2,658</b>
<b>Total other external revenues</b>	<b>19,580</b>	<b>17,965</b>	<b>29,184</b>	<b>29,348</b>	<b>48,764</b>	<b>47,313</b>
<b>Net Cost/(Contribution) to Outcome</b>						

Note: Outcomes 1 and 2 are described in Note 1.1. Net costs shown include intra-government costs that are eliminated in calculating the actual Budget outcome. The Capital Usage Charge is not included in any of the outcomes as it is not an operating expense in end-of-year financial reports.

Australian National Audit Office  
Notes to and forming part of the financial statements  
For the year ended 30 June 2003

Note 29B - Major Classes of Departmental Revenues and Expenses by Output Group and Outputs

Outcome 1	Output Group 1 Performance Audit Services		Output Group 2 Information Support Services		Outcome 1 Improvement in Public Administration	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Departmental expenses</b>						
Employees	9,791	9,207	699	846	10,490	10,053
Suppliers	9,429	7,840	759	743	10,188	8,583
Depreciation and amortisation	518	645	42	65	560	710
Other expenses	120	94	10	9	130	103
<b>Total departmental expenses</b>	<b>19,858</b>	<b>17,786</b>	<b>1,510</b>	<b>1,663</b>	<b>21,368</b>	<b>19,449</b>
<b>Funded by:</b>						
Revenues from government	18,355	17,533	1,477	1,767	19,832	19,300
Sale of goods and services	953	455	78	47	1,031	502
Other non-taxation revenues	85	236	7	24	92	260
<b>Total departmental revenues</b>	<b>19,393</b>	<b>18,224</b>	<b>1,562</b>	<b>1,838</b>	<b>20,955</b>	<b>20,062</b>

Outcome 2	Output Group 3 Assurance Audit Services		Output Group 2 Information Support Services		Outcome 2 Assurance	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Departmental expenses</b>						
Employees	11,904	10,334	700	846	12,604	11,180
Suppliers	16,445	17,609	759	743	17,204	18,352
Depreciation and amortisation	905	1,069	41	65	946	1,134
Other expenses	212	157	10	9	222	166
<b>Total departmental expenses</b>	<b>29,466</b>	<b>29,169</b>	<b>1,510</b>	<b>1,663</b>	<b>30,976</b>	<b>30,832</b>
<b>Funded by:</b>						
Revenues from government	32,031	29,060	1,477	1,766	33,508	30,826
Sale of goods and services	2,222	1,735	79	47	2,301	1,782
Other non-taxation revenues	149	392	7	24	156	416
<b>Total departmental revenues</b>	<b>34,402</b>	<b>31,187</b>	<b>1,563</b>	<b>1,837</b>	<b>35,965</b>	<b>33,024</b>

**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
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Note 29C - Major Classes of Administered Revenues and Expenses by Outcome

	Outcome 1 Improvement in Public Administration		Outcome 2 Assurance		Total	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Administered Revenues</b>						
Revenue from the sale of goods and services (audit fees)	-	-	11 226	10 338	11 226	10 338
<b>Total Administered Revenues</b>	-	-	11 226	10 338	11 226	10 338
<b>Administered Expenses</b>						
Total Administered Expenses	-	-	-	-	-	-
<b>Net Administered Revenues and Expenses</b>	-	-	11 226	10 338	11 226	10 338

Note: Outcomes 1 and 2 are described in Note 1.1

## APPENDIX 3

### Audit and other publications

Report title	Tabled	Cost
Audit Report No.1, Performance Audit <i>Information Technology at the Department of Health and Ageing</i> Department of Health and Ageing	21/7/2002	\$320 000
Audit Report No.2, Performance Audit <i>Grants Management</i> Aboriginal and Torres Strait Islander Commission	24/7/2002	\$200 000
Audit Report No.3, Performance Audit <i>Facilities Management at HMAS Cerberus</i> Department of Defence	31/7/2002	\$197 000
Audit Report No.4, Audit Activity Report <i>Audit Activity Report: January to June 2002</i> Summary of Outcomes	19/8/2002	\$47 045
Audit Report No.5, Performance Audit <i>The Strategic Partnership Agreement between the Department of Health and Ageing and the Health Insurance Commission</i> Department of Health and Ageing and the Health Insurance Commission	23/8/2002	\$245 000
Audit Report No.6, Performance Audit <i>Fraud Management Arrangements in the Department of Veterans' Affairs</i> Department of Veterans' Affairs	29/8/2002	\$176 000
Audit Report No.7, Performance Audit <i>Client Service in the Child Support Agency Follow-up Audit</i> Department of Family and Community Services	16/9/2002	\$340 000
Audit Report No.8, Business Support Process Audit <i>The Senate Order for Department and Agency Contracts (September 2002)</i> Across Agencies	18/9/2002	\$250 000
Audit Report No.9, Performance Audit <i>Centrelink's Balanced Scorecard</i> Centrelink	30/9/2002	\$260 000
Audit Report No.10, Performance Audit <i>Management of International Financial Commitments</i> Department of the Treasury	3/10/2002	\$315 000



Audit Report No.11, Performance Audit <i>Medicare Customer Service Delivery</i> Health Insurance Commission	3/10/2002	\$292 350
Audit Report No.12, Performance Audit <i>Management of the Innovation Investment Fund Program</i> Department of Industry, Tourism and Resources	21/10/2002	\$350 000
Audit Report No.13, Benchmarking Study <i>Benchmarking the Internal Audit Function Follow-on Report</i> Across Agencies	23/10/2002	\$183 000
Audit Report No.14, Performance Audit <i>Health Group IT Outsourcing Tender Process</i> Department of Finance and Administration	23/10/2002	\$350 000
Audit Report No.15, Performance Audit <i>The Aboriginal and Torres Strait Islander Health Program Follow-up Audit</i> Department of Health and Ageing	23/10/2002	\$152 300
Audit Report No.16, Business Support Process Audit <i>The Administration of Grants (Post-Approval) in Small to Medium Organisations</i> Across Agencies	4/11/2002	\$308 000
Audit Report No.17, Performance Audit <i>Age Pension Entitlements</i> Department of Family and Community Services and Centrelink	5/11/2002	\$500 000
Audit Report No.18, Business Support Process Audit <i>Management of Trust Monies</i> Across Agencies	27/11/2002	\$330 000
Audit Report No.19, Performance Audit <i>The Australian Taxation Office's Management of its Relationship with Tax Practitioners</i> Australian Taxation Office	2/12/2002	\$429 000
Audit Report No.20, Performance Audit <i>Employee Entitlements Support Schemes</i> Department of Employment and Workplace Relations	10/12/2002	\$275 000
Audit Report No.21, Performance Audit <i>Performance Information in the Australian Health Care Agreements</i> Department of Health and Ageing	11/12/2002	\$360 000
Audit Report No.22, Business Support Process Audit <i>Payments of Accounts and Goods and Services Tax Administration in Small Commonwealth Agencies</i> Across Agencies	12/12/2002	\$312 000

Audit Report No.23, Protective Security Audit <i>Physical Security Arrangements in Commonwealth Agencies</i> Across Agencies	20/12/02	\$189 190
Audit Report No.24, Performance Audit <i>Energy Efficiency in Commonwealth Operations— Follow-up Audit</i> Across Agencies	20/12/02	\$115 000
Audit Report No.25, Financial Statement Audit <i>Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2002</i> Across Agencies	23/12/02	\$246 017
Audit Report No.26, Performance Audit <i>Aviation Security in Australia</i> Department of Transport and Regional Services	16/01/03	\$220 000
Audit Report No.27, Performance Audit <i>Management of Commonwealth Guarantees, Warranties, Indemnities and Letters of Comfort</i> Across Agencies	30/01/03	\$170 000
Audit Report No.28, Performance Audit <i>Northern Territory Land Councils and the Aboriginals Benefit Account</i>	07/02/03	\$631 000
Audit Report No.29, Audit Activity Report <i>Audit Activity Report: July to December 2002</i> Summary of Outcomes	07/02/03	\$44 888
Audit Report No.30, Performance Audit <i>Defence Ordnance Safety and Suitability for Service</i> Department of Defence	28/02/03	\$347 300
Audit Report No.31, Performance Audit <i>Retention of Military Personnel Follow-up Audit</i> Department of Defence	05/03/03	\$151 000
Audit Report No.32, Business Support Process Audit <i>The Senate Order for Departmental and Agency Contracts (Spring 2002 Compliance)</i> Across Agencies	05/03/03	\$210 000
Audit Report No.33, Performance Audit <i>Management of e-Business in the Department of Education, Science and Training</i> Department of Education, Science and Training	19/03/03	\$320 000
Audit Report No.34, Performance Audit <i>Pest and Disease Emergency Management Follow-up Audit</i> Department of Agriculture, Fisheries and Forestry—Australia	24/03/03	\$330 000

Audit Report No.35, Performance Audit <i>Fraud Control Arrangements in the Australian Customs Service</i> Australian Customs Services	26/03/03	\$319 932
Audit Report No.36, Performance Audit <i>Monitoring of Industry Development Commitments under the IT Outstanding Initiative</i> Department of Communications, Information Technology and the Arts	01/04/03	\$272 000
Audit Report No.37, Performance Audit <i>Passport Services</i> Department of Foreign Affairs and Trade	03/04/03	\$370 000
Audit Report No.38, Performance Audit <i>Referrals, Assessments and Approvals under the Environment Protection and Biodiversity Conservation Act 1999</i>	10/04/03	\$304 843
Audit Report No.39, Performance Audit <i>Navy Operational Readiness</i> Department of Defence	17/04/03	\$415 000
Audit Report No.40, Performance Audit <i>R&amp;D Tax Concession</i> Department of Industry, Tourism and Resources, the Industry Research and Development Board and the Australian Taxation Office	22/04/03	\$423 000
Audit Report No.41, Performance Audit <i>Annual Reporting on Ecologically Sustainable Development Across Agencies</i>	7/05/03	\$112 032
Audit Report No.42, Performance Audit <i>Managing Residential Aged Care Accreditation</i> The Aged Care Standards and Accreditation Agency Ltd	8/5/03	\$348 000
Audit Report No.43, Performance Audit <i>The Sale of Sydney (Kingsford Smith) Airport</i> Department of Finance and Administration	8/05/03	\$362 000
Audit Report No.44, Performance Audit <i>Review of the Parenting Payment Single Program</i> Department of Family and Community Services and Centrelink	23/5/03	\$533 588
Audit Report No.45, Business Support Process Audit <i>Reporting of Financial Statements and Audit Reports in Annual Reports</i> Across Agencies	4/6/03	\$205 000
Audit Report No.46, Performance Audit <i>Australian Industry Involvement Program</i> Department of Defence	6/6/03	\$426 000

Audit Report No.47, Performance Audit <i>Implementation and Management of the Indigenous Employment Policy</i> Department of Employment and Workplace Relations	13/6/03	\$425 000
Audit Report No.48, Performance Audit <i>Indigenous Land Corporation—Operations and Performance Follow-up Audit</i> Department of Immigration and Multicultural and Indigenous Affairs	16/6/03	\$196 000
Audit Report No.49, Performance Audit <i>Management of the Navigation Aids Network</i> Australian Maritime Safety Authority	17/6/03	\$152 000
Audit Report No.50, Benchmarking Study <i>Managing People for Business Outcomes, Year Two</i>	18/6/03	\$566 755
Audit Report No.51, Performance Audit <i>Defence Housing and Relocation Services</i> Department of Defence	19/6/03	\$275 000
Audit Report No.52, Performance Audit <i>Absence Management in the Australian Public Service Across Agencies</i>	20/6/03	\$150 000
Audit Report No.53, Business Support Process Audit <i>Business Continuity Management Follow-on Audit Across Agencies</i>	23/6/03	\$179 152
Audit Report No.54, Business Support Process Audit <i>Capitalisation of Software</i> Across Agencies	23/6/03	\$291 000
Audit Report No.55, Performance Audit <i>Goods and Services Tax Fraud Prevention and Control</i> Australian Taxation Office	24/6/03	\$354 190
Audit Report No.56, Performance Audit <i>Management of Specialist Information System Skills</i> Department of Defence	25/6/03	\$263 000
Audit Report No.57, Performance Audit <i>Administration of the Payment of Tax by Non-Residents</i> Australian Taxation Office	25/6/03	\$355 000
Audit Report No.58, Performance Audit <i>Veterans Appeals Against Disability Compensation Decisions Follow-up Audit</i> Department of Veterans' Affairs and the Veterans' Review Board	26/6/03	\$135 000

Audit Report No.59, Performance Audit <i>Administration of Australian Business Number Registrations</i> Australian Taxation Office	27/6/03	\$445 000
Audit Report No.60, Business Support Process Audit <i>Closing the Books</i> Across Agencies	27/6/03	\$292 500
Audit Report No.61, Financial Statement Audit <i>Control Structures as part of the Audit of Financial Statements of Major Commonwealth Entities for the Year Ending 30 June 2003</i> Across Agencies	30/6/03	\$419 723
Audit Report No.62, Performance Audit <i>Management of Selected Aspects of the Family Migration Program</i> Department of Immigration and Multicultural and Indigenous Affairs	30/6/03	\$390 000
Audit Report No.63, Performance Audit <i>Administration of Automotive Competitiveness Investment Scheme</i> Department of Industry, Tourism and Resources and Australian Customs Service	30/6/03	\$420 000

#### **Other titles published in 2002–03**

*ANAO Annual Report 2001–02* (September 2002)

*Internal Budgeting*, Better Practice Guide (February 2003)

*Building Capability—A framework for managing learning and development in the APS*, Better Practice Guide (April 2003)

*Managing Parliamentary Workflow*, Better Practice Guide (April 2003)

*Goods and Services Tax (GST) Administration*, Better Practice Guide (May 2003)

*AMODEL Agency Illustrative Financial Statements for the Year Ended 30 June 2003*, Better Practice Guide (May 2003)

*AMODEL Non-Commercial Authority Illustrative Financial Statements for the Year Ended 30 June 2003*, Better Practice Guide (June 2003)

## APPENDIX 4

### Main issues raised in performance audit and business support process (BSP) audit reports tabled in 2002–03

The ANAO's Outcomes are *improvement in public administration* and *assurance*. These mean a more efficient Australian Government public sector implementing better practices in public administration, and independent assurance of Australian Government 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 2001–04*.

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

#### HR management including workforce planning

[Performance Audit Report No.31 2002–03 \*Retention of Military Personnel Follow-up Audit\*](#).

The audit assessed Defence's implementation of recommendations made in Report No.35 1999–2000, *Retention of Military Personnel*. It found that Defence had made variable progress in implementing the recommendations, significant progress having been made on several recommendations. However, several recommendations were only in the early stages of implementation, full implementation of some depending on Defence establishing a criteria-based management framework that details retention policies, procedures, benchmarks and performance indicators. Defence agreed with the ANAO's findings about the current implementation status of the original audit recommendations.

[Performance Audit Report No.52 2002–03 \*Absence Management in the Australian Public Service \(APS\)\*](#).

The audit examined unscheduled absence in 74 APS agencies and eight Statutory Authorities. The audit concluded that, while there are pockets with elements of better practice, there is considerable scope for APS agencies to improve their performance and service delivery through an integrated, comprehensive and more pro-active approach to the systematic measurement and management of unscheduled absence and the adoption of appropriate better practices. Significant potential direct cost savings could also be realised if lower performing APS agencies could reduce their unscheduled absence levels to those achieved by the better performing agencies. The bulk of these potential savings are concentrated in a relatively small number of large agencies.

#### Financial management

[Performance Audit Report No.10 2002–03 \*Management of International Financial Commitments\*](#).

The Department of the Treasury (Treasury) manages Australia's relations with the International Monetary Fund and various development banks, including those belonging to the World Bank Group. ANAO found that, overall, Treasury's management of the financial relationship with international financial institutions has been effective. Nevertheless, the governance framework and financial management practices for administering Australia's obligations could be

improved by: comprehensively documenting administrative procedures; enhancing performance measurement and reporting; and explicitly identifying and quantifying financial risks.

*Business Support Process (BSP) Report No.16 2002–03 The Administration of Grants (Post-Approval) in Small to Medium Organisations.* The audit of the administration of grants in small to medium organisations was undertaken across six Australian Government organisations to: assess whether agencies had implemented appropriate risk management strategies for grant programs; evaluate whether grants had been administered in accordance with the appropriate legislation, Australian Government guidance, and other accepted internal controls; and to recommend improvements in the controls and practices relating to grants administration.

*BSP Report No.18 2002–03 Management of Trust Monies.* The audit reviewed the management of trust monies in five Australian Government organisations. The objectives of the audit were to: assess whether selected Australian Government organisations were managing trust monies in accordance with legal and administrative requirements and better practice principles; identify better practices in the management of trust monies; and recommend improvements in the controls and practices relating to the management of trust monies.

*Performance Audit Report No.20 2002–03 Employee Entitlements Support Schemes.* The objective of the audit was to determine whether the Department of Employment and Workplace Relations (DEWR) was efficiently and effectively managing the provision of funds to eligible employees under the Employee Entitlements Support Scheme and the General Employee Entitlements and Redundancy Scheme. The ANAO identified a range of opportunities for improvement in the administration of the schemes. The report made nine recommendations, relating to: the better management of the administrative framework; enhancing the range of performance indicators; developing DEWR's capacity to track and control the processing of cases and claims; and DEWR taking a more active role in pursuing recovery of funds from the assets of the insolvent businesses.

*BSP Report No.22 2002–03 Payment of Accounts and Goods and Services Tax Administration by Small Commonwealth Organisations.* The audit objectives were to determine whether: organisations had implemented appropriate risk management strategies and made effective use of technology in the payment of accounts process; and payments had been properly authorised. The audit also set out to determine: whether organisations had implemented adequate control frameworks and processes to mitigate the risks associated with GST obligations and transactions; and gather information to develop a Better Practice Guide on GST administration.

*Performance Audit Report No.27 2002–03 Management of Commonwealth Guarantees, Warranties, Indemnities and Letters of Comfort.* The audit examined the management and recording of guarantees, warranties, indemnities and letters of comfort issued by the Australian Government and assessed action taken in relation to the recommendations from the last audit report on this subject (ANAO Report No.47 1997–98). ANAO concluded that, overall, there has been a continuing improvement in most agencies' management and administrative practices associated with these types of contingent liabilities. Since 1998, total quantifiable exposures reported to ANAO have almost halved, to at least \$114.9 billion as at 30 June 2002.

[Performance Audit Report No.40 2002–03 \*R&D Tax Concession\*](#). The R&D Tax Concession program provides a tax incentive, in the form of a deduction, to make eligible companies more internationally competitive. The audit found that AusIndustry and the Australian Tax Office both managed administration of the R&D Tax Concession well. Key governance arrangements are well established and generally soundly implemented, with roles and responsibilities being clear and consistent with legislative responsibilities. The ANAO made four recommendations aimed at strengthening the R&D Tax Concession administration, including incorporating whole of government approaches to costing, administration and management of objectives.

[Performance Audit Report No.43 2002–03 \*The Sale of Sydney \(Kingsford Smith\) Airport\*](#). The audit examined the sale of Sydney (Kingsford Smith) Airport, Australia's busiest passenger and cargo airport and major international gateway airport. The Airport was sold in June 2002 to Southern Cross Airports Corporation Pty Limited for a purchase price of \$4.233 billion. The audit concluded that this price represented a very good financial outcome for the Australian Government. In addition to maximising financial returns on a risk-adjusted basis, optimal outcomes were achieved in relation to the other sale objectives.

[BSP Report No.45 2002–03 \*Reporting of Financial Statements and Audit Reports in Annual Reports\*](#). This report examined the publication of financial statements and audit reports in the hardcopy and website forms of the annual reports of 117 Australian Government reporting entities. The audit objective was to determine whether the published financial statements and audit reports agreed in all respects with those that had been certified by the chief executive or governing body (as appropriate) and the Auditor-General or his delegate. The reporting period covered was the year ended 30 June 2002.

[BSP Report No.60 2002–03 \*Closing the Books\*](#). Closing the books processes (sometimes referred to as 'month-end' or 'year-end processing') are those processes undertaken by organisations in order to generate periodic financial information. This audit focused on the monthly closing the books processes undertaken at six of the material Australian Government organisations, in order to provide some generic conclusions on the operation and effectiveness of these periodic processes in the Australian Government and to identify opportunities for improvement.

## **Procurement and contract management**

[Performance Audit Report No.2 2002–03 \*Grants Management\*](#). The audit examined the Aboriginal and Torres Strait Islander Commission's (ATSIC's) grant management practices. The audit sought to determine: if ATSIC provides fair and equal access to funding; what the risks to the grants program are; if decision-makers receive the key information they need to make informed funding decisions; and, if ATSIC staff are complying with grants procedures. The ANAO found that the financial management of grants was sound. However, ATSIC's management of non-financial matters did not show the same strengths. Clear documentation and the number of field visits to monitor grants, required improvement. While ATSIC had made the application documentation more user-friendly, many regions did not publicly call for funding submissions, which limited the openness and competitiveness of the grants program.

[Performance Audit Report No.3 2002–03 \*Facilities Management at HMAS Cerberus\*](#). Conducted at the request of the former Minister for Defence, the audit examined facilities management issues at the Navy training base, *HMAS Cerberus*, with a view to ensuring that lessons would be learned to assist Defence facilities management generally. The audit confirmed findings made by



Inspector-General's Division (IGD) in relation to facilities management problems at *HMAS Cerberus*. These included cases of inadequate contract management; inconsistencies in holding contractors accountable for performance; inadequate documentation; and breaches of procurement requirements and guidelines. Defence is implementing IGD's recommendations to avoid further problems of that kind.

*Performance Audit Report No.5 2002–03 The Strategic Partnership Agreement between the Department of Health and Ageing and the Health Insurance Commission.* The audit examined the implementation of the Strategic Partnership Agreement (SPA) and other arrangements between the Department of Health and Ageing (Health) and Health Insurance Commission (HIC), for the management and administration of Medicare and the Pharmaceutical Benefits Scheme. Overall, the SPA incorporated essential elements of a governance framework for the relationship, including joint management structures, a performance monitoring and reporting framework, and protocols for communication between the policy agency and the administrative agency. However, the ANAO found that the SPA would benefit from a greater clarity of each agency's accountability obligations. In particular, the Health-HIC relationship would benefit from a more explicit treatment of Health's obligations for ensuring the efficient, effective and ethical expenditure of departmental resources.

*BSP Report No.8 2002–03 The Senate Order for Department and Agency Contracts.* This was the second audit report under the Senate Order, which requires all Financial Management and Accountability Act 1997 (FMA Act) agencies to place on the Internet, lists of contracts of \$100 000 and more by the tenth day of the Spring and Autumn sittings of Parliament. It related to the audit of the contract information to be listed on the Internet by the tenth day of the Autumn 2002 sitting. The audit involved a desktop review of all FMA Act agencies' Internet listings; a detailed review at six selected agencies, of the process for making the Internet listings; and the policies and practices for determining confidentiality provisions in contracts.

*Performance Audit Report No.14 2002–03 Health Group IT Outsourcing Tender Process.* The audit examined the administrative processes undertaken in the selection of the preferred tenderer. On the basis of evidence available, ANAO was not able to provide an assurance that no tenderer unfairly gained a competitive advantage in the tender process. In addition, there was a lack of transparency of the manner in which probity issues were considered by the former Office of Asset Sales and IT Outsourcing. The report highlighted areas in which lessons can be learned to assist agencies in effectively managing the probity aspects of future competitive tendering processes.

*Performance Audit Report No.30 2002–03 Defence Ordnance Safety and Suitability for Service.* In recent years Defence has improved its ordnance safety and suitability for service arrangements, but there is still much to be done. Organisational changes in Defence have resulted in fewer personnel skilled in ordnance systems engineering. Defence has found that most of its ordnance items lack a clearly identifiable audit trail of evidence to support any technical assessment having been undertaken in the assurance of the item's safety and suitability for service. Defence has recognised the need to re-establish auditable safety and suitability for service evidence and has advised that it is considering the best way to do so.

*Performance Audit Report No.32 2002–03 The Senate Order for Department and Agency Contracts (Spring 2002 Compliance).* This was the third audit undertaken by the ANAO in response to a request made by the Senate in the *Senate Order for Departmental and Agency*

*Contracts*, which requires all *Financial Management and Accountability Act 1997* (FMA Act) agencies to place on the Internet, lists of contracts of \$100 000 and more by the tenth day of the Spring and Autumn sittings of Parliament. It relates to the audit of the contract information to be listed on the Internet by the tenth day of the Spring 2002 sitting. The audit involved a desktop review of all FMA Act agencies' Internet listings; a detailed review in six selected agencies, of the process for making the Internet listings; and the policies and practices for determining and identifying whether contracts contained either confidential provisions and other requirements of confidentiality.

[\*Performance Audit Report No.49 2002–03 Management of the Navigation Aids Network by the Australian Maritime Safety Authority \(AMSA\)\*](#). The audit focused on the system of visual and electronic devices that assists mariners to navigate in Australian waters. Since a large proportion of the operational elements of the network were outsourced, contract management was a key theme. The audit found that in delivering its service to the shipping industry, AMSA had adhered to the key elements of better practice in strategic planning and contract management. AMSA's approach to managing the network in an outsourced environment was sound and comprehensive, giving it a strong platform from which to manage the current and future needs of the network efficiently and effectively. The audit made some suggestions to improve AMSA's administration, but did not make any recommendations.

[\*Performance Audit Report No.51 2002–03 Defence Housing and Relocation Services\*](#). The audit assessed whether Defence's management of its housing and relocation services provided for ADF members meets specified requirements. The audit focused on Defence's preparation for, and management of, its \$3.5 billion 10-year Services Agreement with Defence Housing Authority, signed in 2000. The audit identified that Defence does not actively manage overall housing and relocation services as a program or assess the full costs, which are rising. It found that Defence's management of housing services was largely reactive, without active management of services to ensure requirements were met and that value was obtained.

[\*Performance Audit Report No.59 2002–03 Administration of Australian Business Number Registrations\*](#). The audit of the Australian Taxation Office's (ATO) administration of the Australian Business Register (ABR) made several observations on the ATO's management of the ABR contract. The audit found that the ATO did not have documentation to support some key decisions relating to the project. ANAO also found the ABR Project did not deliver on some fundamental aspects of the agreed scope of services and, despite revisions to the original project schedule, did not meet approved timeframes. The audit made eight recommendations, one of which was aimed specifically at improving accountability in the ATO's contract management processes.

## **Application of information technology and resources**

[\*Performance Audit Report No.1 2002–03 Information Technology at the Department of Health and Ageing\*](#). The IT environment at Health is complex and the department relies considerably on IT to achieve business objectives. As a major department with a large IT investment, management and operation of IT was selected for an audit. The audit concluded that, overall at the operational level, application systems reviewed were delivering outputs in an effective and controlled manner, within acceptable error rates. However, unresolved department-wide IT governance issues with quality management, service delivery, and monitoring presented risks to the optimal management and operation of IT.

*Performance Audit Report No.33 2002–03 Management of e-Business in the Department of Education, Science and Training (DEST).* The audit examined whether the DEST had effective governance practices for its IT and e-Business, and whether it implemented and maintained appropriate quality standards for service delivery via IT and the Internet. The ANAO examined two major applications, the Provider Registration and International Students Management System (PRISMS) and the Training and Youth Internet Management System (TYIMS). Overall, the ANAO concluded that DEST's management of its internet and e-Business presence was sound and governance arrangements were satisfactory, though improvements were possible.

*Performance Audit Report No.36 2002–03 Monitoring of Industry Development Commitments under the IT Outsourcing Initiative.* The objective of the performance audit was to review the progress in the delivery of contractual commitments for Industry Development (ID) for the five contracts awarded under the IT Outsourcing Initiative. ANAO found that progress in the delivery of ID commitments under the IT Outsourcing Initiative had been effectively monitored by DCITA.

*BSP Report No.54 2002–03 Capitalisation of Software.* The audit examined the management of computer software assets at four Australian Government bodies. It focused on the capitalisation of software for the purposes of annual financial reporting. The specific objectives were to: determine whether the selected bodies had established effective internal control frameworks for the capitalisation of externally acquired and internally developed software; and assess whether software costs were capitalised in accordance with organisational policy, accounting standards and relevant legislation.

*Performance Audit Report No.55 2002–03 Goods and Services Tax Fraud Prevention and Control.* The audit reviewed the Australian Taxation Office's (ATO) use of information technology as a mechanism for detecting GST fraud and non-compliance. The ATO developed the Risk Rating Engine (RRE) to assist in detecting potential fraud and non-compliance in a 'real-time environment'. The RRE risk profiles GST registrations at lodgement of the registration application and incoming activity statements. The ATO has recognised that a number of areas within the RRE need to be further developed and refined if it is to be a fully effective tool for detecting non-compliant and fraudulent behaviour and filtering out potentially correct and genuine refunds.

*Performance Audit Report No.56 2002–03 Management of Specialist Information System Skills.* Development of Defence's 'knowledge edge' calls for a wide range of IT skills. Although Defence could have acted more swiftly to develop a strategy for IT skills in its workforce, it has made changes to improve its use of IT, including creation of the position of Chief Information Officer. Defence is attempting to standardise its computing platforms to provide consistency of operation among its groups, which still have some IT skilling problems, though not to the same extent as in previous years. Each group has acted to address its skilling problems, and the effectiveness of this is yet to be realised.

## **Performance management and measurement**

*Performance Audit Report No.6 2002–03 Fraud Control Arrangements in the Department of Veterans' Affairs (DVA).* The audit assessed whether DVA has implemented appropriate fraud control arrangements in line with the Fraud Control Policy of the Australian Government and whether these arrangements operate effectively in practice. The ANAO concluded that overall, DVA has developed an appropriate fraud control policy that is supported by a fraud control plan,

which was based on relevant fraud risk assessments and operational procedures that are consistent with the requirements of the Fraud Control Policy of the Australian Government.

[Performance Audit Report No.9 2002–03 \*Centrelink's Balanced Scorecard \(BSC\)\*](#). The audit assessed whether Centrelink's BSC was based on key elements of better practice principles and its use assisted Centrelink to understand and communicate its performance against its strategic goals. This audit addressed the performance management and measurement theme by examining: the use of the BSC in setting Centrelink's vision and goals; the role of the BSC in planning; alignment of the BSC from the top down through the organisation and the interdependencies of scorecards used by various support units, for example Information Technology and Human Resources Management; the definition and use of measures, including target setting and links to goals within the BSC framework; and its use in monitoring, reporting and feedback.

[Performance Audit Report No.12 2002–03 \*Management of the Innovation Investment Fund Program \(IIF\)\*](#). Under the IIF program, the Australian Government licences fund managers to invest Australian Government and private sector venture capital into new technology companies. The audit found that overall management of the program was largely effective, but performance management of the program as a whole had limitations. While the program had both outcome and output performance indicators, some of the outcome indicators were not measured, and there were few benchmarks or targets across all outcome and output measures.

[Performance Audit Report No.15 2002–03 \*The Aboriginal and Torres Strait Islander Health Program Follow-up Audit\*](#). The objective of the follow-up audit was to assess the extent to which the Department of Health and Ageing (Health) had implemented the recommendations of Audit Report No.13 1998–99 *Aboriginal and Torres Strait Islander Health Program*, taking account of any changed circumstances or new administrative issues identified as impacting the implementation of these recommendations. A significant proportion of the original recommendations (nine out of the 12 recommendations from the 1998 audit) related to Health's assessment of performance management and measurement. The ANAO found that Health had made progress against the 12 recommendations of Audit Report No.13 1998–99 with eight recommendations implemented, one partially implemented and three not implemented but in the process of implementation.

[Performance Audit Report No.17 2002–03 \*Age Pension Entitlements\*](#). The audit examined Centrelink's response to issues raised in Audit Report No.34 2000–01 *Assessment of New Claims for the Age Pension by Centrelink*, on Customer Service Officers' (CSOs) skilling. The 2000–01 audit showed some areas in Age Pension processing where CSO's knowledge was generally deficient. Planning and delivery of training was also decentralised across the Centrelink network, so that priority attached to training, determining training needs and the quality of delivery could vary between offices. In 2002–03, the ANAO found that Centrelink had improved assessment of staff technical training needs, and was better able to deliver training consistently. However, Centrelink should consider further improving CSO technical assessment skills.

[Performance Audit Report No.21 2002–03 \*Performance Information in the Australian Health Care Agreements \(AHCA\)\*](#). The audit found that the Department of Health and Ageing had some, but not all, of the performance information necessary to administer the AHCA's of \$32 billion over five years to 2002–03. Although Health had effective financial controls in place, a key issue identified during the audit was the absence of a long-term plan to address the development of

indicators on efficiency, quality, appropriateness, accessibility and equity of health services. The ANAO made three recommendations—two directed at improving the performance information framework, one aimed at improving record keeping practices.

*Performance Audit Report No.24 2002–03 Energy Efficiency in Commonwealth Operations—Follow up Audit.* The audit assessed agencies' progress in implementing the seven recommendations of Report No.47 1998–99, *Energy Efficiency in Commonwealth Operations*. The earlier audit examined agency compliance with the Australian Government Energy Policy. Among other things, the Australian Government Energy Policy set energy targets to be met by all Australian Government agencies in 2002–03. In general, the ANAO found that most agencies investigated in this follow-up had implemented two of the three relevant recommendations and had not fully implemented the third. The ANAO made one recommendation relating to agency reporting under the Energy Policy. The recommendation reinforces Recommendation No.3 of the earlier audit and is aimed at improving agency accountability for compliance with all aspects of the Energy Policy. All ten agencies agreed to the recommendation.

*Performance Audit Report No.26 2002–03 Aviation Security in Australia.* The audit examined DOTARS' response to the events of 11 September 2001 and the extent to which the monitoring and compliance regime ensures the aviation industry complies with its security obligations. The audit found that the regulatory framework is comprehensive, but repeat breaches continue to occur, suggesting it is not well implemented. The audit made six recommendations relating to the need for DOTARS to improve: the monitoring of cargo handlers; the tracking of security breaches; identifying the root causes of issues; action taken to correct non-compliance; accountability within the aviation industry; and performance measurement and reporting.

*Performance Audit Report No.28 2002–03 Northern Territory Land Councils and the Aboriginals Benefit Account.* The audit assessed the operations of the four Northern Territory Land Councils, which provide a range of services to Aboriginal people. The audit also examined the Aboriginal and Torres Strait Islander Commission's (ATSIC) administration of the Aboriginals Benefit Account (ABA), which provides funding to the Land Councils. The ANAO concluded that ATSIC needed to improve its processes and develop an objective for the management of ABA equity. The audit also found that the Land Councils needed to develop a performance framework with indicators and targets against which they could assess their contribution to protecting and advancing the rights of Aboriginal people.

*Performance Audit Report No.35 2002–03 Fraud Control Arrangements in the Australian Customs Service.* The audit assessed whether Customs has implemented appropriate fraud control arrangements consistent with the Commonwealth Fraud Control Guidelines and the administrative effectiveness of these arrangements. The ANAO concluded that Customs has developed and implemented a fraud control framework in accordance with the Guidelines. Overall, the administrative effectiveness of Customs' fraud control arrangements is sound. However, these arrangements could be strengthened if Customs completed outstanding security reviews; regularly evaluated and analysed fraud referrals, investigations and case outcomes; reviewed performance measures for preventing, detecting and controlling fraud; and developed a range of measures that will more accurately assess the effectiveness of its fraud strategies.

*Performance Audit Report No.37 2002–03 Passport Service.* The audit assessed whether DFAT had effective processes for issuing passports in Australia. With regard to performance management, while a client service charter supported service provision, the audit identified the

need to have specified indicators of security and integrity, which are central features of passport delivery. The audit also identified limitations in the measurement of timeliness of passport processing and the need to strengthen performance reporting to the Parliament.

*Performance Audit Report No.39 2002–03 Navy Operational Readiness.* The audit examined the systems that Navy uses to manage the operational readiness of its forces and included coverage of management structures and performance information processes. The audit found that, although the systems Navy uses to achieve operational readiness of its forces are generally sound, and effective reforms and technology have been introduced in some areas to control sea training and equipment condition, their impact is uneven. Performance management reporting for Navy operational readiness is well developed, but links to the wider Defence reporting framework require improvement and Navy is yet to finalise required preparedness costing tools.

*Performance Audit Report No.41 2002–03 Annual Reporting on Ecologically Sustainable Development (ESD).* The audit assessed the quality of agencies' mandatory annual reporting on ESD, and reviewed the performance management and measurement frameworks supporting reporting. The ANAO found that most agencies are still developing frameworks for effective performance monitoring and reporting; especially in relation to compliance with the *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act) and articulating agencies' contribution to broader ESD outcomes. Environment Australia has a key role to play in terms of assisting agencies to improve the quality of their ESD reports.

*Performance Audit Report No.42 2002–03 Managing Residential Aged Care Accreditation.* The audit examined, amongst other issues, the Aged Care Standards and Accreditation Agency's (the Agency's) generation and use of information to monitor both the effectiveness of its internal management and the outcome of its work in improving quality of care in residential aged care homes. The ANAO recommended that the Agency analyse data to identify patterns of accreditation. This would enhance the Agency's understanding of its work and improve its approach to assessment, workforce planning and education. The ANAO further recommended that the Agency implement suitable performance indicators to assess internal effectiveness in managing the accreditation process. The audit also found that most of its accreditation-related performance indicators were output-focused. As a result, the ANAO recommended the Agency adopt a more outcome-based approach to its reporting, including evaluating, with the Department of Health and Ageing, the impact of accreditation on the quality of care in the residential care industry.

*Performance Audit Report No.46 2002–03 Australian Industry Involvement Program.* The audit examined the quality of performance information available to assess the extent to which Defence's Australian Industry Involvement Program met its objectives, and Defence's performance reporting on the Program. The ANAO found that Defence had no agreed outcomes or outputs to be achieved in the pursuit of the Program's two policy objectives. The ANAO recommended that, to adequately inform Government and Parliament of progress in this significant area of activity, Defence report its performance in achieving Program objectives against key performance indicators derived from agreed outputs and outcomes for the Program.

*Performance Audit Report No.47 2002–03 Implementation and Management of the Indigenous Employment Policy.* The audit examined the efficiency and effectiveness of the Department of Employment and Workplace Relations' (DEWR) implementation and subsequent management of the Indigenous Employment Policy (IEP). The audit sought to determine whether DEWR had



appropriately planned, monitored and evaluated, and reported the performance of the IEP. The ANAO concluded that DEWR had implemented all the elements of the policy. DEWR's ongoing management of the policy is broadly effective, although some areas warrant improvement for greater effectiveness. The ANAO made seven recommendations focused on the need for DEWR to define what results are sought for each IEP element and determine the extent to which the IEP is generating more employment opportunities for Indigenous job seekers.

*Performance Audit Report No.48 2002–03 Indigenous Land Corporation—Follow-up audit.*

In 2000, the ANAO tabled Audit Report No.49 1999–2000, *Indigenous Land Corporation—operations and performance*. The 2000 audit made nine recommendations for improvement. The objective of the follow-up audit was to evaluate the action taken by the Indigenous Land Corporation in addressing the recommendations of the 2000 audit, taking account of any changed circumstances or new administrative issues identified as impacting on the implementation of these recommendations. The ANAO found that the Indigenous Land Corporation has made progress in implementing the nine recommendations of the 2000 audit, with four recommendations implemented and five recommendations partially implemented. The follow-up audit made four new recommendations aimed at improving aspects of the Indigenous Land Corporation's operations and performance.

*Performance Audit Report No.58 2002–03 Veterans' Appeals Against Disability Compensation Decisions Follow-up Audit.*

The audit found that the Department of Veterans' Affairs (DVA) and the Veterans' Review Board (VRB) had either partially or fully implemented the recommendations made in an earlier ANAO audit report. The audit also revealed that DVA's and the VRB's progress in implementing the recommendations had contributed to substantial reductions in the time to resolve appeals against disability pension decisions. Also, the two agencies have agreed to use VRB statistics for external reporting of performance information on the appeals system, while working toward a method of aligning internal reporting of a range of performance information.

*Performance Audit Report No.62 2002–03 Management of Selected Aspects of the Family Migration Program.*

The audit examined the effectiveness and efficiency of the Department of Immigration, Multicultural and Indigenous Affairs' (DIMIA) decision-making processes and management systems for delivering the parent and partner aspects of the family stream of the Migration Program. After examining a sample of visa cases, the ANAO concluded that decision-making by DIMIA officials was generally sound. However, five recommendations were made, to improve published performance information, record keeping, quality assurance and to review and formalise consultative arrangements for setting health policy for migrants.

*Performance Audit Report No.63 2002–03 Administration of the Automotive Competitiveness and Investment Scheme (ACIS).*

ACIS is one part of the Government's package of assistance to the automotive industry. The audit found that there were no outcomes, intermediate outcomes, or other performance measures for the scheme, which limited the Department of Industry, Tourism and Resources (DITR) ability to assess the effectiveness of ACIS, for the benefit of stakeholders and management. DITR is currently reviewing performance information for all of its programs, with a particular focus on the identification and use of intermediate outcome information. The audit also found that program management would benefit from sounder compliance audit practice in a number of areas, to be more consistent with recognised standards.

## Service delivery

*Performance Audit Report No.7 2002–03 Client Service in the Child Support Agency (CSA) Follow-up Audit.* The audit addressed CSA's service delivery and it found that the CSA had improved many aspects of client service since the previous ANAO audit. This reflected a commitment to continually improving services in a difficult operating environment. Nevertheless, measured client satisfaction remained steady at an average level, and there was scope for further improvements in service delivery, including through the performance of front line staff. The CSA's collection performance was high, notably by international standards. However, the audit also identified scope to improve debt collection performance.

*Performance Audit Report No.11 2002–03 Medicare Customer Service Delivery.* The audit reviewed the effectiveness of HIC's approach to customer service delivery to the Australian public as customer of Medicare. The ANAO found that the HIC was a customer-focused organisation and is effectively delivering services under the Medicare program. The audit highlighted the need to measure the important dimensions of key interaction between HIC and its customers. It emphasised how critical it was for the human resource management function to support service delivery and for customer service staff to have the skills, knowledge and resources to effectively perform in their roles.

*Performance Audit Report No.19 2002–03 The Australian Taxation Office's Management of its Relationships with Tax Practitioners.* The audit assessed how well the ATO manages its relationship with tax practitioners, in particular its regulatory relationship with tax agents. Aspects of the relationship have not been well managed in the past. The current relationship can generally be described as strained and tense and has arisen largely because of pressures placed on tax agents and other tax practitioners, and on the ATO's operational systems, by tax reform. The ATO has recognised that improvements are required and now has in place some useful mechanisms to support positive tax agent relationship management, and a renewed commitment from senior ATO staff.

*Performance Audit Report No.34 2002–03 Pest and Disease Emergency Management Follow-up Audit.* Management of emergencies takes place within arrangements for animal and plant health matters, which involve the Australian Government, States/Territories and relevant industry bodies. The audit found that the effectiveness of the Australian Government's planning and response strategies had improved since the previous audit. Response capability is strongest for a major terrestrial animal emergency, and further enhancement of response strategies for such an emergency is likely to follow assessment of the lessons from a national simulation held in September 2002. Further improvements in the effectiveness of planning and response strategies for aquatic animal and plant sector emergencies, and for lower level terrestrial animal emergencies, are likely to result from projects currently under way.

*Performance Audit Report No.38 2002–03 Referrals, Assessments and Approvals under the Environment Protection and Biodiversity Conservation Act 1999.* The audit examined a key area of Australian Government decision making and service delivery, and provided the first major review of the implementation of the *Environment Protection and Biodiversity Conservation Act 1999*, since it came into force in July 2000. The audit examined the quality and timeliness of environmental assessments and approvals under the Act, as well as Environment Australia's activities to ensure compliance. The ANAO concluded that the referral, assessment and approval processes under the Act are generally thorough and well documented, and are improving as



more experience is gained with the operation of the legislation. However, there was scope for improvement in monitoring compliance with conditions attached to approvals.

*Performance Audit Report No.44 2002–03 Review of the Parenting Payment Single Program (PPS).*

The audit assessed whether the controls and measures used by the Department of Family and Community Services and Centrelink to deliver PPS payments were effective and efficient. The audit concluded that, while generally contributing to the integrity of program outlays, the controls and measures used were limited in their effectiveness. Findings of previous ANAO audits of major Centrelink programs show that the effectiveness and efficiency of controls to ensure correctness of program reassessments varied depending on whether processing of reviews by Customer Service Officers involved simple or complex assessments. The ANAO found that when PPS reviews contained errors, there was a similar relationship between complexity and error rates.

## APPENDIX 5

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

Mr Richard Rundle  
*Contractual Risk Management*  
Comcover Conference  
Canberra, 17 July 2002

Ms Ann Thurley  
*Performance Auditing of Outsourced Government Services*  
Public Sector Auditing Conference  
Singapore, 29 July 2002

Ms Ann Thurley  
*Fraud Prevention and Control*  
Public Sector Auditing Conference  
Singapore, 30 July 2002

Mr Richard Rundle  
*Corporate Governance*  
Conference for CEOs of cultural organisations  
Sydney, 15 August 2002

Mr Pat Barrett AM  
*Public Sector Auditing: ANAO Approaches and Practices*  
Macquarie University  
Sydney, 23 August 2002

Mr Pat Barrett AM  
*The Australian National Audit Office's Program of National Audits*  
Forum of Commonwealth Agencies Seminar  
Sydney, 23 August 2002

Mr Richard Rundle  
*Financial Management in the new Public Sector*  
International Quality and Productivity Centre  
Singapore, 28 August 2002

Mr Pat Barrett AM  
*Some Perspectives on the Audit Relationship with Parliament*  
House of Representatives Occasional Seminar Series  
Canberra, 17 September 2002

Ms Ann Thurley  
*Performance Information: A Strait Jacket,  
The Emperor's New Clothes or Joseph's Coat of Many Colours*  
Canberra Evaluation Forum  
Canberra, 19 September 2002

Mr Pat Barrett AM

*Expectation and Perception of Better Practice Corporate Governance  
in the Public Sector from an Audit Perspective*

CPA Australia's Government Business Symposium  
Melbourne, 20 September 2002

Mr Richard Rundle

*Contract Management Performance*

Department of Immigration and Indigenous Affairs Contract Managers Conference  
Canberra, 26 September 2002

Mr Pat Barrett AM

*Privatisation of State Activities—Role of SAls*

18th Commonwealth Auditor-General's Conference  
Malaysia, 7–9 October 2002

Mr Pat Barrett AM

*Role of SAls in Transition from Cash to Accrual-based Reporting*

18th Commonwealth Auditor-General's Conference  
Malaysia, 7–9 October 2002

Mr Pat Barrett AM

*SAls' Involvement in System Development: Opportunities and Risks*

18th Commonwealth Auditor-General's Conference  
Malaysia, 7–9 October 2002

Mr Ian McPhee

*Risk Management and Governance*

National Institute for Governance  
Canberra, 16 October 2002

Ms Maureen Allan

*Turning Numbers into Strategy*

International Quality and Productivity Centre Human Resources  
Sydney, 23 October 2002

Ms Ann Thurley

*Whole of Government Outcomes*

Managing for Whole of Government Outcomes  
Canberra, 30–31 October 2002

Mr Ian McPhee

*Risk Management and Governance*

SES Business Innovation Group: How well is the APS managing risk?  
Canberra, 30 October 2002

Mr Alan Greenslade

*Audit of Administration of Programs and Regulatory Procedures*

Customs Brokers and Forwarders Council of Australia, Government Affairs Conference  
Canberra, 2 November 2002

Mr Darren Box  
*Future Directions of Government Auditing*  
National Convention Centre  
Canberra, 13 November 2002

Mr Ian McPhee  
*Role and Responsibilities of the Auditor-General*  
ADC Canberra Connection  
Canberra, 14 November 2002

Mr Darren Box  
*Future Directions of Government Auditing*  
CIT Seminar  
Canberra, 15 November 2002

Mr Richard Rundle  
*Protective Security Auditing*  
Defence Security Authority  
Canberra, 20 November 2002

Mr Pat Barrett AM  
*Accountability and Governance in a Changing APS*  
Department of Finance and Administration's Learning Centre Lecture Series  
Canberra, 3 December 2002

Mr Richard Rundle  
*Contractual Risk Management*  
Comcover  
Canberra, 3 December 2002

Mr Pat Barrett AM  
*Public Private Partnerships—Are There Gaps in Public Sector Accountability?*  
Australasian Council of Public Accounts Committees  
Melbourne, 3 February 2003

Mr Pat Barrett AM  
*Governance and Joined-up Government—Some Issues and Early Successes*  
Australasian Council of Auditors-General  
Melbourne, 6 February 2003

Mr Pat Barrett AM  
*Better Practice Public Sector Governance*  
Australian Communications Authority Business Planning Workshop  
Canberra, 11 February 2003

Mr Steven Lack  
*Achieving Better Practice Corporate Governance: Lessons from the Public Sector*  
Australasian Corporate Governance Congress  
Sydney, 19–20 February 2003

Mr Richard Rundle  
*New Directions in Business Continuity Management*  
Marcus Evans Continuity Forum  
Sydney, 26 February 2003

Mr Darren Box  
*Generally Accepted Accounting Principles/Government Finance Statistics Harmonisation*  
CPA CFO Breakfast  
Canberra, 6 March 2003

Mr Peter McVay  
*Panel Discussion on Evaluation*  
Land and Water Research and Development Corporation  
Canberra, 12 March 2003

Mr Richard Rundle  
*The ABC of Compliance*  
CPA Government Business Symposium  
Melbourne, 14 March 2003

Mr Richard Rundle  
*Business Continuity Management*  
Survive Business Continuity Conference  
Canberra, 18 March 2003

Mr John Meert  
*Current Issues in Performance Audit*  
Future Directions in Public Sector Corporate Governance Conference  
Perth, 2 April 2003

Ms Lesley Jackman  
*Doing Evaluations—Public Sector Guidance: ANAO Range of Better Practice Guides and Audit Reports*  
Canberra Evaluation Forum  
Canberra, 17 April 2003

Mr Richard Rundle  
*Emerging Better Practices in Corporate Governance and Risk Management*  
CPA Audit and Risk Management Seminar  
Melbourne, 29 April 2003

Mr Phil Hagen  
*Fair Enough? Transition from Deprival to Fair Value Method of Valuation*  
CPA Australia—Asset Management Day  
Canberra, 29 April 2003

Mr Richard Rundle  
*Audits of Physical Security Performance*  
Attorney General's Department Security in Government Conference  
Canberra, 2 May 2003

Mr Kevin Caruana

*Financial Statements Technical Updates*

ANAO clients

Canberra, 8–9 May 2003

Sydney, 12 May 2003

Melbourne, 13 May 2003

Mr Pat Barrett AM

*The Provision of Audit Services to the Public Sector:*

*Establishing Sound Corporate Governance and Auditing Practices*

IBC Conferences' Second Annual New Directions in

Australian Auditing and Accounting Standards Conference

Sydney, 19 May 2003

Mr Pat Barrett AM

*Government Sector Accountability—The Impact of Service Charters  
in the Australian Public Service*

Queensland Commonwealth Regional Heads Forum,

15th Annual Government Business Conference

Gold Coast, 22 May 2003

Mr Eric Turner

*E-Corruption: the Australian Experience. An Auditor's Viewpoint*

Global Forum III

Seoul, 30 May 2003

Mr Richard Rundle

*Fraud Control*

Comcover Getting Wired Seminar

Canberra, 6 June 2003

Mr Pat Barrett AO

*Strategic Insights into Enterprise Risk Management*

Address to the ACT Chapter of the Australasian Institute of Risk Management

Canberra, 13 June 2003

## APPENDIX 6

### Procurement activities

The Australian Government purchasing policy framework is outlined in the *Commonwealth Procurement Guidelines—Core Policies and Principles*.<sup>27</sup> These set out a series of core principles.

#### ANAO performance against core purchasing policies

The ANAO's purchasing activities in 2002–03, 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 Australian Government. 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 capabilities to meet its ongoing needs. The performance of these outsourced arrangements is 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 usually adopts a selective tender processes. Short listed firms are normally selected following an analysis of the relevant market. 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 to ensure the ANAO receives good value for money.

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 application of expert professional skills to<sup>28</sup>:

- investigate or diagnose a defined issue or problem;
- carry out defined research reviews or evaluations;
- provide independent advice, information or creative solutions to assist the ANAO; or
- provide specialised services, including assistance with the development and/or implementation of purpose-built IT systems and legal advice.

<sup>27</sup> Department of Finance and Administration *Commonwealth Procurement Guidelines—Core Policies and Principles*: <http://www.finance.gov.au/ctc/publications/purchasing/cpg/commonwealth%5Fprocurement%5Fguide.html>.

<sup>28</sup> Contractors who deliver a defined service such as cleaning and printing or are engaged to carry out routine work for the ANAO are not defined as consultants and are not included in the table and figures contained in this Appendix.

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.

A suite of standard form contracts has been developed for use by ANAO staff in setting up most of its consultancies. Where necessary, these standard form documents can be readily adapted by ANAO staff to suit individual circumstances.

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 that were let in 2002–03. The total figure refers to total value of the contracts let, irrespective of the period of the contract, noting that some contracts are let for periods in excess of one year.

A total of \$1 719 million in consultancy contracts (representing some 280 contracts) were let or managed by the ANAO during 2002–03. This figure represents the amount actually paid for consultant's contracts let or managed in 2003–03, as distinct from the total value of the contract, which may be active for more than one year.



**Table A6–1: List of consultancy contracts let in 2002–03 valued at \$10 000 or more**

Consultancy	Purpose	Cost	Selection Process	Reason
Corrs, Chambers and Westgarth	Legal advice	\$13 200	3	(f)
HRM Consulting	Benchmarking and reporting	\$289 170	3	(d)
Monash University	Audit assistance	\$12 500	3	(a)
90East	IT Infrastructure Internet	\$25 740	4	(c)
Acumen Alliance	Administrative Assistance	\$180 000	2	(a)
Orima Research	Management Consultants	\$34 000	2	(a)
Piazza Consulting	Management Consultants	\$11 913	2	(b)
Ron Richards Consulting	Administrative Assistance	\$50 050	4	(a)
Schneider (Aust) Consulting Pty Ltd	Management Consultants	\$97 350	8	(a)
Sigma Management	IT Advisory Service	\$27 720	4	(a)
SMS Consulting Group	Administrative Assistance	\$17 599	2	(c)
TMP Worldwide	Recruitment	\$30 096	6	(c)
TMP Worldwide eResourcing Ltd	Recruitment	\$105 000	6	(c)
Walter & Turnbull	Management Consultants	\$30 000	6	(a)
Walter & Turnbull	Management Consultants	\$13 000	6	(a)
Blake Dawson Waldron	Audit assistance	\$20 000	2	(a)
Business Services and Resources Pty Ltd	Audit assistance	\$50 000	6	(c)
Corporate Project Management Group	Audit assistance	\$27 000	2	(a)
Excelerated Consulting Pty Ltd	IT Assistance	\$26 598	3	(a)
Holbert Consulting	Audit assistance	\$14 256	3	(a)
Mike Garrett Strategic HR	Audit assistance	\$49 500	2	(c)
Mike Garrett Strategic HR	Audit assistance	\$40 920	2	(c)
Orima Research	Audit assistance	\$22 000	7	(c)
University of Canberra	Audit assistance	\$117 040	8	(c)
<b>TOTAL</b>		<b>\$1 304 552</b>		

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 2003)

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 Australian Government 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
ACAG	Australasian Council of Auditors-General
AEC	Australian Electoral Commission
AFFA	Department of Agriculture, Fisheries and Forestry—Australia
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
CFCG	Commonwealth Fraud Control Guidelines
CFO	Chief financial officer
CMB	Corporate Management Branch
CPA	Certified Practising Accountant
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
R&D	Research and development
VFM	Value for money
WCF	Workplace Consultative Forum

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